INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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, Poland with 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 2980 Cities in 165 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We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the areas of Computer Science & Applications;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

IMPACT OF ORGANISED RETAIL ON UNORGANISED RETAIL IN INDIA

CMA JAYASHREE RAMANAN
RESEARCH SCHOLAR
SCSVMV UNIVERSITY
KANCHIPURAM

DR. K.P.V.RAMANAKUMAR
DEAN
DEPARTMENT OF MANAGEMENT STUDIES
SCSVMV UNIVERSITY
KANCHIPURAM

ABSTRACT
The Indian retail industry has grown 10.6% between 2010 and 2012 and is poised to increase to 750 to 850 billion USD by 2015. Retail industry is a flourishing sector of the country and encompasses activities from sourcing, SCM ,Inventory management, merchandise management, store management, HRM, ERM, ERP, sales promotion, advertisement, CRM and after-sales service. The organized retail constitutes 8% of the total retail market and is expected to grow at 20% by 2020. It is likely to greatly impact businessmen, entrepreneurs, investors and to a great extent the real estate sector. There is great hue and cry that FDI will to a great extent make the small retailers shut the business and opt for alternate employment. The paper focuses on the impact of organized retail on the unorganized sector in Indian retail market.

KEYWORDS
Organized retail, unorganized retail, Indian retail sector.

INTRODUCTION
According to the Global Retail Development Index 2012, India ranks fifth amongst the top 30 emerging markets for retail. India is one of the most promising retail destinations in the world. Retailing includes all the activities involved in selling goods or services directly to the final consumer for personal use. It is the final stage in the distribution process. The recent announcement of allowing 100% FDI in single brands and 51% FDI in multi-brand , has changed the business dynamics in the country. The paper discusses the impact of organized retail on the unorganized sector in India. Small retailers are concerned about this new development and are changing their strategies to succeed in the current context.

OBJECTIVE OF THE STUDY AND METHODOLOGY
The objective of the study is to analyse the current retail scenario in India and the impact of organized retail on the small retailers in the unorganized sector. The paper is based on case studies, statistical data, a thorough analytical and logical understanding of various research papers, books, reports, journals, newspapers and online material.

INDIAN RETAIL SECTOR- CURRENT SCENARIO
According to Delloitte Report Jan 2013- Indian Retail Report Opening more doors, the Indian retail industry has grown 10.6% between 2010 and 2012 and organized retail constitutes 8% of the total retail industry with 92% constituting the unorganized retail. The Indian retail is divided into 2 categories- organized and unorganized retail. Organized retail refers to trading activities by licensed retailers , who are registered for sales tax, income tax and includes retail chains and large privately owned retail businesses. On the other hand, unorganized retail constitutes the traditional formats of low cost retailing, convenience stores , hardware shop at the corner of the street selling everything from bathroom fittings to paints and small construction tools , mom and pop shops, local kirana shops, pan and beedi shops, hand cart and pavement vendors and street hawkers.

CATEGORIES OF TRADITIONAL RETAILERS
- Fruits & Vegetable sellers- sells fruits and vegetables
- Food stores- bakery products, dairy and processed food & beverages
- Non-vegeable store- sells chicken & mutton
- Kirana I -Sells bakery products, dairy and processed food, home and personal care and beverages
- Kirana II -sells categories available at Kiran I shop plus cereals, pulses, spices and edible oils
- Apparel sells- menswear, womens wear, inner wear kids and infant wear
- Footwear- sells men's wear, women's wear and kids wear
- Consumer durables & IT- sells electronics, durable & IT products
- Furnishing- sells home linen and upholstery
- Hardware- sells sanitary ware, door fitting , tiles
- General merchandise – includes lighting, toys, gifts and crockery

CHARACTERISTICS OF UNORGANIZED RETAIL
Small store(Kirana) retailing is one of the easiest ways for generating self -employment as it requires limited investment in land, labor and capital. It is generally family run business, lacks standardization and the retailers who run the store lack education, experience and expertise.

Unorganized retail is still predominating over organized retail in India. The reasons are

1. In smaller towns and semi-urban areas, there are many traditional retailers , which are family business running for more than one generation.
2. These kirana shops have their own efficient management system and and have understood their customers' better and are able to satisfy the customers. They are able to efficiently cater to the needs of the customers , which is a very strong point for their existence inspite of threat from organized retail.
3. A large number of working class in India are daily wage earners , who procure from the small retail shop small quantities for their supper. They totally rely upon these small shops for their food items.
4. Also the seasonal workers , during the period of unemployment purchase from kirana stores on credit and clear their dues when they get paid. This credit facility is a great boon for these class of workers.
5. Another important characteristic of unorganized retail is the proximity of the store. It is the convenience store for the customer.

6. These stores operate mostly from their own premises and thus save on rental payment.
7. These stores are family run business and hence the labor cost involved is minimal.
8. As they operate from their home they can pay for the utilities at residential rates.
9. Unorganized retail supports a large chunk of population, providing direct employment to 39,500,000 individuals. There is no way government can ignore this foundation stone of the Indian economy.

R.Vaidyanathan(2010) in the article "our Kiranas deserve better including a ministry of their own has stated that more than 125 lakh kirana stores provide a source of livelihood to 16 crore people. The retail trade suffers from two major handicaps – one, non-availability of credit and another is the bribe one has to pay to the government babus . The perennial problem faced by the traditional retail trade is the "organized " dacoity by minions of the state. They need to bribe the cops, bribe the municipal authorities and other local goons. There is need for level playing with access to affordable credit and abolition of inspector raj in the form of harassment by various arms of the government.

The well established organized retail sector in India are Pantaloon retail, Shoppers' Stop, Spencers, Hypercity, Lifestyle, Reliance etc . Over 20,000 new retail outlets are exected to open within this segment.

According to the study conducted by ICRIER W.P. No. 222 (2008),(MATHEW JOSEPH & OTHERS) unorganized retailers in the vicinity of the organized retailers experienced decline in their business volumes and profit in the initial years. However, the negative impact weakens over time. It was also found that there was no evidence of decline in employment in the unorganized retail because of the entry of organized retailers. The rate of closure of traditional retail shops was 4.2 percent p.a., which is way lesser than the international rate of closure. The rate of closure on account of competition from organized retail is lower still at 1.7 percent per annum. A majority of unorganized retailers are keen to stay in the business and compete , while also wanting the next generation to continue like wise. It was also found that the traditional retailers were able to compete due to changed strategy especially through improved business practices and technology upgradation. However, only 12% of unorganized retailers have access to institutional credit and 37 per cent felt the need for better access to commercial bank credit. Most unorganized retailers are committed to remaning independent and barely 10% preferred to become franchisees of organized retail.

In a country with a huge population and high levels of poverty , it is appropriate that this model of retail democracy co-exist along with organized retail. These unorganized retail needs to be promoted so that they can organize and supply food to Indian consumer.

HOW TO PROMOTE UNORGANIZED SECTOR?

The suggestions might be

- Establishment of retailer co-operatives among retailers which is highly required for the sustenance of the unorganized retail sector.
- M & A (Mergers and Acquisitions) of weak retailers by strong retailers that would revive the small retailer.
- Setting up of franchisee organization , where the franchiser can exert control over the way retailing is done.
- There must be a good network connection between retail organizations, the suppliers and other channel members to us compatible technology so that they can build strong distribution set-up to satisfy the customers.
- Setting up more of non-store retailing centers would also ensure a strong retailing organization. Non-store retailing makes implementation of modern principles easier and less costly.
- Last but not the least, there must be a change in the mindset of the unorganized retailer. They have to understand , come forward and lead this change management for the sector to flourish.

CHANGING PHASE OF INDIAN CONSUMERISM

A great shift that ushered in the Indian Retail Revolution is the emergence of Malls across the regional markets. Today malls are changing the way common Indians have their shopping experience. It is imperative for the unorganized retail sector to restructure and reorganize to withstand the increasing competition and to meet the consumer expectations by keeping pace with the trends.

ROLE OF GOVERENMENT

Countries like Singapore and Taiwan have initiated Hawker centres upgrading programme and upgrading programme of old wet markets respectively and are very much in favour of unorganized sector and support the same.

Few countries have made a special effort to come up with policies that help the unorganized small retailer to sustain in the economy. In India, there is no exclusive regulatory framework for the retail sector. Regulation of the retail sector is mainly in the domain of the state governments. Different state governments have taken different regulations to protect the small unorganized retailers from the big box retailers in the era of Retail Revolution. There is a need to formulate a comprehensive regulation at the national level, which will provide regulatory support continuously to all the weak players of this sector throughout the country.

The passing of Street Vendors(Protection of Livelihood and Regulation of Street Vending) bill ,2012 in Lok Sabha is a welcome move in this direction. The bill provides for security and protection of the livelihood of all street vendors who have a vending certificate, which will be issued by the Town Vending Committee. The bill approved by the Union Cabinet states that at least 2.5 percent of a city's population would be allocated vending Zones and it would be mandatory to form Town and Zonal Vending Committees in every city, with street vendors having 40 percent representation.

CONCLUSION

India is at the crossroads with regard to the retail sector. Experience of various developing countries have shown that they have reaped the benefits of modern retail and has also shown that both traditional and modern retail can co-exist. The traditional retailers have to evolve strategies to compete and flourish alongside organized retail. In this government policy plays a very vital role in as much as a time bound National programme protecting the interest of small retailers is launched. They should encourage setting up of modern large cash- and-carry outlets to kirana stores as well as to licensed hawkers at wholesale rates. Also, more credit should be made available at reasonable rates from micro-credit institutions for expansion and modernization of small retailers. The sooner we have a Ministry of Retail Trade to protect, preserve and enhance the capabilities and utilize the full potential of our kirana stores, the better it is for the Indian economy.

REFERENCES

1. Delloitte Report 2013- Indian Retail Market –Opening more doors www.deloitte.com/in
2. Gupta Himanshu & Others paper "Effect of Organised retail on Unorganised retail in Indian retail market " in Research Journal of Management Sciences Vol 1(1),7-13 August(2012)
3. Mathew Joseph & Others(2008) W.P. No.222 "Impact of Organized Retailing on the Unorganized Sector of ICRIER.
4. Mukherjee,Subhadip,2011 policies of retail sector of India and other selected countries.UTMS Journal of Economics 2(2):171-180
5. R.Vaidyanathan,DNA 3.8.2010 www.dna.india.com
6. Retail in Rural India www.ibef.org/industry/retail

AN ANALYSIS OF EMPLOYEE RETENTION PREVAILING IN MANUFACTURING INDUSTRY IN HOSUR, TAMIL NADU

DR. B. N. SIVAKUMAR
PROFESSOR
DEPARTMENT OF MANAGEMENT STUDIES
ADHIYAMAAN COLLEGE OF ENGINEERING
HOSUR

DR. V. NAVANEETHAKUMAR
DIRECTOR
DEPARTMENT OF MANAGEMENT STUDIES
ADHIYAMAAN COLLEGE OF ENGINEERING
HOSUR

K. R. KUMAR
ASST. PROFESSOR
DEPARTMENT OF MANAGEMENT STUDIES
ADHIYAMAAN COLLEGE OF ENGINEERING
HOSUR

ABSTRACT

Retention means retaining or holding the competent employee within the organization so that he doesn't shift to another organization. Retention of excellent employees is one of the most important challenges in organizations today. Retention of skilled personnel is a major issue for recruiters and employers of the manufacturing companies. The departure of an employee not only means the loss of personnel, knowledge, skill but also the loss of business opportunities. The objective of this study is to know the reasons that affect the employee retention and to have a comparative analysis between Companies. In this research work the primary data is collected by the help of questionnaire and Companies data have been collected for comparative analysis. Descriptive research design is been used to find out the characteristic features of the respondents. The hypotheses are framed on the basis of work life balance, retention policies and relationship between the boss/peers/subordinate as these are considered more sensitive. The findings from this study are that the employees in the organizations are very much satisfied with the working environment and the infrastructure of the organization which is acting as a retention cause. So the conclusion is that the companies are having a great responsibility towards its employees as employees are the real wealth and assets of the organization and the organization should try to retain them.

KEYWORDS

Infrastructure, Monetary Policies, Relationship between boss and peer, Strategic policies and Working environment.

INTRODUCTION

A successful retention manager must be aware of the employee strengths and weaknesses and have a talent for listening, respecting, and understanding their concerns. By retention the employees can prove their loyalty to the company. Honesty, creativity, and patience are other virtues that can help in this type of position. Many people love their work, and there are a multitude of reasons as to why this is the case. They may like the company atmosphere, their boss, and their co-workers. An exciting position, with plenty of opportunity for growth, learning, and advancement, is always desirable, as is a meaningful job that has the potential to make a difference in the lives of others. Dissatisfaction with one or more of these things could force the employee to consider leaving. Every company should understand that people are their best asset without qualified people who are good at what they do, any company would be in serious trouble. In the long run, the retention of existing employees saves companies money as Beverly Kaye and Sharon Jordan-Evans stated in Training and Development*:* "Studies have found that the cost of replacing lost talent is 70 to 200 percent of that employee's annual salary. There are advertising and recruiting expenses, orientation and training of the new employee, decreased productivity until the new employee is up to speed, and loss of customers who were loyal to the departing employee. Finding, recruiting, and training the best employees represents a major investment. Once a company has captured talented people, the return-on-investment requires closing the back door to prevent them from walking out."

REVIEW OF LITERATURE

Ahearne et al., (2005) an empirical examination of the influence of leadership empowerment behavior on customer satisfaction and performance focuses on the impact of leadership empowerment behavior on customer service satisfaction and sales performance, as mediated by salespeople's self-efficacy and adaptability.

Allen et al., (2006) the relationship between formal mentoring program characteristics and perceived program effectiveness, Formal mentoring programs continue to gain popularity within organizations, despite limited empirical research regarding how these programs should be designed to achieve maximum effectiveness.

Bachrach et al., (2006) The reported research Organizational citizenship behavior and performance evaluation examines the moderating effects of role overload on the antecedents and consequences of self-efficacy and personal goal level in a longitudinal study conducted in an industrial selling context.

Glen (2006) the war for talent still rages and retention is the high ground in industrial and commercial training. The influence of task interdependence on the importance attributed to organizational citizenship behavior in evaluation of employee performance is the main focus. It examines effective, practical and holistic people strategies that address key skills retention, employee engagement, and employee motivation and attendance gaps, with a view to positive impacting on organization costs, productivity and business performance.

Jack et al., (2003) a strategic accountability approach in managing employee retention shows how to monitor turnover and develop the ROI of keeping your talent, using innovative retention programs.

John (1992) cultural values had a significant effect on the rates at which the newly hired employees voluntarily terminated employment. The relationship between the employees' job performance and their retention also varied significantly with organizational culture values. The cultural effects were stronger than

the combined exogenous influences of the labor market and the new employees' demographic characteristics. The cultural effects are estimated to have resulted in over six million dollars' difference in human resource costs between firms with different cultural values.
Kaye et al., (2000) "Retention: Tag, You're it!" Training and Development studies have found that the cost of replacing lost talent is 70 to 200 percent of that employee's annual salary. There are advertising and recruiting expenses, orientation and training of the new employee, decreased productivity until the new employee is up to speed, and loss of customers who were loyal to the departing employee. Finding, recruiting, and training the best employees represents a major investment. Once a company has captured talented people, the return-on-investment requires closing the back door to prevent them from walking out.
Leonard and Bill (2001) employers know that the best-qualified applicants will come directly from competitors, recruiting and hiring employees away from the competition becomes a necessity in an ultra-tight labor market. And necessity is the mother of inventive and sometimes controversial business practices. Recruiting and hiring from your competitors is probably as old as business itself. But what is new—and a hot topic among employers—is how to attract and retain qualified candidates in a highly competitive labor market while also preventing their own intellectual capital from winding up in the hands of competitors.
Michel et al., (2001) the relationship between demographic variables, personal perceptions, and organizational conditions and either turnover or intention to leave. It finds that burnout, job dissatisfaction, availability of employment alternatives, low organizational and professional commitment, stress, and lack of social support are the strongest predictors of turnover or intention to leave. Since the major predictors of leaving are not personal or related to the balance between work and family but are organizational or job-based, there might be a great deal that both managers and policy makers can do to prevent turnover.
Slaughter and Zickar (2006) a new look at the role of insiders in the newcomer socialization process Group and organization management, the purpose of the investigation was to study the effect of socialization-related attitudes and behavior exhibited by insiders on the development of organization newcomers.

IMPORTANCE OF THE STUDY
Employee retention is one of the hot situations, which is being faced by most of the companies today due to ample opportunities to pursue their career. The organizations are losing there efficient employees due to some reasons which are causing a huge damage to the industry as a whole. Thus in order to retain the employee in the organization the employer should be aware of the current market situation and see that he adopts new techniques in order to retain the employees.

STATEMENT OF THE PROBLEM
In the present scenario the companies are facing the problem of employee retention where the organization is trying its level best to retain the capable and efficient employees within the organization. This research is done in order to know what are the retention policies used by the companies to retain their existing employees. This study is an important one as it suggests the ways of improving the employee retention and these suggestions are put forward to the management of each company in the form of suggestions.

OBJECTIVES OF THE STUDY
- To study the employee retention level prevailing in the Industry.
- To know the causes of employee retention in companies.

HYPOTHESIS
- H_o1: There is no significant relationship between work environment and employee retention.
- H_o2: There is no significant relationship between strategic, monetary policies and employee retention.
- H_o3: There is no significant relationship between the level of relationship with boss, peer, subordinates and employee retention.

RESEARCH METHODOLOGY
Descriptive design is used to study the respondents and describes their characteristic features and to know the existing level of employee retention. Sample design is a definite plan determined before any data are actually collected for obtaining a sample from a given population. Simple Random Sampling Technique is used and total number of respondents is 156. Since the research topic is quite explanatory and requires actual data the Questionnaire method is adopted and the method of questionnaire used is structured questionnaire with open ended and closed ended questions. The researcher had collected the primary data from the respondents and the secondary data from the company records. Statistical tools like percentage method chi square test comparative analysis and one sample statistics are used.

RESULTS AND DISCUSSION
CHI SQUARE DISTRIBUTION
- H_o1 – There is no significant relationship between work environment and employee retention

TABLE NO. 1

Factor	Calculated Value	Table Value	D.F.
Work environment	7.80	5.99	3

0.05 significant level
Since the calculated value is 7.80 and which is greater than the table value 5.99 the null hypothesis is rejected. Hence there is significant relationship between work environment and employee retention.
- H_o2 – There is no significant relationship between retention policies and employee retention

TABLE NO. 2

Factor	Calculated Value	Table Value	D.F.
Strategic and monetary Policies	8.16	7.81	3

0.05 significant level
Since the calculated value is 8.16 is less than the table value 7.81, the null hypothesis is rejected. Hence there is significant relationship between strategic, monetary policies and employee retention.
- H_o3 – There is no significant relationship between the level of relationship with boss/peer/subordinates and employee retention

TABLE NO. 3

Factor	Calculated Value	Table Value	D.F.
Relationship between boss/peer/subordinate	7.99	6.21	3

0.05 significant level
Result: Since the calculated value is 7.99 is less than the table value 6.21, the null hypothesis is rejected. Hence there is significant relationship between the boss/peer/subordinate relationship and employee retention.

COMPARATIVE ANALYSIS

Is there exists any difference in the companies related to employee retention, if so then what are the reasons that create the differences among these companies.

The three variables taken into consideration for calculating the chi square values are:

- Infrastructure and Working environment (X_1)
- Strategic policies and Monetary policies (X_2)
- Relationship between boss/peer/subordinate (X_3)

Upcoming table are showing details about one sample statistics and test.

TABLE NO. 4: ONE-SAMPLE STATISTICS

		Statistic	Bootstrapa		
			Std. Error	BCa 95% Confidence Interval	
				Lower	Upper
Infrastructure	Mean	3.8000	.0611	3.6850	3.9200
	SD	.87970	.04355	.79994	.95317
Working Environment	Mean	3.7600	.0786	3.6049	3.9100
	SD	1.09929	.06106	.97867	1.20401
Strategic Policies	Mean	3.8550	.0627	3.7350	3.9800
	SD	.87625	.05396	.77164	.96900
Monetary Policies	Mean	3.7000	.0773	3.5450	3.8406
	SD	1.06568	.05994	.96173	1.16546
Relationship between boss/peer	Mean	3.8600	.0637	3.7300	3.9727
	SD	.90803	.05198	.81307	.99465

TABLE NO. 5: ONE-SAMPLE TEST

	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Infrastructure	61.089	99	.000	3.80000	3.6773	3.9227
Working Environment	48.372	99	.000	3.76000	3.6067	3.9133
Strategic Policies	62.217	99	.000	3.85500	3.7328	3.9772
Monetary Policies	49.101	99	.000	3.70000	3.5514	3.8486
Relationship b/w boss/peer	60.118	99	.000	3.86000	3.7334	3.9866

The above tables 4 and 5 are one sample statistics and test analysis of perception of respondents. The Mean and Standard deviation as follows; infrastructure (Mean = 3.80, SD = 0.87), working environment (Mean = 3.76, SD = 1.09), Strategic Policies (Mean = 3.85, SD = 0.87), Monetary Policies (Mean = 3.70, SD = 1.06), and Relationship between boss/peer (Mean = 3.86, SD = 0.90). In this association, we may conclude that the above factors are influencing positively the employee retention.

TABLE NO. 6: REGRESSION COEFFICIENTS [a]

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.032	.200		5.159	.000
Infrastructure	.081	.043	.196	1.862	.050
Working Environment	.061	.043	.160	1.432	.050
Strategic Policies	.020	.042	.056	.490	.025
Monetary Policies	.007	.047	.019	.148	.882
Relationship Between boss and peer	.080	.043	.249	1.849	.050

a. Dependent Variable: Employee Retention

TABLE NO. 7: MODEL SUMMARY[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.276[a]	.076	.027	.38886
a. Predictors: (Constant), Relationship b/w boss/peer, Infrastructure, Strategic Policies, Working Environment, Monetary Policies				
b. Dependent Variable: Employee Retention				

The above tables 6 and 7 shows that the coefficients of the regression line. It states that
the perceived employee retention score
= 1.032+ 0.81 + 0.061+0.020+ 0.007+ 0.080.

The following variables like infrastructure, working environment, strategic policies, monetary policies and relationship between boss, peer and subordinates were considered. It is clearly seen that there is only one independent variable that is not significant, which is monetary policies that has 0.882 which is more than 0.05. So we may conclude that most of the dimensions are influencing towards employee retention.

FINDINGS

There exists a good infrastructure within the organization as maximum of the employees have agreed upon. The centralized form of culture with the organization is fine for the employees. The company management is open minded for suggestions and implementation of new technology as many of the employees agrees to it. In special recognition methods adopted to boost the employee's morale appraisal plays a vital role as 40% of employees agree. There exists a high level of performance in the implementation part of the existing strategies and policies. Promotion plays a vital role in the retention policies followed by the organization as 41% of employees agree to it. Bonus, Pat on Back and recognition are the most preferred forms of monetary and non-monetary rewards, as 27% of employees prefer these rewards individually. Rewards are given annually and there also exists spot awards based on the performance of the employees. Yoga program is conducted as a part of stress relief and to enhance work life balance, work at home option is provided by the organization to the employees. As a measure for career aspiration of the employees in the organization higher education facility is provided. Training is conducted often depending on their requirement and different trainings related to communication, quality, soft skill and technical skills are provided. The level of relationship existing with boss/peer/subordinate is good as 46% of employees feel it so. As a source of communication strategy the organization follows telephone, Email and meetings. The most important thing that bounds the employee with the organization is the working environment as 45% of the employees agree with this. From the chi square distribution it is clear that employee relationship with boss/peer/subordinate plays a vital role in employee retention. From the comparative analysis we can see that all the companies give equal importance to employee retention.

SUGGESTIONS

The organization should concentrate more on time management programs since its very important to finish the tasks/projects on time. Many training programs are being conducted in the organization but the time schedules are not matching the employees because of which most of the employees are not able to attend. So set a flexible timing for training activities. Most of the employees are happy with the kind of working environment prevailing so the organization should try to maintain it in future also. Since incentives and awards are being rated low the organization should go through this policy as a means for special recognition method to boost the employee's morale. From the chi square distribution it is clear that employee relationship with boss/peer/subordinate plays a vital role in employee retention thus the organization should concentrate more on this strategy. From the comparative analysis it is clear that all the companies pay equal importance to employee retention strategies. The organization has to try to implement new strategies to differentiate its self from other companies.

CONCLUSION

Retention of excellent employees is one of the most important challenges in organizations today. Retention of skilled personnel are a major issue for recruiters and employers of the workforce, the departure of an employee not only means the loss of personnel, knowledge, skill but also the loss of business opportunities. In order to create a successful company, employers should consider as many options as possible when it comes to retaining employees, while at the same time securing their trust and loyalty so they have less of a desire to leave in the future. The implementation of company policies like flextime, job-sharing, and part-time work may also prove useful in retaining an employee who wishes to leave their job for personal reasons. By doing so, a company could gain a reputation as a family-friendly environment and therefore make it more attractive to future potential employees. From the study it is clear that the companies are concerned about its employee's retention as it is following many measures and policies to retain its employees and still it has to give more importance to this as the situation is not going to be the same in near future and the level of competition is also going to increase between the companies.

LIMITATIONS OF THE STUDY

- The study conducted pertains only to the employees of the organizations.
- The findings and inferences drawn out of the study reflect only the existing trend.
- The sample size is limited to 100 employees of the organizations on a random sampling due to time factor.

SCOPE FOR FURTHER STUDY

Employee retention is one of the important factor that a company has to give importance to as it is very difficult to retain the employees in the organization due to increasing opportunities and career development concept. This topic is an ever ending one as it plays a vital role in the development of the organization. Thus there is a lot of scope to carry out further research on this topic as this is going to retain until the employee is going to stay in the organization. In this study only few variables have been taken into consideration to carry out the analysis on employee retention prevailing in the industry.

Further research can be done by taking other variable in a particular sector and also which have direct/indirect impact on employee retention as there exists many other factors as they vary from one employee to another and from one organization to another.

REFERENCES

1. Ahearne, M., Mathieu, J. and Rapp, A. (2005), "An empirical examination of the influence of leadership empowerment behavior on customer satisfaction and performance," Journal of Applied Psychology, Vol.90, No 5, pp. 945-955.
2. Allen, T.D., Eby,L.T. and Lentz. (2006), "The relationship between formal mentoring program characteristics and perceived program effectiveness," Personnel Psychology, Vol.59 No.1, pp125-153.
3. Bachrach, D.G., Powell, B.C. and Bendoly, E. (2006), "Organizational citizenship behavior and performance evaluation," Journal of Applied Psychology, Vol. 91 No.1, pp 193-201.
4. Brown, S.P., Jones, E. and Leigh, T.W. (2005), "The attenuating affect of role overload on relationship linking self-efficiency and goal level to work performance," Journal of Applied Psychology, Vol.90 No.5, pp. 972-979.
5. Enid Munford, (1976), "A strategy for the redesign of work," spring Personnel review, vol.5, no.2, pp 45 – 51.
6. Glen,C. (2006), "The war for talent still rages and retention is the high ground," Industrial and Commercial Training, Vol.38 No.1,pp. 37-45.
7. Hackman, J.R., and Lawler, E.E. (1971),"Employee Reaction to job characteristics," Journal of Applied Psychology monograph, Vol.30 No 12, pp.259-286.
8. Hackman, J.R., and Oldham, G.R. (1975),"Development of Job Diagnostic Survey," Journal of Applied Psychology, pp159-170.
9. HRD newsletter vol: 22, issue: 11 February 2007, page.12.
10. Jack, J., Phillips., and Adele O. Connell, (2003), "A Strategic Accountability Approach, 346 Pages, Hardcover ISBN: 0750674849.
11. John, E. (1992), "Organizational Culture and Employee Retention," The Academy of Management Journal, Vol. 35, No. 5 pp. 1036-1056.
12. Kaye, Beverly., and Barbara Jordan-Evans. (2000), "Retention: Tag, You're It!" Training and Development.
13. Leonard and Bill. "Recruiting from the Competition. (2001), "HR Magazine."
14. Michàl, E., Mor Barak, Jan A. Nissly, and Amy Levin. (2001), "Antecedents to Retention and Turnover among Child Welfare, Social Work, and Other Human Service," Employees Social Service Review, volume 75 pp 625–661.
15. Slaughter, J.E., and Zickar, M.J. (2006)," A new look at the role of insiders in the newcomer socialization process Group and organization management, Vol.31.No.2,. pp.264-290.

HRD PRACTICES IN BANKS: A STUDY WITH REFERENCE TO PUBLIC AND PRIVATE SECTOR BANKS

DR. P. SUCHITRA
PRINCIPAL
DR. KVSR INSTITUTE OF MCA
DUPADU

ABSTRACT
People are the real assets of an organization. There is interdependency between organizations and people to meet their multifaceted goals and objectives. The challenge of human resource management is make this union approach perfection. HRD is a positive concept in HRM. HRD as the formal organizational effort of the financial institutions is receiving substantial attention both from the academic and in-house research. A review of the literature, however, revealed that there is lack of research endeavor comparing the HRD practices in this sector. This study highlights the importance and essence of HRD practices in banks to manage environmental variables, attainment of self-confidence and motivation for the public services. The study was aimed at assessing the extent of HRD climate prevailing and its influence on the level of employee satisfaction and performance. The study is mainly of descriptive nature however a set of statistical tools have been adopted like Correlation of Co-efficient and Regression Analysis to make the study analytical and tries to evaluate the HRD practices followed in the financial Institutions. The study reveals that HRD Climate is a contributing/influencing factor to satisfy different needs of the individuals in both the public sector and private sector banks. To survive and excel in the new economy, the HRD climate is of crucial importance to the Indian public sector organizations. The economic development of a country can be achieved through exploration of natural resources, availability of physical and financial resources, and international aid.

KEYWORDS
Employee Satisfaction, Employee Performance, HRD,HRD Climate, HRM.

INTRODUCTION
People are the real assets of an organization. If treated well, they can take organizations to commanding heights. Two plus two can be four or even ten. Organizations are generally, driven by a set of pre-determined goals. They employ physical, financial and human resources in order to achieve the goals. These goals have no meaning unless people understand the underlying philosophy, translate them into concrete action plans and put their hearts while realizing the targets. Organizations thus depend on people for their objectives and goals. In a similar way, people need organizations. The vast majority of people work to support themselves and their families and people work for many reasons other than economic security. To meet their multifaceted needs, people and organizations join hands. Unfortunately this union seldom approaches perfection. Organizations face several problems to reach their goals, and likewise employees, have their own problems in their attempt to be productive and efficient in their jobs and feel satisfied in their work lives. The challenge of human resource management is to minimize these obstacles and improve the contributions made by people to organizations.

HRM is concerned with the effective use of people to achieve organizational and individual goals. It is a way of managing people at work, so that they give their best to the organization. (**G.Mejia et al,1991)**[6] may be defined as the art of procuring, developing and maintaining the competent workforce to achieve the goals of an organization in an effective and efficient manner. (**J.E.Butler et al,1991**)[1]

HRD
HRD is a positive concept in HRM. It is based on the belief that an investment in human beings is necessary and will invariably bring in substantial benefits to the organization in the long run. It aims at overall development of human resources in order to contribute to the wellbeing of the employees, organizations and society at large. HRD is rooted in the belief that human beings have the potential to do better. It therefore, places a premium on the dignity and tremendous latent energy of the people. Where balance sheets show people on the debit side, HRD seeks to show them as assets on the credit side.

A definition of HRD is "organized learning activities arranged within an organization in order to improve performance and/or personal growth for the purpose of improving the job, the individual, and/or the organization"(**McLagan and Patricia A,1989)**[5] HRD includes the areas of training and development, career development &organization development. This is related to Human Resource Management -- a field which includes HR research and information systems, union/labor relations, employee assistance, compensation/benefits, selection and staffing, performance management systems, HR planning, and organization/job design (**T.V.Rao and Udai Pareek, 1981**)[7]

According to **T.V.Rao**, HRD is a process by which employees of an organization are helped in a continuous and planned way to
- Acquire or sharpen capabilities required to perform various functions associated with their present or future expected roles.
- Develop their general capabilities as individuals and discover and exploit their own inner potential for their own and/or organizational development purposes
- Develop an organizational culture in which superior-subordinate relationships, team work and collaboration among sub units are strong and contribute to the professional well-being, motivation and pride of employees.(**Udai Pareek and T.V.Rao,1981**)[7]

In short, HRD aims at helping people to acquire competencies required to perform all these functions effectively and make their organization do well.

REVIEW OF LITERATURE
The term HRD has become very popular in the last decade and especially in the last five years. Many organizations either have started new HRD departments or have improved HRD managers or at least have strengthened their personnel departments to look after their HRD functions. The formal introduction of the concept of HRD was done by Prof. Len Nadler in 1969 in American Society for Training and Development Conference. In India, Larsen and Turbo Ltd., is the first company to introduce this concept in 1975 among the private sector companies with an objective of facilitating growth of employees, especially people at lower levels. Among the public sector companies, it was BHEL which introduced this concept in 1980.

Although India took the lead in the Asia Pacific region, setting up a full Ministry of Human Resource Development, the National human resource development concept in India has largely been limited to education and culture. The complexity of the country perhaps makes it difficult to have integrated HRD systems at the national level. Networking and learning from each other among various ministries and institutions and from the corporate sector will, however, go a long way in effectively evolving and implementing NHRD policies. (Rao T. V.2004)[8]

Just as values are like beacons for an individual, so they are for a profession, especially for HRD—a value–based management profession. Given the sweeping changes taking place in the business environment, it is plausible that the value orientation of HRD professionals have also changed. In an attempt to understand this, the study being presented here identified 11 value orientations, with ethico–moral, customer and quality orientations the three top ranking value orientations of HRD professionals. It concludes that though: (a) professionals still value strong humanistically–oriented values, business–oriented values seem to have taken priority over the same; (b) organizations encourage practice of all the 11 value orientations, they have come a long way from the traditional welfare approach or paternalistic attitude. (Madhavi Mehta,2005)[4]

In an article, Ishwar Dayal discusses the patterns of HRD management and identifies three different HRD approaches as practiced in Indian organizations. These are: Man- Centered, Reciprocal, and Selective. Underlying each approach is a set of beliefs shared by top management. Policy formulation and HRD programmes in these organizations emanate from these philosophies. The author also analyses the strengths and weaknesses of each approach. According to Dayal, HRD is a shared belief by management in the development of individuals and involves a strategy of linking organization development with individual growth. The author also raises some relevant issues concerning the future of HRD in Indian organizations. (Ishwar Dayal ,1989)[3].

To survive and excel in the new economy, the HRD climate is of crucial importance to the Indian public sector organizations. The economic development of a country can be achieved through exploration of natural resources, availability of physical and financial resources, and international aid. However, none of these factors is more significant than the efficient and committed manpower of the country. The study ascertains the relative importance of HRD climate for the success of the public sector undertakings. (Vijaya Banu C, 2007)[11]

Based on the responses of 212 employees working in a local bank in Dubai, this study made an attempt to assess the human resource development (HRD) climate in the bank through a questionnaire containing 38 items, developed by the Xavier Labour Relations Institute (XLRI), Jamshedpur. The study revealed that a good HRD climate was prevalent in the organization. The areas of difference were identified in this study among the various categories of HRD climate. An attempt was made to find out the differences in the perception of HRD climate among the employees, based on position, nationality, gender and age. (Srimannarayana.M, 2007)[9]

Organizations that learn and develop their Strategic HRD practices have more opportunities to obtain and integrate the nine HRD outcomes in the learning process: organizational mission and goals, top management leadership, environmental scanning, HRD strategies and plans, strategic partnerships with line management, strategic partnerships with HRM, trainers as organizational change consultants, influence corporate culture, and emphasis on individual productivity and participation. (Chien-Chi Tseng, Gary N. McLean, 2008)[2]

What started in the mid-1970s as a conceptualization of an integrated HRD system to change the performance appraisal systems in a large engineering company, resulted in the establishment of HRD departments in many firms. Further dissemination and perseverance resulted in the establishment of a centre for HRD, and subsequently the birth of a professional body and, later, an academic institution. The authors describe the growth in eight stages and conclude the path for future is in moving towards national HR policies and other social sectors. (Pareek, Udai; Rao, T. V, 2008)[7]

STATEMENT OF THE PROBLEM

HRD in banks is not only the acquisition of new knowledge and skills by their human resources, but also the acquisition of capabilities to manage both the internal and external environment, attainment of self-confidence and motivation for the public services. This is especially important as the financial institutions are under continuous pressure for improvement to meet the requirements of the customers and the society at large.

HRD as the formal organizational effort of the financial institutions is receiving substantial attention both from the academic and in-house research. A review of the literature, however, revealed that there is lack of research endeavor comparing the HRD practices in the financial institution sector.

Since banking as one part of financial institution activities is a highly dynamic activity, with continuous ascendance of ever-newer innovations, regular updates of knowledge, awareness and practice through various HRD practices like Refresher Training programs focused on specific groups would go a long way in keeping them abreast of the current and anticipated challenges in their assigned work.

Against this backdrop, the researcher undertakes this study to test the following hypothesis.

OBJECTIVES OF THE STUDY

1. To study the various HRD practices like training,Employee Development, Performance Appraisal and Career Planning and Development.
2. To study the presence of HRD practices followed in the selected banks of SBI, AB, ICICI and HDFC.
3. To examine the nature of HRD Climate in the selected banks
4. To study the level of need satisfaction of the individuals in their roles performed in the organizations.
5. To critically review the HRD developmental Climate impact on the employees role satisfaction in the organizations.
6. To study the level of employee performance of the employees present in the organizations.
7. Critically review and compare the HRD practices followed in the Banks selected.

HYPOTHESIS

- H1: Existence of developmental climate does not facilitate effective implementation of HRD practices.
- H 2: There exists no positive and significant relationship between role satisfaction and HRD climate.
- H3: HRD practices of a firm will not significantly influence the level of employee performance.
- H 4: There is no significant relationship between HRD Climate and Employee performance in the banks.
- H 5: There are no significant differences in HRD Climate, Role Satisfaction and Employee performance in the public and private sector banks selected.

RESEARCH METHODOLOGY

SOURCES OF DATA COLLECTION

PRIMARY DATA SOURCES

The primary data has been collected from 4 medium-sized organizations .The sample was selected from across the banks to bring about the universality of the relationship and eliminate the industry effect on the results. The middle level management staff including the heads and staff of the functional departments like production, marketing, HR, Finance were taken. Information was collected by administering a Schedule designed to fulfill the objectives and to test the Hypotheses framed. The Schedule is divided into three sections

- The **First section** elicits the presence of Developmental Climate presence,
- The **second section** elicits the presence of Employee Role Satisfaction in the organizations and
- The **third section** tries to elicit the presence of Employee Performance in the organizations and seeks their opinion for improvements.

The questionnaires intended to elicit the opinions and attitudes of the employees in three areas of developmental climate, role satisfaction and level of performance .The questions asked to the respondents are to be rated on a 5 point scale ranging from 1 to 5.

SECONDARY DATA SOURCES

Information has been gathered from various journals like Academy of Management Journal, HRD Review. Journal of Applies Psychology, South Asian Journal of Management, Journal of Industrial Relations, Personnel Psychology and the monthly journals of SBI. Secondary information has also been gathered from Business Magazines like Business India and Business Today. The researcher has also referred to various websites that have cited previous research studies and empirical investigations.

Though there is limited literature available on the influence of HRD Climate on Employee Role Satisfaction and Employee Performance, the secondary research was beneficial in the topic selection and for acquiring necessary inputs to carry out a thorough primary research on this less researched relation.

SAMPLING PROCEDURE

The study was aimed at assessing the extent of HRD climate prevailing and its influence on the level of employee satisfaction and performance.

Four banking financial institutes are selected for the study, two are from the Public (State Bank of India and Andhra Bank) sector and two from the private (ICICI Bank and HDFC Bank). In the selected Institutions three branches of each bank are selected for the study on a random basis. The total number of middle level managers and Administrative Officers of various departments like HR Department, Marketing, Sales, Customer care Service ,etc of these banks are about 150 in each organization. The sample of 10 percent i.e 15 from each branch of these banks are taken as the study sample. The questionnaire relating to HRD climate, motivational need satisfaction (role) were administered apart from the questionnaire that tries to assess the level of employee performance.

TABLE 1: LIST OF PUBLIC SECTOR BANKS AND THEIR BRANCHES SELECTED IN HYDERABAD REGION

NAME OF THE BANK	SAMPLE SIZE
1. **STATE BANK OF INDIA**	
a.RajBhavan Road Branch	15
b.Abids Road Branch	15
c.Masab Tank Branch	15
2. **ANDHRA BANK**	
a.Ashok Nagar Branch	15
b.Chikkadpally Branch	15
c.Charminar Branch	15

TABLE 2: LIST OF PRIVATE SECTOR BANKS AND THEIR BRANCHES SELECTED IN HYDERABAD REGION

NAME OF THE BANK	SAMPLE SIZE
1. **HDFC Bank**	
a.Bharkatpura Branch	15
b.Balanagar Branch	15
c.Banjara Hills Branch	15
2. **ICICI Bank**	
a.Himayat Nagar Branch	15
b.Jubilee Hills Branch	15
c.Punjagutta Branch	15

TABLE 3: LIST OF PUBLIC SECTOR BANKS AND THEIR BRANCHES SELECTED IN SECUNDERABAD REGION

NAME OF THE BANK	SAMPLE SIZE
1. **STATE BANK OF INDIA**	
a.Begumpet Road Branch	15
b.Alwal Branch	15
c.M.G.Road Branch	15
2. **ANDHRA BANK**	
a.Diamond Point Branch	15
b.M.G.Road Branch	15
c.Alwal Branch	15

TABLE 4: LIST OF PRIVATE SECTOR BANKS AND THEIR BRANCHES SELECTED IN SECUNDERABAD REGION

NAME OF THE BANK	SAMPLE SIZE
1. **HDFC Bank**	
a. Sainikpuri Branch	15
b. Begumpet Branch	15
c. Alwal Branch	15
2. **ICICI Bank**	
a. Clocktower Branch	15
b. Nedermet Branch	15
c. ECIL Branch	15

SCOPE OF THE STUDY

It is possible to categorize banks into public sector banks and private sector banks. The researcher has therefore taken into consideration two representative banks from the two sectors mentioned above. Further, this classification can be trusted for the management practices vary systematically in the two sectors. The choice of the public sector banks was unanimous- State Bank of India and Andhra Bank, for SBI has been the oldest and the most successful bank in India followed by the same amount of wide presence in the entire Andhra Pradesh in the form of Andhra Bank. They surely are representative of the presence of developmental climate in the public sector banks.

In the private sector, ICICI Bank has been selected for its epitome of transformation in banking practices that are sweeping the banking sector with none other than the HDFC Bank being the major competitor and challenger in the present banking scenario in India.

It was also envisaged to make a comparative study to bring out the presence of Developmental Climate and its relatedness to the Role Satisfaction and The Employee Performance.

The study covers the twin cities of Andhra Pradesh i.e., Hyderabad and Secunderabad

STATISTICAL TOOLS USED

The study is mainly of descriptive nature however a set of statistical tools have been adopted to make the study analytical and tries to evaluate the HRD practices followed in the financial Institutions and to the extent they are motivating the employees so that they are satisfied in their respective roles and thereby enhance their performance in the organizations,

In general, stratified random sampling techniques have been adopted to select the sample. The study classified the banks into two strata, based on the concept of Public Sector banks and Private Sector Banks. The researcher selects a sample giving equal importance to Public Sector Banks and Private Sector Banks. The sample includes a mix of Banks in the ratio of 2:2.

The primary and secondary data is gathered for the purpose of the research and a series of statistical tools such as simple percentages, mean, t-test, factor-analysis, Standard Deviation, ANOVA and One way ANOVA, Correlation of Co-efficient and Regression Analysis have also been used. Also presented are the graphical representations in the form of Histogram, pie diagrams of all the four banks considered for the study.

INSTRUMENTS

Three instruments were administered to elicit responses relating to HRD climate , employee role satisfaction and employee performance.(Appendix).

1. The typology of Rao and Abraham (1986)[12] was used to determine the developmental climate prevalent in these organizations. Seven different factors were used to determine the overall climate. The questionnaire had 38 questions in all in the 5-point scale format ranging from 1-strongly disagree to 5(Strongly Agree) as follows :

- 1 = Strongly disagree
- 2 = Disagree
- 3 = Neither Agree nor Disagree
- 4 = Agree
- 5 = Strongly Agree

2. For assessing the employee role satisfaction, the Motivational Analysis of Organization Roles (MAO-R) questionnaire as designed by Pareek (1993)[13] was used. The Questionnaire consists of 24 statements grouped into five basic human needs. The respondents were asked to rate each of the statement on a 5-point scale ranging from 1 (No Opportunity) to 5 (Great deal of Opportunity) in order to find out the amount of opportunity he/she gets to do the tasks mentioned in the questionnaire in the organizational roles and the degree of satisfaction as follows

- 1 = No opportunity
- 2 = Very little opportunity
- 3 = Some opportunity
- 4 = Quite a deal of opportunity
- 5 = Great deal of opportunity.

3. For assessing the employee performance, Employee Performance Scale (EPS), questionnaire as designed by Lynch, Eisenberger and Armeli's (1999) [14] was used. This questionnaire consists of 20 statements grouped into five factors relating to the basic requirements for the job. The respondents were asked to rate each statement on a five- point scale ranging from "1" (Needs much improvement) to '5" (Excellent) in order to find out the amount of satisfaction he/she is deriving while performing the organizational roles assigned to them and the amount of satisfaction the employee is deriving from the role as follows :

- 1=Needs much improvement,
- 2=Needs some improvement,
- 3=Satisfactory,
- 4=Good, and
- 5=Excellent.

RESULTS AND DISCUSSION

TABLE 5: OVERALL HRD CLIMATE VARIABLES

Sl.no	*Dimensions/ Variables*	***Mean***			
		Public Sector Banks		***Private Sector Banks***	
		SBI	*AB*	*HDFC*	*ICICI*
1	*Top-management's belief in HRD*	3.45	3.43	3.74	3.75
2	*Superior-Subordinate Relationship*	4.76	4.73	3.72	3.69
3	*Personnel Policies*	4.17	3.83	3.94	4
4	*Team-Spirit*	4.47	3.59	3.59	3.70
5	*Employee Development*	4.01	3.71	3.71	3.89
6	*Training*	3.60	3.55	3.55	3.51
7	*Employee Initiatives and Management Encouragement*	**4.69**	3.73	**4.02**	3.77
Mean HRD Climate		**4.16**	**3.79**	**3.75**	**3.73**

Source : Field Data

1a. When all the seven dimensions of the presence of HRD Climate are considered for both the public sector banks selected, the mean score for "Superior-Subordinate relations (4.76) was found to be high in these banks followed by " Employee Initiatives and Management Encouragement"(4.69).This supports the fact that the extent of favorableness of the developmental climate is based on Superior- Subordinate Relations and encouragement by the management.

1b. When all the seven dimensions showing the presence of HRD Climate are considered for both the private sector banks selected, the average mean score of 3.75 indicates that the presence of HRD Climate in Private Sector Banks is just above average. The mean score for "Employee Development(3.87)was found to be high in these banks followed by "Employee Initiatives and Management Encouragement"(3.77) and "Top management's belief in HRD"(3.75). This supports the fact that the extent of favorableness of the developmental climate is based on Employee Development and encouragement by the management.

TABLE 6: OVERALL ROLE SATISFACTION VARIABLES (PUB Vs. PVT)

Sl.no	*Variables*	***MEAN***	
		Public sector Banks	***Private Sector Banks***
1	***Achievement (AC)***	3.85	**3.83**
2	***Influence (IN)***	3.65	**4.00**
3	***Control (CL)***	3.78	**4.03**
4	***Affiliation (AF)***	4.03	**4.03**
5	***Extension (EX)***	3.42	**3.12**
Role Satisfaction		3.74	**3.8015.08208**
SD		0.26	**0.21**
t-test	**8.24**		

*** Significant at the (P<=0.001) level (2-tailed)

Source : Field Data

2a. When all the five variables in both the public sector banks of SBI and AB are considered the overall mean score is highest for "Affiliation" (4.03)followed by "Achievement"(3.85)

This supports the fact that the employees are satisfied in their roles when their need for Extension is more when compared to the variables considered.

b. When all the five variables in both the private sector banks of ICICI and HDFC are considered the overall mean score is highest for "Control" (3.03) followed by "Influence"(3.01).This supports the fact that the employees are satisfied in their roles when their need for individual control more when compared to the other variables considered. The average mean score of 2.92 indicates that the employees Role satisfaction needs and their achievement is above the average score. Within the two banks, presence of Role Satisfaction needs is higher for ICICI(3.02) than in HDFC(2.82)

TABLE 7: OVERALL EMPLOYEE PERFORMANCE VARIABLES

Sl.No	Dimension	MEAN Pub. Banks	MEAN Pvt. Banks
1	Job	3.06	3.25
2	Career	3.41	3.43
3	Innovator	3.39	3.72
4	Team	3.85	4.16
5	Organization	3.14	3.42
HRD Climate		3.37	3.59
SD		0.25	2.98
t-test		**2..75**	

*** Significant at the (P<=0.001) level (2-tailed)

Source : Field Data

3 a. When the employee performance is analyzed taking into account all the five variables, the overall mean score of 2.91, which is above average indicates that employee performance is an important in any organization and if they are not satisfied, their performance levels automatically comes down.

b.Among all the Variables again, Employee performance is more influenced by the criteria of Career (3.41) followed by Job itself in the organization. This clearly indicates that Performance of employees in any organization is dependent on the career development provided by the organization itself and the effect of the employees' job in the organizations.

FINDINGS AND CONCLUSIONS

- When all the seven variables of HRD Climate are analyzed (Table 4.9)for both the Public Sector Banks and Private Sector Banks, the analysis reveals that, presence of HRD Climate is more in Public Sector Banks (3.86) than compared to Private sector Banks (3.75).Standard Deviation, SD is less for Public (0.22) than in Private (0.24) Banks.
- When all the five Variables of Role Satisfaction are analyzed (Table 4.16), the analysis reveals that Employees are more satisfied with their roles in Private sector banks (3.80) than in Public Sector Banks (3.74). The associated values of SD are 0.21 and 0.26 respectively.
- When all the five variables measuring employees performance are analyzed (Table4.23), level of employee performance is more in Private Sector Banks (3.59) than in Public Sector banks (3.37)
- When the overall HRD Climate and Overall Role Satisfaction is correlated (Table 4.24), in public banks, HRD is correlated with Role Satisfaction at 0.961 and at 0.497. (Correlation is significant at 0.01 levels.)
- When the overall HRD Climate and Overall Employee Performance is correlated (Table 4.29), in public banks, HRD is correlated with Employee Performance at 0.858 and at 0.416. (Correlation is significant at 0.01 level).
- The correlation analysis performed to analyze the relationship between HRD climate and Satisfaction of different needs in their roles, reveals that HRD Climate has a positive relationship with all the five needs i.e., Achievement, Influence, Control, Extension and Affiliation Needs. This proves that HRD Climate is a contributing/influencing factor to satisfy different needs of the individuals in both the public sector and private sector banks.
- The correlation coefficient between the HRD Climate and Role Satisfaction is positive in both the cases. The level of association ranges from0.624 to 0.846 (in public banks) and from 0.100 to 0.390 (private banks) indicating that there exists a moderate level of correlation of HRD Climate with need for control to high level of correlation with the need for Affiliation in Public banks. Where as in private banks, that there exists a moderate level of correlation of HRD Climate with need for Extension to high level of correlation with the need for Affiliation.
- The level of correlation between Role Satisfaction and HRD Climate variables like Top managements belief in HRD, Superior-Subordinate Relations, Personnel Policies, Team Spirit, Employee Development, Training, Employee Initiatives and Management Encouragement reveals that there exists a positive relationship between Role Satisfaction and all the HRD Climate Variables. The correlation coefficient ranges from 0.185 to 0.888 in Public Banks and from 0.202 to 0.381 in private sector banks. (Table 4.27 & 4.28) from a low to high positive correlation. It also brings out that Role satisfaction was highly influenced by the HRD variables of Superior-Subordinate relations (0.888) followed by Employee development (0.837) in Public banks. In private banks, Role satisfaction was highly influenced by Team Spirit (0.381) followed by Employee Development (0.375).
- The correlation analysis performed to analyze the relationship between HRD climate and Employee Performance Variables in the form of Job, Career, Innovator, Team and Organization, the analysis reveals that there exists a positive relationship between HRD Climate and all the Performance Variables. The level of association varies from 0.180 to 0.826 in public banks and from 0.091 to 0.424 in private banks from a low to high level of positive correlation. It also further reveals that HRD Climate was highly influenced by Career (0.826) followed by Job (0.727) in public banks and in private banks, it is highly influenced by Team (0.424) followed by Job(0.278) (Tables 4.30 & 4.31)
- The level of correlation between Employee Performance and HRD Climate variables reveals that there exists a positive relationship between Employee Performance and all the HRD Climate Variables. The correlation coefficient ranges from 0.238 to 0.755 in Public Banks and from 0.130 to 0.481 in private sector banks. (Table 4.32 & 4.33) from a low to high positive correlation. It also brings out that Employee Performance was highly influenced by the HRD variables of Team Spirit (0.755) followed by Employee Initiatives and Management Encouragement (0.714) in public banks. Whereas in Private banks, Employee Performance is highly influenced by the HRD Variables of Employee Development (0.481) followed by Personnel Policies. (0.260).The correlations are significant at 0.01 level and 0.05 level.
- Regression Analysis was performed to explain the impact of HRD Climate on Role Satisfaction i.e. to find out the amount of association. The F –value =3.63(public banks) and F-value =9.679 (private banks) which is significant at 1% level proves that the regression model is valid. It was found that 93% and 28 % of variance in role satisfaction was explained by HRD Climate factors in public and private banks respectively. Among all the variables included in the analysis, the most influencing variables were Superior-subordinate relations (Coefficient 0.364) in public banks and TMBHRD (Coefficient 0.251) in private banks.
- The individual impact of HRD Climate variables on Role Satisfaction could not be interpreted in this analysis because of the existence of multi-co linearity and high inter-item correlation, which may distract the results. But however it can be said that role satisfaction is very much influenced by SSR variable followed by Employee Development in public banks and by TMBHRD followed by Employee development in private banks.
- Regression Analysis was performed to explain the impact of HRD Climate on Employee Performance i.e. to find out the amount of association. The F –value =1.11(public banks) and F-value =14.74 (private banks) which is significant at 1% level proves that the regression model is valid. It was found that 81% and 37 % of variance in performance was explained by HRD Climate factors in public and private banks respectively. Among all the variables included in the analysis, the most influencing variables were Employee Development (Coefficient 0.355) in public banks and Employee Development (Coefficient 0.384) even in the private banks.
- The individual impact of HRD Climate variables on Employee Performance could not be interpreted in this analysis because of the existence of multi-co linearity and high inter-item correlation, which may distract the results. But however it can be said that Employee Performance by Employee Development both in public banks and in private banks.

LIMITATIONS OF THE STUDY

An academic study of this nature consists in soliciting the views of managers and administrative officers on a given point scale rating ranging from complete acceptance to nil extent. This is to protect the pride of the organization and to avoid any problems that may crop up. Arriving at conclusion becomes difficult in such cases. This limitation has been overcome by informal discussions with the employees and managers of the selected branches of the banks.

Though the researcher wishes to cover the entire Financial Institutions, their orientation towards development of human resources for arriving at meaningful conclusions, due to paucity of time and other constraints, the researcher has decided to limit her area of study to only four major institutions located in AP and that too in Hyderabad and Secunderabad only.

To make the sample limited but representative and covering a wider area, sample has been collected from the twin cities of Andhra Pradesh namely Hyderabad and Secunderabad.

SCOPE FOR FUTURE RESEARCH ON HRD

A current challenge and or opportunity for HRD professionals is to play a more strategic role in the functioning of their organization. Progress has been made in moving towards a more "strategically integrated HRD". In particular, **HRD executives and professionals** should demonstrate the strategic capability of HRD in three primary ways:

- Directly participating in their organizations strategic management process,
- Providing education and training to line managers in the concepts and methods of strategic management and planning.
- Providing training to all the employees that is aligned with the goals and strategies of the organization.

HRD executives should contribute information, ideas and recommendations during strategy formulation and ensure that the organizations HRD strategy is consistent with the overall strategy. They are to provide education and training programs that support effective strategic management.

There are currently five major challenges that HRD need to concentrate upon. They are

- Increasing workforce diversity
- Competing in a global economy
- Eliminating the skills gap
- Meeting the need for lifelong individual learning
- Facilitating organizational learning.

Each of these challenges has a potential impact on HRD

The external and internal forces interact or combine to produce a given behavior, and that employee behavior has a direct relationship to the personal and organizational outcomes that are obtained. Although it may be possible in some cases to trace the cause of a behavior to one or two dominant forces, we believe that overall patterns of behavior can be explained by the combination of many factors and research is to take place in this area.

REFERENCES

1. Butler J E et al.,1991,Strategy and Human Resource Management Cincinnati, OH Southern-western and Dyer.
2. Chien-Chi Tseng and Gary N. McLean, 2008, Strategic HRD practices as key factors in organizational learning, Journal of European Industrial Training Vol, 32(6), pp. 418 – 432.
3. Ishwar Dayal ,Oct 1989, Cultural Factors in Designing Performance Appraisal System HRD in Indian Organizations: Current Perspectives and Future Issues.
4. Madhavi Mehta, 2005, Value Orientations of HRD Professionals in India, Journal of Human Values, Vol. 11 (2),pp.103-115 .
5. McLagan and Patricia A,Sep, 1989, Models for HRD Practice. Training and Development Journal, pp.49-59.
6. Mejia G et al, 2003,Managing human resources, New Jersey,Prentice Hall.
7. Pareek Udai and Rao, T. V, Nov 2008, From a sapling to the forest: the saga of the development of HRD in India. Human Resource Development International, Vol 11(5),pp. 555-564.
8. Rao T V, July 2004, Planning for Human Resources Development.
9. Srimannarayana M, Jan 2007, Human Resource Development Climate in a Dubai Bank, Icfai Journal of Organizational Behavior, Vol. 6(1), pp. 33-40.
10. Udai Pareek and Rao T V , 1981, Designing and Managing Human Resources Systems, Oxford, IBH, New Delhi .
11. Vijaya Banu C,Oct 2007, A Study on HRD Climate with Special Reference to Public Sector Cement Corporation, The Icfaian Journal of Management Research, Vol. 6(10), pp. 37-49.

PRE-PURCHASE INFORMATION SEARCH BEHAVIOUR OF RURAL CONSUMERS TOWARDS PRE-OWNED CARS

DR. M. UMA MAHESWARI
ASST. PROFESSOR
S. T. HINDU COLLEGE
NAGERCOIL

DR. M. JEZER JEBANESAN
PRINCIPAL
SCOTT CHRISTIAN COLLEGE (AUTONOMOUS)
NAGERCOIL

ABSTRACT

The study of consumer behaviour is essential in the changing scenario of the Indian consumer market. In recent times, the orientation of rural consumers has turned towards acquiring specialty goods like automobiles. Comprehending the patterns and understanding the rural consumer behaviour is a challenge. The study focuses on pre-purchase information search behaviour of rural pre-owned car owners in Kanniyakumari district, Tamil Nadu. Burgeoning growth of the new car market and the reduced tenure of car ownership resulted in wider availability of used cars. This study is significant as the pre-owned car consumers are potential new car buyers and their experience with a pre-owned car will have a definitive influence on future car purchase decisions. The study has been undertaken with two objectives; to assess the socio-economic and demographic profile of rural pre-owned car owners in Kanniyakumari district and to examine the pre-purchase information search behaviour of rural car owners. Primary and secondary data have been used. The primary data have been collected through structured questionnaire. Judgement sampling method was adopted to select 200 used car owners. Descriptive statistics and Garrett's ranking technique were used for analysis. The pre-owned car market in the study area is dominated by individuals. Pre-owned car was bought due to lower price after brand evaluation but with apprehension on mind. The pre-owned car market can be made organized by proper registration of dealers. To overcome the challenges in reaching rural consumers, the car marketers can formulate effective rural marketing strategies.

KEYWORDS

Car, Pre-owned/used car, Information Search, Rural Consumer, Consumer Behaviour.

INTRODUCTION

A study of consumer behaviour is concerned with decisions in purchasing goods or services. Understanding consumer behaviour has become imperative for the survival and success of the marketers. Buyers decide the success or failure of a product. Thus, the focus of the marketer has shifted from product to consumer. Consumers exhibit complex buying behaviour when they become highly involved in a purchase and perceive significant differences among brands. When the product is expensive and perceived as risky investment, consumer behaviour is highly self-expressive. Growth of credit culture in India is one of the factors for the growth in demand for goods and services, particularly durables, cars and homes.

Comprehending the patterns and understanding the unpredictability in consumer behaviour is a challenge, particularly so when the consumers live in rural areas. This effort is often ignored by the passenger car companies due to excessive urban orientation and the perceived challenges prevailing in the remote rural markets. The present study has focused exclusively on pre-purchase information search behaviour of rural pre-owned car owners in the district of Kanniyakumari, Tamil Nadu.

THE MARKET: PASSENGER CAR

The passenger car sector, a key segment in the automobile industry, has undergone tremendous changes over a period of time. The increase in competition with the entry of multinational car companies to India has revolutionized the Indian passenger car market, besides creating a new market for pre-owned cars. Thus, Indian car industry can be divided into two halves – new car market and pre-owned or used car market.

An increase in per capita income levels and easy finance has enhanced the demand for cars. Burgeoning growth of the new car market with numerous models and the reduced tenure of car ownership resulted in wider availability of used cars. The pre-owned car market size is estimated at 1.5 million in India. The equation between pre-owned and new cars is 1:1, that is, for every one new car, a used car is sold. A new trend in the passenger car market is the exchange schemes launched by the car makers. Popular brands of car manufacturers such as Maruti, Ford, Hyundai, Tata and the like have entered the pre-owned car market with a separate wing such as 'Maruti True Value', 'Hyundai Advantage', 'Tata Motors Assured', 'Mahindra First Choice', 'Toyota-U-Trust', 'Ford Assured', 'Chevrolet OK', and 'Auto Terrace' of Honda Siel Cars India Limited.

REVIEW OF LITERATURE

Furse, et al., (1984) were the first to show the involvement of others in the information search activity and identified distinct external information search patterns namely, low search group, moderate search group, high search group, retail shopper group and purchase-pal assisted search group, while studying the individual search strategies among purchasers of new automobiles.

Sanal Kumar, V., (1998) found that the rural consumer used multiple sources of information with television as an important source. The actual purchase in rural markets was by the male member of the household, though the decision-maker depends on the type of product. The brand choice among rural buyer was influenced by social groups.

Alberto Montanari, (2004) mentioned that affordable entry level cars, the proliferation of second hand cars and easy financing have stimulated the demand for cars. To improve the share of passenger cars in the market, the attributes such as comfort, fulfillment of aspiration and value for money will need to be favourably registered in the minds of the customer.

Gill, A.S., and Sudhir K. Jain, (2005) opined that the ever increasing market offerings and inducing purchase interest in brands motivate the consumers to upgrade. Consumers purchase a car depends on their disposable income. Important aspects that affect purchase of second-hand vehicles are non-availability of established channels, which offers full service to consumers for buying, servicing and reconditioning.

Shivi Gupta, (2008) viewed that the used car market in India is not developed and fragmented. Used cars are mainly sold through independent brokers or individuals without coming to the market. The used car market is promising and dealers must take it seriously to improve profitability.

Liu Dongyan and Bai Xuan, (2008) investigated car purchasing behaviour in Beijing and found that the car purchasing decision was an important one for the majority of the Chinese consumers. Dealer sales staff and internet were the widely used information sources.

Sathish, S.M., and Sivakumaran Bharadhwaj, (2010) analysed the information search behaviour among new car buyers and clustered consumers on the basis of information search behaviour into broad moderate searchers, intense heavy searchers, low broad searchers and low searchers considering personality related variables. Organization could design specific communication and promotional strategies to influence the behaviour of particular clusters of consumers.

SIGNIFICANCE OF THE STUDY
The choice of the passenger car for the purpose of the study has great relevance and significance in the present marketing context as the Indian market is abundant with a variety of passenger cars giving wide choice to consumers. Growing competition in the passenger car sector has compelled the marketers to find new avenues in marketing. One such potential avenue is the rural market.

The present study is made at the grass root level and attempts to unravel the rural psyche, at the village level, in making pre-owned car purchase decision. Knowledge of consumer behaviour enables the marketer to cultivate brand loyalty, acquire a confident customer base, provides input for product diversification and product innovation leading to profitability and enhanced market share. The study of consumer behaviour is essential in the changing scenario of the Indian consumer market. Analysis of pre-purchase behaviour of rural pre-owned car owners and a basic understanding of the consumer thought process will help the marketers to comprehend pre-owned car consumer decision-making patterns and formulate marketing strategies. Studying the pattern of information search of consumer towards the pre-owned car is significant as the pre-owned car consumers are potential new car buyers and their experience with a pre-owned car will have a definitive influence on future car purchase decisions.

STATEMENT OF THE PROBLEM
Rural India is undeniably a major part of the national economy. In recent times, the purchase capability and orientation of consumers in rural areas have turned towards acquiring specialty goods like automobiles, suggesting changes in rural consumer behaviour. There is a marked dearth of studies related to rural consumer behaviour with special reference to high value products.

While planning to buy a car, the option is either to buy a new car or a pre-owned car. The present study attempts to describe the exclusive nature of rural consumer behaviour towards a high value product that is, second-hand car. In spite of tremendous business opportunities in the rural market, getting an insight into rural consumer behaviour is a challenge. The difficulty lies in understanding the psyche of rural consumers, their conscious, distinct and collective decision-making characteristics.

OBJECTIVES OF THE STUDY
The study has been undertaken with the following objectives:
1. To survey and assess the socio-economic and demographic profile of pre-owned car owners in the rural areas of Kanniyakumari district.
2. To examine the pre-purchase information search behaviour of rural car owners in the study area.

SCOPE OF THE STUDY
The next big marketing revolution is rural marketing as the disposable income in rural India grows higher. The scope of the present study is limited to analysis of pre-purchase information search behaviour of rural consumer pre-owned cars in the district. The study strives to provide the marketers an impetus to a better understanding of rural consumer behaviour, in order to target the right people and frame the marketing strategies accordingly.

METHODOLOGY
The present study is both descriptive and analytical in nature. Data and information were gathered from both primary and secondary sources. The primary data have been collected during the period from August 2010 to July 2011 through structured questionnaire. Judgement sampling method was adopted to select 200 used car owners. The geographical area of the study covers Kanniyakumari district.

TOOLS FOR ANALYSIS

The data were analysed with the help of SPSS 20.0. Statistical tools and techniques used for data analyses were Descriptive statistics and Garrett's ranking technique.

SIGNIFICANCE OF THE STUDY AREA
Kanniyakumari District is at the southern-most tip of peninsular India. It is the second smallest district in Tamil Nadu. It is primarily an agrarian district with 83 per cent of its population residing in villages and 58.8 per cent of its working population engaged in agricultural and allied activities. The villages in the district come under 150 panchayats.

RESULTS AND DISCUSSION
The results of the analysis and related discussions are presented below:

SOCIO-ECONOMIC AND DEMOGRAPHIC PROFILE OF RURAL PRE-OWNED CAR OWNERS

The parameters such as gender, age, level of education, marital status, type of family, occupation and monthly income are considered in the present study to understand the socio-economic and demographic profile of the rural pre-owned car owners in the study area and exhibited in Table 1.

TABLE 1: SOCIO-ECONOMIC AND DEMOGRAPHIC PROFILE OF THE RESPONDENTS

Profile Variables	Particulars	No. of Respondents	Percentage
Gender	Male	173	86.5
	Female	27	13.5
	Total	**200**	**100.0**
Age	18-25	11	5. 5
	26-35	48	24.0
	36-45	90	45.0
	46-55	18	9.0
	56 and above 56	33	16.5
	Total	**200**	**100.0**
Educational Status	School Level	98	49.0
	College Level (arts & Science)	42	21.0
	Professional Courses	21	10.5
	Diploma/Certificate Courses	39	19.5
	Total	**200**	**100.0**
Marital Status	Married	180	90.0
	Un-married	20	10.0
	Total	**200**	**100.0**
Type of the Family	Nuclear	150	75.0
	Joint	50	25.0
	Total	**200**	**100.0**
Occupation	Agriculture	62	31.0
	Employment	86	43.0
	Business/Profession	34	17.0
	Others	18	9.0
	Total	**200**	**100.0**
Monthly Income	Less than 30000	157	78.5
	30001-50000	33	16.5
	More than 50000	10	5.0
	Total	**200**	**100.0**

Source: Primary data.

It is found out from Table 1 that 86.5 per cent respondents were male owners, 45 per cent of the respondents belonged to the age group of 36 to 45 years, 49 per cent of the respondents were educated up-to school level and 90 per cent of the respondents were married. The type of the family of the respondents revealed that 75 per cent of the respondents lived in a nuclear family. 43 per cent of the respondents were employed and 31 per cent were agriculturists. 78.5 per cent of the respondents had a monthly income of below Rs.30000.

ANALYSIS OF PRE-PURCHASE BEHAVIOUR OF THE RURAL PRE-OWNED CAR OWNERS

In the present study, pre-purchase analysis has sought to find answers to questions such as what is the need of owning a car, Why did the consumer buy a used car, Whom did they consult before buying, What are the influential sources of information, From where did they buy, What concerns them while buying a used car? Do they undertake brand evaluation? and the related informations.

PURPOSE OF OWNING A CAR

Car owners invest in cars for personal or commercial purposes or for both the purposes. It is found out that 93 per cent of the respondents owned cars for personal purposes. Seven per cent of respondents owned it for personal and commercial purposes. None of the respondents owned the car for commercial purposes.

NEED OF CAR FOR PERSONAL PURPOSES

Majority of the respondents own the car for personal purposes. Owning a car for personal purposes is classified into four needs. The needs are ranked using Garrett's Ranking technique and presented in Table 2.

TABLE 2: NEED OF CAR FOR PERSONAL PURPOSES

Sl. No.	Need for a Car	Score	Rank
1.	Comfort and Convenience	56.76	II
2.	Esteem Need	35.67	IV
3.	Family Transport Solution	63.24	I
4.	Economy Measure	44.32	III

Source: Primary Data.

It is exhibited from Table 2 that the foremost need for owning a car for personal purposes by the respondents was to use it as a family transport solution with the highest score of 63.24, thus given the first rank. The second rank was given to the need for comfort and convenience with the score of 56.76. Economy measure with the score of 44.32 has been given third rank and Esteem need with the score of 35.67 was ranked the least by the respondents.

REASONS FOR PURCHASING A PRE-OWNED CAR

The motive for purchasing a pre-owned car differs from individual to individual. The reason for purchasing a pre-owned car by rural car owners is mentioned in Table 3.

TABLE 3: REASONS FOR PURCHASING A PRE-OWNED CAR

Sl. No.	Reasons for Purchasing a Pre-owned Car	No. of Respondents	Percentage
1.	Low price	121	60.5
2.	Learning purposes	13	6.5
3.	Up-grading from two-wheeler to four-wheeler	62	31.0
4.	To be chauffeur driven	4	2.0
	Total	200	100.0

Source: Primary Data.

It is evident from Table 3 that 60.5 per cent of the respondents purchased a pre-owned car due its lower price. 31 per cent purchased it to upgrade their status from two wheeler owner to a car owner. 6.5 per cent of the respondents purchased it for learning purpose. Two per cent of the respondents purchased a pre-owned car as it had to be driven by a chauffeur.

IMPORTANCE OF INFORMATION SOURCES

Every consumer is directly or indirectly influenced by the sources of information about the desired product. When the product requires more investment, more importance is given to the information search activity before purchase. The importance of information sources towards the purchase decision of pre-owned car by the respondents was measured in a 5-point scale ranging from 'very important' to 'least important' sources. Mean and standard deviation of information sources are given in Table 4.

TABLE 4: IMPORTANCE OF INFORMATION SOURCES

Sl. No.	Information sources	Mean	Standard Deviation
	Personal Sources		
1.	Individual Perception and Knowledge	4.13	0.73
2.	Family Members	3.42	1.12
3.	Friends/Colleagues owing a car	4.18	0.77
4.	Friends/Relatives working in auto sector	3.49	1.46
5.	Bank Managers	1.34	0.79
6.	Existing Customers	3.06	1.45
7.	Driving School Staff	1.94	1.25
8.	Car Mechanic	2.64	1.43
9.	Car Brokers	1.60	0.96
	Commercial Sources		
10.	Used Car Dealers	2.16	1.35
11.	Newspaper Advertisement	1.64	0.99
	Public Sources		
12.	Test Drive	3.80	1.33
13.	Automobile Magazines	1.41	0.87
14.	Used Car Websites	1.33	0.89

Source: Primary Data.

All the respondents gathered information related to purchase of a pre-owned car in the study area. Table 4 shows that among personal sources, information from friends/colleagues owning a car and individual perception and knowledge were rated as very important information sources since their respective mean scores were 4.18 and 4.13. Friends/relatives working in auto sector, family members and existing customers were rated as important sources of information with the mean scores of 3.49, 3.42 and 3.06 respectively. Respondents gave moderate importance to car mechanics in deciding on the purchase of a pre-owned car with a mean score of 2.64. Driving school staff, car brokers and bank managers were considered to be the least important sources of information by the respondents since their respective mean scores were 1.94, 1.60 and 1.34.

Among commercial sources of information, respondents gave moderate importance to used car dealers with a mean score of 2.16. Newspaper advertisement was not found to be an important source of information since the mean score was 1.64.

Among public sources, the respondents rated the test driving of car as an important source with a mean score of 3.80. Automobile magazines and used car websites were not considered an important source of information by the respondents since their respective mean scores were 1.41 and 1.33.

EVALUATION OF ALTERNATIVE BRANDS

Passenger car manufacturers frequently launch new models with advanced product features. This induces the existing new car owners to upgrade. Consequently, the pre-owned car market flourishes. As there are multiple brands of car, evaluation of brands for purchase decision-making becomes essential. The number of brands evaluated by the respondents is given in Table 5.

TABLE 5: NUMBER OF BRANDS EVALUATED

Sl. No.	Brands Evaluated	No. of Respondents	Percentage
1.	One	26	13
2.	Two	70	35
3.	Three	80	40
4.	Four or above four	24	12
	Total	200	100

Source: Primary Data.

It is evident from the Table 5 that 40 per cent of the respondents evaluated three brands, followed by 35 per cent who considered two brands. 13 per cent evaluated one brand and 12 per cent of the respondents compared four or above four brands.

BRANDS CONSIDERED FOR EVALUATION

As a majority of rural pre-owned car owners evaluated two or three brands before making the final choice of a car, the name of the brands evaluated by the respondents is presented in Figure 1.

FIGURE 5.1: BRANDS CONSIDERED FOR EVALUATION

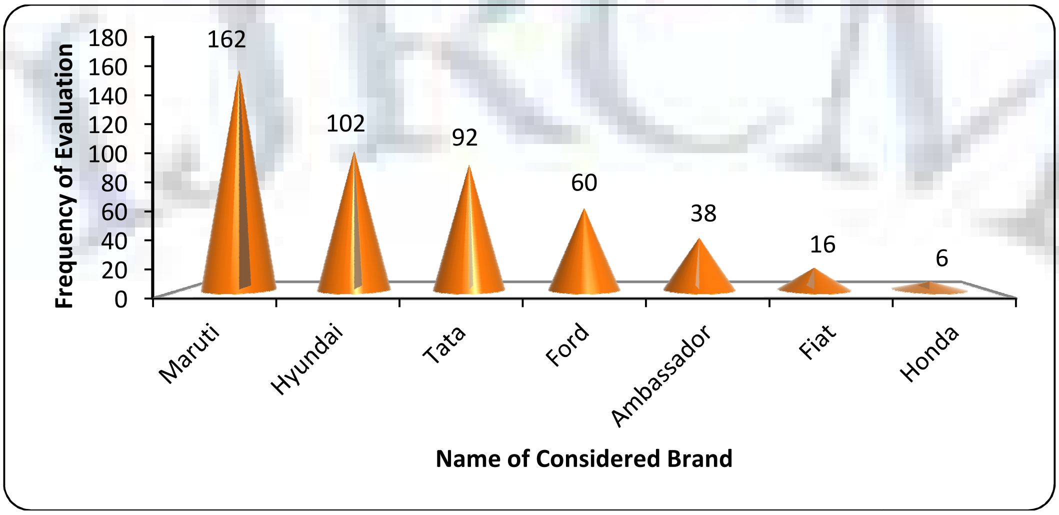


Figure 1 clearly indicate that the respondents evaluated Maruti brand of cars with the maximum of 162 evaluations, followed by Hyundai with 102 evaluations, Tata with 92 evaluations and Ford with 60 evaluations. Six evaluations were carried out on Honda brand of cars.

APPREHENSION TOWARDS THE PURCHASE DECISION OF PRE-OWNED CAR – GARRETT'S RANKING TECHNIQUE

Every consumer will have an un-easy feeling while buying a pre-owned product. The anxiety on the part of the buyer will increase if such product involves high investment. The anxiousness felt by the respondents towards the authenticity of pre-owned car was measured in two aspects namely, 'Internal aspect' and 'External aspect' of a pre-owned car.

APPREHENSION REGARDING INTERNAL ASPECT OF PRE-OWNED CAR

Internal aspects of a pre-owned car considered in the study includes accident record, mechanical condition, accuracy of mileage, maintenance cost to be incurred after purchase and replacement of major parts. These elements create nervousness on the part of the buyer in making a purchase decision of a pre-owned car. The areas of anxiety under internal aspect of a pre-owned car are ranked with Garrett's Ranking technique and presented in Table 6.

TABLE 6: APPREHENSION REGARDING INTERNAL ASPECT OF PRE-OWNED CAR

Sl. No.	Internal Aspect	Score	Rank
1.	Maintenance Cost	38.6	IV
2.	Accuracy of Mileage	36.6	V
3.	Replacement of Major Parts	56.6	II
4.	Mechanical Condition	50.2	III
5.	Accident Record	68.2	I

Source: Primary Data.

Table 6 reveals that the respondents were extremely anxious to know whether the selected pre-owned car had met with any accident and had such an accident record of the vehicle as indicated by the highest score of 68.2, thus given the first rank. The second major concern was shown towards replacement of expensive major parts with a score of 56.6 and this aspect was given the second rank. Mechanical condition of the vehicle worried the respondents with a score of 50.2 and was ranked third. As every consumer does not possess knowledge about the technical condition of the vehicle and has to believe the words of the seller. The respondents gave fourth rank to the maintenance cost with a score of 38.6. Truth-fullness of mileage as committed by the seller with the score of 36.6 was ranked fifth.

APPREHENSION REGARDING EXTERNAL ASPECT OF PRE-OWNED CAR

Reasonability of purchase price, resale value, level of ownership, place of registration and insurance coverage were considered as areas of anxiety under external aspect. These areas of anxiety under external aspect of pre-owned are ranked by using Garrett's Ranking technique and presented in Table 7.

TABLE 7: APPREHENSION REGARDING EXTERNAL ASPECT OF PRE-OWNED CAR

Sl. No.	External Aspect	Score	Rank
1.	Reasonability of Purchase Price	58.35	I
2.	Resale Value	50.85	III
3.	Level of Ownership	57.95	II
4.	Place of Registration	49.60	IV
5.	Insurance Coverage	33.25	V

Source: Primary Data.

The results of Garrett's Ranking revealed that the respondents were first and fore-most worried about the reasonability of purchase price which has a higher score of 58.35, thus given the first rank. As investment in pre-owned car involved a large amount of money, the buyers were afraid of being cheated. The second worrisome part was the level of ownership of a pre-owned car with a score of 57.95 and this aspect was ranked second. The resale value and place of registration were given the third and fourth rank with the scores of 50.85 and 49.60 respectively. The respondents ranked insurance coverage as the fifth aspect with the score of 33.25.

BRAND PREFERENCE OF USED CAR

Multiple brands of cars are available in the pre-owned passenger car market in the study area. This gives an opportunity to the buyers to own the desired brand of a pre-owned car. Table 8 shows the brand of pre-owned car owned by the respondents.

TABLE 8: BRAND PREFERENCE

Sl. No.	Brand Preference	No. of Respondents	Percentage
1.	Maruti	93	46.50
2.	Hyundai	41	20.50
3.	Tata	25	12.50
4.	Ford	30	15.00
5.	Fiat	11	5.50
	Total	200	100.00

Source: Primary Data.

It is evident from Table 8 that 46.5 per cent of the respondents owned Maruti brand, followed by 20.5 per cent who owned Hyundai brand. Ford brand of pre-owned cars were owned by 15 per cent of the respondents, followed by 12.5 per cent owned Tata brand. 5.5 per cent of the respondents owned Fiat car.

PLACE OF PURCHASE

Unlike the new car market, pre-owned car market is highly un-organised. A potential buyer of a pre-owned car can buy it from the used car dealer or friends/colleagues/relatives or other individuals owning a car, car brokers, car mechanics, or through used car websites. The place from where the respondents have purchased the car is shown in Table 9.

TABLE 9: PLACE OF PURCHASE

Sl. No.	Place of Purchase	No. of Respondents	Percentage
1.	Used Car Dealer	55	27.5
2.	Car Brokers	26	13.0
3.	Friends/Relatives/Colleagues	119	59.5
	Total	200	100.0

Source: Primary Data.

Table 9 depicts that 59.5 per cent of the respondents purchased the car from friends/relatives/colleagues. 27.5 per cent bought it from the used car dealer. 13 per cent of the respondents purchased through car brokers. Thus, it is observed that the pre-owned car market in the study area is dominated by individuals than organised dealers.

FINDINGS OF THE STUDY

The following were the findings of the study:

1. The socio-economic and demographic profile of the respondents revealed that middle-aged, married males, educated upto school level, living in nuclear type of family, employed and earning less than Rs.30000 per month were the predominant buyers of pre-owned cars in the study area.

2. Majority of the respondents owned a pre-owned car for personal purposes. The respondents needed to own a car to use it as a means of family transport solutions and for comfortable and convenient travel. The respondents have purchased a pre-owned car due to its lower price.
3. The rural pre-owned car owners in the study area considered information from friends/colleagues owning a car and also individual perception and knowledge as very important sources of information. The respondents have not given importance to information sources such as, bank managers, used car websites and automobile magazines.
4. Majority of the respondents have evaluated two or three brands before owning a brand of pre-owned car. The pre-owned car owners in the study area evaluated Maruti as the most considered brand before making the final choice.
5. The accident record and replacement of major parts under internal aspect, reasonability of purchase price and the level of ownership under external aspects of pre-owned car created maximum apprehension on the part of the respondents.
6. Maruti brand of pre-owned cars have been preferred by a higher number of respondents and it is inferred that the Maruti brand of cars has good re-sale value and has good scope in the pre-owned car market in the study area.
7. The pre-owned car market in the study area is dominated by individuals than organised dealers.

SUGGESTIONS

The following suggestions are given by the researcher:

1. Friends/colleagues owning a car have been rated as very important source of information. Marketers need to tap this powerful source of influence by announcing attractive referral schemes. This will motivate opinion leaders to give valuable references of potential car buyers in their area.
2. Female ownership in passenger cars can be increased by offering special incentives to women buyers and free driving classes for women to encourage more women to own and drive a car
3. The car marketers can organize periodic and dynamic market demonstrations and participate in fairs and festivals in rural areas. This will create an awareness regarding the brand of car and generate a desire to own a car among rural people. The focus could be more on brand building and less on short-term promotional campaigns.
4. The pre-owned car market can be made organized by proper registration of dealers, granting license and legal status to the pre-owned car dealers. The accountability of pre-owner car dealers shall remove the anxiousness of rural pre-owned car buyers towards the authenticity of the car. The pre-owned car dealers can have their own service centers for good after-sales service.
5. As brand image influences the choice of cars, manufacturers can create brand image for their products through service networks and frequently conduct consumer surveys with the help of dealers to create a confident customer base.

CONCLUSION

The abundance of national and multinational brands of passenger cars and the intense competition in the Indian passenger car market has made the study of car purchase behaviour of consumers, highly relevant and significant. A growing prosperity and inclination to lead a sophisticated life among the rural consumers has led to transformation in their buying behaviour. This offers enough scope for marketers of car. The present study attempts to describe the exclusive nature of rural consumer pre-purchase behaviour towards pre-owned cars in Kanniyakumari district.

The study infers that the passenger car sector is flourishing in India. Car owning potential is high in Kanniyakumari district. A study of the pre-purchase behaviour of pre-owned car buyers has been felt essential as they are potential buyers of new cars. The pre-owned car market in Kanniyakumari district is un-organized. The Maruti brand dominates the brand preference of the rural pre-owned car owners. The pre-owned car market can be transformed into organised market with the entry of car makers and corporate into pre-owned car business.

To overcome the challenges in reaching rural consumers and studying consumer behaviour, the car marketers can formulate effective rural marketing strategies, besides creating a database of potential rural car buyers with the help of existing rural car owners and village heads. Marketer sponsored research studies can be conducted periodically to study rural consumer behaviour.

LIMITATIONS OF THE STUDY

The following limitations were found out in the present study:

1. The analyses are based purely on the primary data collected from the rural car owners.
2. The consumers had to depend on their memory in their responses since they were not keeping any records. So, this study is subjected to memory bias.

TOPICS FOR FUTURE RESEARCH

The researcher has suggested the following topics for future research:

1. Pre-purchase Information Search Pattern of New Car Owners.
2. Comparative Consumer Behaviour and Analysis of Owners of New Cars or Pre-owned Cars.

REFERENCES

1. Alberto Montanari (2004), "Automobile – Small Segment to the Fore," *The Hindu, Survey of Indian Industry*, pp.245-246.
2. Bhuvana Ramalingam (1999), "Passenger Cars: Profile of Indian Market," *The Hindu, Survey of Indian Industry*, pp.289-291.
3. Furse, D.H., Punj, G.N. and Steward, D.W. (1984), "A Typology of Individual Search Strategies among Purchasers of New Automobiles," *Journal of Consumer Research*, Vol. 10(4), April, pp.417-431.
4. Gill, A.S. and Sudhir, K. Jain (2005), "Consumer Purchase Process for Passenger Cars in India," *Journal of Marketing and Communication*, Vol.1, Issue 2, September-December, pp. 67-70.
5. Kanniyakumari District Rural Development Agency Reports, *District Collectorate*, Kanniyakumari, Tamil Nadu.
6. Kulkarni, P.R. (2007), "Pre-owned Car Market in Mumbai," *Marketing Mastermind*, www.iupindia.in, July, p.56.
7. Liu Dongyan and Bai Xuan (2008), "Car Purchasing Behaviour in Beijing: An Empirical Investigation," *Master's Thesis*, University of Umea.
8. Pallavi Kumari (2012), "Changing Purchase Behaviour of Indian Customers," APJEM, Vol.1, Issue 8, November, *www.pinnaclejournals.com*, viewed on 18th January 2013.
9. Pradeep Kashyap (2003), "Rural Marketing – Stealing the Rural Show," Praxis, *Business Line*, January, pp.38-43.
10. Sanal Kumar, V. (1998), "Buying Behaviour in Rural Markets: A Study of Soap Market,", *Productivity,* Vol.39, No.2, July-September, pp.321-327.
11. Sathish, S.M., and Sivakumaran Bharadhwaj (2010), "Information Search Behaviour among New Car Buyers: A Two-Step Cluster Analysis," IIMB, *Management Review,* Vol.22, No.1/2, March/June, pp.5-15.
12. Shaffiulla, B. (2012), "Marketing Strategies of Car Makers in the Pre-owned Car Market in India," *Indian Journal of Marketing*, Vol.42, No.2, February, pp.8-16.
13. Shivi Gupta (2008), "Understanding the Role of the Dealers and the Distribution Channel for Passenger Cars in the Automotive Industry in Europe and India," *MBA Dissertation,* University of Nottingham, pp.71 & 102.
14. Singaravelu, K., (2011), "Consumer Behaviour: A Study of Influence of Special Features of Passenger Cars in Coimbatore," *ISRJ*, Vol.1, Issue 11, December.
15. Subadra, S., Murugesan, K.M., and Ganapathi, R., (2010), "Consumer Perceptions and Behaviour: A Study with Reference to Car Owners in Namakkal District," *APJRBM*, Vol.1, Issue 3, December, pp.37-60.
16. Suresh Kumar, P.S., (2011), "Paddy fields disappearing from Kanyakumari Scene," *The Hindu*, April 6, p.2.

LINKING EMOTIONAL INTELLIGENCE, SALES PERFORMANCE AND SALES SUCCESS OF RETAIL SALESPEOPLE: A REVIEW APPROACH

DR. M. M. MUNSHI
PROFESSOR & HEAD (R&D)
DEPARTMENT OF MANAGEMENT STUDIES & RESEARCH
GOGTE INSTITUTE OF TECHNOLOGY
UDYAMBAG, BELGAUM, KARNATAKA

SANJAY HANJI
ASSOCIATE PROFESSOR
DEPARTMENT OF MANAGEMENT STUDIES
BASAVESHWAR ENGINEERING COLLEGE (AUTONOMOUS)
VIDYAGIRI, BAGALKOT, KARNATAKA

ABSTRACT
At present the retail industry in India is accelerating. Though India is still not at an equal pace with other Asian counterparts but it is geared up to become a major player in the retail market. In recent past, retailing has gained lot of importance due to rising investment in this sector. These investments will only be justified with pure performance of the retail outlets and the performance of the retail outlets depend on individual sales performance of retail sales people. Dealing with customer problems and maintaining a smile in difficult situations is very demanding in retail sales and therefore, retail sales providers need to be more supportive and understanding in nature to deal with such demands effectively. Emotional intelligence is the ability to restrain from the negative feelings stemming out of such situations and focus on positive feelings which determines success (Gangai et al., 2013). Many researchers have emphasized the importance of emotional intelligence in sales performance but this has not extended to research in analyzing retail sales performance. This paper tries to explore and investigate the relationship between EI and retail sales people performance through review of various literatures. Based on what literatures indicate, it has been concluded emotional competencies of sales people are very important in determining their sales performance and sales success. More empirical evidence is advocated in future researches.

KEYWORDS
Emotional Intelligence, Retail Stores, Sales People, Sales Performance, Sales Success.

1. INTRODUCTION
There is a big buzz of FDI in retailing and retailing is seen as a vital sector by most thinkers, politicians, finance specialist, economists, businessmen & investors. In recent past, retailing has gained lot of importance due to rising investment in this sector. Even today's consumer retail purchase decisions have undergone a lot of changes. Consumer shop a lot of products from different types or formats of retail outlets. Both organized and family owned small retail outlets are surviving in Indian markets. There is also a lot of scope of many more organized retail outlets in India.

As lot of new retail companies from India and abroad are establishing their retail outlets in Indian market, the existing retailing outlets both organized and unorganized are facing lot of competition and to survive in this competitive environment they need to perform or otherwise they will perish. The performance of retailing outlets mainly depends on their sales performance. The retail sales performance depends on individual retail sales personnel performance. Dealing with customer problems and maintaining a smile in difficult situations is very demanding in retail sales and therefore, retail sales providers need to be more supportive and understanding in nature to deal with such demands effectively (Levy et al., 2008). Emotional intelligence is the ability to restrain from the negative feelings stemming out of such situations and focus on positive feelings which determines success (Gangai et al., 2013). If employees are emotionally strong then they will be able to handle stressful situations in a better way. Singh (2011) believe that individual competencies such as emotional intelligence of sales force of any organization are strong determinant of success in retail industry.

1.1 RETAILING IN INDIA
Retailing in India is one of the pillars of its economy and accounts for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.

As of 2013, India's retailing industry was essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. India's retail and logistics industry employs about 40 million Indians i.e., 3.3% of Indian population (Anonymous, 2013).

1.1.1 INVESTMENT IN RETAILING
At present the Retail industry in India is accelerating. Though India is still not at an equal pace with other Asian counterparts, Indian is geared to become a major player in the Retail Market. The fact that most of the developed nations are saturated and the developing ones still not prepared, India secures a great position in the international market. Also with a highly diverse demography, India provides immense scope for companies brining in different products targeting different consumers. According to the Global Retail Development Index, India is positioned as the foremost destination for Retail investment and business development. The factor that is presently playing a significant role here is the fact that a large section of Indian population is in the age group of 20-34 with a considerably high purchasing power; this has caused the increase in the demand in the urban market resulting in consistent growth in the Retail business (Domodaran, 2013).

India is among the world's most exciting retail destinations, according to a PricewaterhouseCoopers and Confederation of Indian Industry study, many global retailers have not had full access to this $590 billion market. So far, Indian law allows up to 51% foreign investment in single-brand retail and 100% in cash-and-carry format. The presence of large global companies will afford employment opportunities for thousands of people. This, coupled with negative correlation with inflationary pressures, might help spur the Indian economic growth. Retail, currently, accounts for nearly 14% of the services sector contribution to Indian GDP. Corporate India seems to be opening up of this sector now (Dikshit, 2011).

The government has allowed foreign retailers to open stores in states that have agreed to allow FDI in multi-brand retail. The cabinet said okay for 51% FDI in multi-brand retail sector and 100% FDI in single brand (Ramvenkatesh, 2012).

1.2 EMOTIONAL INTELLIGENCE
Emotional Intelligence helps a person to assess one own emotions and that of others, thereby learn to use feelings to encourage, inspire and attain success in one's life (Abraham, 2000).

Emotional Intelligence is defined as "the ability to monitor one's own and other's feelings and emotions, to discriminate among them and to use this information to guide one's thinking and action" (Mayer & Salovey, 1997). They further improvised this definition and stated as follows: "Emotional intelligence involves the

ability to perceive accurately, appraise and express emotion; the ability to access and/or generate feelings when they facilitate thought; the ability to understand emotion and emotional knowledge; and the ability to regulate emotions to promote emotional and intellectual growth".
According to this definition, Mayer and Salovey have suggested five branches of EI:
1. Perception, Appraisal and Expression of Emotion
2. Emotional Facilitation of Thinking
3. Understanding and Analyzing Emotions; Employing Emotional Knowledge
4. Reflective Regulation of Emotion to Promote Emotional and Intellectual Growth

Goleman (1998) has defined "Emotional Intelligence" as a capacity for recognizing our own feelings and those of others, for motivating ourselves, and for managing emotions well in ourselves and in our relationships. Goleman has proposed five basic emotional and social competencies:
1. Self-awareness
2. Self-regulation
3. Motivation
4. Empathy
5. Social skills.

2. LITERATURE REVIEW
The literature is reviewed in the field of emotional intelligence, performance, sales, retailing, and all other related fields to get insights of relationships between these variables. Here an attempt is being made to find the role of sales people EI in achieving their sales performance and sales success in retailing. Based on the review of literature, conclusions are drawn along with managerial implications and future research works are suggested.

2.1 IMPORTANCE OF SALESPEOPLE IN RETAILING
Though the salesperson is at the bottom of the sales organization, he is the lifeblood of the organization and his achievement decides the fate of the organization (Panda and Sahadev, 2005).
Lee and Yang (2013) based on their study have advised retailers to increase interpersonal service quality of retail sales people because it will increase customer retail store patronage. This only means that retail sales people should possess interpersonal skills to handle customers.
Jacob et al., (2011) believe that developing interpersonal bonds between employees and customers in selling contexts can increase sales and positive perceptions of the employees and the store.
The quality of the relationship between customers and service firm employees has been found to be a major driver of customer loyalty and customer retention in traditional service contexts in retail business (Walsh et al., 2010).
In a study conducted by Tafesse and Korneliussen (2012) it was found that consumers' favorable evaluation of retailers' sales staff services, store atmosphere and product assortment let to more customer purchase incidences.
Lombart and Louis (2012) have investigated that retail salespeople's personality trait such as congenial or friendly behavior with customers have direct impact on their satisfaction and loyalty.
The above literature highlights the importance of salespeople in retailing. They are the ones who increase customer retail store patronage, build seller-buyer bonds, increase sales, increase positive perceptions of the store, impact customers' satisfaction and loyalty.

2.2 EMOTIONAL INTELLIGENCE AND PERFORMANCE
Gangai and Agarwal (2013) have said that emotional intelligence is the ability to restrain negative feelings such as anger, anxiety, stress, self doubt and instead focus on positive feelings such as confidence, congeniality and empathy. So one should emphasize on developing emotional intelligence to overcome negative feelings at workplace and get success in life. If employees are strong emotionally, then they will be able to handle stressful situations in a better way and will take independent decisions in professional as well as personal lives.
Kazi, Shah and Khan (2013), have recommended that in the organizations, employees should be given regular training on developing strong emotional intelligence competencies which will eventually help them to boost up their performance and combat stress in proactive way. In this way organizations could be saved from devastating effects of workplace stress. Once such negative effects are taken care of, then organizations can fully focus on building good work performance levels of their employees. This will steer to the development of a better society as a whole.
Emotionally intelligent people are not only able to perceive, understand and manage their own emotions, but will also be able extrapolate to the emotions of others, their skills of perception, understanding and management in a better way. EI is a dimension that should be taken into account more within the broad range of variables that influence or modulate a person's success. In other words, if psychology is aimed at understanding fundamental human behaviour, EI is a new element to be considered. It is one more piece of the puzzle that allows us to explain the individual's life results which were not predicted so far by existing variables (Extremera and Fernandez-Berrocal, 2004).
Cherniss (2000), has established that emotional intelligence abilities are very important for the success in many areas of life and however, in the world of work, the person's emotional element will also become more important with other variables such as cognition, physical resources etc.
Lam and Kirby (2002), based on most famous opinions have established that emotional intelligence boosts performance and productivity at work place. They tried to find out whether emotional intelligence predicts individual cognitive based performance over and above general intelligence of a person. They used Multifactor Emotional Intelligence Scale to measure emotional intelligence. They found that emotional intelligence, emotional perception & emotional regulation explained performance over and beyond general intelligence.
Neale, Spencer-Arnell and Wilson (2009), have emphasized some benefits of learning emotional intelligence. They are improvement in relationships, improvement in communication with others, enhanced empathy skills, performing with integrity, value and admiration from others, better job and career prospects, administrating change more assertively, smaller amount of power games at work, sense of confidence and positivity, condensed stress levels, greater imagination and creativeness and learning from mistakes. All these benefits converge together to give better performance at work place.
Bachman et al., (2000) reported a study which compared more successful account officers (debt collectors) and less successful ones based on their emotional intelligence abilities. The emotional intelligence of the account officers was measured using BarOn Emotional Quotient Inventory. The outcomes of the study substantiate the view that higher levels of emotional intelligence lead to enhanced job performance.
Langhorn (2004) study revealed a strong correlation between emotional intelligence pattern of the general managers and the areas of their profits performance.
Akintayo and Babalola (2012), in their study found that emotional intelligence has significant contributions to workers' job performance, job satisfaction, job involvement, and organizational commitment, which will further lead to organizational goal achievement.
Grewal et al., (2006) study has provided preliminary evidence that emotional intelligence, measured as a set of abilities, is associated with important positive work outcomes.
Prentice and King (2011) has explored the influence of emotional intelligence on service performance of frontline employees in the casino industry. The main hypothesis of the study was EI predicts the service performance of casino service representatives. The results divulged that EI significant predicts the service performance of casino frontline employees.
One et al., (2011) have examined in their study, the extent to which cognitive ability, the Big Five factor personality dimensions and emotional intelligence are related to training and job performance of U.S. federal criminal investigators. The results revealed that cognitive ability and emotional intelligence were positively correlated with job performance.
Based on the review of above literature it is evident that EI helps a person to restrain from negative feelings such as stress, anger, anxiety etc and bring in positive feelings in self, such as happiness, confidence, congeniality etc which are very important to work in an efficient manner at work. An emotional intelligent

person at work will be able to understand his own emotions and in that of others. He can also regulate his own emotions to get positive outcomes in his professional life. Emotional intelligence of person enables him to achieve greater performance at work.

2.3 EMOTIONAL INTELLIGENCE AND SALES PERFORMANCE

Affective or emotional commitment in service provider-customer relationships is the most significant determinant of customer advocacy and support (Fullerton, 2011).

Daus and Ashkanasy (2005) believe that emotional intelligence clearly has much to offer in the domain of emotional labour and jobs that require high amounts of EI such as customer and social service types of occupations and those that require a high amount of interaction with the public.

The face-to-face encounters enhance cross-selling. The outcomes of such encounters are dependent on customers' and sales peoples' bodily gestures, their expression, sharing of feeling, empathy, happiness, showing signs of interest, sadness, distance, etc. Hence all these embodied and situated factor impact cross-selling and hence the overall sales (Varlander and Yakhlef, 2008).

Soderlund and Rosengren (2010) in their study have found that service worker's high technical service quality along with the display of emotions improves customer satisfaction.

Emotional variables play an important role in the word-of-mouth flow process from the existing customers to the potential customers (Soderlund and Rosengren, 2007). So customers' emotions should be managed well with the help of sales peoples' emotional intelligence.

The research conducted by Kidwell, Hardesty, Murtha and Sheng (2011), examines that how sales professionals use emotions in their marketing exchanges with customers to facilitate positive outcomes for their firms, themselves and their customers. The authors conducted three field studies to examine the impact of emotional intelligence (EI) in marketing exchanges on sales performance and customer relationships. It was found that sales professionals in real estate business and insurance who possess higher emotional intelligence are not only superior revenue generator but are also better at retaining customers. Additionally, the authors demonstrate that EI interacts with key marketing exchange variables such as customer-orientation and manifest influence, to heighten performance such that high EI sales people more effectively employ customer-oriented selling and influence customer decision making.

In study conducted by Jennings and Palmer (2007), front line sales managers and sales representatives were put through a learning and development programme on emotional intelligence. The emotional intelligence and sales revenue of participants were measured before and after the programme. There was a significant improvement in the sales revenue was found with the experimental group when it was compared with the control group. This study revealed how sales person's emotional intelligence is linked to sales revenue which is beyond just sales performance.

Research conducted by Kidwell, McFarland and Avila (2007), indicated that the sales person's ability to accurately appraise the emotions of others, moderated the sales person's practice of adaptive selling and customer-oriented selling on their performance. Further analyses revealed that, high ability to perceive emotions has beneficial effects on selling and low ability to perceive emotions not only limits the use of customer-oriented selling but also has a negative impact on sales performance. Both self-reported and supervisor-reported measures of selling performance were used in this study.

Ahuja (2011) conducted an empirical study to find the relationship between emotional intelligence and work performance of front-line sales executives in Indian Insurance sector. The data was collected from a sample of 100 sales executives on two variables: Emotional Intelligence and Work Performance. The correlation and regression tools were used to analyze the relationship and the findings signified the role of emotional intelligence in work performance of sales executives in insurance industry.

The above part of literature review indicates how sales people emotional intelligence improves their sales performance. The EI helps sales people in their sales encounters, in building relationship with their customers, for cross-selling and up-selling to their customers, satisfying their customers, in generating word of mouth, retaining customers, influencing customer decision making, , customer-oriented selling, in generating sales revenue etc. Overall, it is analyzed from this part of literature review that EI of sales people influences their sales performance and sales success.

2.4 EMOTIONAL INTELLIGENCE AND SALES PERFORMANCE IN RETAIL STORES

Johlke and Iyer (2013) in their study have found that retail salesperson's customer service attitudes are strongly associated with improved sales performance.

Dealing with customer problems and maintaining a smile in difficult situations are psychologically demanding for sales people. Retail service providers need to be in a supportive, understanding atmosphere to deal with these demands effectively (Levy, Weitz and Pandit, 2008).

Customer can become very emotional about their real or imaginary problems with a retailer. Often this emotional reaction can be reduced by simply giving customers a chance to get their complaints off their chests. Store employees should allow customers to air their complaints without interruption. Interruptions can further irritate customers who may already be emotionally upset. For sales people it becomes very hard to reason with or satisfy an angry customer (Levy, Weitz and Pandit, 2008).

Waterschoot et al., (2008) in their research it was found that cognitive effort and corresponding emotions of the customers play an important role in store learning as well as both store and product learning situations.

Companies should consider selecting staff with high EI or developing the EI skills and abilities so that the employees are ready to pursue particular strategies of customer intimacy, care and nurturing (Othman et al., 2011), which is very important in retail sales.

Bardzil and Slaski (2003) believe that the individuals with high emotional intelligence exhibit strong self awareness, interpersonal skills, adaptive in nature, have more empathy and keep themselves calm and stress free which is very important in customer service jobs. The employees with more self awareness and who understand others emotions will be able to provide better service to their clients or customers and hence they have advocated organizations to employ emotional intelligence while devising organizational policies, processes and procedures – especially for employee selection, training and development, and performance management.

Slaski and Cartwright (2002) conducted a study on management employees of a big retail organization to study the relationship between their emotional intelligence and their stress level, health, morale, quality of working life and management performance. The study found that the managers who scored high on emotional intelligence experienced reduced stress levels, better health and showed better performance.

Singh (2011), in an attempt to investigate the need and applications of emotional intelligence in retailing, has concluded that individual competencies such as emotional intelligence of sales force of any organization are strong determinant of success in retail industry. The author has also urged the need of more studies relating to EI and its dimensions in retailing.

The above literature points out the various challenges faced by retail sales people. They have to interact with different types of customers, make sales presentations, handle their objections & complaint, negotiate, solve their problems and finally close the sale. In doing all these various tasks sales personnel have to be self aware, adaptive, empathetic, keep themselves calm and stress free. This is possible only if sales people are emotionally intelligent. Hence it indicates that sales people EI influences their sales performance even in retailing.

3. DISCUSSIONS AND MANAGERIAL IMPLICATIONS

Those retailers who do best job with their customers; will create "experiences" and emotional "connections" for those shoppers. They have to de-emphasizing the actual "purchase" part of the transaction and focusing more on the customer's personal needs or wants. They will be in effect focusing on the "customer experience" (Anonymous, 2011). Customer experience is determined by the intensity of emotions created in specific moments not the overall experience. Customers' non-conscious mind categorizes and catalogues experiences according to the nature and intensity of emotions. Non-conscious emotional responses shaped by past emotional memories determine customer attitudes, perceptions and behavior but not the conscious or rational decisions (Travis, 2013). The attitudes, perceptions and behaviors of customers are some of the vital variables which create sales for organizations. Since customer's past emotional memories determine customer attitudes, perceptions, and behaviors, and retail sales people's emotional intelligence can create such customer emotional memories thereby creating good customer experience of the store and eventually generate sales. Hence it can be inferred that sales people's emotional intelligence boosts their sales performance in retail industry.

The literature indicates the importance of sales people in retailing. It is also observed as to how much the retail store's sales depend on sales people. Hence managers should recognize the fact that sales people's or sales employee's sales performance is very important component which determines the fate of retail stores. The literature further reveals a strong base to establish the relationship between emotional intelligence and work performance. A lot of studies have taken place in different parts of the globe to find evidence for this relationship. In most of the studies emotional intelligence (EI) has predicted work performance. In addition, several other studies were conducted to discover relationship between EI and sales performance. Moreover, a good number of evidence has been found where EI predicts sales performance also but very few studies have been conducted in retailing context.

As any other sales job retail sales is also very challenging, where sales people have to interact with different types of customers to attain sales. These customers will be in different emotional states and setups. So sales people have to deal with lot of customers who are in different emotional states such as happy, sad, depressed, excited, angry, frustrated etc.. Even then sales people are expected get sales from such customers. While dealing with such customers, it is quite obvious that they also get emotionally tangled and react to the customer's emotional states directly. If a customer is emotionally sad or depressed and then the similar emotional reaction of the sales person will further irritate the customer, which might later lead to no purchase decision, customer dissatisfaction, disloyalty, bad word of mouth etc. If a sales person continues to do so, on a regular basis then this behavior might lead to a decline in his sales performance. Since the entire retail store's sales success or sales performance is directly depended on sales person's sales performance, it becomes an imperative to the managers of retail organizations to manage its sales team's sales performance. Since sales person's emotions are the root cause of the problem, their emotional intelligence can rescue the retail stores from such situations. The sales person with emotional intelligence can deal with varied customer's emotions or emotional reactions in an appropriate manner and/or he will behave or respond in a way which makes customer happy, contended and satisfied which will lead to more customer commitment, loyalty and repeat purchases and thereby increasing the sales performance of that particular employee. Hence managers in retail industry should take necessary steps to recruit sales people with emotional competence and to improve the emotional competence of their existing sales force to enhance their overall organizational performance.

4. CONCLUSION AND FUTURE DIRECTIONS

Emotions are an integral part of all stages of the retailing experience for customers. During their shopping experiences, consumers may experience a range of emotions such as excitement, happiness, hope, love, sadness, fear, anxiety, anger, disgust, etc., each of which may uniquely impact consumer decision making, purchase behavior, and interactions. Retailers are faced with the unique challenges of not only understanding and predicting the consumers' emotions and experiences, but also with shaping retail environments and service encounters to cultivate desired emotions and eliminate undesired emotions.

Much research has been done to find the impact of emotional intelligence on sales performance but there is less knowledge and empirical evidence to articulate that sales people EI predicts their sales performance and sales success in retail industry. In summary, this paper indicates the need of more empirical studies to find the role of sales personnel emotional intelligence in determining their sales performance. Since customer is the one who ultimately determines success of sales interactions, research can be taken up to examine whether EI in sales people translate into higher levels of customer satisfaction, loyalty, trust, word of mouth etc. which are directly related to sales success of retail sales personnel.

REFERENCES

1. Abraham, R., (2000), *"The Role of Job Control as a Moderator of Emotional Dissonance and Emotional Intelligence Outcome Relationships"*, The Journal of Psychology, Vol.134 No.2, pp: 169-184.
2. Ahuja, A., (2011), *"Emotional Intelligence as a Predictor of Performance in Insurance Sector"*, Asia Pacific Business Review, Vol.7, No.2, pp: 121-135.
3. Akintayo, D.I., Babalola, S.S., (2012), *"The Impact of Emotional Intelligence on Workers' Behaviour in Industrial Organizations"*, Inkanyiso, Journal of Human and Social Science, Vol.4, No.2, pp: 83-90.
4. Anonymous, (2011), "*A Great Retail Experience In Your Store Means: Emotion*", Hub Pages, Viewed on September 01, 2013. http://retailrich.hubpages.com /hub/A-Great-Retail-Experience-In-Your-Store-Means-Emotion.
5. --- (2013), *"Retailing in India"*, Wikipedia, Viewed on July 10, 2013. http://en.wikipedia.org/wiki/Retailing_in_India.
6. Bachman, J., Stein, S., Campbell, K., Sitarenios, G., (2000), *"Emotional Intelligence in the Collection of Debt"*, International Journal of Selection and Assessment, Vol.8, No.3, pp: 176- 182.
7. Bardzil, P., Slaski, M., (2003), *"Emotional Intelligence: Fundamental Competencies for Enhanced Service Provision"*, Managing Service Quality, Vol.13, No.3, pp: 97-104.
8. Cherniss, C., (2000), *"Emotional Intelligence: What it is and Why it Matters"*, Paper Presented at the Annual Meeting of the Society for Industrial and Organizational Psychology, New Orleans, L.A. April 15, 2000.
9. Daus, C.S., and Ashkanasy, N.M., (2005), *"The Case of the Ability Based Model of Emotional Intelligence in Organizational Behaviour"*, Journal of Organizational Behaviour, Vol.26, No.4, pp: 453-466.
10. Dikshit, A., (2011), "*The Uneasy Compromise - Indian Retail*", The Wall Street Journal,ViewedonAugust20,2013. http://online.wsj.com/article/SB1000142 4053111903461104576461540616622966.html.
11. Domodaran, S., (2013), *"Retail in India - The Past, Present and Future"*, eQuest India, View on September 18, 2013. http://www.equestindia.com /eq/article_3.asp.
12. Extremera, N., Fernández-Berrocal, P., (2004), *"The Role of Student's Emotional Intelligence: Empirical Evidence"*, RevistaElectrónica de Investigación Educativa, Vol.6, No.2, pp: 2-16. Retrievedon September 30, 2013, from: http://redie.ens.uabc.mx/vol6no2/contentsextremera.htm.
13. Fullerton, G., (2011), *"Creating Advocates: The Roles of Satisfaction, Trust and Commitment"*, Journal of Retailing and Consumer Services, Vol.18, No.1, pp: 92-100.
14. Gangai, K.N., Agarwal, R., (2013), *"Role of Emotional Intelligence in Managing Stress among Employees at Workplace"*, Vol.2, Issue.3, pp-20,21.
15. Goleman, D., (1998), *"Working with Emotional Intelligence"*, London: Bloomsbury.
16. Grewal, L.D., Kadis, J., Gall, M., Salovey, P., (2006), *"Evidence that Emotional Intelligence is related to Job Performance and Affect and Attitudes at Work"*, Psicothema, Vol.18, supl.,pp: 132-138.
17. Jacob, C., Gueguen, N., Martin, A., Boulbry, G., (2011), *"Retail Salespeople's Mimicry of Customers: Effects on Consumer Behavior"*, Journal of Retailing and Consumer Services, Vol.18, No.5, pp: 381-388.
18. Jennings, S., Palmer, B.R., (2007), *"Enhancing Sales Performance through Emotional Intelligence Development"*, Organizations & People, Vol.14, No.2, P: 55.
19. Johlke, M.C., and Iyer, R., (2013), *"A Model of Retail Job Characteristics, Employee Role Ambiguity, External Customer Mind-Set, and Sales Performance"*, Journal of Retailing and Consumer Services, Vol. 20 No.1, pp: 58-67.
20. Kazi, S.S., Shah, I.M., Khan, A., (2013), *"Occupational Stress, Performance and Emotional Intelligence: A Critical Review"*, Vol.5, No.1, p: 189.
21. Kidwell, B., McFarland, R.G., and Avila, R.A., (2007), *"Perceiving Emotion in the Buyer-Seller Interchange: The Moderated Impact on Performance"*, Journal of Personal Selling & Sales Management, Vol. XXVII, No.2, pp: 119-132.
22. ---, Hardesty, D.M., Murtha, B.R., Sheng, S., (2011), *"Emotional Intelligence in Marketing Exchanges"*, Journal of Marketing, Vol.75, No.1, pp: 78-95.
23. Lam, L.T., Kirby, S.L., (2002), *"Is Emotional Intelligence an Advantage? An Exploration of the Impact of Emotional and General Intelligence on Individual Performance"*, The Journal of Social Psychology, Vol.142, No.1, pp: 133-143.
24. Langhorn, S., (2004), *"How Emotional Intelligence can Improve Management Performance"*, International Journal of Contemporary Hospitality Management, Vol.16, No.4, pp: 220-230.
25. Lee, H., and Yang, K., (2013), *"Interpersonal service quality, self-service technology (SST) service quality and retail patronage"*, Journal of Retailing and Consumer Services, Vol.20, No.1, pp: 51-57.

26. Levy, M., Weitz, B., and Pandit, A.,(2008), *"Retailing Management"*, New Delhi: Tata McGraw-Hill.
27. Lombart, C., and Louis, D., (2012), *"Consumer Satisfaction and Loyalty: Two Main Consequences of Retailer Personality"*, Journal of Retailing and Consumer Services, Vol.19, No.6, pp: 644-652.
28. Mayer, J.D., and Salovey, P., (1997), *"What is Emotional Intelligence?"*, In P.Salovey & D.J. Sluyter (Eds.), Emotional Development and Emotional Intelligence: Implications for Educators (pp. 3-31), New York: Basic Books.
29. Neale, S., Spencer-Arnell, L., Wilson, L., (2009), *"Emotional Intelligence Coaching: Improving Performance for Leaders, Coaches and Individual"*, Kogan Page Limited, London and Philadelphia, pp: 7-8.
30. Othman, A.K., Daud, N.M., Kassim, R.S.R., (2011), *"The Moderating Effect of Neuroticism on the Relationship between Emotional Intelligence and Job Performance"*, Australian Journal of Basic and Applied Sciences, Vol.5, No.6, pp: 801-813.
31. Panda, T.K., and Sahadev, S., (2005), *"Sales and Distribution Management"*, New Delhi: Oxford University Press.
32. Prentice, C., King, B., (2011), *"The Influence of Emotional Intelligence on the Service Performance of Casino Frontline Employees"*, Tourism and Hospitality Research, Vol.11, No.1, pp: 49-66.
33. Ramvenkatesh, M., (2012), *"SMEs welcome FDI in retail"*, Viewed on August 21, 2013. http://www.ciol.com/ciol/news/122864/smes-welcome-fdi-retail.
34. Singh, A., (2011), *"Exploring the Importance of Emotional Intelligence in Retailing"*, International Journal of Research in Commerce and Management", Vol.2, No.5, pp: 126-129.
35. Slaski, M., Cartwright, S., (2002), *"Health, Performance and Emotional Intelligence: An Exploratory Study of Retail Managers"*, Stress & Health, Vol.18, No.2, pp: 63-68.
36. Soderlund, M., and Rosengren, S., (2007), *"Receiving Word-of-Mouth from the Service Customer: An Emotion-Based Effectiveness Assessment"*, Journal of Retailing and Consumer Services, Vol.14, No.2, pp: 123-136.
37. ---, and Rosengren S., (2010), *"The Happy Versus Unhappy Service Worker in the Service Encounter: Assessing the Impact on Customer Satisfaction"*, Journal of Retailing and Consumer Services, Vol.17, No.2, pp: 161-169.
38. Tafesse, W., and Korneliussen, T., (2012), *"Identifying Factors Affecting Consumers Purchase Incidence at Retail Trade Shows"*, Journal of Retailing and Consumer Services, Vol.19, No.4, pp:438-444.
39. Travis, D., (2013), *"Empathy, Emotion and the Customer Experience"*, Retail Customer Experience.com, View on September 06, 2013. http://www.retailcustomerexperience.com/article/216685/Empathy-emotion-and-the-customer-experience.
40. Varlander, S., and Yakhlef, A., (2008), *"Cross-Selling: The Power of Embodied Interactions"*, Journal of Retailing and Consumer Services, Vol.15, No.6, pp: 480-490.
41. Walsh, G., Hennig-Thurau, T., Sassenberg, K., Bornemann, D., (2010), *"Does Relationship Quality Matter in e-services? A Comparison of Online and Offline Retailing"*, Journal of Retailing and Consumer Services, Vol.17, No.2, pp: 130-142.
42. Waterschoot, W.V., Sinha, P.K., Kenhove, P.V., Wulf, K.D., (2008), *"Consumer Learning and its Impact on Store Format Selection"*, Vol.15, No.3, pp: 194-210.

REASONS AND EXPECTATIONS OF CUSTOMERS TOWARDS SHAMPOO BRANDS

KHAWAJA MUBEENUR RAHMAN
ASST. PROFESSOR
SINHGAD INSTITUTE OF BUSINESS ADMINISTRATION & COMPUTER APPLICATION
LONAVALA

DR. ROSHAN KAZI
PROFESSOR & HEAD
DEPARTMENT OF MBA
ALLANA INSTITUTE OF MANAGEMENT SCIENCES
PUNE

ABSTRACT
The expectations of today's customer are very high both from the product as well as from the manufacturing organization. That's why the organizations are also continuously taking the feedback of the customers for improvement of their products. In this paper also the researchers have tried to find the reasons and expectations of customers while purchasing a shampoo brand. For this ten different reasons and expectations of the customers regarding shampoo brands were taken into consideration by the researchers. Feedback was taken on a 10 point scale of least preferred feature to the most features from 500 shampoo users of Kolkata city. After analysis it was found that Hair fall has come out as the top most preferred reason for using a shampoo brand whereas Hair cleaning appears to be the most preferred expectation of customers. Similarly Fragrance was considered as the least preferred reason whereas Moisture was considered as the least preferred expectation of the customers.

KEYWORDS
Customer expectation towards shampoo, Expectations from shampoo, Reasons of using shampoo, Shampoo brands, Shampoo users expectations.

INTRODUCTION
In today's world customers are the key persons for every organization. They play an important role in deciding about which product is to be offered, where is to be offered and at what price they are going to purchase it. Accordingly their expectations from the products and organizations are also increasing day by day. In the past the soap which we were using for bath was also used for washing the scalp and hair. Day by day the scenario was changed; it was started with hair soap and Shikakai soap. Then due to industrialization, the growth of hair care segment was taken place through Shampoos, Conditioners, hair gel, hair dyes, herbal remedies for hair etc. Shampoo was introduced for the first time in the market during the 1950s. It came to Indian market as an innovation by Sunsilk in 1964 followed by Clinic Plus in 1971. Right now so many shampoo brands are available in Indian market namely Sunsilk, Clinic Plus, Pantene, Head and Shoulders, Dove, All clear, Dabur, Ayur, Garnier, L'oreal etc.

REVIEW OF LITERATURE
Anju Thapa (2012) conducted a study on consumer switching behavior of shampoo brands among the residents of girls' hostels of university of Jammu. She concluded that the usage rate of shampoo is high and at the same time they are buying the shampoo very frequently. Price, availability and packaging plays a very important role in purchasing of shampoo. It was also observed that gifts, extra quantity, discount, price off were the factors considered by the buyers while making the purchase decision.
Himani Sharma and Shallu Mehta (2012) conducted a study on customer attitude towards the use of shampoo in Sirsa by using a structured questionnaire as a research tool. They considered these factors responsible for purchasing a brand like price, quality, availability, packaging, free gifts and advertising. They concluded that the most preferred media for advertisement is TV with 51.39 %. They also concluded that the frequency of using a shampoo in males is very less as compared to females.
Prashant B. Kadam et al. (2012) conducted a research on consumer preferences towards shampoo in Pandharpur city. They concluded that the youths are highly involved in the usage of shampoo. They also concluded that TV is playing a major role in creating awareness as compared to any other media and shampoo users are very loyal towards the brand as they are ready to go a long distance to get the brand.
Rahman K. M. et al. (2012) concluded in their study that the Indian shampoo market is dominated by HLL i.e. Hindustan Unilever Ltd. with a market share of 46% followed by Procter and Gamble with 24%. The top shampoo brands in India are Sunsilk, Clinic Plus, Pantene and Head & Shoulders.

OBJECTIVE OF THE STUDY
The objective of the study is to analyze the reasons and expectations of customers for different shampoos brands available in Indian market.

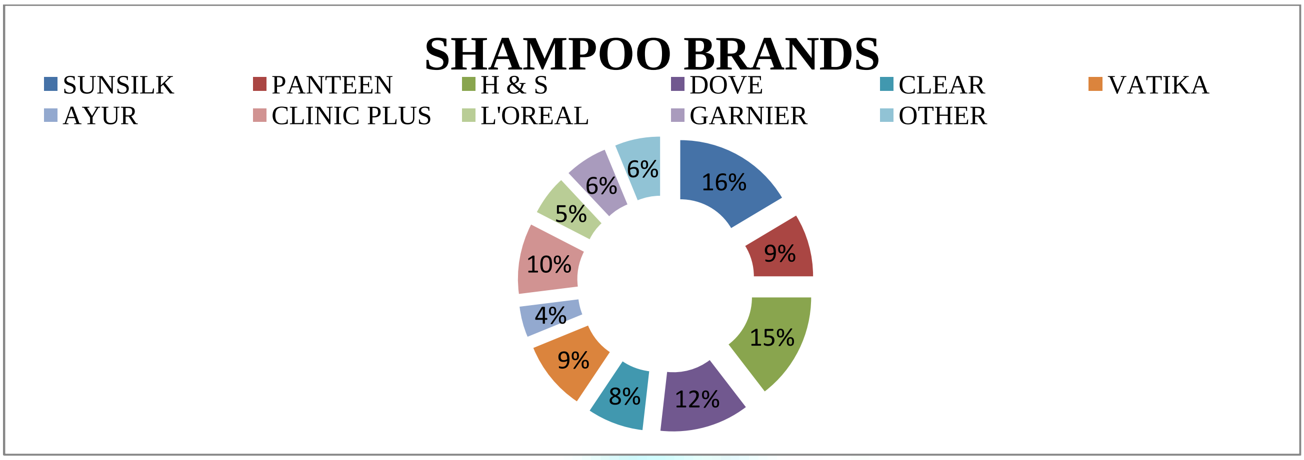
RESEARCH METHODOLOGY
This research was conducted with a sample of 500 shampoo users of Kolkata city. Simple random sampling technique was used for selecting the sample. A ranking scale of preference from 1 to 10 was used to get the preference of the respondents for the different features of shampoo brands. In that scale 1 was considered to be the most preferred feature whereas 10 was considered as the least preferred feature of the shampoo brands. The respondents were asked to rank the features from 1 to 10 of their own preference. Care is to be taken that no rank should be repeated from a single respondent while collecting data. Graphical and tabular presentations were used for analyzing the data. The secondary data was collected through the journals, magazines, newspapers, annual reports, internet and websites of the companies.

FINDINGS OF THE STUDY
Shampoo was introduced for the first time in Indian market by Sunsilk in the year 1964. The second player entered in the Indian market was Clinic Plus in 1971. Clinic All Clear was launched in the year 1987. Pantene entered in the market in 1995 followed by Head & Shoulders in 1997. Dabur was the first to introduce a herbal shampoo in Indian market in the year 2000. Right now so many market players are there in the market but the different brands which were taken into consideration for study were Sunsilk, Clinic Plus, Pantene, Head and Shoulders, Dove, All clear, Dabur, Ayur, Garnier, L'oreal etc.

TABLE 1: SHAMPOO BRANDS UNDER USAGE OF CUSTOMERS

Shampoo brands	Sunsilk	Pantene	H&S	Dove	All Clear	Dabur Vatika	Ayur	Clinic Plus	L'oreal	Garnier	Others
Response	82	43	73	61	38	47	21	48	27	29	31
Percentage	16	9	15	12	8	9	4	10	5	6	6

GRAPH 1: SHAMPOO BRANDS UNDER USAGE OF CUSTOMERS



It can be observed that Sunsilk is the first choice of respondents with 16 %, very closely followed by Head & Shoulders with 15 %. Dove and Clinic Plus are also showing their presence with 12 % and 10 % respectively. It is also important to note that Dabur is dominating the herbal shampoo market with 9 % of the total market share.

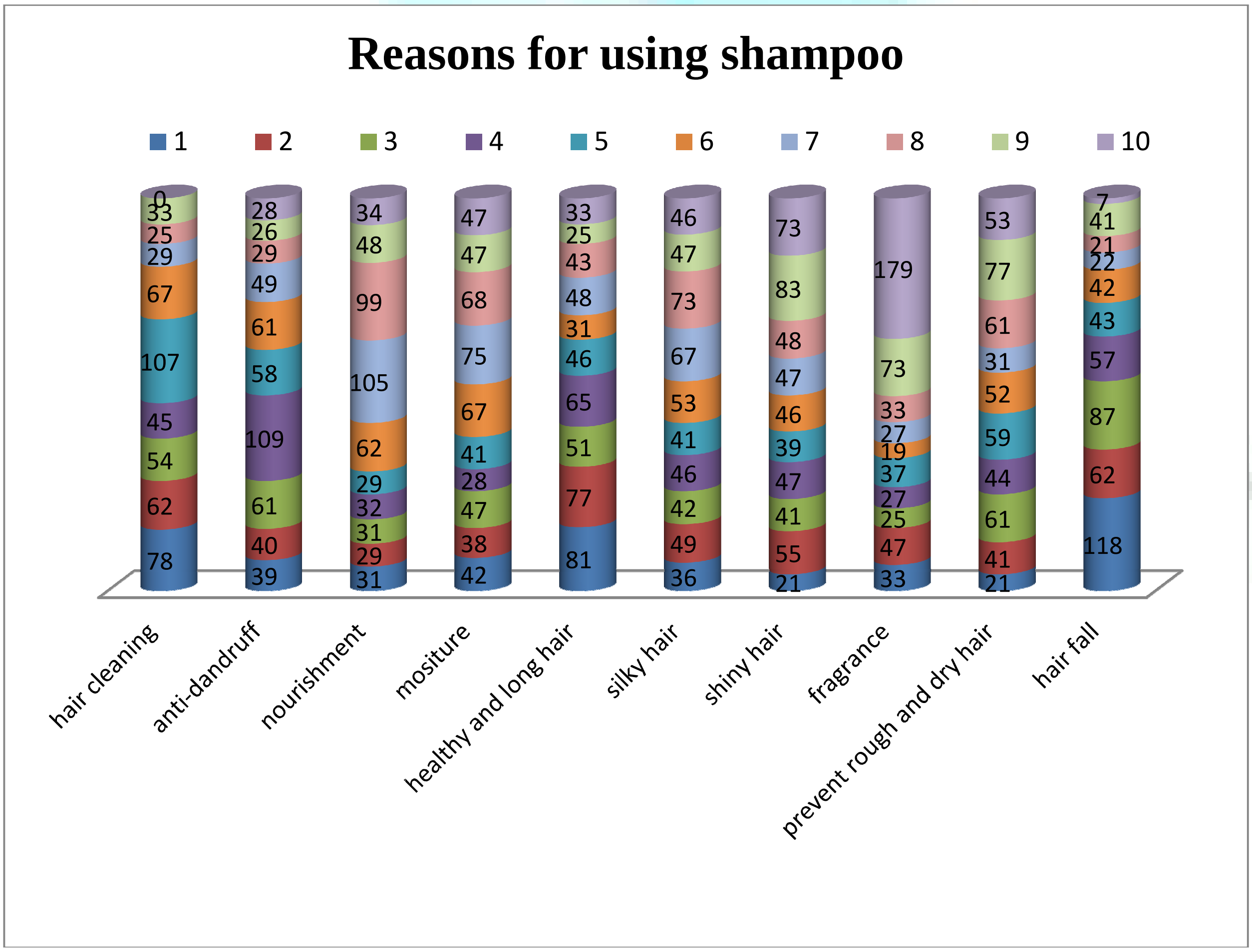
REASONS FOR USING SHAMPOO

Reasons of customers for using different products and brands vary from individual to individual. Ten different reasons namely Hair Cleaning, Anti-dandruff, Nourishment, Moisture, Healthy and long hair, Silky hair, Shiny hair, Fragrance, Prevent rough & dry hair and Hair fall which were considered important for this study.

TABLE 2: PREFERENCES TOWARDS REASONS OF SHAMPOO USAGE

Preferences	1	2	3	4	5	6	7	8	9	10
Hair Cleaning	78	62	54	45	107	67	29	25	33	0
Anti-dandruff	39	40	61	109	58	61	49	29	26	28
Nourishment	31	29	31	32	29	62	105	99	48	34
Moisture	42	38	47	28	41	67	75	68	47	47
Healthy and long hair	81	77	51	65	46	31	48	43	25	33
Silky hair	36	49	42	46	41	53	67	73	47	46
Shiny hair	21	55	41	47	39	46	47	48	83	73
Fragrance	33	47	25	27	37	19	27	33	73	179
Prevent rough and dry hair	21	41	61	44	59	52	31	61	77	53
Hair fall	118	62	87	57	43	42	22	21	41	7

GRAPH 2: PREFERENCES TOWARDS REASONS OF SHAMPOO USAGE



It was observed from the graph and table that Hair fall is the top most reason of using a shampoo since 118 respondents have given it as the first preference followed by Healthy & long hair with 81 respondents and Hair cleaning with 78 respondents. It was also observed that the addition of first two and first three preferences of Hair fall amounts to 180 (36 %) and 267 (53 %) of the total respondents respectively, which shows a very strong reason of using a shampoo brand by the customers. It is also important to note that no respondent has marked 10th preference to Hair cleaning and only 7 respondents marked Hair fall as the 10th preference. It was also seen that 179 i.e. 36 % of the respondents has marked the last preference to Fragrance of hair followed by Shiny hair with 73 i.e. 25 % of the respondents.

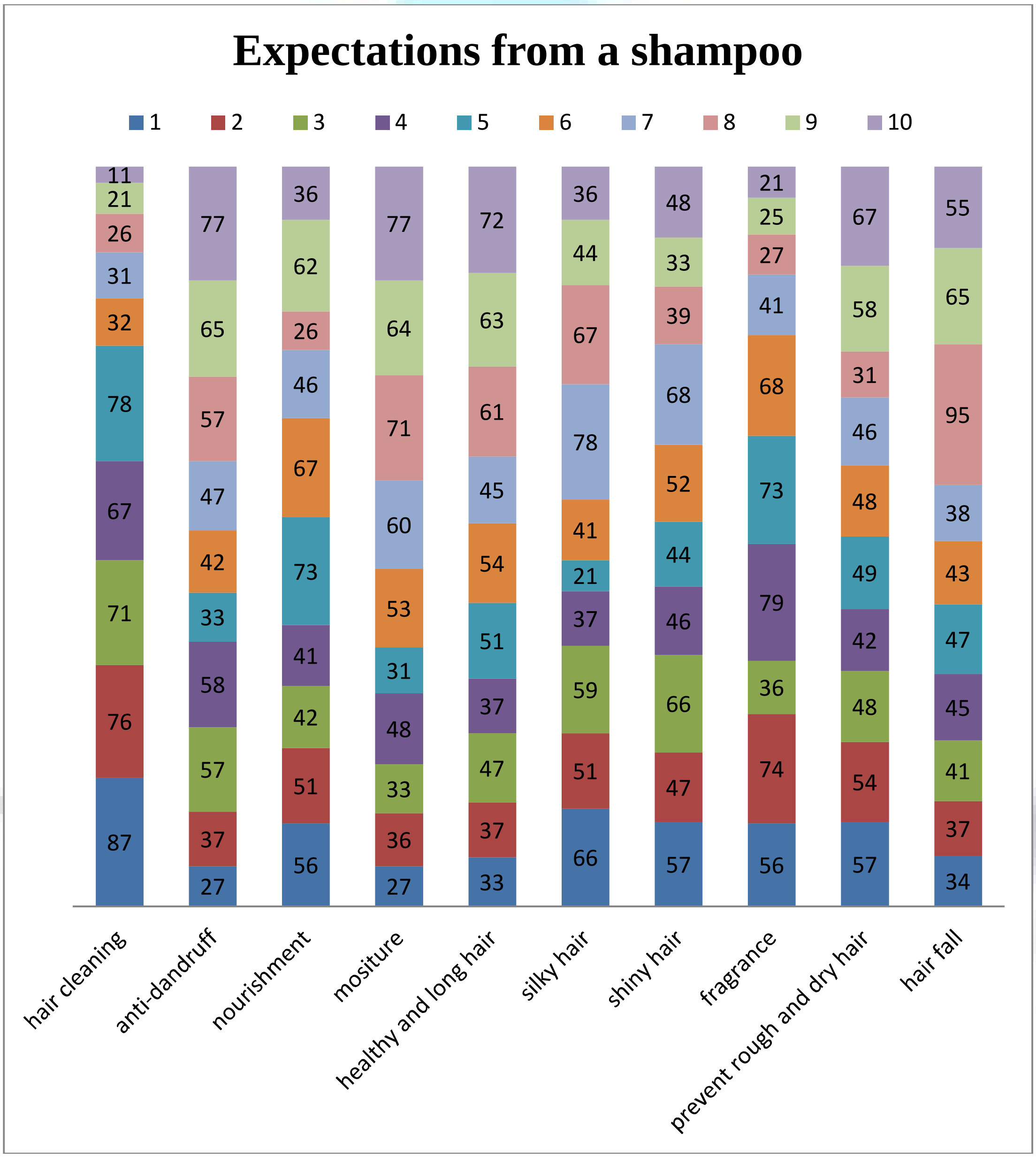
EXPECTATIONS FROM A SHAMPOO

Expectations of customers also vary from person to person for the products and brands they are using. Again the researchers considered the same features and benefits for marking the preference of respondents which were considered as reasons for using a shampoo brand during this study.

TABLE 3: PREFERENCES TOWARDS REASONS OF SHAMPOO USAGE

Preferences	1	2	3	4	5	6	7	8	9	10
Hair Cleaning	87	76	71	67	78	32	31	26	21	11
Anti-dandruff	27	37	57	58	33	42	47	57	65	77
Nourishment	56	51	42	41	73	67	46	26	62	36
Moisture	27	36	33	48	31	53	60	71	64	77
Healthy and long hair	33	37	47	37	51	54	45	61	63	72
Silky hair	66	51	59	37	21	41	78	67	44	36
Shiny hair	57	47	66	46	44	52	68	39	33	48
Fragrance	56	74	36	79	73	68	41	27	25	21
Prevent rough and dry hair	57	54	48	42	49	48	46	31	58	67
Hair fall	34	37	41	45	47	43	38	95	65	55

GRAPH 3: PREFERENCES TOWARDS EXPECTATIONS OF SHAMPOO USAGE



It was observed from the graph and table that Hair cleaning is the most preferred expectation of customers from a shampoo brand with 87 respondents followed by Silky hair with 66 respondents. It was also observed that the first five preferences of Hair cleaning are 87, 76, 71, 67 and 78 respectively. The sum of all these five preferences are 379 i.e. 76 % of the respondents which shows a very strong expectation of customers towards Hair cleaning from a shampoo brand. The least preferred expectation appears to be Moisture because the last five preferences of Moisture amounts to 325 i.e. 65 % of the respondents.

CONCLUSION

Hair fall has come out as the top most preferred reason for using a shampoo brand whereas Hair cleaning appears to be the most preferred expectation of customers. Fragrance of hair was considered as the least preferred reason for using a shampoo brand as it was marked as the 10^{th} preference by majority (176 i.e. 35 %) of the respondents and the last two preferences of the respondents regarding Fragrance amounts to 252 i.e. 50 %. Moisture seems to be least preferred expectation of customers from a shampoo brand as the last five preferences of Moisture amounts to 325 i.e. 65 % of the respondents.

REFERENCES

1. Anju Thapa, (2012), 'Consumer switching behaviour: A study of shampoo brands', Abhinav National Monthly Journal of research in Commerce and Management, Volume No. 1, Issue No. 9, pp. 98-106.
2. Himani Sharma, Shallu Mehta (2012), 'Customer attitude towards the use of shampoos: A case study of Sirsa city', International Journal of Research in Finance & Marketing, Volume No. 2, Issue No. 2, PP 267-278.
3. Khawaja M. Rahman, Roshan Kazi, Sandip Sourav (2012), "Analysis of hair care products with reference to shampoo market in India", Abhinav National Monthly Refereed Journal of Research in Commerce & Management, Volume I, Issue XI, pp – 177-184.
4. Prashant B. Kadam, Yogesh C. Deshmukh, Umesh S. Adhatrao, (2012), To study the consumer preferences towards shampoo with special reference to Pandharpur city, Golden Research Thoughts, Vol.1, Issue XI, May 2012pp.1-4

WEBSITES

5. http://bmsproject.weebly.com/uploads/2/4/3/5/2435652/kim-240.pdf
6. http://business.mapsofindia.com/top-brands-india/top-shampoo-brands-in-india.html
7. http://myfmcg.blogspot.in/2009/12/top-5-shampoos-of-india-in-year-2009.html
8. http://susproc.jrc.ec.europa.eu/soaps_and_shampoos/docs/Market%20Analysis_Draft%20Repor.pdf
9. http://www.business-standard.com/india/news/new-launches-help-hul-gain-share-in-shampoo-market/315221/
10. http://www.ghallabhansali.com/admin/file/FMCG.pdf
11. http://www.mairec.org/IJRFM/Feb2012/23.pdf
12. http://www.mbaskool.com/brandguide/fmcg/811-heads-and-shoulders.html
13. http://www.msrsas.org/docs/sastech_journals/archives/Sept2009/5.pdf
14. http://www.slideshare.net/9924927019/shampoo-market-research
15. http://www.slideshare.net/rathi_sachin/india-shampoo-industry

TEAM FORMATION STRATEGIES BASED ON PERSONALITY TYPES AND COMMUNICATION STYLES TO IMPROVE TEAM EFFECTIVENESS

DR. MARY CHERIAN
PROFESSOR
KCT BUSINESS SCHOOL
KUMARAGURU COLLEGE OF TECHNOLOGY
COIMBATORE

DR. KIRUPA PRIYADARSHINI M.
ASSOCIATE PROFESSOR
KCT BUSINESS SCHOOL
KUMARAGURU COLLEGE OF TECHNOLOGY
COIMBATORE

ABSTRACT

The creative process starts with assembling a creative team which consists of the right mix of people with a blend of talents and personal attributes that rarely exist in one person. Therefore, creative teams in which different members contribute different complementary skills are very important and ensure an output that is greater than the sum of the individual components. This study evaluates the Goal Accomplishment and Team Effectiveness of teams formed using DeBono's six thinking hats and Myers-Briggs personality types. First year students of the MBA program were used to form teams in the context of a Workshop on Creativity and Lateral Thinking. The students were divided into teams based on their 6 hats or MBTI typologies. A total of 101 students were divided into 9 teams of 4 students each based on 6 hats, 9 teams of 5 students each based on MBTI and 5 teams of 4 students each were formed randomly without following any Team formation Strategy (TFS). ANOVA and t-test were done using SPSS and it was found that Goal Accomplishment was significantly different between the 6 hat teams and MBTI teams. Team Effectiveness was found to be significantly different between the 6 hats team, MBTI teams and the control teams. It is concluded that heterogeneous teams had a positive effect on team effectiveness and goal accomplishment.

KEYWORDS

Team formation strategies , Myers-Briggs personality types, Six hats, team effectiveness, innovation and creativity.

INTRODUCTION

Business, public service, education and the not-for-profit sector are all hearing stakeholders calling for more and more innovation, creativity or enterprise. It does not help that "creativity" has strong associations with the special artistic talents of a small number of exceptional people: creative geniuses like Beethoven, Rodin, Picasso or Shakespeare. People in business often claim to be uncreative for this reason. However, Thinking 'outside the box' is not limited to artistic and writing professions. Innovative thinking, brainstorming, and creativity exercises are encouraged and used by forward thinking businesses and corporations to successfully plan, create, and sell products and services.

Many people mistakenly think that they lack the ability to be creative. To them, creativity is a mysterious phenomenon, inherited, and therefore not available to them. To keep an open mind, switch tracks, see new perspectives, shift paradigms, generate different mind sets, associate remote stimuli in the environment with elements in the mind and combine them into new and unusual ideas, generate many ideas which are really different and develop them, adopt different problem-solving approaches and persist in the face of criticism are some of the abilities associated with creativity and innovation. Few of these creativity skills seem to be inherited, and most seem to be learnable with training. Creativity exhibited by employees and managers provides raw materials and building blocks for organizational innovation because much of today's competitive marketplace demands ever-increasing value to customers, which translates to lowest total cost, highest total quality, fastest total cycle time and highest total overall customer satisfaction (Atkins, Dykes, Hagerty & Hoye, 2002). Smith and Munn, (2000) predict that future success globally will be achieved only by driving down costs as well as improving operating efficiencies. Smith and Munn are content that creativity is what it will take to do so. Shapiro (2002) agrees that today's business world thrives on creativity and innovation in a climate of uncertainty, volatility, and continuous change. As more organizations vie for significance in the global marketplace, creativity and innovation have become the most important factors in establishing and maintaining a competitive advantage (Meisinger, 2007). Dorothy Leonard (2010) in her book "Fostering Creativity: Expert solutions to everyday challenges" says that the creative process starts with assembling a creative team which consists of the right mix of people with a blend of talents and personal attributes that rarely exist in one person. For example, creative work requires a fresh approach to problem solving as well as planning how to convert a creative idea into a profitable innovation. Therefore, creative teams in which different members contribute different complementary skills are very important and ensure an output that is greater than the sum of the individual components.

OBJECTIVES

1. To assess if there is difference between the effectiveness of teams with respect to the Team Formation Strategy.
2. To see if there exist any difference between measurement and accomplishment of goals with respect to MBTI and Six hat teams.

REVIEW OF LITERATURE

PERSONALITY TYPES AND COMMUNICATION STYLES

This study has used two models to categorise students into teams - the MBTI and DeBono's 6 hats apart from control teams where neither of these were used for the team formation strategy. A brief overview of each of these tools is given below:

OVERVIEW OF MBTI

The Myers-Briggs Type Indicator indicates psychological preferences in the perception of the world and in decision making. It groups preferences into four categories giving rise to sixteen personality types as shown in the table 1. Though the MBTI has many uses, its use to understand how people learn is not widespread especially in educational institutions worldwide (Jensen et al, 2003) and India in particular. This can be understood from the limited literature available and none from India.

TABLE 1: MBTI OVERVIEW

EXTROVERSION – E Get attention and energy from outside and others, spends time in the outer world of people and things, action oriented	**INTROVERSION – I** Gets energy by spending time in one's own inner world of ideas, images, memories; takes time to think and reflect
SENSING – S Pay more attention to sensory information, values experiential learning	**INTUITION – N** Pay attention to patterns, meaning and possibilities of the information received; works with symbols, abstracts and theories; future orientation
THINKING – T Objective, focus on facts, impersonal	**FEELING – F** Subjective, focus on people, context based
JUDGEMENT – J Structured decided lifestyle, timely planned decisions	**PERCEPTION – P** Flexible adaptive lifestyle, process oriented decision making

OVERVIEW OF 6 HATS

DeBono's six hats identify six communication styles/roles. These styles or roles are associated with six distinct ways in which the thinking process happens and is represented by 6 different colours. Table 2 gives information on the six hats and their characteristics. By mentally wearing or switching hats, individuals can focus or redirect thoughts, mentally challenging the thinking process and thinking in other styles other than the individual's preferred thinking style.

Both the MBTI and 6 hats tools were used as part of the Team Formation Strategy (TFS) to group the respondents into teams.

TABLE 2 – 6 HATS OVERVIEW (Source: Jenson et al 2003)

White Hat · I focus on objective facts. · I enter into a discussion without preconceived ideas on a solution · I seek to know that facts of a situation · I seek to know the statistical evidence concerning a decision · I try to think totally objectively about a situation · I seek to differentiate between facts and opinions · I am more interested in facts than opinions	**Red Hat** · My feelings sway my decisions · I have good intuition · I often have hunches about the best decision · My personal opinions play a significant role in my decision making process · I listen to my emotions when making decisions · I am suspicious of other people's decision making process · I think emotions should play a significant role in decision making
Yellow Hat · I usually see the positive side of things · I can often see the good parts of even a bad idea · I am usually optimistic that a new idea will work · I tend to see the valuable contributions in people's ideas · I believe that most new ideas have significant value · I usually "look on the bright side" of a problem · My comments are usually positive and constructive	**Black Hat** · I can quickly see why an idea will not work · I often can tell an idea will not work by judging from past experience · I like to play the "devil's advocate" · I can usually see the pitfalls in an idea · I can readily detect poor logic in someone's argument · I find it easy to be critical of other's ideas · I am often pessimistic of others ideas
Green Hat · I am creative · I often generate new ways of thinking about a problem · I easily think "outside of the box" · I am good at finding new approaches to solving a problem · I am constantly thinking of alternatives · I am not likely to settle for the "status quo" · I can easily generate new concepts	**Blue Hat** · I like to lead the problem solving process · I tend to think as much about the problem solving process as the problem itself · I focus on the big picture, summarize and draw conclusions · I find myself trying to keep the group focused · I tend to try to optimize the group problem solving process · I often help the group clearly define the problem · I often find myself orchestrating the group

USE OF MBTI AND 6 HATS FOR IMPROVING TEAM PERFORMANCE

Jensen et al (2000) designed a new team formation strategy using DeBono's 6 hats. Teams formed with the 6 hats methodology were compared with teams formed using Myers Briggs based team formation technique. The results indicate that teams based on the 6 hats strategy achieved their goals better than non-6-hats teams and MBTI based teams met their goals better than non-MBTI teams. Teams which met both 6-hats and MBTI criteria reported increased effectiveness. So forming teams using these team formation strategies increased effectiveness of the teams.

Jensen et al (2003) used both the Myers Briggs Type Indicator (MBTI) and the DeBono's 6 hats apart from VARK Catalyst to categorise student's learning styles as part of the Team formation Strategy(TFS). The authors found that both MBTI and the 6 hats team formation strategies showed a dramatic increase in team effectiveness when team formation criteria from both these techniques were used.

Shen et al (2007) have shown that the Sensing-iNtiutive scale of the MBTI is the most important of type preferences to form engineering design teams. The paper also argues that using either MBTI, Keirsey, Belbin or Learning styles is better than random formation of teams.

Tamura & Furukawa (2007) developed a Computer Supported Collaborative Learning (CSCL) and used the Six Hats methodology to introduce, facilitate and train students on an online training environment. The authors found significant differences in the number and quality of ideas for given problems between Six thinking hats environment and simple online discussion environment.

RESEARCH METHODOLOGY

The six hats typing Instrument was validated through a survey given to the students at the end of the workshop. This simple survey asked students to categorize themselves on 6 Hats category which best described their role in the team. The six hat typing instrument developed by Jenson et al was used for this study. This instrument was based on a detailed review of DeBono's original work and it consisted of the key characteristics of the six thinking hats 6 items falling under each hat type.

Students were asked to take up a survey on the six hat typology much before the registrations for the workshop began. The rating scale of 0 - Never True to 5 – Always true was used in the survey comprising of 30 items. From the scores of the instrument the students were categorized on their six hats thinking styles. Another instrument which categorized the students on their typology was given to the students after the workshop. In contrast to the original typing instrument, this one had the complete list of characteristics of each 6 hats style in a single list. Students were asked to prioritize and rank the 6 styles which they used in their team activities. This was used for validating and checking for conformities in the original instrument. The objective of this exercise is to validate whether the dominant style as described by the original typing instrument is identified by the validation instrument as a truly dominant style or role.

The corroboration between the original typing instrument and the validation instrument shows that the style identified by the original typing instrument as dominant for that particular student was later rated, in the validation instrument as one of their preferred style of working in teams. It was found that 76 percentage of the time the original typing instrument did a reasonable job of correctly identifying the student's style.

Apart from assessing the students on the 6 Hat typology, they were also given a form of the MBTI test. The Kiersey Temperament Sorter was used for this purpose (Kiersey 1999). Based on the 6 Hats and the MBTI Typology of the Student the following Goals were set for the teams. The Goals of the 6 Hats teams were to Provide Creativity, Provide Mixed Positive and Negative Feedback and to provide team leadership. On the other hand the Goals of the MBTI Teams were to Provide Creativity, to Provide Quick and Extended Decision Making and to provide logical and intuitive thinking.

TEAM FORMATION STRATEGY

Both the Six hat teams and the MBTI Teams were formed with a specific strategy. The Algorithm for forming the Six hat teams were as follows:

1) Every team shall have a student whose primary 6 Hat type is “Green”
2) Every team shall have a student whose primary 6 Hat type is “Yellow”
3) Every team shall have a student whose primary 6 Hat type is “Black”
4) Every team shall have a student whose primary 6 Hat type is “Blue”

There is a rationale behind this particular algorithm. The Green Style/role represents creativity. This is a crucial Role that any team shall be using for the activity and hence the first criterion in the 6 hats team formation strategy is a predominantly Green hat. The Yellow Style provides positive feedback and encouragement to proceed with an idea. On the other hand a Black Style provides constructive criticism and looks into the practicality of the idea. A Blue Style was included primarily to bring in some moderating and leadership quality into the team. The Red and White Hats could have become a part of the team, but it became increasingly difficult to satisfy the additional criteria.

Just like the Six hat Team formation Algorithm, The MBTI teams were also formed with a specific strategy. There are Sixteen Personality types in the MBTI Instrument. Therefore forming teams with the Sixteen personality types would be difficult and hence a different algorithm was used to build the teams. The teams were formed with 5 important criteria’s

1) An Extroverted Intuitor (EN)was a part of the team (OR) a Introverted Intuitor (IN) plus an Extrovert (E) was on a team.
2) One Judger (J)
3) One Perceiver (P)
4) One Thinker (T)
5) One Feeler (F)

The logic behind having an Extroverted Intuitor or a Introverted Intuitor plus a extrovert was to ensure that there is a scope for creativity or innovation in the team. By having an extrovert as a team member we further ensure that the creative and innovative ideas are expressed to the team. By having a Judger and a Perceiver it is ensured that the team will be mixed between those who are ready to make decisions on limited data (“Judger”) and those who want to fully consider ALL the options before making a decision (“Perceiver”). A thinker and a Feeler in the team would help to create a mix between those who make decisions by concentrating on facts and logical relationships (“Thinker”) and those who allow insight and intuition to play significant roles (“Feeler”).

ANALYSIS AND INTERPRETATION

VARIATION IN PERFORMANCE

One of the objectives of this paper is to evaluate if there is any variation in the performance of the teams. In other words, if teams were formed with some scientific methodologies, do their performance with respect to creativity and innovation increase? ANOVA was used to test the same. As it has been already discussed, teams were formed based on the 6 Hats and MBTI; there was yet another group of teams, the formation of which was random.

H_0 : The effectiveness of the teams were homogenous irrespective of whether they belonged to the MBTI , Six hats or the Random Groups

The results of the hypothesis test that were conducted are shown in table 2. It can be seen that the significance of the ANOVA was less than 0.05 and therefore the null hypothesis was rejected and the alternative hypothesis accepted at 5 as well as 1 percent level. Therefore it can be concluded that there were differences in team effectiveness on the basis of team formation strategies. The descriptive statistics for the three groups are given in table 3. It can be found that the Mean for the Six hat teams is higher than the other Groups.

VARIATION IN GOAL ACCOMPLISHMENT

Yet another objective of this paper was to evaluate if there were any differences among the teams in their goal accomplishment strategies. As already discussed the goal of a six hat team was to improve creativity, generating alternatives provide for mixed positive and negative feedback and provide for team leadership. On the other hand the goal of MBTI team formation strategy was to provide for creativity, to provide for mixed, quick and extended decision making and provide for mixed logical and intuitive thinking. The extent to which these goals were accomplished was assessed through specific items in the team effectiveness survey. T test was used to test the following hypothesis

H_0 : There is no significant differences in goal accomplishment between MBTI teams and Six hat teams that were formed using a specific TFS

The results of the hypothesis testing are given in the table 4. It can be seen that the significance of the t test was 0.001 and hence the null hypothesis was rejected and the alternative hypothesis accepted at 5 % and 1% level. Therefore it can be concluded that there were significant differences between MBTI and Six hat teams with respect to goal accomplishment.

DISCUSSION AND CONCLUSION

This study corroborated and validated the Six Hats typing instrument developed by Jenson et al (2000). Validation of the students’ preferred style of working in teams with the style identified by the original Six Hats and MBTI instruments confirms that these instruments can be used to identify and group people into different teams as confirmed by Jenson et al (2000, 2003). The major difference between the Jensen et al studies and this study was having post graduate management students instead of engineering students to form teams.

Heterogeneity in team effectiveness was seen between the Six Hats, MBTI and control groups and there were significant differences between the groups’ team effectiveness. Teams formed using the Six Hats team formation strategy exhibited superior team effectiveness. Thus there is enough empirical evidence that using the Six Hats typology for team formation increases team effectiveness. However, teams formed using the MBTI team formation strategy showed the lowest scores for team effectiveness which is in divergence with the Jenson et al (2000)study.

“Six Hats” teams and “MBTI” teams also showed significant differences in terms of goal accomplishment. Six Hats teams performed better on goal accomplishment than MBTI teams. This may be attributed to the fact that Six Hats teams were formed directly based on preferred communication styles/roles when working in a team. Once these styles/roles were identified, they were used as a team formation strategy to create teams that both balance communication styles/roles as well as ensure certain styles/roles were present in order to improve team effectiveness and therefore goal accomplishment. MBTI teams were formed based on their personality types and their affects on group communication rather on their communicative styles/roles (Jenson et al, 2000). Thus it may be safe to conclude that Six Hats is a better and more direct way to identify communication styles/roles than the MBTI.

Further research can look at the effectiveness of a combination of team formation criteria of both MBTI and 6 hats as in Jensen et al (2003) for management students.

REFERENCES

1. Atkins, C. R., Dykes, P., Hagerty, J., and Hoye, J. (2002): “How customer performance partnerships can sharpen your competitive edge”, The Journal for Quality and Participation, 25(3), pp. 22-.
2. DeBono, E., (1985): Six Hats Thinking, Boston, MA: Little, Brown, & Co.
3. Dorothy Leonard (2010). Fostering Creativity: expert solutions to everyday challenges. Harvard Business School Publishing. pp 8 – 15.
4. Jensen, D., Feland, J., Bowe, M & Self, B. (2000): “A 6-hats based Team Formation Strategy: Development and Comparison with an MBTI based approach”, In: Proc. ASEE Annual Conference.
5. Jensen, D., Wood, J., & Wood, K. (2003). Hands-on activities, Interactive multimedia and improved team dynamics for enhancing mechanical engineerig curricula. International Journal of Engineering Education, 19(6), 874-884.
6. Keirsey, D., (1999): “Web site for type development’, http://www.keirsey.com 36 question character sorter test.
7. Meisinger, S. (2007): “Creativity and innovation: Key drivers for success”, HR Magazine : on human resource management, 52(5), pp.10-.

8. Myers, I. B. and McCaulley, M. H., Manual., (1985): A Guide to the Development and Use of Myers Briggs Type Indicator (2nd ed.), Palo Alto, CA: Consulting Psychologists Press.
9. Shapiro, S. M. (2002): 24/7 innovation: A blueprint for surviving and thriving in an age of change. New York: McGraw Hill.
10. Shen, S.T., Prior, S.D., White, A.S and Karamanoglu M., (2007): "Using personality type differences to form engineerig design teams", Engineering Education, 2(2), pp.54-66.
11. Smith, C., & Munn, G. (2000): "How to maintain a competitive edge", PPI, 42(12), 19.
12. Tamura, Y & Furukawa, S. (2007): "CSCL Environment for 'Six Thinking Hats'" Discussion in B. Apolloni et al. (Eds.): KES 2007/WIRN 2007, Part III, LNAI 4694, pp. 583-589.

APPENDIX

TABLE 1: CORROBORATION BETWEEN THE ORIGINAL TYPING AND VALIDATION INSTRUMENT

Ranking According to Original Type Survey	Ranking According to the Validation Survey	Percentage of times the corroboration is true	Cumulative percentage
1	1	76%	76%
2^{nd} -6^{th}	2^{nd} to 6^{th} ,	24%	100%

TABLE 2: HYPOTHESIS TESTING FOR ASSESSING VARIATION IN TEAM EFFECTIVENESS AMONG THE GROUPS BASED ON TFS

Particulars	Sum of Squares	Degrees of freedom	Mean Square	F	Significance
Between Groups	2.695	2	1.347	6.276	0.003
Within Groups	19.754	92	0.215		
Total	22.449	94			

TABLE 3: DESCRIPTIVE STATISTICS OF TEAM EFFECTIVENESS FOR THE GROUPS BASED ON TEAM FORMATION STRATEGIES

Team Formation Strategy	N	Mean	Standard Deviation
Six Hat Teams	34	4.1029	0.44384
MBTI Teams	40	3.7250	0.50149
Control Teams	21	3.8333	0.41500

TABLE 4: T TEST FOR ASSESSING THE DIFFERENCES BETWEEN MBTI TEAMS AND SIX HAT TEAMS WITH RESPECT TO GOAL ACCOMPLISHMENT

Teams	N	Mean	Standard Deviation	T Critical Value	Significance
Six hats	34	4.1176	0.41522	3.573	0.001
MBTI	40	3.7625	0.43508		

MICROFINANCE CRISIS IN ANDHRA PRADESH AND REGULATORY RESPONSE

K. LAKSHMI
RESEARCH SCHOLAR
SCHOOL OF MANAGEMENT STUDIES
VELS UNIVERSITY
CHENNAI

DR. S. VASANTHA
PROFESSOR
SCHOOL OF MANAGEMENT STUDIES
VELS UNIVERSITY
CHENNAI

ABSTRACT

The microfinance sector of Andhra Pradesh was recently impaired by a series of unfortunate incidents that happened due to extensive lending which resulted in over-indebtedness, defaults and in some cases some of the clients even committed suicide. The main reason for such incidences was said to be the high rates of interest and the marketing tactics such as collection methods adopted by MFIs. This paper explore the reasons behind the hardships of MFIs' clients, causes of inefficiency in operations which have increased the cost of credit and problems with the current marketing strategy and other related areas. This paper focuses the need for policy implications of the various regulatory measures that the Government subsequently should take to control and regulates micro-lending practices in the state.

KEYWORDS

Andhra Pradesh, Extensive lending, Microfinance crisis, Regulatory measures.

INTRODUCTION

Microfinance institutions (MFIs) have established as an effective way to empower the lowest levels of entrepreneurship by providing them continuous financial support that were hardly served by the banks and other financial institutions. The microfinance sector in India has expanded rapidly over the past few years by providing small loans to emerging entrepreneurs to start or expand businesses. Most MFIs in India are solely engaged in extending microcredit: a few also extend saving/thrift, insurance, pension, and remittance facilities. Since there is no comprehensive regulatory frame work for the microfinance sector in India, MFIs exist in many legal forms. Many mid-sized and large MFIs developed to acquire and float new companies so as to get registered as non banking financial companies (NBFCs) whose ultimate aim is to reach more customers and more areas to provide their services. As microfinance institutions expanded very quickly and hiring and training processes were inefficient, resulting in employees who engaged in inappropriate collection practices and lending models that led to customer over-indebtedness in some of the states like Andhra Pradesh (A.P) in India.

REVIEW OF LITERATURE

Anand (2008) states that MFIs can serve as a good vehicle for penetrating rural population, the commercial banks flushed them with funds in order to push their agenda of acquiring hold of rural market, diversifying risk, and serving rural economy.

Anurag Priyadarshee & Asad K.Ghalib (2011) mentioned as the outreach of microfinance sector has been poor over the past few years in India, it has morphed from being a savior of the poor to the whipping boy of the press, and a poster child of exploitation of the vulnerable.

Jessica Schicks (2013) states that although there is ample indication that microfinance can be highly beneficial for the poor, there is no consistent and robust proof to date that microfinance effectively promotes microenterprise development, that it increases the asset ownership of micro borrowers or that it positively affects borrowers' income.

Kenny Kline and Santadarshan Sadhu (2011) mentioned as microfinance institutions were subject to prudential requirements; however no regulation addressed lending practices, pricing, or operations.

MARCUS TAYLOR (2011) mentioned as the unprecedented increase in loans of MFIs was justified in terms of a massive unmet demand for credit by the poor, who are presented as living in a state of 'financial apartheid' that reproduces poverty through exclusion from the formal financial system.

Renuka Sane and Susan Thomas (2013) expressed as MFIs lend to households and present no risk to households if they fail. Hence, regulators do not need to worry about the failure of an MFI from the consumer protection perspective

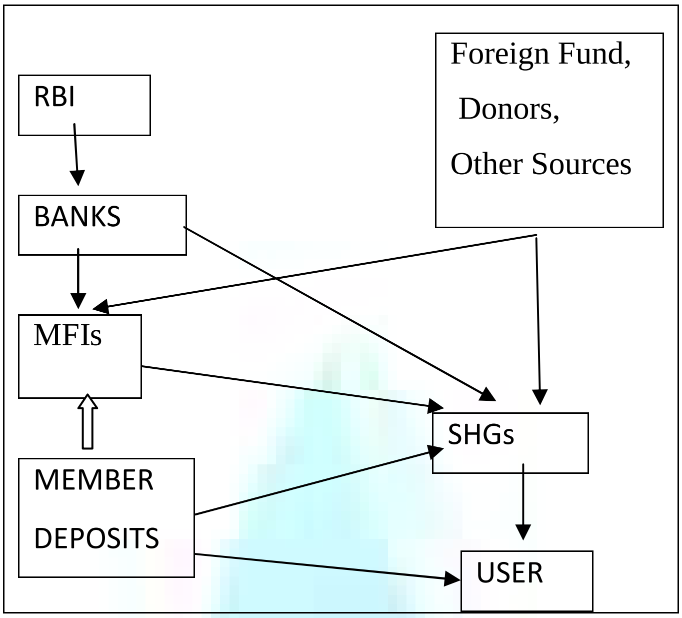
Subrata Kumar Mitra (2009) states that as the micro finance institutions (MFIs) began to mature, they started facing performance dilemma, and focus is gradually shifted towards profitability.

FUNDING STRUCTURE OF MICROFINANCE IN INDIA

In India, the funding structure of microfinance is followed by two broad mechanisms:

(a) Microfinance Institutions which are operating in the form of Non-Governmental Organizations (NGOs) , or Non Bank Finance Companies (NBFCs); and (b) Self Help Group (SHG)-bank linkage. NGOs are not regulated by any specific law and are generally registered under the Societies Registration Act, 1860, the Indian Trust Act, 1982, or any other relevant state act. The sources of funding for NGOs are donors, governmental departments (usually under some scheme), and savings of its members. NBFCs are not-for-profit companies with a purpose of elevating commerce, art, science, religion, charity or any other useful object. These companies do not provide dividends, and excess of income over expenditure is used for the stated purpose. SHGs or Credit and Savings Groups, each usually with an average size of 8 to 12 members, come together to form a federation usually in the form of a cooperative society and provide microloans to their members. The most grass root level SHGs of them are not even registered as they usually work in an informal way. Apart from banks and NBFCs the other sources of funding for microfinance institutions include some private equity investors (venture capitalists, private investors), funding from abroad (loan, grant, investor), through charity (domestic and abroad), members fund, loans, and governmental support.

FIG 1: A GENERAL INDUSTRY FUNDING STRUCTURE



Source: Anand (2008) "High cost of Finance in Microcredit Business in Andhra Pradesh (India): Problems and possible solutions."

The above figure illustrates that MFIs as a generic term include NBFCs (working in microfinance area), NGOs, SHGs, and any such Cooperative Society, or Fund, which operate to provide credit in the form of microfinance.

For serving the need of credit seekers besides MFIs, other institutions such as National Bank for Agriculture and Rural Development (NABARD), ICICI Bank, RRBs, and cooperative banks are also in the supply side of MFI movement who serve as the major supplier of funds for MFIs and provide advisory and technical support to this sector. Both the central and state governments also use this as an instrument to support and uplift rural livelihood under specific schemes.

TABLE - 1: SOME IMPORTANT MICROFINANCE INSTITUTIONS IN INDIA

S.NO	NAME OF THEORGANIZATION	S.NO	NAME OF THE ORGANIZATION
1.	ANJALI Micro Finance	6.	MADURA Microfinance Ltd
2.	ASMITHA Micro Fin Ltd	7.	MUTHOOT Fin Corp
3.	Fusion Micro finance	8.	SKS Micro finance
4.	JANALAKSHMI Micro finance	9.	SURYODAY Microfinance Pvt. Ltd
5.	L&T Finance	10.	TRIDENT Micro Fin Ltd

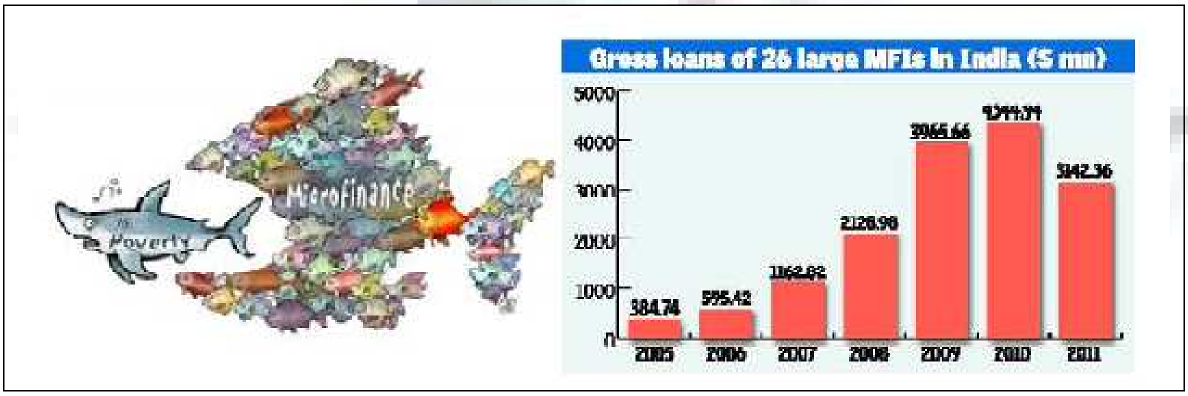
Source: CMI survey of MFIs, 2010.

TABLE – 2: CLIENT DETAILS OF TOP 5 STATES OF INDIA AS ON MARCH 2010

States	Female Client	Total Client
Andhra Pradesh	5952301	6044972
Karnataka	3101153	3290095
Tamil Nadu	2787807	2804181
Orissa	1511795	1527225
West Bengal	2660503	2686067

Source: CMI survey of MFIs, 2011

FIG. 2: GROSS LOANS OF 26 LARGE MFIS IN INDIA



Source: The Hindu Business Line, Sep 17, 2012.

GROWTH AND DEVELOPMENT OF MFIS IN A.P.

The growth and development of the microfinance sector followed a unique course in Andhra Pradesh when compared to other states in India. The state government of Andhra Pradesh systematically nurtured and deepened the institution of SHG (Self Help Groups) through the use of public resources due to a number of political motives. The Andhra Pradesh government set up an autonomous body, called as Society for Elimination of Rural Poverty (SERP), which is implementing the Indira Kranthi Patham (IKP) project in all the 22 rural districts of Andhra Pradesh. Activities of the SHGs revolve around regular savings by their

members, credit (from both internal and external sources) and regular meetings (weekly excepting in case of newly-formed SHGs). The SHGs, Village Organizations (Vos), Mandal Organizations (Mos) and the District Organizations (Dos) are being increasingly involved in implementing and monitoring various government development programmes through IKP. Due to this rich infrastructure base, the MFIs do not need to invest in organizing the poor and generating awareness on microfinance in Andhra Pradesh, unlike in other states.
Since Andhra Pradesh households had better access to microfinance than all the other Indian states through the state sponsored microfinance programmes; private MFIs accumulated in Andhra Pradesh to benefit on the SHG network that already existed in the state. Therefore it becomes much easier for private MFIs to enter and start their businesses in Andhra Pradesh than in other states which led to an oversupply of microfinance and finally resulted in bitter events among clients and crisis that was witnessed subsequently.

EXTENSIVE SUPPLY OF MICROFINANCE AND IMPACT

The easy access of credit in rural areas has brought about significant changes in the lifestyle, however, at least in some instances, at the cost of plunging poor households under debt. As poverty gets directly correlated with reduced cash flow, providing easy credit through a host of lending institutions created an illusion of 'feel good' situation amongst the rural poor. There were a number of cases which suggested that a large proportion of microfinance clients were worse off after availing loans. Since higher interest rates on microfinance loans did not provide scope for savings as well as for investing and microfinance seldom helped poor to come out of poverty. Further, there were not many businesses that could have generated any profit after paying an interest of 24-36 percent on capital invested, which was the usual cost of financing through microfinance.

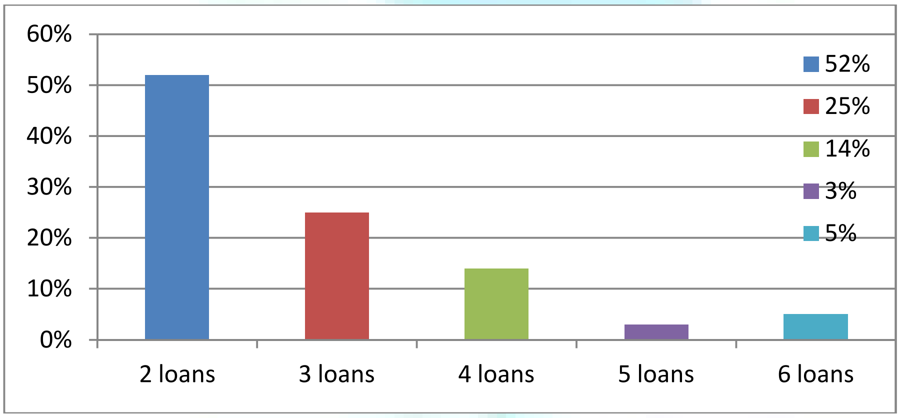
TABLE- 3 INTEREST RATES OFFERED BY VARIOUS SERVICE PROVIDERS

S.NO	SERVICE PROVIDER	INTEREST RATE
1.	SHG Pavala Vaddi	(3%)
2.	Moneylenders	(36% - 120%)
3.	Bank	(7% - 13%)
4.	SHG Internal loans	(12% - 24%)
5.	MFIs	(27% - 45%)
6.	Daily Finance Corporations	(78% - 120%)

Source: Centre for Microfinance and Micro Save (2012)

According to some news reports private MFIs usually paid very little attention to the core concerns of poor. For them the critical concern was to sustain and increase services against the emerging odds in a full of opportunity environment.
As a result, far from helping people in generating wealth, easy credit was being used to encourage 'primary producers' at the farm level, to become 'distributors and consumers' of consumer products and durables. Consequently, the profit maximizing mindset resulted in an impulsive distribution of loans without understanding the feasibility of the purpose. The problem was aggravated due to the intense competition and failure to share information among MFIs about the creditworthiness of a borrower and some needy people were in the hooks of enormous lenders.

FIG 3: EXTENSIVE LENDING LEADS TO MULTIPLE BORROWING



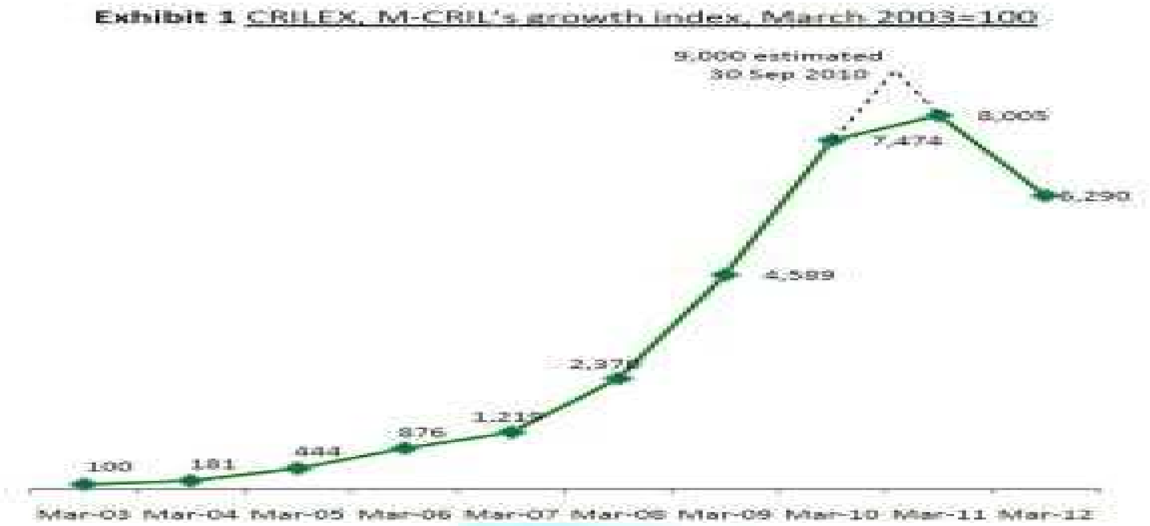
Source: Centre for Microfinance and Micro Save (2012)

Due to multiple borrowing when the clients were not able to pay their dues, these companies were showing this as a pretext and used different kinds of unethical and illegal methods to collect the dues which resulted in some cases some of the clients even committed suicide. As reported in almost all the major news media, the concocting crisis in Andhra Pradesh not only exposed the unreasonable practices of MFIs but it also raised serious questions about the regulatory measures available and applicable to them.
As crystal clear finally it appeared that MFIs did not deliver on what was promised. Many observers came to feel that the growth of some MFIs was accomplished by the use of sharp practices in taking away consumers from bank-led SHG programmes. Although some policy makers have expressed concern about multiple borrowing from MFIs, it clearly shows that borrowing per poor household in A.P is three times higher than the Indian average is widely treated as evidence of over-indebtedness though it could alternatively be interpreted as reflecting the credit constraints faced by poor people in the rest of India.

NEED FOR REGULATING MICROFINANCE INSTITUTIONS

The Andhra Pradesh crisis has been something of a turning point in public assessment of microfinance, with the unfortunate incidents of suicide cases caused by widespread over indebtedness badly tarnishing the sector's image in India as well as other countries. Some of the Indian politicians are now recognizing the idea of alleviating poverty with microfinance as "crap".

FIG. 4



Source: M-CRIL Microfinance Review 2012

According to Microfinance State of the Sector report, MFIs have reached 31.4 million clients all over India at present condition. The report mentions that in terms of "customer outreach - borrowers with outstanding accounts," there was an increase of 17.6% MFI clients and 4.9% of SHG-Bank clients in the year 2010-11, highlighting that both SHG and MFI models co-existed and flourished over the years. Andhra Pradesh consists of highest concentration of microfinance activities with 17.31 million SHG members and 6.24 million MFI clients. The total microfinance loans in Andhra Pradesh including both SHGs and MFIs stood at Rs.1, 57,692 million with average loan outstanding per poor household at Rs. 62,527 and it is the highest among all the states in India.

This data implicates that the state is highly penetrated by microfinance (both MFIs and SHGs) giving rise to multiple borrowing. According to CGAP study the average household debt in AP was Rs.65, 000, compared to a national average of Rs.7, 700. This high penetration of both SHGs and MFIs also led to stiffer competition for client outreach between the state and private financial providers resulting in wider conflict of interest.

REGULATIONS AGAINST MICROFINANCE INSTITUTIONS

To prevent the growth of MFIs and to stem the alleged abusive practices adopted by the MFIs, on October 16, 2010 the state government promulgated an ordinance. In December 2010, the Ordinance was enacted into **"The Andhra Pradesh Microfinance Institutions (Regulation of Money lending) Act, 2010"**.

The ordinance was a result of a series of suicide incidents attributed to the alleged abusive practices of MFIs such as charging high interest rates, adopting coercive collection practices and lending aggressively beyond the repayment capacity of the borrowers rather than helping the poor get out of poverty. According to research report "more than 77 rural people have been driven to suicides unable to bear the coercive collection methods by their collection agents". As per proposed by one of the important key steps of the ordinance, it is must for setting up of fast-track courts in every district for MFI-related issues.

Two key efforts in proposing a framework for the Indian microfinance industry after the 2010 A.P legislation was passed are the Malegam Report (2011) and the Microfinance Institutions (Development and Regulation) Bill, 2011 (Ministry of Finance 2011). Both focus heavily on micro-prudential norms and corporate governance issues for MFIs.

THE MALEGAM COMMITTEE REPORT

The Malegam Committee report (Malegam 2011) was initiated by RBI. Being the regulator of both NBFCs and banks, RBI had a twofold interest in this issue since several MFIs with large exposure to the Andhra Pradesh defaults was structured as NBFCs and their collapse would affect bank portfolios since banks were the largest source of funding to NBFCs. The report has consequently focused on the question of NBFC-MFI. It begins with a definition of NBFC-MFI and lays down conditions related to net worth and assets that it had to satisfy as a NBFC-MFI. The Malegam Committee report requires NBFC-MFIs to maintain a capital-adequacy ratio and provisions for loan losses. NBFC-MFIs are also required to follow certain corporate governance norms.

The approach of the committee as contained in the report towards consumer protection has been to prescribe conditions on who can be consumers of MFI and the manner in which MFIs can grant loans. The report goes on to stipulate rules on (1) the purpose for which MFIs can disburse loans (i e, 75% of the loans will be sanctioned only for productive purposes), (2) fixing pricing of loans and the quantities and rates that can be charged (a margin cap of 26%, which is the difference between the amount charged to the borrower and the cost of funds to the MFI), (3) location – where sanctioning and disbursement of loans can take place, and (4) individuals who can be consumers (an individual who should have an annual household income of less than Rs. 50,000 and he should not be a member of more than two groups).

THE MICROFINANCE INSTITUTIONS BILL, (2011)

The Microfinance Institutions (Development and Regulation) Bill, 2011, has been drafted with the objective to provide a regulatory structure for the microfinance industry. The bill enables thinking before taking deposit by MFIs. However, it implies that these same fixed deposits would be then lent to micro-borrowers who could be depositors themselves. It means that the savings of the poor would be lent to risky credit products. Great care needs to be implemented here, particularly given the problems that have been experienced in India with cooperative banks and deposit-taking NBFCs. Even if it were felt that MFIs should become banks, the appropriate legal implementation for this should be within the Banking Regulation Act and not a new parallel legislation.

CONCLUSION

The recent tumult witnessed within the microfinance sector of Andhra Pradesh was keenly observed by the world over as incidences unfolded to reveal weaknesses in regulatory and policy mechanisms. This paper discussed the causal factors that led to such happenings and argues that the richness of Self Help Group infrastructural base developed as a result of certain state sponsored programmes attracted private-sector MFIs. Such MFIs, in an attempt to maximize their profits oversupplied credit to the poor. Easy availability of credit made the poor households victims of a social phenomenon called aspiration paradox due to which they could not adequately assess their repayment capabilities. The situation was compounded due to some MFIs offering credit in terms of consumable items such as televisions that did not generate income and further worsened their indebtedness. The poor multiple borrowers thus started defaulting on repayment and the MFIs resorted to compelling methods to recover their loans. The series such incidents led to some borrowers taking extreme steps to end their lives, thus bringing greater attention to the crisis. The government subsequently adopted certain regulatory measures in order to address the issue. These, however appear to focus on the symptoms and not on the root cause of the situation. As discussed at length above, the situation arose primarily due to the unequal distribution of the community institutional infrastructure base for delivery of microfinance among different states, and the one-side focus of private-sector MFIs on maximizing their profits in an inefficiently regulated environment. The absence of such policy measures may definitely lead the private microfinance sector in the future to face similar situations in different Indian states.

REFERENCES

1. Anand (2008) "High cost of Finance in Microcredit Business in Andhra Pradesh (India): Problems and possible solutions"
2. Anurag Priyadarshee and Asad K.Ghalib (2011) "The Andhra Pradesh microfinance crisis in India: manifestation, casual analysis, and regulatory response".
3. Datta, S and V Mahajan (2003): "Savings and Credit Movement of Andhra Pradesh".
4. Ghiyazuddin M.A. and Shruti Gupta (June 2012) "Andhra Pradesh MFI Crisis and its Impact on Clients"
5. Imai, K., Arun, T. and Annim, S. (2010). "Microfinance and household poverty reduction: New Evidence from India' World Development".
6. Kenny Kline (2010) "Microfinance in India: A new Regulatory Structure"
7. Marcus Taylor (2011) "Freedom from poverty is not free: Rural Development and the Microfinance Crisis in Andhra Pradesh, India."
8. Microfinance Business News (2010). "Andhra Pradesh Microfinance Institutions Ordinance 2010 comes into force".
9. NABARD (2010): "Status of Microfinance in India 2009-10", Technical report, National Bank for Agriculture and Rural Development".
10. Renuka Sane, Susan Thomas (2013), "Regulating Microfinance Institutions"
11. Srinivasan, N, (2010). "Microfinance India: The State of the Sector Report 2010". New Delhi: SAGE Publications.
12. Sriram, M.S., (2010). "Commercialization of Microfinance in India: A Discussion of the Emperor's Apparel'. Economic& Political Weekly"
13. The Economic Times (2011). 'MFIs in India are money-spinning machines: Yunus".
14. Vasavi, A.R., (2010). "Contextualizing the Agrarian Suicides in Agrarian Crisis and Farmer Suicides", R.S. Deshpande and S. Arora.

COST OPTIMIZATION THROUGH 'INTERNAL TALENT RETENTION STRATEGIES': AN ANALYTICAL STUDY

DR. SONALI DHARMADHIKARI
ASSOCIATE PROFESSOR
BHARATI VIDYAPEETH UNIVERSITY INSTITUTE OF MANAGEMENT & ENTREPRENEURSHIP DEVELOPMENT
PUNE

ABSTRACT

In the current post globalized era, managing business has become very challenging. Globalization is the process of integration of Human Resources, Goods, Finance, Knowledge and Culture across the world. Talent Management is the need of an hour. The organization must have a well defined Talent Management process consisting of recruiting, training, managing, supporting and compensating the human resources acquired. It refers to the anticipation of required human capital the organization needs at the time then setting a plan to meet those needs. It is observed that in many employment categories, particularly high skilled areas such as IT, Software Development, Electrical Engineering, Accounting and Finance, the labour turnover is very high. Retention is a challenge faced by many of the world's most admired companies. Organizations are accelerating their internal talent retention strategies. Against this background, the present research paper focuses on cost effectiveness of "Internal Talent Retention" as a strategy of "Talent Management". The objective of research paper is to study the costs involved in Retention of employees Vs. Hiring. The research paper also covers analytical study of cost effectiveness of "Internal Talent Retention" as a strategy and explores the factors affecting attrition. After analyzing the data, the researcher would give suggestions to the corporates to make Retention strategy more effective. The proposed research work is "Exploratory" in nature. The Secondary Data would be collected from authentic sources like reference books on Talent Management, HR policy of selected companies, journals, articles and websites etc. The Primary Data would be collected by survey method through unstructured questionnaire from selected corporates. The Primary data and Secondary data would be analyzed to arrive at conclusions and suggestions. The analysis of costs of attrition led the researcher to conclude that retention emerges as a cost effective tool, talent strategy is strongly tilted towards the old paradigm of "Grow from within, internal talent retention strategy not only saves the cost but also encourages long term loyalty and hiring becomes costlier than retention. To sum up, strategy should seek In-House talent to grow thereby avoiding recruitment costs would be beneficial in the long term.

KEYWORDS

Cost optimization, Internal talent retention, Attrition, Hiring.

INTRODUCTION

Managing business has become very challenging in the current post globalized era. Globalization is the process of integration of Human Resources, Goods, Finance, Knowledge and Culture across the world. As a result of globalization, every firm has witnessed business alterations. This has disturbed harmony between the demand and supply of talent. ***Possessing and retaining the best talent is the heart of success in future.***

As indicated by Randstad, India's latest global Workmoniter survey 2012, Indian employers will have trouble finding highly qualified people and this trend is set to continue for the next three years. *(Source: The Times of India, Ascent Dec 12, 2012)* Thus, Talent Management is the need of an hour.

Peter Drucker coined the term knowledge society and knowledge worker to signify the changing times from brick and mortar to human capital. "Talent Management" has become one of the most important strategies in Corporate HR. The organization must have a well defined Talent Management process consisting of recruiting, training, managing, supporting and compensating the human resources acquired. It refers to the anticipation of required human capital the organization needs at the time then setting a plan to meet those needs.

It is observed that in many employment categories, particularly high skilled areas such as IT, Software Development, Electrical Engineering, Accounting and Finance, the labour turnover is very high. Retention is a challenge faced by many of the world's most admired companies. Organizations are accelerating their internal talent retention strategies.

REVIEW OF LITERATURE

The researcher has gone through literature related to challenge of internal talent retention and strategies developed by corporates to face this challenge. The following is the summary of literature reviewed.

THE WAR FOR TALENT INTENSIFIES

A predicted 'Talent Crunch' has resulted in 65% scarcity in finding highly qualified people in India with no sign of abatement insight.

With the entry of MNCs, there is high increase in demand for the right talent. The technological advancements have accelerated the market shifts, which in turn have driven the companies to seek highly qualified professionals with enhanced skills.

Thus, possession and retention of internal talent has become a big challenge for corporates.

- *'New Banks will Intensify Fight for Capital and Talent' Romesh Sobti, Chief Executive, IndusInd Bank (Source: Economic Times, 4th Feb, 2013)*
  New banks are likely to fight for Capital and Talent in the next 18 months. To face global slowdown, banking sector has to fight for talent and develop good strategies of Talent management in future.
- *'India Inc is definitely well-prepared to tackle the challenges of the talent crunch head on. However, this is an uphill battle, and not one that can be won easily or resolved quickly. To counter the challenges of a shrinking talent pool, companies and HR teams need to innovate and evolve continuously.' Anand Talwar, Sr. VP Talent Management, ITC Infotech. (Source: Ascent 12th Dec, 2012).*
  Thus, to face the demand supply gap challenge, corporates need to develop strategy of Internal Talent Retention.
- 'As a result of Globalization, every firm, irrespective of the industry it operates in had witnessed business alterations. This has disturbed the harmony between the demand and supply of talent. Increased competition has engulfed the companies in the race of winning the war of talent as possessing the best talent is the heart of success in future. The increase in demand for talented and skilled personnel is also correlated with the rapid economic growth and industrialization in India. The technological advancements have accelerated the market shifts, which in turn have driven the companies to seek highly qualified professionals with enhanced skills.' YPS Kanwar, CPO Trident Ltd. while showing the concerns about the widening gap between availability and demand for talent.

After reviewing the available literature, it is observed that the literature focuses on importance of Internal Talent retention strategy. But cost optimization angle is not covered in literature review. The present research paper focuses on Costing aspect of internal talent vs. hiring talent from outside.

IMPORTANCE OF STUDY

Sustainable management and ***stakeholder value creation*** through its valuable human resources has become a big challenge for corporate entities.

Cost optimization is emerging as a new model of sustainable management and stakeholder value creation without compromising on quality. Cost optimization is a wider term than cost cutting. Internal Talent retention is one of the area to achieve cost optimization. The present research paper attempts to study analytically about cost determination and cost effectiveness of Internal talent retention strategies.

STATEMENT OF PROBLEM

After reviewing the literature, the researcher collected data on the problem of attrition.

INDUSTRY WISE ATTRITION

Among 11 surveyed industries IT & ITES Sector is having maximum attrition 23%, Followed by Banking & Financial Services with 18%, Healthcare (12%), FMCG (11%), Automobile & Manufacturing (12%).

TABLE I: INDUSTRY WISE ATTRITION RATE

Industry wise Attrition		
Sl. No.	**Industries / Sector**	**Q1, 2011-12**
1	IT & ITES	23%
2	FMCG	11%
3	HealthCare	12%
4	Banking & Financial Services	18%
5	Automobile & Manufacturing	11%
6	Telecom	8%
7	Business Services	5%
8	Real Estate	9%
9	Other	3%

(Source: Economic Times)

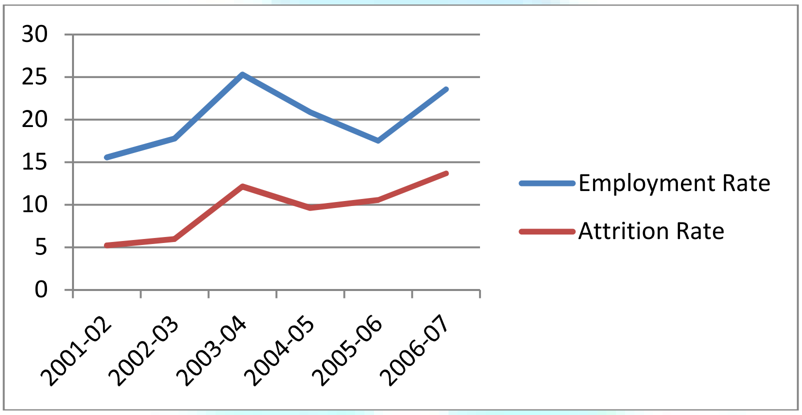
From the above table, it is observed that IT & ITEs sector is having highest attrition rate. So the researcher collected the data on Employment and Attrition rate in IT Sector.

TABLE II: EMPLOYMENT AND ATTRITION RATE IN IT SECTOR

Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Employment Rate	15.55	17.78	25.3	20.84	17.5	23.57
Attrition Rate	5.23	5.97	12.13	9.63	10.57	13.67

(Source: NASSCOM Strategic Review Report)

GRAPH I: EMPLOYMENT AND ATTRITION RATE IN IT SECTOR



(Source: NASSCOM Strategic Review Report)

This is evident from the table and chart indicating the increasing trend in employment rate and the cause of concern is that during the same period increasing rate in attrition rate is also observed.

Hence, the Research Problem under consideration is to undertake a comparative study of costs involved in Retention of employees Vs. Hiring and to analyze cost optimization of Internal Talent Retention. The research paper attempts to explore various ways and means to reduce attrition rate and strengthen internal talent retention.

OBJECTIVES

Against this background, the present research paper focuses on cost effectiveness of "Internal Talent Retention" as a strategy of "Talent Management".

The objective of the research paper is to study methods of calculating the costs of attrition and to make the comparison of the costs involved in Retention of employees Vs. Hiring. The research paper also covers analytical study of cost effectiveness of "Internal Talent Retention" as a strategy and explores the factors affecting attrition.

After analyzing the data, the researcher would give suggestions to the corporates to make Retention strategy more effective.

RESEARCH METHODOLOGY

The proposed research work is "Exploratory" in nature.

The Secondary Data would be collected from authentic sources like reference books on Talent Management, HR policy of selected companies, journals, articles and websites etc.

The Primary Data would be collected by survey method through unstructured questionnaire from selected corporates.

The Primary data and Secondary data would be analyzed to arrive at conclusions and suggestions.

ORGANIZATION OF THE RESEARCH PAPER

The research paper would be organized in three parts.

In the initial part, the researcher would study methods of calculating the costs of attrition and would make the comparative study of the costs involved in Retention of employees Vs. Hiring.

In the second part, the analytical study of cost effectiveness of "Internal Talent Retention" as a strategy would be carried out and exploration would be done of the factors affecting attrition.

In the concluding part, after analyzing the data, the findings, conclusions would be covered and the researcher would give suggestions to the corporates to make Retention strategy more effective.

TEXT OF RESEARCH PAPER

INTERNAL TALENT RETENTION STRATEGY:

- **IMPORTANCE OF INTELLECTUAL CAPITAL AND HARNESSING INTELLECTUAL CAPITAL**

Retention is the converse of turnover. High turnover rate is a big challenge the corporates have to face. The retention of good employees matter due to many reasons. There is growing importance of intellectual capital i.e. collective knowledge and skills that the employees of an organization possess.

During today's globalized era, Intellectual capital is what defines a company's competitive edge. Today's successful business wins with innovative new ideas and top notch products and services - all of which originate from the talented employees. E.g. network engineers, Marketing analysts, Technical designers etc.

Whenever such employees leave the company, the company loses their hard won knowledge and acquired skills. Whenever these employees join competitors, the loss is compounded.

In our knowledge society, intellectual capital of an enterprise will be the determinant factor of its success. It should be nurtured and deployed fruitfully which will be recipe of success for any commercial venture. According to Leif Edvinsson of Skandia AFS, the world's first Intellectual Capital Director the intellectual capital of an organization is located in its Human Capital, Structural Capital and Customer Capital. Synergy of these generates wealth of an organization.

Human capital is the collective knowledge and skills that the employees of an organization possess. The individual intellect, various innovative ideas, creativity, available with employees is Human Capital. The Management has to develop strategies so that the available capital is utilized for the growth of the enterprise. The culture of knowledge sharing and cross-fertilization of ideas will help any organization. The organizational systems and processes devised and used for sharing the Human Capital is its Structural capital.

The management's role is to ensure that the knowledge of individuals in the group is utilized for the team's benefit and eventually to the maximization of wealth of organization.

- **RETENTION & CUSTOMER SATISFACTION:**

It goes without saying that customer satisfaction is one of the most important factors in business survival and growth. This is another reason that retention is so critical. The trust any organization enjoys with its customers is a big non tangible asset for the organization.

Satisfied, talented, loyal employees with their work and their company are more likely to create satisfied, loyal customers.

Negative employee attitudes and behaviors adversely affect the satisfaction of customers. High employee turnover reduces customer satisfaction. There is a strong link between employees' attitude and customer satisfaction. Employees' attachment predicts customer attachment.

- **EMPLOYEE RETENTION STRATEGIES FOR A HIGH PERFORMANCE ENVIRONMENT**

All high performance environments share a serious devotion to results.

They're competitive, stressful workplaces where mediocrity is disdained and failure intolerable. Moreover, individuals who thrive in these environments tend to be "A" players with intense ambition. And they are always on the lookout for greener pastures.

How can high-performing employers better retain these critical employees?

The challenge is often how companies approach retention — reactively. Retention issues are ignored until the company suspects an employee might bail, at which point it's addressed by offering the employee some kind of enticement to stay, and then it's back to business as usual.

This approach might work in the short-run, but does nothing to cultivate longer-term loyalty.

A better approach is to address retention proactively, as a strategic issue. There are two thought leaders in talent management strategy to discuss how to do this in high performance environments. Based on our conversation, here are five things any organization can do to proactively combat turnover.

HIRE RETAINABLE EMPLOYEES

The first thing leading organizations are doing to curtail employee turnover is a focus on "hiring retainable employees." There are some obvious indicators of a candidates' ability to deliver consistently (e.g. three to five years' tenure in a similar role). Background, skills or personality characteristics should be studied to identify retainable employees.

PLAN CAREER OF EMPLOYEES

While managing people in a high performance environment, career of employees should be focused. The policy of training and development should be framed to retain the talent the company has. The facilities should be provided to the employees so that they'll succeed in the role for which they are hired. Best-practice organizations work to help individuals plan to stay with the organization — to plan their careers with the organization. The key is to guide the employees in mapping out how they can attain their career goals within the company.

Every employee is motivated by different things, and retention strategies thus need to be tailored down to the individual level. The retention strategies should be made personal i.e. after considering the motivational factors of each individual employee. It is observed that non monetary motivational factors are having more motivational impact than monetary gains e.g. challenging work, personal and professional growth opportunities, work/life balance, and workplace flexibility.

If underperformance is found in some employees, the employer has to find out the root cause. The employer may uncover trends in underperformance. Are employees bored with the work? Are people burning out after six months? This kind of feedback is vital to the refined people process that supports success and curtails turnover

The manager should create a positive environment for an employee as it is observed that the main reason of attrition is behavior of the boss, whatever the company values have to be executed by the managers.

CALCULATION OF THE COSTS OF ATTRITION, COSTS INVOLVED IN RETENTION OF EMPLOYEES VS. HIRING

- **COST OF ATTRITION**

Labour Turnover of an organization is the change in the labour force during a specified period measured against a suitable index. The rate of labour turnover in an industry depends upon several factors such as nature of the industry, its size, location and composition of labour force. Increasing labour turnover is a double edged malady. It reduces the productivity of labour and results in high cost.

The cost of Attrition of the company must be calculated. The following are the costs of attrition. The cost of attrition may be analyzed under two broad headings:

PREVENTIVE COSTS

i) Personnel administration: The part of personnel department's cost i.e. preventive costs refers to all those items of expenditure which are incurred in order to keep the employees satisfied and thus to act as discouragement against leaving employment, efforts of personnel manager in maintaining good relationship between management and staff.

ii) Coat of medical services provided to the employees

iii) Cost of welfare activities and schemes provided to the employees

REPLACEMENT COSTS

i) Loss of productivity due to delay in appointing new employees.

ii) Employment Department's Expenses: Direct expenses including the out-of-pocket costs recruiting, interviewing and training of new employees.

iii) In a tight labor market, replacements may require a higher salary.

iv) Induction and training of new workers: The employee has to be inducted properly and training has to be given before he is put on his assigned work. The initial period of training is unproductive. The increase in cost on training as well as cost of productive time lost.

v) Intangible costs, such as the effect on workload, morale and customer satisfaction. Psychological impact on survivors, loss of client relationship, impact on competitive edge etc.

vi) Opportunity costs, including lost knowledge and the work that remains incomplete till the replacement is done.

Retention of high performing employees has become more challenging for managers as this category of employees frequently move from one job to another as they are being attracted by more than one organization at a time.

MEASURING EMPLOYEE ATTRITION COST

Exit interview (One Hour: Preparation, interview, follow up) _______
Cost of termination time _______
Cost spent in administrative procedures _______
Increased unemployment (based on the Department of Labor) _______

Cost of vacancy

Cost of substitution

Job advertising _______
Pre-employment administration _______
Cost of new hires' interviews _______
Staff cost _______

Cost of training

Stationary cost (Books, training manuals, etc.) _______
Formal training sessions (Class room, lab, etc) _______
Informal training (Mentors, etc.) _______

Employee performance differential

Difference in performance (Productivity, learning, etc.) _______
TOTAL TURNOVER COST PER EMPLOYEE _______

MEASURING EMPLOYEE TURNOVER

Most organisations simply track their crude turnover rates on a month by month or year by year basis. The formula is simply:

Total number of leavers over period / Average total number employed over period x 100

The total figure includes all leavers, even people who left involuntarily due to dismissal, redundancy or retirement. It also makes no distinction between functional (that is, beneficial) turnover and that which is dysfunctional. Crude turnover figures are used by the entire major employee turnover surveys, including the annual CIPD and CBI surveys, as they are necessary for effective benchmarking purposes. However, it is also useful to calculate a separate figure for voluntary turnover and to consider some of the more complex employee turnover indices, which take account of characteristics such as seniority and experience.

MEASURING EMPLOYEE RETENTION

A stability index indicates the retention rate of experienced employees. Like turnover rates, this can be used across an organization as a whole or for a particular part of it. The usual calculation for the stability index is:

Number of leavers with more than one year's service / Total number of staff in post one year ago x 100

After comparing costs of attrition and retention, it can be concluded that retention emerges as a cost effective tool. It is observed that the talent strategy of companies is tilted towards "Grow from within".

ATTRITION

A reduction in the number of employees through retirement, resignation or death refers to attrition. In the best of worlds, employees would love their jobs, like their coworkers, work hard for their employers, get paid well for their work, have ample chances for the advancement, and the flexible schedules so they could attend to personal or family needs as and when necessary. But then there's the real world in which employees do leave. Attrition measures the amount of recurring revenue lost during a particular time frame, expressed on a monthly/annualized basis.

PRIMARY TYPES OF ATTRITION

VOLUNTARY – initiated by the employee (e.g., resignation, retirement, transfer). Can occur due to employees' dissatisfaction, better opportunities, economic considerations, life changes, etc.

INVOLUNTARY – initiated by TSA (termination, removal). Some level of involuntary attrition is necessary and signifies management of poor performance (e.g., termination during initial probationary period)

Attrition is a phenomenon affecting any business organization in the industry. Over the past few years, organizations have taken an increased interest in aligning their HR practices to their business goals. Managing a highly discerning and independent workforce has thrown up exciting challenges. Attrition is a dynamic that impacts business performance in more ways than the usually perceived Human Resource development angle. It is an issue which gives rise to questions like Organizational health, morale and motivation and leads up to very tangible aspects such as shareholder return and value.

Low perceived value stands out as the most significant factor for attrition. Increased dissatisfaction leads to reduced motivation, which in turn results in lowered efficiency. When the efficiency is lowered, employees are not able to deliver their expected output which results in their leaving the job. When employees quit, the perceived value is further lowered.

While organizations lament the challenges that they have to constantly encounter as a consequence of employee turnover, the truth is that all attrition is actually not detrimental for an organization. Some attrition is indeed desirable and necessary for organizational growth and development. There are some people who have a negative and demoralizing influence on the work culture and team spirit. It benefits the organization when these employees leave. The cost of attrition can be computed with recruitment cost, productivity loss till replacement, training cost and cost of new hire and loss of sales. The business impact of good and bad attrition can be felt in both tangible and intangible ways. The tangible aspects are: -

- Loss of knowledge capital
- Delay in execution of projects / assignments
- Loss of production
- Increasing cost of recruitment

On the intangible front, it would result in: -

- Impact on employer brand
- Burden and burn-out on existing employees
- Internal information and knowledge is being shared outside
- Existing team also gets de-focused / de-motivated for sometime

FACTORS AFFECTING ATTRITION

There are various factors that affect an individual's decision to leave a job. While an employee's leaving the job is considered attrition by one organization, it is looked at as talent acquisition by the new organization and to the individual it means a career move, economic growth and enhanced quality of life etc. Hence, what is a problem for one may be an opportunity for another? There can be various reasons for people leaving their current jobs:

CAREER ASPIRATIONS: It is but natural in a growing society and growing economy that employees at all levels aspire to build their career.

COMPARISONS AND EQUITY CONSIDERATIONS: Comparisons with peers or classmates from the same college, batch, age group, organization, first job, city, etc. are numerous dimensions on which similarities can be picked up and compared. Individuals today are flooded with such comparisons. Business magazines, compensation surveys by consultants and MNC companies have only aggravated this situation and enhanced comparisons.

PARENTAL AND FAMILY MOBILITY: Need for being close with the family, spouse, children, parents etc. at different stages of one's life to fulfill different types of affiliation needs prompt a few people to leave their jobs and move from one city to another.

PERSONALITY FACTORS: Some people have a high need for variety. They get bored and fatigued easily. They waste others time discussing organizational politics and polluting the atmosphere. Some people are constantly searching and seeking. Some may have a different motivation or value profile which may not be matched by the current job or the company and hence the decision to leave.

JOB RELATED FACTORS: These factors may be intrinsic and job related or extrinsic and job related. Intrinsic factors are the factors related to the characteristic of the job. These are in plenty in BPOs where the work conditions (night work, work at odd hours, the nature of clients to deal with, etc) pose difficulties. Extrinsic factors are factors like role clarity, independence and autonomy, bad boss, wrong chemistry of the team, work conditions that can be changed easily, lack of respect shown to the individuals, etc. A large number of the extrinsic factors can be controlled.

ECONOMIC FACTORS: this deal with the aspirations in relation to salary and perks, housing, quality of living, need for savings etc.

RESULT AND FINDINGS

- **STEPS TO REDUCE ATTRITION**

1) Focus on Exit-interviews
2) Compliment and Thanking employees for their valuable contribution. Recognize and celebrate their success.
3) Setting up a feedback mechanism to maintain consistency in performance and high motivation levels.
4) Give them job security
5) Providing opportunities of learning by constantly upgrading the skills of employees
6) Paying attention to employees personal needs and participation
7) Communicate goals, roles and responsibilities so that people know what is expected from them.
8) Feeling valued by their managers or superior in the workplace is a key to high employee motivation and morale.
9) Treat the employees well & provide a dignity of job.

RECOMMENDATIONS AND SUGGESTIONS TO THE CORPORATES TO MAKE RETENTION STRATEGY MORE EFFECTIVE

After analysis of Secondary data and Primary data collected through unstructured questionnaire from corporates, the conclusions can be drawn as follows:

i) The modern world organizations in order to retain their employees consider it necessary to be more altruistic for people in their organization and these altruistic concerns that took the form of human relation approach is the need of the hour for retention as Companies get lots of tangible and intangible benefits of employee retention.

ii) The corporate should weigh the cost incurred not really in monetary terms but in terms of per employee productivity. Even though monetary cost of hiring employee may be lower in case of recruitment but when it comes to productivity per labour hour, the opportunity cost is observed to be on higher side.

iii) To avoid higher recruitment costs, the organizations are accelerating their talent retention strategies which would increase the stickiness of employees to their jobs for longer terms.

iv) The Talent Retention strategies should be based on following parameters:

a) Adequate share in profits through allotment of share and ownership to employees over and above salary that increases the feeling of belongingness.
b) Career prospects path
c) Appeal to Innovative skills development
d) Appeal to Creativity
e) Altruistic concerns that leads to attachment and dedication to the organization.
f) Flexible working hours, Work from home culture
g) Training to develop soft skills set as well as domain skills
h) Measurement of loyalty quotient and suitable award.
i) Promoting team culture
j) Fragmentation of hierarchy

CONCLUSION

Taking into consideration the organization transformation witnessed in the twenty first century, concept of retention has gained significance and has become a matter of serious concern particularly for IT sector and sectors where highly skilled employees are required.

The traditional notion of retention needs to be relooked into and corporate of today should develop some such strategies which would retain the employees at least for reasonably long period. The reasonable period would differ sector wise. However, dedication of an employee to a single organization should be considered as a reasonable retention period and accordingly strategies be evolved. One cannot be deny a fact that in today's changed environment which is full of competition, retention is certainly going to be major challenge for the modern world organizations.

LIMITATIONS

Psychological, social factors cannot be measured to know the reasons of attrition.

There are some hidden costs involved which cannot be measured which are not considered in the present research work.

SCOPE FOR FURTHER RESEARCH

The area of research covered in the present research paper can be further explored. Industry wise study can be carried out to know reasons of Attrition, Measurement of costs involved in hiring.

REFERENCES

1. Bliss WG (2007), "Cost of employee turnover", available atwww.isquare.com/turnover.
2. Chaminade B, "A retention checklist: how do you rate?" available at www.humanresourcesmagazine.co.au.
3. Cooper Donald R. and Schindler Pamel S., *"Business Research Methods"*, Tata Mcgraw Hill Publication, Eighth edition
4. NASSCOM Strategic Review Report
5. Ranade M.S., *"Management in the Knowledge Society"* first edition
6. Rao T.V., *"Hurconomics for Talent Management"* Pearson Publication, first edition
7. Scullion, H. &Collings, D. G. (2010), "Global talent management", Journal of World Business, 45, 105-108.

WEBSITES

8. economictimes.indiatimes.com
9. timesofindia.com

TALENT MANAGEMENT: A NEW CORPORATE MANTRA

K. USHA
RESEARCH SCHOLAR & ASSOCIATE PROFESSOR
ROEVER INSTITUTE OF MANAGEMENT
PERAMBALUR

ABSTRACT

Talent Management has become one of the most important buzzwords in Corporate HR and Training today. Organizational leaders recognize that many aspects of market competitiveness like innovation, new product and service can be easily replicated or substituted. Pricing models and decisions to enter new markets are easily followed by the competitors. To replicate the skill and abilities of a leadership team and workforce is almost impossible. Therefore, the ability of a company to select, engage, retain and deploy talent at all levels is perhaps one of the main competitive advantage a company possess. This is where talent management makes an entry. Talent Management involves individual and organisational development in response to a changing and complex operating environment. It makes use of the skill, knowledge and passion of the employees by proper identification and taking measures for its conversion into company profitability. This article tries to explore the new facets of Talent Management.

KEYWORDS

Talent Management, Talent management process, Nine box model, Talent management Framework.

INTRODUCTION - EVOLUTION OF TALENT MANAGEMENT

PERSONNEL MANAGEMENT

In the 1970s and 1980s the business function which was responsible for people was called "The Personnel Department." The role of this group was to hire people, pay them, and make sure they had the necessary benefits. The systems which grew up to support this function were batch payroll systems. In this role, the personnel department was a well understood *business function*.

STRATEGIC HR

In the 1980s and 1990s organizations realized that the HR function was in fact more important - and the concepts of "Strategic HR" emerged. During this period organizations realized that the VP of HR had a much larger role: recruiting the right people, training them, helping the business design job roles and organization structures (organization design), develop "total compensation" packages which include benefits, stock options and bonuses, and serving as a central point of communication for employee health and happiness. The "Head of Personnel" became the "VP of HR" and had a much more important role in business strategy and execution. The systems which were built up to support this new role include recuiting and applicant tracking (ATS), portals, total compensation systems, and learning management systems. In this role, the HR department now became more than a business function: it is a *business partner*, reaching out to support lines of business

TALENT MANAGEMENT

In today's world of fast moving global markets and fierce competition the HR function is becoming integrated with the business in a real-time fashion. Talent management focuses on

- Making the recruitment process effective and efficient by using competency based recruiting
- Developing managers and leaders to reinforce culture, instill values and create a sustainable leadership pipeline
- Identifying competency gaps to deliver training, e-learning or development programs
- Hiring the right people for training
- Managing people in a consistent and measurable way so that everyone is accountable and paid fairly.
- Identifying high performers and successors to key positions throughout the organization to have a highly flexible and responsive organization.

These new, more challenging problems require new processes and systems. They require tighter integration between the different HR silos -- and direct integration into line of business management processes.

TALENT MANAGEMENT PROCESS

People are, undoubtedly the best resources of an organization. Sourcing the best people from the industry has become the top most priority of the organizations today. In such a competitive scenario, talent management has become the key strategy to identify and filling the skill gap in a company by recruiting the high-worth individuals from the industry. It is a never-ending process that starts from targeting people. The process regulates the entry and exit of talented people in an organization. To sustain and stay ahead in business, talent management can not be ignored. In order to understand the concept better, let us discuss the **stages included in talent management process:**

Understanding the Requirement: It is the preparatory stage and plays a crucial role in success of the whole process. The main objective is to determine the requirement of talent. The main activities of this stage are developing job description and job specifications.

Sourcing the Talent: This is the second stage of talent management process that involves targeting the best talent of the industry. Searching for people according to the requirement is the main activity.

Attracting the Talent: it is important to attract the talented people to work with you as the whole process revolves around this only. After all the main aim of talent management process is to hire the best people from the industry.

Recruiting the Talent: The actual process of hiring starts from here. This is the stage when people are invited to join the organization.

Selecting the Talent: This involves meeting with different people having same or different qualifications and skill sets as mentioned in job description. Candidates who qualify this round are invited to join the organization.

Training and Development: After recruiting the best people, they are trained and developed to get the desired output.

Retention: Certainly, it is the sole purpose of talent management process. Hiring them does not serve the purpose completely. Retention depends on various factors such as pay package, job specification, challenges involved in a job, designation, personal development of an employee, recognition, culture and the fit between job and talent.

Promotion: No one can work in an organization at the same designation with same job responsibilities. Job enrichment plays an important role.

Competency Mapping: Assessing employees' skills, development, ability and competency is the next step. If required, also focus on behaviour, attitude, knowledge and future possibilities of improvement. It gives you a brief idea if the person is fir for promoting further.

Performance Appraisal: Measuring the actual performance of an employee is necessary to identify his or her true potential. It is to check whether the person can be loaded with extra responsibilities or not.

Career Planning: If the individual can handle the work pressure and extra responsibilities well, the management needs to plan his or her career so that he or she feels rewarded. It is good to recognize their efforts to retain them for a longer period of time.

Succession Planning: Succession planning is all about who will replace whom in near future. The employee who has given his best to the organization and has been serving it for a very long time definitely deserves to hold the top position. Management needs to plan about when and how succession will take place.

Exit: The process ends when an individual gets retired or is no more a part of the organization.

Talent Management process is very complex and is therefore, very difficult to handle. The sole purpose of the whole process is to place the right person at the right place at the right time. The main issue of concern is to establish a right fit between the job and the individual.

TALENT MANAGEMENT FRAMEWORK

IMPLEMENTATION OF TALENT MANAGEMENT STRATEGY

Talent Management is a "forward-looking" function. Not only should talent management improve your organization's flexibility and performance, it should give you the information and tools to plan for growth, change, acquisitions, and critical new product and service initiatives

1. Talent Management requires integration and communication between existing HR-L&D functions.

Training can no longer be "left on an island." The organization must align much more closely with the performance management and recruitmentprocess. Training programs should be developed and updated to continuously address problems which surface in the performance management process. New hires which are hired because of certain competencies should see a set of training offerings which complement and reinforce these competencies. Compensation program should naturally tie to the performance management process.

2. Competency management, a mis-understood and difficult part of training and HR, has become critical.

The job descriptions, roles, and competencies used for performance management are shared by recruiting, and succession planning. There are many techniques for effective use of competencies - many are described in our performance management systems research. A simple

Best practice is for the organization is to have a small set of consistent, easy-to-understand competencies which can be applied across the organization.

3. Software solutions are maturing.

Despite vendor claims, there is no complete "talent management" software solution yet. Vendors each offer different elements of this solution. To solve urgent problems, most companies today buy standalone systems: standalone learning management systems, standalone performance management systems, standalone recruiting and standalone compensation systems. As the market matures and companies press harder for integration, vendors will create more integrated solutions. Even if companies do find an integrated toolset which manages multiple talent processes, the biggest challenges in implementation are integrating their own business processes.

THE NINE BOX MODEL FOR MANAGING TALENT

THE CONCEPT

The horizontal of 3 boxes assesses (leadership) performance and the vertical assesses (leadership potential). A combination of these makes up the box within the grid that the leader is placed.

WHY USE THE NINE BOX GRID?

- It's a straight forward way to assess any population of leaders on two important dimensions
- It's a useful tool to facilitate a dialogue amongst a senior leadership team. Teams can use it to calibrate their expectations and ratings

- With an open debate, the multiple perspectives provide for a much more accurate assessment compared to one person's opinion
- The process when used by all managers can facilitate a shared sense of ownership for the organizations talent pool
- It's an effective way to identify the development needs of individuals and explore the transition towards development planning
- Provides a framework for succession planning

PUTTING THE NINE BOX GRID TO USE – TALENT MANAGEMENT

Every individual has unique capabilities and talent. An employee of the organization will be able to contribute effectively if the talent he or she possesses suits the job profile otherwise it will be regressive for both the employee and the organization. The company will have to hire new resource or retrain an existing one leading to wastage of resources.

From talent management's point of view, an employee is evaluated on the basis of two aspects: potential and performance. The track record or previous performance of the employee forms the basis for his or her selection for a particular role. But talent management also looks into the potential of the employee to evaluate how an employee will perform if appropriate skills are made available. The nine box model of talent management as illustrated in the figure specifies the categories of employees depending upon the various potential levels plotted against performance levels. Talent management is a key element to an organization's succession planning process

ENIGMA

These are the kind of employees who are completely wasted in an organization. They are the people with high potential but deliver low performance. They are either wrongly placed or are working under wrong managers who have been unable to harness their full potential. This scenario requires external intervention and a heart to heart with the employee and the manager can yield good results.

DILEMMA

The employees having average potential but showing low performance fall under this category. The reason could be many: not upgrading as per the job requirement, not falling in line with the changes in the company. They can perform better if given proper opportunities and motivation.

UNDER PERFORMER

These employees are the individuals with low potential coupled with low performance. They under perform and don't show any scope for improvement. Here the management has to take a tough decision of either throwing the ball in their court and giving them some time to improve their performance or asking them to leave the organization.

GROWTH EMPLOYEES

This category has employees that constantly show high potential but the performance is not up to that standard. They may not be getting enough motivation or inspiration to move forward. The company should value the talent and should try to extract the best out of every employee. These kinds of employees can become great assets for the company by giving them enough challenges and by praising them as they achieve goals. It further instills a sense of confidence and the performance is bound to increase.

CORE EMPLOYEES

This category has employees that more or less perform up to the job potential but there is always a chance to achieve higher performance by giving them necessary push. They are just like employees in the category dilemma but are more promising.

EFFECTIVE

These are people with specific talents as they show higher performance as compared to their potential. They may have reached their full career potential so here the talent management team can keep them engaged, focused and motivated to get the desired results.

FUTURE LEADERS

These employees are the leaders of tomorrow and are the best possible options for succession at senior positions. They depict leadership qualities and yield results. People listen to them and they know how to get the work done. Talent management team should recognize their efforts and should reward them appropriately. Promote them and give them the chance to grow as an individual and also as a part of the organization.

HIGH IMPACT PERFORMERS

High impact performers are those who by some grooming and motivation can become the future leaders. They may have lost pace with the changes in the organization like dilemma and core employees but can be among the top talent.

TRUSTED PROFESSIONALS

Trusted professionals perform much higher than their potential because of some special talent they may be having. Your effort should be to retain them by rewarding and recognizing their efforts. You can always take their help to develop high performers.

This nine box model shows an organization can do effective talent management by recognizing the categories of employees using the appropriate techniques to retain and groom the top talent pool. The talent management system is of even more importance in tough economic times as it helps in optimizing the performance of the employees and achieving profound growth in the organization

THE CHANGING FACE OF TALENT MANAGEMENT

Talent retention is identified as the most important HR challenge to critically meet the business demands beyond tomorrow. Organizations can use a combination of four strategies viz., pay, benefits, learning and development and work environment to create and retain a pool of talented employees for the organization. Successful companies assign the same importance to employer branding as they give to product branding which help them in becoming an employer of choice. They are continuously innovating and inventing new ways to keep talented employees stick to the organization which is changing the face of talent management in India.

CONCLUSION

Now more than ever in the history of business, it is imperative for the organizations to manage people well. The shift from industrial age to the knowledge worker's age is sweeping the country, in fact the whole world. In today's information economy, people's knowledge, skills, and relationships are an organization's biggest asset and main source of competitive advantage. People related costs have risen to more than two thirds of organizational spending. Increasingly, talent attraction and retention is viewed as a significant driver of shareholder value and bottom line results.

REFERENCES

1. Hemant Kogekar (2010): Managing talent with 9-box grid Retrieved from http://www.kogekar.com/9boxgrid
2. http://www.bersin.com/blog/post/2010/05/A-New-Talent-Management-Framework.aspx viewed on Sep 10, 2013.
3. Larry Dunivan (2010): The Evolution of Talent management viewed on August 30, 2013. http://talentmgt.com/articles/view/the_evolution_of_talent_management
4. Mike Morrison : Nine box grids for talent management viewed on August 23, 2013 http://rapidbi.com/balance-in-the-nine-box-grid-for-talent-management.
5. Teng, A. (May 2007). Making the business case for HR: Talent management aids business earnings .HRO Today magazine. Retrieved from http://www.hrotoday.com/Magazine.asp?artID=1693
6. Wellins , Smith & Erker: Nine Best Practices For Effective Talent Management Retrieved On September 5,2013 http://www.ddiworld.com/DDIWorld/media/white-papers/ninebestpracticetalentmanagement_wp_ddi.pdf

RATIONALITY AND EMOTIONALITY IN CUSTOMERS' ADVERTISING AND BRAND ELEMENT RECOLLECTION: A STUDY ON LOYAL CUSTOMERS OF CERTAIN BRANDS

VINOD URATH
ASST. PROFESSOR
GURUVAYURAPPAN INSTITUTE OF MANAGEMENT
NAVAKKARAI

N. R. NARAYANAN
ASST. PROFESSOR
GURUVAYURAPPAN INSTITUTE OF MANAGEMENT
NAVAKKARAI

ABSTRACT

There is always a connect between the patronisation or loyalty towards a brand and the extend as well as the nature of images that befall on the mind of customers of those brands is the view point of theorists' and they call such an effect as Exposure-familiarity effect and this type of an effect is noticed in the low involvement product purchases. The said imagery could be well recognised by the nature of the recall by the respondents' and thus one can find out the patterns of such recollections and come to a fair amount of meaningful conclusion on what constitute a brand. This study uses unaided recall to find out the pattern of imagery existing in the mind of the customers of a low involvement product among a segment of Management students. The study is exploratory in nature and is consequently not elaborate in the sample selection. The schedule used for the study is an open ended one which extract whatever associations formed in the mind of the respondent about the brand. Result shows clear cut differences in the way the images are formed for different brands in this product category along cognitive and affective lines.

KEYWORDS

Brand Association, Recall, Rationality and Emotionality, Advertising and brand elements.

INTRODUCTION

A Brand and Advertising element recall study was conducted to find out the brands used prominently by the customers in the Toilet soap category in the district of Coimbatore. The profile of the customer population selected were students in the post-graduation level. The recall study by its very nature is used when the researcher wanted to find out what constitute a brand in the mind of the customer.

This is achieved by an instrument which facilitates an unaided, voluntary recollection of the Advertising and brand elements which has got imprinted in the mind of the customers. The result of this process will give one a set of brands patronised and the advertising or marcomm related communication elements, benefits and attributes that the customers will be having in their mind about each of the brands to which he is loyal to. In this study the customer is made to voluntarily recollect those elements of the Advertisement and that of other brand related ones. Since this being a spontaneous recollection in an environment which is devoid of any aid /help from any sources ; it is termed as unaided recall; this could also be theoretically termed as " top of the mind recall" of the brand and it's elements .

THEORETICAL BACK GROUND OF THE STUDY

The advertising world is replete with the instances of studies which assesses the effectiveness of the advertising and its impact. The advertising theorist has come up with such terms as the evoked set, inept and inert set to denote the extent to which the customer seems to keep a brand in his mind and act on it.

"Evoked set" is termed as those few brands well entrenched in the mind and got potential of being bought. The graduation from this is the brand patronization or brand loyalty, the term indicating the level and extend of loyalty or repeated purchase behaviour towards certain brand.

The recall study that helps in getting the names and other associations of the brands entrenched in the mind of the customer, through an open ended querying method is found to be effective in assessing not only the brands patronized but also in knowing the elements of the advertisement and brand elements which is sketched in the mind of the customer with regard to the said brand[6]. When we speak of the nature of these elements one could find certain consistent communication cues, benefits, Attributes, personas, uses, occasions etc..and it could also be seen that these elements will be those which were consistently been falling in the mind space of the customer. By finding out the nature of the Ad and brand elements in the mind of the patronizing customer as also assessing the content of these elements we may come to know the nature of influences and meanings which is created in the mind of customers regarding each of the brands he patronises in a specific category[7].

The theoretical literature also delves into and comes up with the differing nature of communication and Ad: influence on the customer[3]. It classifies the product categories into low and high involvement and states that the low involvement product category purchases are influenced more by the passive learning that happens with the exposure of the customers consistently to ads which is beamed to them through medias like Television. The theory also stresses on the passive nature of this media called TV and shows that the Ad: elements are assimilated by the customers watching these medias in a passive manner and is acted upon by recollection at the time of actual purchase[1].This model is termed as the Exposure-Familiarity Model in Advertising Parlance.

So in order that one may know the possible images the customer possess with regard to each and every brand, in a low involvement category like a toilet soap a recall study to get to know the brands being used was done. This study could also be used to find out the brand and advertising elements with respect to different brands for one to figure out the possible passive learning that had happened and the consistent imagery which is possessed in the mind of the customer regarding each brand. The Resultant recall outcomes are being classified into rational and emotional in order to find out the effect of cognition and affective-ness in the product evaluation[2].

OBJECTIVES OF THE STUDY

1. To find out the image that is held by prominent brands (most patronised by user) of toilet soaps amoung student community
2. To assess and classify the brands with regard to Rational (functional, benefit, usage)and emotional orientation it possess in the mind of customers as emanated from exposure to Advertising and other brand element communication.
3. To find out some of the consistent such meanings that is encrypted in the customers' psyche, if any.

METHODOLOGY AND THE INSTRUMENT

The study was conducted amoung the post graduate management students in Coimbatore .A Sample College was selected looking into the regional profile of the students and the selected college had a fair mix of students from two neighbouring states. A sample of 70 students were served the schedule and responses elicited.

The instrument used was an unaided recall schedule which asks for the" Top of the mind" recall of the elements which constitute most patronized brand in the mind of the customer; ie, what comes to mind with regard to those brands (which are already their most preferred brands) and also what meaning they give to the said brands assessed in terms of the image and associations recollected by the customers of the said brand. For this purpose the questions are put to the customer asking him to recall the elements that comes to the mind with regard to

1. Specific customers' most patronised brand and the Ad elements and Brand elements which comes to the mind.

The queries extracted information on what important thoughts and images comes to the mind of the customer for that brand (see the questionnaire for more details).

Questions also extracted recollections on the Ad and Brand element which the person can recollect with regard the brand which is used prominently by him. Brand elements and Ad elements recollected for each of the specific brands patronized was found out and the results are tabulated.

STRUCTURING OF QUESTIONS AND ITS SIGNIFICANCE

The questions are purportedly ordered in a sequence wherein the 1st question asks the receiver to spell out the most patronized brand and it is followed up with the question on the Advertising elements which had fallen on him and could be retrieved from the mind by the respondent for the said brand. This question is followed up by the query on what brand elements (whatever could be remembered from the packing details of the product) are remembered of the said brand.

LIMITATIONS OF THE STUDY

The sample is quite lean to extend the results to any larger population and the findings could only be indicative and is meant to serve as an exploratory attempt to throw light on some possible mental dispositions of certain patronisers of the brands. It is a much skewed population that the study has attempted and thus the study is only meant as an inspiration for further studies along these lines which only can bring actionable results for the managers.

ANALYSIS

The Analysis is structured as follows:

1. Table 1 shows the Percentage loyalists of prominent brands
2. Table 2 shows the Ad element recollection- rational and emotional classification
3. Table 3 shows Ad element to brand element recollection comparison for Lux brand
4. Table 4 shows Ad element to brand element recollection comparison for Lifebuoy brand
5. Table 5 shows Ad element to brand element recollection comparison for Pears brand

Though there were many other brands recollected as Dettol, Medimix, Cinthol, Dove and Santhoor, it was seen that very few patronisers were there for these comparatively and so very few recall numbers. So the tabulation was not done for those brands.

TABLE 1: MOST PATRONIZED BRANDS BY THE RESPONDENTS (in Percentages)

lifebuoy	19%
lux	38%
pears	13%

Dove,medimix,sandhoor make up the rest

From the table 1 above it can be seen that 38% of the unaided recallers', recalled Lux as their first brand (loyal brand) while 19% and 13% revealed that they are using Lifebuoy and Pears soap brands respectively. Rest 30% told a mix of brands like Dove, Medimix, Sandhoor etc.

TABLE 2: AD: RECOLLECTION FOR THE RESPECTIVE BRANDS: REAL TO OTHER BENEFITS-CONSOLIDATION OF ALL BRANDS (in percentages)

Lifebuoy	**Rational/ benefit recollection**	**100**	**Emotional recall**	0	Total of 14
Lux	**Rational/ benefit recollection**	67%	**Not recollected/others**	33	Total of 28
Pears	**Rational/ benefit recollection**	**0**	**emotional level recall**	50	Total of 9
Medimix,Dove,Sandhoor	**Rational/ benefit recollection**	**100**	**Emotional recall**		Total of 14
Others	**Rational/ benefit recollection**	**100**	**Emotional recall**		Total of 5
Grand Total					70

When the query on what Ad: elements they could recall about their most preferred and used brands is put forth, and analysed, it was found out that there exist differences between the Ad elements along Rational and emotional lines. From above table 2, it can be seen that for Lifebuoy, Medimix, Dove and Santhoor100% of the users of these brands recalled some real rational benefits and none any emotional reasons. While opposite is true for Pears (100%) and partially emotional for Lux (with 67% rational recollection).

TABLE 3: AD: ELEMENT TO BRAND ELEMENT RECOLLECTION-A COMPARISON FOR LUX BRAND

Lux	**Ad: element recollection**												***% of the total***
Brand element recollection	***beauty***	***%of TTL***	***Col%***	***Silky smoothnes and fairness***	***% of TTL***	***Col%***	***rose and sweet fragrance is seen in ad***	***%of TTL***	***Col%***	***nk***	***%of TTL***	***Col%***	
red & white,rose and white price,manfcturng date,place	6	20	**50**										20
pink, aiswarya's face ,badham,milk	5	18	50										18
Rose ,pink-lux orchid				3	11	100							11
rose color										5	20	67	20
white, badam flavor										3	11	33	11
actress photo on pack, variety colors							6	20	100				20
Total	11	(38)	100	3	11	100	5	20	100	9	31	100	

TABLE 4: AD: ELEMENT TO BRAND ELEMENT RECOLLECTION-A COMPARISON FOR LIFEBUOY BRAND

Lifebuoy	Ad: element recollection						% of the total
Brand element recollection	*Keep health, protect germs*	*% of total*	*kill germs*	*% of total*	*give refreshment, 24 hr protection*	*% of total*	
red, white colour, price details	5	37.5					37.5
Flavors like orange, cool(blue),red color			5	37.5			37.5
red, white color, manufacturing date, price, weight, contents					4	25	25
Total	5		5		4		100

TABLE 5: AD: ELEMENT TO BRAND ELEMENT RECOLLECTION-A COMPARISON FOR PEARS BRAND

pears	Ad: element recollection						% of the total
Brand element recollection	*child tells to mother-not clear*	*% of total*	*love*	*% of total*	*others*	*% of total*	
white, orange, gold	4	44					40
light maroon, date, manufacturing, ingredients			3	33			40
others					2	23	20
Total	4		3		2		100

AD: ELEMENT AND BRAND ELEMENT

A distinction was put into the survey with regard the elements which was remembered from the Advertisements as against the different brand elements (consisting of logo, colour combinations, other information on package, the attributes of product, the personas etc) recollected other than what was done from exposure to Ads.

AD: ELEMENT RECALL- THE RATIONAL AND EMOTIONAL SIDE

The recollections are classified into rational and emotional wherein the rationality aspect is identified as health oriented recall, mildness on skin, protection from germs, approval from health experts/doctors/associations, baby skin softener etc. In a nut shell all elements and benefits which was real and utilitarian as against emotional or Affective.

While the emotional aspect is love, silky, fairness, sweet fragrance etc.

BRAND ELEMENT RECOLLECTION - THE RATIONAL AND EMOTIONAL SIDE

Similarly the elements which are identified from the Ad: or any other consistent communication touch points are also analysed in these two dimensions. They are the significant illustrations, pictures, information on the packing.

The recollections here also could be classified as

1. Rational and 2. Emotional.

Thus we may say that price, manufacturing date, place ingredients, lime logo, weight, contents, batch no:, ingredients as purely rational while many varied, different colours, Face of popular actress, model, actress on the pack are emotional.

INTERPRETATION OF TABLES ABOVE

For lux brand users they could recollect an Ad: element, beauty most (39%) and other elements recollected include silky smoothness and fairness (11%), rose and sweet fragrance (20%) from the Ad:, the 1st being rational and last emotional while the second one being a combination of both . 30% or more could' nt recollect anything at all even when they prefer Lux as their first brand.

Here it is noted that a generic benefit on which the brand building effort and brand's meaning has been created is the one which is mostly recollected as compared to some more later elements added.

While the brand elements recounted from the pack are red, white rose, the price, manufacturing date, place, model appeared, pink, badam flavor,.in different combinations. Here also 20% noted red & white, rose and white, price, manufacturing date, place; of which we identify the rational aspects like date and price being noticed by 20%, while rest of them noticed overwhelmingly emotional aspects (see table above)

There is a tendency on the part of customers to look for some real time information like manufacturing, price etc still a good percentage notices some affective elements even on the pack of a product like soap.

In the next table 4 above, which concerns the brand Lifebuoy(recollection of brand and Ad: elements of loyal brand) ,the full extent of Ad: recollections included only rational aspects as "keep health, protect from germs", kill germs, give refreshment, 24 hr protection and the brand elements noted by them were "red, white colour, price details", "Flavours like orange, cool(blue),red colour"," red, white colour,manufacturing date,price,weight,contents" .They also almost followed the rational tinge.

For table 5, where pears brand patronisers' recalled elements are shown, it is seen that Ad elements recalled were "child tells to mother-the actual matter was unclear" was the recollection by many, as also "love" and for brand elements it was "colours like white, orange, gold", "light maroon colour,date of manufacturing, ingredients". Ad: element recollection shows emotional orientation in the nature of recollections while for brand element recall it is more rational.

RESULTS AND DISCUSSION

1. Amoung this set of students the prominently used brands are Lux(38%),lifebuoy(19%) and pears(13%),rest of it equally divided between Medimix,Santhoor,Cinthol,Dove,Dettol brands.
2. When the rational and emotional aspects of recollections are considered Lux brand had the unique "benefit recollection" of "beauty" with 67% recalling one or the other rational aspect while rest 33% could' nt recall anything rational
3. For Lifebuoy brand, real, rational recollection was 100% with none "not recollecting".
4. For pears brand, 100% of the patronisers recollected emotional aspects from Ad's and none any rational aspects.
5. The Ad: elements recollected for Lux brand separately are "beauty"(38%), "silky smoothness and fairness"(11%), "rose and sweet fragrance is seen in Ad"(20%) while 31% could not recollect any Ad: element at all even when they patronize the Lux brand.
6. he brand element recollections for Lux were "red & white,rose and white,price,manufacturing date,place"(20%), "pink, prominent Model's face, badham, milk"(18%),"rose, pink-lux orchid"(11%), "rose colour"(20%), "white, badam flavour"(11%), "actress photo on pack, variety colours"(20%).

The above 2 points elaborate the Lux brand having the impression of being a brand with beauty and related associations in the mind of the patroniser while the 'brand element recall' finds the customers of Lux recalling a variety of flavors, colors and attributes seen on the pack of the brand. This could be the result of a long saga of extensions of the brand and its likely impact on the customer. Also the model is prominently recalled here indicating a large penetration of that Ad: element.

7. For Lifebuoy brand, Ad element recollections are separately identified as “keep health, protect from germs”(37.5%), “kill germs”(37.5%)”, “give refreshment, 24 hour protection”(25%).These are all rational recollections and no emotional ones are seen here.
8. For lifebuoy, brand element recall were “red, white, price details”(37.5%), “Flavours like orange, cool(blue),red colour”(37.5%),”red, white colour, manufacturing date, price, weight, contents”(25%).
   From points 6 and 7 above, we may deduce that Lifebuoy and its Ad’s managed a very rational communication impact on the patroniser and when the brand elements are checked as colour combinations of red and white predominate showing a continuity effect of these Ad: elements from the earlier eras of the brand’s Ad’s . A good percentage seems to note other brand elements as price, quantity and content details as compared to Lux brand.
9. For the Pears brand, Ad: recollections were “child tells to mother- were not clear what is told”(44%), “love”(33%), “other aspects”(23%)
10. For the pears brand, the brand element recall were “white, orange, gold”(44%), “light maroon, date of manufacturing, ingredients”(33%), “ other aspects”(23%).

Pears seems to give an image of “mother’s love for the child” association as a unique element not told for any other brand .

CONCLUSION

It can be concluded that the brand wise Ad: and Brand element recall shows pure rational recall for a brand like Lifebuoy and pure emotionality for a brand like Pears. But when it comes to the brand Lux the rational aspect of Beauty is supported by a slew of associations which could be termed affective. It seems that the benefit plank beauty is built on a fair amount of emotional associations being used on course of the brand building exercise of the Lux brand.

REFERENCES

1. Andrew A. Mitchell(1979),Involvement: A Potentially Important Mediator of Consumer Behavior,Advances in consumer research, Vol 6.
2. Anthony and Clarke(1984),Audience involvement in Advertising: Four levels, Journal of consumer research, Vol 11.
3. Gardtner; et.al(1985),Low involvement strategies for processing Advertisements, Journal of Advertising,Vol 14,No:2.
4. Herbert E. krugman(1965),The impact of television advertising: learning without involvement, public opinion quarterly, Vol. 29,Issue 3.
5. Judith lynn zaickowsky(1986),Conceptualising Involvement, Journal of Advertising, Vol 15,Issue 2.
6. Rainer Greifeneder(2011), When Do People Rely on Affective and Cognitive Feelings in Judgment? A Review, Personality and social psychology review ,Vol 15,Issue 2.
7. Scott and Stephen (1992),Low-Involvement Learning :Memory without evaluation, Journal of Consumer Research, Vol. 19, No 2.

ANNEXURE

ANNEXURE -1

SCHEDULE

1. Tell which soap brand is mostly used by you
2. Tell what is said in TV ads of the brand
3. Tell colour combo of pack and other details on pack

INDUSTRIAL-CORPORATE SOCIAL RESPONSIBILITY

KONDA SANTOSH KUMAR
ASST. PROFESSOR
VARDHAMAN COLLEGE OF ENGINEERING
SHAMSHABAD

GHANATHE RAMESH
ASST. PROFESSOR
VARDHAMAN COLLEGE OF ENGINEERING
SHAMSHABAD

ABSTRACT

Corporate social responsibility basically a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. Corporate social responsibility is represented by the contributions undertaken by companies to society through its business activities and its social investment. This is also to connect the Concept of sustainable development to the company's level. Over the last years an increasing number of companies worldwide started promoting their Corporate Social Responsibility strategies because the customers, the public and the investors expect them to act sustainable as well as responsible. In most cases CSR is a result of a variety of social, environmental and economic pressures.

KEYWORDS

Corporate social responsibility, business.

INTRODUCTION

Most of the companies, particularly "green" companies have made social responsibility an integral part of their business models. What's more, some investors use a company's social responsibility - or lack thereof - as an investment criterion. For example, one who has a moral (or other) objection to smoking may not want to invest in a tobacco company That said, not everybody believes that business should have a social conscience. Noted economist Milton Friedman noted that the "social responsibilities of business are notable for their analytical looseness and lack of rigor." Friedman believed that only people could have social responsibilities. Businesses, by their very nature, cannot In customary societies the major principle of business was earnings. Even as late as 1970, Milton Friedman states that "the business of business is business". In other words, the only objective of business is the maximizing profits.

However, most academicians, economists, socialists, philosophers, politicians and businessman do not conciliation with these opinions. It is uncertain whether these opinions hold well today, particularly during the post liberation era. T.A Mathias felt that "moral behaviour pays….at least in the long run". An liberal approach aims at long –run objectives and not mere short – run gain. The days of orthodox views are gone. Corporate social responsibilities (CSR) can be defined as the "ethical behaviour of a company towards society". It refers to the participation of the business directly with local communities knowing their basic needs with business goals and strategic intent.

MODERN VIEW OF SOCIAL RESPONSIBILITY

The growth of business is dependent on the contributions made by society. Society has to tolerate the cost and consequences of the establishment and operation of business. It has to assign soil, water and other resources, provide infrastructural amenities and provide sophisticated manpower. In accumulation to these patrons who are members of society, allow the business to continue its operations by creating effective demand for the goods and services produced / rendered or distributed by the business

Thus, business is mostly dependent upon society. Realizing this, most of the industrialist today feels that their objective is not merely earning money but also consists of contributing something towards solving the problems of their employees, consumers and society at large

FOR SOCIAL RESPONSIBILITY

- **i**t is the best attention of a business to promote and develop the communities where it does business.
- Societal action can be lucrative.
- it is an moral thing to do.
- it occupies a good image of the business in public.
- it increases feasibility of the business system. Business exists as it gives society benefits.
- It is necessary to follow government regulation.
- Socio and cultural norms require it.
- Laws may not be passed for all situations. Thus, business must presume responsibility to maintain an orderly legal society.
- It is in the stockholders' best interest. It will improve the price of stock In the long run as the stock market will view the company as less risky and open to public attack.
- Society should give business a chance to solve social problems that the government has failed to solve.
- Business is considered by some groups to be the organisation with the monetary and human resources to solve social problems.
- Prevention of harms is better that cures – so let business solve problems before they become dangerous.

AGAINST SOCIAL RESPONSIBILITY

- It might be illegal.
- Business plus government equal monolith**.**
- Social actions cannot be measured.
- It violates profit maximization.
- The budget of social responsibility is too high and would increase prices.
- Business lacks social skills to solve common problems.
- It would grow weaker the balance of payments since the price of goods will have to go up to pay for social programs.
- Business already has too much power. Such involvement would make business too powerful.
- Such business involvement lacks broad public support.

Thus, it is accepted today that the business has to release its responsibility towards society. The notion of "social responsibility of business'' includes responsibilities towards itself, shareholders, employees, other business firms, governament, customers/consumers, creditors and the society.

Their declaration also emphasized certain main features of social responsibility of business, viz.

- In addition to making a fair and adequate return on capital, business must be just and humane, as well as efficient and dynamic.
- The social responsibilities can best be assumed in an atmosphere of freedom with the least possible restraint on healthy competition.
- Every business has an overriding responsibility to make the fullest possible use of its resources, both human and capital.
- It highlights the respective roles of the enterprises, the shareholders, the workers, the customers, the management and the community.
- It laid emphasis on reciprocal duties between business and the community.

We shall deal the social responsibilities of business towards different stakeholders' viz., dealers, distributors, customers/consumers, employees, shareholders/stockholders, other business firms, state and community.

We can see the same through the following figure

Business Firms Responsibilities

Towards Share holders

- Fair bonus
- Solvent and efficient business
- Optimum use of resources
- Planned growth
- Effective communication

Towards Employees

- Meaningful work
- Job satisfaction
- Fair salaries and benefits
- Best qualities of work life
- Succession planning and development

Towards customers

- Fair price
- Superior quality
- Superior service
- Superior product design
- Quick and complete information

Towards government

- Fair payment of taxes and custom duties etc
- Abide by the laws
- Observe the policies
- Maintain law and security

Towards society

- Employment without discrimination
- Employment to disadvantaged persons
- Community welfare services
- Business morality
- Maintain pollution free environment
- Maintaining ecological balance

Towards Inter business

- Fair competition
- Cooperation for sharing of scarce of resources and facilities
- Collaboration for maximization of business efficiency

RESPONSIBILITIES TOWARDS CONSUMERS/CUSTOMERS

Consumer satisfaction is the ultimate a aim of all economic activity. This includes:

- The products must meet the needs and wants of the consumers of dissimilar classes, tastes and the purchasing power;
- they must be sensibly priced, be of a reliable quality and sufficient variety

- the sale of such products must be followed by after sales service to ensure counsel, guidance and maintenance;
- there should be fair-haired and wide spread delivery of goods and services among all the sections of consumers and community
- there should be prevention of absorption of goods in the hands of a limited number of manufacturers, purchases or groups

In other words, business owes to itself the primary obligation to give a fair and square deal to its customers and consumers. They should be charged a fair and reasonable price which should be well within their reach. The supply of goods should be uniform standard and of reasonably good quality. Their distribution must widespread as to be within the easy reach of the consumer. No business should directly or indirectly indulge in profiteering, hoarding or creating artificial scarcity**.** Business should not mislead the customers and community by false, misleading and exaggerated advertisements because obscene advertisements are demoralizing the society and a danger to public morals.

Consumer satisfaction is the ultimate aim of all economic activity. But adulteration of goods, poor quality, failure to give fair measure, lack of service and courtesy to the customer, misleading and dishonest advertising, are all examples of violation of its obligations by a business enterprise towards the consumers.

Therefore, free competition must be allowed to operate and should be encouraged by anti _ monopoly legislation. Whether certain monopolies are accepted as unavoidable or in public interest, the price of their toleration has to include the government's right to impose any controls that may be needed to check undue monopoly power. Legislation is required to prevent deception and fraud being practiced on consumers, and where essential goods are in short supply, their fair distribution should be ensured.

Moreover, internal accountability to consumers should be extended. The Memorandum of Association (MOA) of public limited companies and state enterprises should embody a specific declaration of these wider responsibilities of management. The management should encourage the establishment of consumers' advisory councils/committees so that these bodies could represent the grievances of consumers to the management.

The consumers themselves have social responsibilities to their fellow- consumers. If they passively submit to exploitation, they help to lower standards of service. Equally, they are a support to consumers' associations which, by investigation and reporting on the comparative prices and quality of products, can assist them in making a more informed choice of their purchases.

RESPONSIBILITIES TOWARDS EMPLOYEES

It is the basic responsibility of the enterprise to produce wealth and also to provide opportunities for meaningful work. The management should develop its administration in a such way so as to promote a spirit of cooperative endeavor between employers and employees. There should be a sense of participation between capital, on the one hand, and labour and skill, on the other, in their objective towards prosperity and progress. The cooperation of workers can be won by creating conditions in which workers are enabled to put forward their best efforts in the common task as free men. This means recognition:

- of the workers' right to a fair wage;
- of the right to participate in decisions affecting their working life;
- to membership of the trade union;
- to collective bargaining and
- to the right to strike

The management should give workers opportunity to develop their capabilities through training, education and employment of freedom to the greatest possible extent. Management should develop among workers a sense of belonging to the business and provide them with healthy living conditions, cheap houses, leisure and amenities, profit-sharing and an efficient system of communication.

The business or a plant in a community and justice should be its rule. This means there should be a company code to conduct with a recognized procedure for setting grievances which result in improved performance. The code should guarantee religions, political and social independence of the workers and make reasonable provisions for them to take part in civic activities which benefit the community.

The image of business should be improved in the eyes of the workers so that persons of high calibre and capacity can be drawn to it. Routine monopoly and boredom should be broken by job enrichment and job enlargement programmes. Finally, industrial peace and new techniques of professional management must be ensured with in the precincts of the industry itself.

Likewise, workers should be realize their moral duty to a good day's job for a good day's salary, to cooperate in increasing productivity, to come toward with suggestions and to participate in discharging their responsibilities to the life of the plant and the community.

RESPONSIBILITIES TOWARDS OWNERS/SHARE HOLDERS

Management's first duty is to see that the enterprise in stable, enterprising and actively engaged in accomplishing its objectives. It should be capable of providing those who commit their capital to it with such a fair and adequate reward for risk taken. It permits the company to attract the necessary capital from the market. This capital is raised by the owners (proprietors, retailers, wholesalers, sole-traders) owning business, its property and looking after its management, the share of stockholders who contribute to the shares and debentures of the company or the partners (if there are any).

The expectations of these types of owners are:

- a fair and reasonable return on the capital invested by them,
- a part of profit, if the memorandum so specifies, in the shape of profit-sharing or bonus payment schemes,
- political and economic security for investment through a stable government, good law and order situation and stable tax policies and fiscal measures,
- knowledge about working the enterprise, its periodical progress report, so that they may be satisfied that their capital has been faithfully and usefully employed,
- a fair amount of dividend or retained earnings and
- profiteering blackmarketing**,** cornering of supplies, unfair trade practices are curbed and legally prohibited

The shareholders also have their obligations. Shareholders in the general meetings should question the directors on the accounts and discuss policy matters and make their representations more effective through their associations. They can thus ensure that the company is pursuing a dynamic policy and that sufficient profit is laid aside for innovation and expansion. They should play a constructive role in encouraging the directors to pursue a responsible policy towards the company, its obligations to the community, employees and customers, upon which in the longrun, the company's reputation and future prospects depend.

RESPONSIBILITIES TOWARDS INTER-BUSINESS

Social responsibilities of business include a healthy cooperative business relationship between different businesses. Businessmen must resist unfair and unethical competition and avoid unfair interference in their rival's business such as price-rigging, under cutting, patronage, unfair canvassing, supply of sub-standard goods, application of undue financial, legal troubles for the competitors' industry or launching a boycott campaign of their products, employing unethical advertisements and controlling the supply of particular goods/services produced by there only so that an artificial scarcity is created in the market, giving rise to monopolistic conditions, artificial high prices as per quality of goods etc.

Destructive competition is always harmful, as it destroys confidence in business and introduces chaos instead of order and discipline. Therefore, the correct solution is not retaliation but the development of true ideas among the business community and to secure such legal regulation as is necessary to protect businessmen. A good businessman should adopt fair means to meet his rival's competition. Things may be by adopting better designs, good advertisements, quick and safe delivery with after sales service, reasonable price etc.

It is needless to say that unfair competition enters with extortion, bribery, kick - backs and granting of discriminatory advertising allowances or brokerage fees and these should be avoided at all costs.

RESPONSIBILITIES TOWARDS STATE

The social responsibilities of business towards state (govt) demands that:

- it will be a law-abiding citizen.,
- it will pay its dues and taxes to the state fully and honestly.,
- it will not corrupt public servants and democratic process for his/their selfish ends.,
- it will not purchase political support by unfair means.,
- it will strive fairly and honestly to stimulate economic growth even by making reasonable sacrifices on occasions of national needs.,
- it will participate in public life of the country in helping to make policies, fair legislation and working on advisory bodies.,
- it will sell his/their goods, commodities and services without adultration at fair and reasonable prices and it will maintain fair trade practices and refrain from activities like restraint of trade and will not take recourse to hoarding, cornering and profiteering and other such unfair practices.

The government has also some obligations towards business such as to provide:

- a clean, prompt and efficient administration.,
- intelligent, practical laws, easily understood and easily applied.,
- reasonable political and social stability without frequent changes in legislative, administrative and fiscal policies.,
- law and order ensuring safety of life, property and continuing business.,
- a dynamic framework for rapid economic growth (infrastructure, legal aid).,
- rule of law.,
- holding scales evenly between groups and sections in society.,
- political and social stability where business can grow and develop.,
- reasonable legislation of protecting units of business against monopoly and
- healthy atmosphere to industrial peace.,

Unfortunately both have failed to fulfill their reciprocal obligations because of the following causes:

ECONOMIC – POLITICAL AND ORGANISATINAL FACTORS

- breach of law by employers.,
- monopolism/groupism among all sectors.,
- business's apathy to change for lack of time and unwillingness.,
- ideological and methodical conflicts and differences between different states.,
- existence of price-cutting, malpractices and unfair trade practices.,
- division of management and labour into two warring groups, one endeavoring to win over the other and .,
- technological changes, rationalization, modernization leading to false notions of mass employment among labour.

GOVERNMENT ADMINISTRATIVE FACTORS

- breach of law by employers.,
- discriminatory authority vested in government officials.,
- excessive political bias in the formulation of targets, policies and procedures without regard to basic economic laws.,
- loose short-lived un coordinated administrative structure.,
- multiplicity and complexity of laws.,
- frequent changes in laws and policies.,
- abuse of integrated economy linking the private-public, large-medium, small and tiny sectors.,
- administrative delays and red-tapism and
- unstable law and order situation.

What is therefore, needed in that the government should adopt progressive legal tax policies , and to ensure their strict observance; reduction in tax burden; careful planning, keeping in view the economic principle, strict supervision of and penalty for defaulters, easily understandable laws which are not frequently changed.

RESPONSIBILITIES TOWARDS THE COMMUNITY

The business owes great responsibility to the community in various directions. Some of the major areas where business can and does contribute towards community welfare as part of its social responsibility are

1) In the field of industry: can help rural areas introducing "self-help" and "earn-while-you-learn" programmes. Labour intensive areas like carpentry, pottery, spinning, weaving, agro-based industry, farming, dairy farming, poultry and pig rearing, storage etc are to be developed for creating more employment potential
2) In the field of agriculture: to develop agriculture the has to be conducted by the experts in the field of climate, social conditions, breeding of livestock, facilities of irrigation, water supply and supply of fertilizers, seeds, pesticides, finance apart from this linkage has to be created with agricultural sector and the industrial sector to provide more employment opportunities
3) Housing facilities: the business has to play a great role in changing house-building, extending loans and financial-aid—facilities, providing material and manpower support to rural areas and improve sanitation in labour colonies
4) Transportation: business and other agencies can help the government by extending technical and financial assistance for the development of cheap public transport and distribution system
5) Health and Education: Business also hold a responsibility towards improvement of the quality of life of the people in the community. Can take up distribution of free medicines, nutritious food to children and pregnant woman, aged and sick, holding camps for operation of minor ailments, eye diseases, family planning etc and also maintain some school to provide free education to the poor. The industrial aid can be extended for the maintenance of schools, colleges, technical/professional educational institutions as some of the industrialists are already extending these facilities, they are Birlas, Tatas, Ruias, Lalbhais, shreerams etc.

The corporate business can't perform the job in a vaccum as a number of environmental factors affect the business. The environment furnishes the macro context and the organization is the micro unit. The external environment comprises those factors which affect an organization from outside the organization. Environmental factors include social, technical, economical, political, natural and international are to be made favorable with suitable conditions so that the corporate business can carry and fulfill its social responsibility and make the public, country and the business to be flourished.

REFERENCES

1. D.C. Mc Celland, "The Achieving Society", Van Nostrand Reinhold, New York, 1961
2. Douglas Megregor "The Human side of Enterprise" Cambridge, Mass, 1957
3. F.W. Taylor, "Shop Management in Scientific Management" Happer & Row, New York, 1947
4. John Lodd "Morality and Ideal Rationality in Formal Organisations, New York Time Magazine, October, 1970
5. Marris S. Viteless "Motivation & Morale in industry" W.W. Norton & Co, New York, 1953
6. Milton Friedman "The Social Responsibility of Business", in Tom; L and Norman (EDS), Ethical Theory & Business, Prentice Hall Inc, New Jersy, 1979
7. Milton Friedman, "The Social Responsibility of Business to Increase Profits" New York Time Magazine, September, 13, 1970

8. P.Subbarao, "Human Resource Management, Himalaya Publishing House, Mumbai, 2010"
9. T.A. Mathias " Profits or People –Business and Society", Indian Management, June, 1984

WEBSITES

10. www.businessdictionary.com
11. www.scribd.com
12. www.slideshare.net
13. www.wikipedia.org

BRING YOUR OWN DEVICE (BYOD): AN EMPIRICAL STUDY ACROSS INDUSTRIES

RINKU MAHINDRU
ASST. PROFESSOR
DEPARTMENT OF COMMERCE
DELHI SCHOOL OF ECONOMICS
UNIVERSITY OF DELHI
NEW DELHI

ABSTRACT

Bring your own device (BYOD) (also called bring your own technology (BYOT), bring your own phone (BYOP), and bring your own PC (BYOPC)) refers to the policy to permit employees to bring personally owned mobile devices such as laptops, tablets, and smart phones to their office, and to use them to access privileged company information and applications. A Bring Your Own Device (BYOD) program comprise of the organizational technology policies and procedures that provide a secure mobile computing atmosphere on the devices employees want to use for their work. But BYOD is not just a technology issue. It's a central business issue that requires an effective approach around business strategy. The study has been undertaken to analyze if people working in different industries are aware of the BYOD policy of their organization. Also, the study analyzes the level of acceptability of BYOD system. The study has been conducted on 506 employees from five major industries, namely, IT, Manufacturing, Financial Services, Education and others. The study would help the organizations in understanding the major threats and opportunities from the BYOD policy for the organization.

KEYWORDS

Bring Your Own Device, Information technology, Threats and opportunities.

1. INTRODUCTION

Previously, employers provided desktop and laptop computers that were typically the most advanced tools to which an employee had access. With the explosion in consumer devices, including laptops, net books, tablets, smart phones, e-readers, and others, employees typically have some of the most advanced productivity tools being used in their personal lives. Employees quickly asked their IT organizations: Why can't I use these tremendous productivity tools at work? Many organizations initially rejected the idea, citing security reasons and the inability to scale to approve and support more than a small handful of devices. Bring Your Own Device (BYOD) has become one of the most influential trends that has or will touch each and every industry. The term has come to define a megatrend occurring in IT that requires sweeping changes to the way devices are used in the workplace. Many people had a desktop PC or laptop and added a mobile phone for voice calls. Mobile phones have largely been replaced with smart phones that can run applications and include Internet access and a camera. Many smart phones and tablets are as powerful and capable as laptops and PCs, enabling a new class of uses and applications.[1]

There is speculation that in the future a single device will be used for all needs: computing, communications, and applications. However today most believe there will continue to be different devices best suited to particular uses. For example, a laptop is not as portable as a smartphone, so people are likely to carry their smartphone for mobile communications. Tablets are powerful devices as well, but it is likely laptops and PCs will still be used for document creation and publishing. This means people will more likely carry and use multiple devices and less likely that a single, all-purpose device will emerge.

2. BYOD-BRING YOUR OWN DEVICE

In the consumerization of IT, BYOD is a phrase that has become widely adopted to refer to employees who bring their own computing devices – such as Smartphone's, laptops and PDAs – to the workplace for use and connectivity on the corporate network.[2] Does that mean employees pay for their own devices that they use for office work? At times yes, but the BYOD trend means much more. It means users are able to use the computing and communication devices they want to increase productivity and mobility. These devices can be purchased by the employee, purchased by the employer, or both. BYOD means any device, with any ownership, used anywhere.[3]

Mark Wilson, strategy manager of Fujitsu, said of the BYOD model that "*it did not just apply to new entrants to the workplace: it impacts many of today's mobile workers who are confused or annoyed by having separate "work" and "home" devices (PCs or phones) and who want to simplify their IT, consolidating personal and corporate computing onto the same devices.*"

2.1. ADVANTAGES OF BYOD

BYOD has become a way of life that most organizations have had to embrace. Following are some of the advantages:

2.1.1. **Increased mobility-** BYOD eases the management burden by eliminating the need to select and manage a provider and plan. There is no need to monitor employee telecom usage data for overages or other extras. In addition to the reduced overhead costs in managing a corporate phone plan, corporations also save money due to the lower costs associated with individually-managed call, data, and SMS plans. BYOD models eliminate or reduce the requirement for an IT administrator to administrate a mobile plan. Furthermore, BYOD reduces the strain on IT help desks since end-users will be primarily responsible for reaching out to their mobile provider if they need support.[4]

2.1.2. **Higher job satisfaction-** Employees are more satisfied with their jobs as they are comfortable with the devices they are using for doing their work. Since the devices are of their own choice.

2.1.3. **Improved efficiency and productivity-** Employees often are more comfortable with a personal device and become expert using it which ultimately makes them more productive. Personal devices tend to have a cutting-edge, so the organization benefits from them. Also users keep upgrading to the latest hardware and software's.

2.1.4. **Competitive advantage over others-** Organizations that have BYOD policy have a competitive advantage over other organization who do not permit BYOD or do not have a BYOD Policy.

2.2. THREATS OF BYOD: Together with the advantages BYOD poses a numbers of risks as well and some refer to it as Bring your own Danger or Bring your own Disaster. Following are the major risks.

2.2.1. **Complexity of set up-**BYOD policy has to be extensively planned before implementation. It is not just the IT department but the HR, Legal and The finance department who have to work together to give it a final shape.

2.2.2. Increased costs- BYOD not just means personal devices but can be organization owned device as well, managing those expenses becomes a huge headache and a gigantic organizational expense. A team travelling overseas, roaming the whole time and downloading large data could cost organizations thousands of dollars in mobile expenses.

2.2.3. Lack of control over devices- Network visibility is critical. In order to have control over the IT infrastructure of the organization knowledge about the devices on the network is vital.

2.2.4. Potential threats to IP address- An additional security concern is related to location information which could through the sharing of IP address

3. OBJECTIVES AND HYPOTHESES OF THE STUDY

3.1. To study the independence of demographic variables (age and gender) and industry and awareness of BYOD policy among employees.

Ho1a: The awareness about the BYOD policy among the employees is independent of the industry.

Ho1b: The awareness about the BYOD policy among the employees is independent of the age.

Ho1c: The awareness about the BYOD policy among the employees is independent of the gender.

3.2. To study the extent to which employees perceive BYOD policy to be beneficial.

Ho2a: The perception of BYOD policy to be beneficial is independent of the industry.

Ho2b: The perception of BYOD policy to be beneficial is independent of the age.

Ho2c: The perception of BYOD policy to be beneficial is independent of the age.

3.3. To study the statistical significant difference in the advantages of BYOD policy of an organization on the basis of industry

Ho3a: The advantage of increased mobility is not different for the employees on the basis of industry in which they work.

Ho3b: The advantage of higher job satisfaction is not different for the employees on the basis of industry in which they work.

Ho3c: The advantage of improved efficiency and productivity is not different for the employees on the basis of industry in which they work.

Ho3d: The advantage of competitive advantage over others is not different for the employees on the basis of industry in which they work.

3.4. To study the statistical significant difference in the threats of BYOD policy of an organization on the basis of industry

Ho4a: The threat of complexity of set up is not different for the employees on the basis of industry in which they work.

Ho4b: The threat of increased costs is not different for the employees on the basis of industry in which they work.

Ho3c: The threat of lack of control over devices is not different for the employees on the basis of industry in which they work.

Ho3d: The threat of potential threats to IP address is not different for the employees on the basis of industry in which they work.

4. RESEARCH METHODOLOGY

The results of the study have been based on the analysis of responses obtained from 506 employees from different industries. The data was collected using a self –constructed structured closed-ended questionnaire. The questionnaire consisted of questions related to demographics (age and gender), the level of awareness among employees about BYOD Policy in their organization, the perception of employees about whether BYOD is beneficial or not and 4 statements each related to advantages and disadvantages of BYOD. The responses for 4 statements of advantages and disadvantages were obtained on a 3-point scale ranging from "Maximum benefit (1)" to "Minimum Benefit (3)" and "Maximum risk(1)" to "Minimum risk(3)" respectively. They were reverse coded in case of negative statements. Firstly, the Advantages and Disadvantages scores were checked for Inter-consistency were assessed by computing cronbach's alpha. Thus, for testing the hypothesis non-parametric test Chi-square have been applied. To test the strength of dependence of variables PHI statistics have been calculated.

5. DATA ANALYSIS AND FINDINGS

5.1. RELIABILITY

Inter-consistency of the various scale items were assessed by computing cronbach's alpha. All the reliability coefficients were found to be satisfactory.

TABLE 1: RELIABILITY STATISTICS

	Cronbach's Alpha	N of Items
Threats of BYOD	0.623	4
Advantages of BYOD	0.760	4

5.2. HYPOTHESIS TESTING

5.2.1. To study the independence of demographic variables (age, gender and industry) and awareness of BYOD policy among employees. Chi-square test was applied.

TABLE 2A: CHI- SQUARE TEST FOR INDEPENDENCE OF INDUSTRY, AGE AND GENDER AND AWARENESS OF BYOD POLICY OF THE ORGANIZATIONS

Demographics		Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Industry	Pearson chi-square	1.719	4	.000		
	N of valid cases	506				
Age	Pearson chi-square	42.216	3	.000		
	N of valid cases	506				
Gender	Pearson chi-square	.623	1	.430		
	Fisher's exact test				.473	.242
	N of valid cases	506				

The above table depicts that industry, age, gender and awareness about the BYOD policy are dependent. Gender is a 2 x 2 matrix and thus, the value of Fisher's exact test has been considered. Further, to assess the strength of the dependence, Phi statistic was computed for industry, age and gender.

TABLE 2B : PHI STATISTIC

Demographic			Value	Approx. Sig.
Industry	Nominal by nominal	Phi	.583	.000
	N of valid cases		506	
Age	Nominal by nominal	Phi	.289	.000
	N of valid cases		506	
Gender	Nominal by nominal	Phi	-.035	.430
	N of valid cases		506	

The Phi statistic shows that although data reveals dependency between industry, age & gender and the awareness about BYOD policies, but, the strength of such relationship is weak and negligible.

5.2.2. To study the independence of demographic variables (age, gender and industry) and perception of employees that BYOD is beneficial, chi- square was applied.

TABLE 3A: CHI- SQUARE TEST FOR INDEPENDENCE OF INDUSTRY, AGE AND GENDER AND PERCEPTION OF EMPLOYEES THAT BYOD IS BENEFICIAL

Demographics		Value	df	Asymp. Sig. (2-sided)
Industry	Pearson chi-square	2.249	8	.000
	N of valid cases	506		
Age	Pearson chi-square	1.499	6	.000
	N of valid cases	506		
Gender	Pearson chi-square	.872	2	.674
	N of valid cases	506		

The above table depicts that gender and perception of employees that BYOD is beneficial is independent. However, in case of industry and age the dependency is depicted. Further, to assess the strength of the dependence, Phi statistic was computed for industry and age.

TABLE 3B : PHI STATISTIC

Demographic			Value	Approx. Sig.
Industry	Nominal by nominal	Phi	.667	.000
	N of valid cases		506	
Age	Nominal by nominal	Phi	.544	.000
	N of valid cases		506	

The Phi statistic shows weak and negligible dependency between industry & age and perception of employees that BYOD is beneficial.

5.2.3. To study the statistical significant difference in the threats of BYOD policy of an organization on the basis of industry, Chi- Square was applied.

TABLE 4A: CHI- SQUARE TEST FOR INDEPENDENCE OF 4 THREATS OF BYOD AND INDUSTRY

THREATS		Value	df	Asymp. Sig. (2-sided)
COMPLEXITY OF SET UP	Pearson chi-square	1.186	8	.000
	N of valid cases	506		
INCREASED COSTS	Pearson chi-square	61.405	8	.000
	N of valid cases	506		
LACK OF CONTROL OVER DEVICES	Pearson chi-square	1.079	8	.000
	N of valid cases	506		
POTENTIAL THREATS TO IP	Pearson chi-square	1.094	8	.000
	N of valid cases	506		

TABLE 4B : PHI STATISTIC

threats			Value	Approx. Sig.
COMPLEXITY OF SET UP	Nominal by nominal	Phi	.484	.000
	N of valid cases		506	
INCREASED COSTS	Nominal by nominal	Phi	.348	.000
	N of valid cases		506	
LACK OF CONTROL OVER DEVICES	Nominal by nominal	Phi	.462	.000
	N of valid cases		506	
POTENTIAL THREATS TO IP	Nominal by nominal	Phi	.465	.000
	N of valid cases		506	

The Phi statistic shows weak and negligible dependency between industry & threats of BYOD.

5.2.3. To study the statistical significant difference in the advantages of BYOD policy of an organization on the basis of industry, Chi-Square was applied.

TABLE 5A: CHI- SQUARE TEST FOR INDEPENDENCE OF 4 ADVANTAGES OF BYOD AND INDUSTRY

advantages		Value	df	Asymp. Sig. (2-sided)
ENJOY INCREASED MOBILITY	Pearson chi-square	1.324	8	.000
	N of valid cases	506		
HIGHER JOB SATISFACTION	Pearson chi-square	1.242	8	.000
	N of valid cases	506		
IMPROVED EFFICIENCY AND PRODUCTIVITY	Pearson chi-square	2.133	8	.000
	N of valid cases	506		
COMPETITIVE ADVANTAGE OVER OTHERS	Pearson chi-square	74.217	8	.000
	N of valid cases	506		

The above table depicts that all four advantages i.e. increased mobility, job satisfaction, efficiency and productivity and competitive advantage are dependent upon the industry. Further, to assess the strength of the dependence, Phi statistic was computed for threats and industry.

TABLE 5B : PHI STATISTIC

Advantages			Value	Approx. Sig.
ENJOY INCREASED MOBILITY	Nominal by nominal	Phi	.511	.000
	N of valid cases		506	
HIGHER JOB SATISFACTION	Nominal by nominal	Phi	.495	.000
	N of valid cases		506	
IMPROVED EFFICIENCY AND PRODUCTIVITY	Nominal by nominal	Phi	.649	.000
	N of valid cases		506	
COMPETITIVE ADVANTAGE OVER OTHERS	Nominal by nominal	Phi	.383	.000
	N of valid cases		506	

The Phi statistic shows weak and negligible dependency between industry & advantages of BYOD.

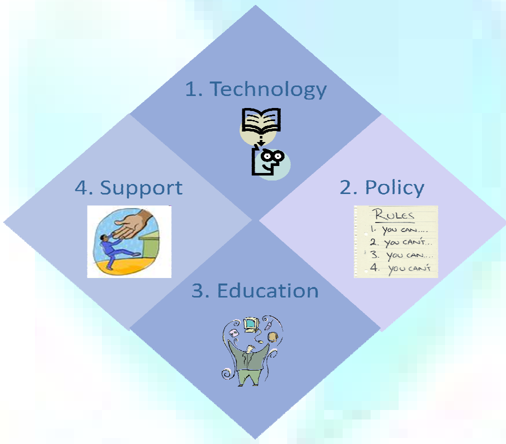
6. CONCLUSIONS

6.1. The industry, age, gender and awareness about the BYOD policy are dependent. But the dependence is weak and negligible.
6.2. The gender and perception of employees that BYOD is beneficial are independent.
6.3. The industry and age of employees show dependence with the perception of employees that BYOD policy is beneficial. But, the dependency is not strong.
6.4. All four threats i.e. complexity of set up, increased costs, lack of control over devices and potential threat to IP address are dependent upon the type industry. But the dependency is weak and negligible.
6.5. All four advantages i.e. increased mobility, job satisfaction, efficiency and productivity and competitive advantage are dependent upon the industry, although the dependency is not strong.

7. RECOMMENDATIONS

7.1. A BYOD policy should incorporates its employees' lifestyles and work habits while protecting employees and the organization from risk.
7.2. Combined efforts from HR, IT, finance, and legal teams of an organization is required to determine the best fit BYOD policy for the organization.
7.3. Educate the employees on using BYOD safely, effectively and innovatively.
7.4. Take support from IT companies while formulating BYOD Policies and use.

FIGURE 1: RECOMMENDATIONS FOR BYOD POLICY



Source: IBM (2012)

REFERENCES

1. Cisco(2012), "BYOD" retrieved from www.cisco.com/web/solutions/trends/byod.../BYOD_Whitepaper.pdf
2. http://www.webopedia.com/TERM/B/BYOD.html
3. http://www.nationmultimedia.com/technology/BYOD-trend-growing-in-Thailand-30211638.html
4. http://www.ingrammicro.com/visitor/mobility/BYOD_ConnectingtheChannelMobileWorldOpportunities.pdf

FOREIGN BANKS IN INDIA: A LITERATURE REVIEW

NEHA NAINWAL
ASST. PROFESSOR
SRI AUROBINDO COLLEGE(EVE)
UNIVERSITY OF DELHI
NEW DELHI

ABSTRACT
In response to statement by the current Governor of RBI, the study seeks to contribute to the debate relating to further deregulation of foreign banks in Indian context. The stakes in the debate are quite high and the debate need to be informed by history, theory as well as objective reality of foreign banks operating in India. In this context, the present study contributes to the debate by analyzing the evolution of foreign banks, beginning with the colonial era, up to the current period. It carries on the analysis till 2013 and concludes that foreign banks enjoy high profits despite entry of new foreign banks. Post reforms phase saw a significant rise in the number of banks after deregulation of entry was found to be accompanied by considerable fluctuations. It is not apparent how supposed benefits of entry of foreign banks will accrue to the economy in the absence of stability of new entrants.

KEYWORDS
Foreign banks, Economic History, Pre-reform, Post-reform.

JEL CLASSIFICATION
G21, N00, B15.

INTRODUCTION
Foreign banks have been demanding for a number of years that they be allowed to acquire local banks. Many visiting ministers and politicians have lobbied with the government and the RBI without much success. HSBC did acquire a stake in one of the new private banks — UTI Bank, renamed later as Axis Bank — but was curtly told by the RBI to lay off. In this context, it is significant that Reserve Bank of India Governor Raghuram Rajan announced that the central bank might finally allow foreign banks to take over Indian banks. It was, in his words (and as reported by Press Trust of India): "...going to be a big, big opening because one could even contemplate taking over Indian banks, small Indian banks and so on." The statement has provided a fresh impetus to the continuing debate on status of foreign banks in India. The current paper seeks to contribute to the debate by providing it the much-needed historical context, made possible by a very long period of operation of foreign banks in India. After all, the stakes in the debate is very high and the debate needs to be firmly rooted in history of foreign banking in India, theory of international banking and the objective scenario relating to operation of foreign banks in India. After all, there exists a voluminous literature arguing against deregulating foreign banks in emerging countries. In India as well there are studies (Charvaka, 1993; Vishwanathan, 1993; Deb, 2010; Murthy and Deb, 2011; Deb and Murthy, 2012a; Murthy and Deb, 2012b), which argue in favour of preserving the status quo for foreign banks in the country.

In the context of the debate, the objective of the present paper boils down analysis of the evolution of foreign banks in India since their inception with special reference to the present era of globalization of the banking industry. While the period covered by the chapter is long enough, it may be analytically useful to classify the period in three phases: the period till independence, the post WTO phase and the intervening period. Such a distinction may be rationalized on the basis of the policy regime followed during the said phases. A lasseiz faire policy followed during the period till independence gave to a stable phase of restricted policy regime for foreign banks, which in turn was replaced by a liberalized set of policies in the post reforms phase.

PLAN OF THE PAPER
Section I provides a glimpse of the extant literature. Section II is an account of evolution of foreign banks till independence of the country. Section III provides a brief outline of the policy regime relating to foreign banks till the onset of reforms. Section IV looks into a post reforms phase in the development of foreign banks with the help of statistical tools and graphs. This will provide the recent shape of foreign banks in the country with a view to carry forward the debate about foreign banks in near future. Section V provides the summary and conclusions.

SECTION I: REVIEW OF LITERATURE
Foreign banks operating in India have received scant research attention in the literature on banking. History of foreign banks has been reviewed by Panandikar and Mithani (1966) followed by Karunagaran (2006). Karunagaran (2006) provides an analysis of foreign banks in India in the colonial period based on descriptive analysis of data devoid of any theoretical framework and econometric analysis. However, Panandikar and Mithani (1966) is an excellent source for analyzing role of foreign banks in colonial India and our next section will be mainly based on the study.

Apparently, the earliest attempt to analyse the potential role of foreign banks in independent India was made by Viswanathan way back in 1993, the year in which Narasimham Committee Report (1991) was implemented. Viswanathan (1993) contributed to the literature through a critical assessment of foreign banks through a reference to experience of other countries with regard to foreign banks. She argued that the role of foreign banks in issuing and underwriting securities must be regulated to the extent necessary to ensure that the interest cost of obtaining financing directly on the capital market does not lead to an external debt burden in India similar to that which plagues Latin America.

Viswanathan (1993) further argues that new innovations in securitised lending involve off-balance sheet transactions, which are not subject to the controls imposed on banks' balance sheet business. Under short-term notes or NIFs, a bank arranges to purchase an issuer's unsold notes at a price. NIFs involve contingent commitments, which generate fee income for banks, but are not captured as assets or liabilities on bank balance sheets under conventional accountancy procedures. NIFs are therefore off-balance sheet transactions, which avoid the regulatory constraints imposed on banks' balance sheet business. New innovations in securitised lending involve off-balance sheet transactions, which are not subject to the controls imposed on banks' balance sheet business. Under short-term notes or NIFs, a bank arranges to purchase an issuer's unsold notes at a pre-arranged price. NIFs involve contingent commitments those generate fee income for banks, but are not captured as assets or liabilities on bank balance sheets under conventional accountancy procedures. NIFs are therefore off-balance sheet transactions, which avoid the regulatory constraints imposed on banks' balance sheet business. Because they are not reported on balance sheets, off-balance sheet transactions make it difficult to determine the risk exposure of various sectors of the economic structure. Off-balance sheet activity may grow at rates, which exceed the capital of banking institutions and financial intermediaries. It may be remembered that it was the capital constraints faced by transnational banks in the early 1980s, which led to widespread off-balance sheet activity. Therefore, regulatory procedures must be developed which ensure that intermediation of the new financial innovations in international securitised lending by foreign banks in India does not expose the financial system to excessive risk.

Viswanathan (1993) should be credited with the fact that it underlines for the first time the significance of a discussion on off balance sheet activities in an evaluation of role of foreign banks in India. She sounded a note of caution to the policy makers' way back in 1993. The study due to Viswanathan appears to be the initial study relating to foreign banks operating in India. While it does not provide a theoretical framework or tests any hypotheses with a rigorous methodology, it raises a few apprehensions about the role of foreign banks on very valid grounds at a time when Dunkel draft was being made. The apprehensions expressed by the author have provided valuable directions for future research.

Next in line is a study authored by Charavaka (1993), which draws our attention to the mind-boggling levels of income and profit allowed to be earned by branches of foreign banks in India, largely from non-operating sources. Such, a phenomenal profit of foreign banks operating in India is termed by the author as Drain of Wealth.

The study used bank wise data relating to 1991-2 and 1992-93, which have been presented in two monographs by the Indian Banks' Association on the performance highlights of public sector banks and foreign banks in India. The author prepared a table based on the above data set, which shows that the profit levels of foreign banks have been vastly disproportionate to the their deposits. This leads Charvaka to look for reasons behind such phenomenal profits of foreign banks.

Charvaka argues that one should not grudge it if the foreign banks earn higher profits from genuine banking operations because of their superior operational efficiency. In fact, the bulk of their earnings are from treasury operations, from so-called portfolio management and from lending in the money. Market non-deposit resources mobilised essentially from other banks, financial institutions and public sector undertakings. While portfolio management operations are an off-balance-sheet activity, the inter-bank borrowings of some of the foreign banks are disproportionately high. Another aspect of public policy which has favoured the foreign banks is the extremely limited social obligation (such as priority sector lending) that they have been required to shoulder In sum, Charvaka concluded that the profits earned by the foreign banks, the bulk of them at any rate, are predatory in character not based on genuine banking operations.

The next studies contributed relate to Deb (2010), Murthy and Deb (2011) and Deb and Murthy (2012a, 2012b). Deb (2010) developed a rather rudimentary eclectic approach to analyse the affairs relating to foreign banks in India and argued in favour of preserving the status quo o the basis of econometric evidence. It was left to Murthy and Deb (2011) to develop a conceptual framework for analyzing corporate governance in foreign banks and commented adversely on corporate governance in banks. They ruled out further deregulation of foreign banks on the plea of better governance. Deb and Murthy (2012a) also conducted extensive empirical exercises this paper clearly establishes that foreign banks in India follow a distinct business model which consists of a high exposure in off-balance sheet activities, a tendency to be footloose and fair-weather friends, practice exclusive banking. The same authors developed a full-fledged framework in Deb and Murthy (2012b) based on Institutional Economics to analyse conduct of foreign banks in India and concluded against further deregulation of foreign banks in India.

SECTION II: FOREIGN BANKS IN INDIA: LAISSEZ FAIRE POLICY TILL INDEPENDENCE

The issue related to the development of foreign banks in colonial India in a completely laissez faire situation and the impact of foreign banks on development of banking in its initial period deserves severe attention. During the colonial period, the term which was generally used for foreign banks in India and China were exchange banks in Western countries and the primary function of these banks was concerned with providing a financing facility for trade in India and china, and other the countries which are characterized by without a gold standard, having extensively fluctuating exchange rates. Supernatural profits in banking lured the nationals from a number of countries having trade relations with India to establish banks in India. They may be bifurcated into two groups: those with a substantial proportion of business in India and agencies of large banks with a major business abroad. The section will analyze the development of foreign banks in the colonial period and also analyze the factors that affected the course of their development. It also involves evaluating the contribution made by foreign banks to the development of the banking industry in the country.

The core area under which exchange banks retained their monopoly till independence was financing foreign trade. Until 1955 the Imperial bank was barred by law from dealing in bills of exchange outside India. However Indian joint stock banks were lies in exception zone. Some of them were substantially engaging in the said business. There are multiple forces which were working behind monopoly of the foreign banks over the business of financing foreign trade and therefore serve as a difficulty for the Indian banks to stand up with the competition facing from the stronger banks. These banks had a competitive advantage of larger capital and reserves as well as access to large funds from London Discount market at low rates over Indian banks. On the other hand, Indian banks are not able to involve in arbitrage process and direct exchange transaction as they had few branches at important foreign exchange centers. Lastly, internal business more or less fully absorbed their limited financial resources.

Another prominent function played by the exchange banks was financing the movement of goods from or to Indian ports, to or from the distributing, or collecting centers in the interiors of India through opening branches in up-country centers. Other ways which are used to obtain a footing in the interior was by controlling Indian joint stock banks through the purchase of their shares which led to the reduction in the Indian banks to exchange bank branches for all practical purposes. The movement of goods between them and the ports has to be financed by importers and exporters through Indian joint-stock banks or other agencies as there is an absence of any branches of the exchange banks in up-country centers. However, exporters and importers were in favour of using up-country branch of an exchange bank because they provided cheaper services.

While on the one side financing foreign trade was almost a monopoly and other side exchange banks involved in every kind of banking business in which they had to compete with the Indian banks. A large number of areas in which competition spanned were the provision of advances, mobilization of deposits, negotiation of bills and financing of internal trade in the country and undertaking of agency business in India. They succeeded in attracting very large deposits in the country, through judicious use of the rate of interest on fixed and current account, which was very higher than their requirement for financing foreign trade. As this would lead to a larger deposit, foreign banks entered into new lines of business which was earlier solely done by Indian joint stock banks. Therefore there was further expansion of activities of foreign banks during the Second World War when restrictions were imposed on foreign trade. During this whole period, foreign bank offered a serious competition was faced by Indian banks in financing internal trade which was at least 15 times as large as the foreign trade. On the other hand, though the Indian joint stock banks were trying to get business in foreign trade and foreign exchange, it was practically a monopoly of the foreign banks until the Independence of India, despite some attempts on the part of some Indian joint stock banks.

Since the foreign banks exposed to the risk of fluctuating exchange rate, the same was largely eliminated by the setting up of Sterling Exchange Standard as well as by the process of conversion, by which cautious bankers almost balanced their sale and purchase of foreign exchange. They also started gradually to develop their internal business, which some of them found more profitable than their exchange business, Apart from having riskless and profitable business of foreign exchange. Therefore over a period of years, They developed as wealthy concerns, doing profitable business and paying substantial dividends from year to years irrespective of global depression between the two world wars. The profits were reflected in a number of purchases of domestic banks, absorption of banking business and acquisition of controlling interest in financial companies and an increase in the number of Indian branches from 69 in 1960 to 90 in 1964.

Interestingly, while on the one side profits led to the substantial expansion in the operation of the foreign banks but it did not lead to any entry, as may be expected in a market. This was an exception to what was happening in the other part of the banking industry, where domestic private players were operating. Although foreign banks play a very important function to the economy through financing of foreign trade, which was beyond the capacity of domestic banks for a number of reasons during the colonial period, they have also able to create entry barriers by building a strong goodwill for themselves . This prevented the emergence of competitive forces in the market. In spite of the fact that the government followed an open door policy for three quarters of a century, the fewer number of foreign banks present due to the opposition from existing banks regarding to entry of new banks. It was exceedingly difficult to start a new exchange bank except under the aegis of some important financial house, which has already established a strong position in India. The bank of America could establish a branch in the country in 1961 because it is one of the largest and most powerful banks in the world.

During the British Regime, Foreign banks operated in Indian under a situation of complete freedom. They were not subject to any legal restrictions in India including the statutory obligations to which the Indian joint–stock banks have been subject to. The controlling part of these banks was done from abroad, their directors and shareholders were foreigners and there was no statutory compulsion on them to get their accounts audited by recognizing auditors. As, they also did not obligated to publish separate information regarding, their Indian business in their balance sheet, so transparency about their business was nil.

The Indian money market was subjected to various weaknesses in a complete laissez-faire for foreign banks in India. On the one side they are able to obtain a large chunk of fund from India but these funds were not secured by any regulations and at the same time, the depositors had no priority claim even on the assets of these foreign banks at the time of any crisis. The second weakness relates to the fact that foreign banks worked on the basis of inadequate cash reserves in India. As high opportunity cost was associated with keeping high reserves. Thus the main reason of crisis of banking in India at the beginning of the First World War was the inadequacy of cash reserves of these banks. Learning their lesson they started keeping a larger proportion of reserve for a few years but again the proportion decreased in order to make large profits. They argued that although they were maintaining low cash reserves, they had enough liquidity in the form of investments in Government securities and treasury bills.

The foreign banks had a virtual monopoly in the area of financing of the foreign trade of India. These banks generally collected funds in the form of deposits from India and used the same to finance foreign trade. Since the major portion of the deposit was captured by the foreign banks leading to deprivation of trading profits by Indian banks. Similarly The profit earned by the foreign banks in India from brokerage on goods shipments, on currency exchange, on insurance, on freight obtained and on short term loan to traders were also moved out of the country to the foreigners who have major share of these foreign banks. Therefore the foreign banks in India used to create a negative image of Indian commercial houses before the foreign traders and simultaneously provided enhanced images of foreign houses operating in India even with low standing. The reason for this difference was that being a foreigner, the managers of the foreign banks was not able to keep themselves in close touch with their Indian clients. As they had lack of social contact with Indian client, they had to rely upon the reports of the subordinate members for information regarding their financial standing. Therefore overseas exporter started following discriminating practice by overseas towards an Indian importer. It is argued that the main reason for showing reluctance behavior by the overseas exporter to grant favored status to Indian importer is due to indifferent references supplied to them by foreign banks. While the majority of foreign commercial houses were allowed to import goods at credit terms, Indian merchants were allowed to do so, on cash transactions alone. This symbolized that the former enjoys the extensive credit, while the latter is restricted to business on cash basis alone. Interestingly, while foreign banks finance foreign trade, they not only acted against the interest of Indian exporters as well as importers. They also did not provide a level playing field for Indian commercial houses vis-à-vis foreign commercial houses involved in international trade. It may be argued that foreign banks engaged in to boost up asymmetric information between buyer and seller in international market. Since Foreign export houses working in India have connections in abroad and they were able to obtain market information about India from foreign banks. But the Indian exporters lacked proper information regarding the markets.

The sterling bills were used to finance a large part of the export and import trade. With regard to the export trade Indian exporters were allowed to draw bills on the London Money Market (LMM) and availed discount facilities provided by it. However, with regard to import trade, Indians did not get benefits of London discount market and they were denied the benefits of Indian markets also as their bills were drawn in sterling. Foreign import houses got the advantages of drawing bills on the London offices of the foreign banks which accepted them and discounted in the London market at the low rate. The shipping documents were sent to Indian offices which thus got a benefit over their Indian competitors. The latter was denied this advantage on the ground that they have no London offices.

The development path of Indian joint stock banks was adversely affected by the foreign bank as they had a monopoly over financing of the foreign trade of India. The import bills are drawn in sterling in the case of imports from Europe and the U.S.A. and in yens in the case of imports from Japan. These bills, of a very large value in the aggregate, were very safe investment, as they were on credit and had the signature of the drawers and the acceptance of the drawees on them. They were also a profitable investment, because the foreign banks earned interest on them at 4 per cent at least for a period of 2 to 3 months. But being drawn in foreign currency, the bills were rendered useless in the money market in India. This facility was not available to the Indian banks for investments, and the foreign banks had an exclusive monopoly over the same. It may also be said that functioning of foreign banks led to classification of the Indian money market into two parts: the European and the Indian component. As foreign banks had an easy access to the London money market led to the development of a dual structure of the Indian money market during the British rule and this undermined the control by the government.

Another dimension of working of foreign banks in India, which is so significant for development of the banking industry, is related to adverse development of indigenous banking skill. While foreign banks in India have been working almost a century, no Indian was appointed in the superior grade of services. Indians were offered only lower level job like the job of cashiers, clerks and other lower posts. In fact, they had made no mechanism for selection of qualified Indians as apprentices for training and appointment in the grades of officers. They preferred appointing their officers from abroad paying them high salaries. Indian banking experts and intellect were thus refused managerial and executive jobs to which it had every right in the sense that the foreign banks used to receive a huge portion of their profits from Indian customers and depositors.

An objective of our analysis is to know both the positive and negative impact of working of foreign banks on development of the banking industry in India. They significantly played vital role in financing foreign trade at a time when Indian joint stock banks were not capable of providing such a service. This led some growth of foreign trade in India, which was regarded to be very crucial at the time when domestic industries were being destroyed through various omissions and commissions. In a grim situation where major portion of the Indian working force was being pushed to already over-burden agricultural sector, the foreign trade sector was growing and provided new jobs. This is a very important contribution of the foreign banks in India during the colonial period. Though foreign banks played an important role in promoting the foreign exchange business, foreign trade-related financing and bills discounting, etc, they were always criticized to be more favourable to European traders at the cost of Indian business interest. For instance, the Indian traders unlike the European businessmen were required to deposit 10 per cent to 15 per cent of the value of the merchandise with them to open a confirmed letter of credit. Further on one side they were able to made inroads into areas exclusively dominated by Indian joint stock banks but this also brought some major improvements in the functioning of the Indian joint-stock banks. Due to this reason, some Indian joint stock banks entered successfully in financing foreign trade. Although the dominance part of the foreign banks remained intact until the Independence of India, despite the efforts made on the part of some Indian joint stock banks.

While financing foreign trade was a riskless and highly profitable activity, as theory suggests excess profitability did not encourage entry. In spite of the fact that government followed an open door policy for three quarters of a century, due to the opposition to the entry of new foreign banks by the existing banks the number of foreign banks remained small. Alongside, entry barrier created by foreign banks in terms of strong goodwill led to the perpetuation of their monopoly in financing foreign trade. Clearly the market for financing foreign trade in which foreign banks had dominance was very imperfect. In order to preserve their monopoly over the financing of foreign trade, they created serious hurdles in the process of development of indigenous joint stock banks through various means. They produced information asymmetry in the market for exports at the cost of domestic exporters. The easy access to the foreign banks to the London money market led to the development of a dual structure of the Indian money market during the British rule. Foreign banks, while financing foreign trade, acted against the interest of Indian exporters as well as importers. They did not provide a level playing field for Indian commercial houses vis-à-vis foreign commercial houses engaging in international trade. They reaped the fullest advantage of a situation of laissez faire and conducted their operations with zero transparency. Last but not least, they produced an adverse impact on the development of indigenous banking skills necessary for development of the banking market in the country.

SECTION III: FOREIGN BANKS: THE PRE-REFORMS ERA

A general distrust of foreign capital by policy makers in newly independent countries was the norm in the early era of policy making. India was no exception. The distrust extended to market mechanism as an instrument of economic development in the early attempts towards the development of the third world. The policy makers sought to use a public sector dominated inward looking development model to deliver the goods. Banking was no exception. There occurred two episodes of nationalization in 1969 and 1980, which severely curtailed private stakes in banking in the country. The policy regime which did not favour domestic private capital in banking in the country remained hostile to the participation of foreign capital in banking.

SECTION IV: FOREIGN BANKS: THE POST REFORMS ERA

Until the mid-1990s, the banking systems in most of Asia remained heavily regulated, and barriers to foreign competition were prohibitively high. However, in the aftermath of the East Asian crisis of 1997-98, financial sector restructuring, including the revamp of the financial regulations, has been an important element in the structural adjustment programmes in Indonesia, Korea, Thailand and the Philippines. Broadly, governments in the crisis-hit regional economies have restructured their financial systems by shutting down commercial banks and finance companies, merging some existing institutions and nationalizing others, injecting public funds to recapitalized viable banks, putting in place systematic asset resolution strategies, as well as easing regulatory impediments to foreign bank entry.

After a period of relatively robust performance in the late 80's, the Indian economy entered into a period of unprecedented liquidity crisis during 1990-91. The macroeconomic crisis was precipitated mainly by the growth of public spending through 1980s that increased the budget deficit as a proportion to GDP, while external factors played a contributory role. The macro imbalance, fueled by a budget deficit and financed by external borrowing and decumulation of reserves was accompanied by accelerating inflation to double digit levels. The macroeconomic crisis became the occasion for undertaking substantial microeconomic reforms, known as structural reforms. They were broadly in the area of industrial licensing and regulation, foreign trade and financial sector. The structural reforms were undertaken in July 1991 at the behest of the IMF, which sanctioned $2.2 billion as stand-by credit to India.

As a precursor to financial sector reforms, Narasimham Committee was set which submitted its report in 1991. It suggested that the policy towards foreign banks be made more liberal through creation o level playing field for foreign banks. While structural reforms and Narasimham Committee (1991) set the tone of a liberal policy towards domestic and foreign capital in the economy. A proximate cause of liberal treatment of foreign banks has been the World Trade Organization Agreement on Trade in Financial Services which requires gradual easing of restrictions on foreign banks.

The nature of entry policies relating to foreign banks changed favourably after India ratified the agreement establishing the WTO in December 1994. Its original schedule in the Financial Services Agreement committed foreign bank presence only through branches at the rate of five licences per year. It denied the entry of foreign banks if the market share of assets of foreign banks exceeds 15 percent of the total assets of the banking system. It treated an ATM outside branch premises as a separate branch. India also invoked an MFN exemption in all areas of financial services meaning that it offers are based on reciprocity. India offered to improve upon some of its commitments provided its major trading partners were also prepared to make substantial improvements in their stance on the movement of natural persons. It was felt that India possessed a fair advantage in the availability of skilled manpower in several hi-tech areas such as computer software, engineering consultancy, etc. and it was in India's interest that free movement of these personnel was allowed into the developed markets abroad. India's improved negotiating brief included a liberalized policy on ATMs (i e, an ATM will not be treated as a separate branch) and increasing the number of new branches to eight. In the negotiations that took place in June1995, India's major trading partners made the following demands on India: –India should lift its MFN exemptions if other members do the same. – India should increase the number of licences and provide a gradual increase in the market share on assets of the foreign banks. – Market share itself should be defined assets or total assets on and off the balance sheet. – Subsidiaries and joint ventures should made an effort to capture the openness of a country's current and capital account in their openness index, as this has a bearing both on the possibility of cross-border trade in financial services and the conditions for establishing foreign commercial presence.

In the context of the above regulatory changes in favour of foreign banks, let us look at certain aspects of evolution of foreign banks in the country. Although policy towards foreign banks took a favourable turn in 1994 we extended the time period for analysis a little backwards to 1992. It may be remembered Narasimham Committee was constituted in 1991, whose recommendations about the liberalizing banking industry were implemented in 1993. Such an exercise will be of some use to future researchers to put our results relating to foreign banks in a comparative prospective. The years 1992 and 1993 immediately proceed 1994, which saw no change in the number of foreign banks. This serves as a background against which changes in number of foreign banks over time will be analyzed. Table I provides the number of foreign banks over the time period 1992-2013

TABLE I: NUMBER OF FOREIGN BANKS DURING 1992-2013.

Year	Number of Foreign Banks (NFB)
1992	25
1993	25
1994	23
1995	27
1996	31
1997	40
1998	42
1999	44
2000	42
2001	42
2002	40
2003	36
2004	33
2005	31
2006	29
2007	29
2008	28
2009	31
2010	32
2011	34
2012	41
2013	43

SOURCE: RBI, Statistical handbook of RBI

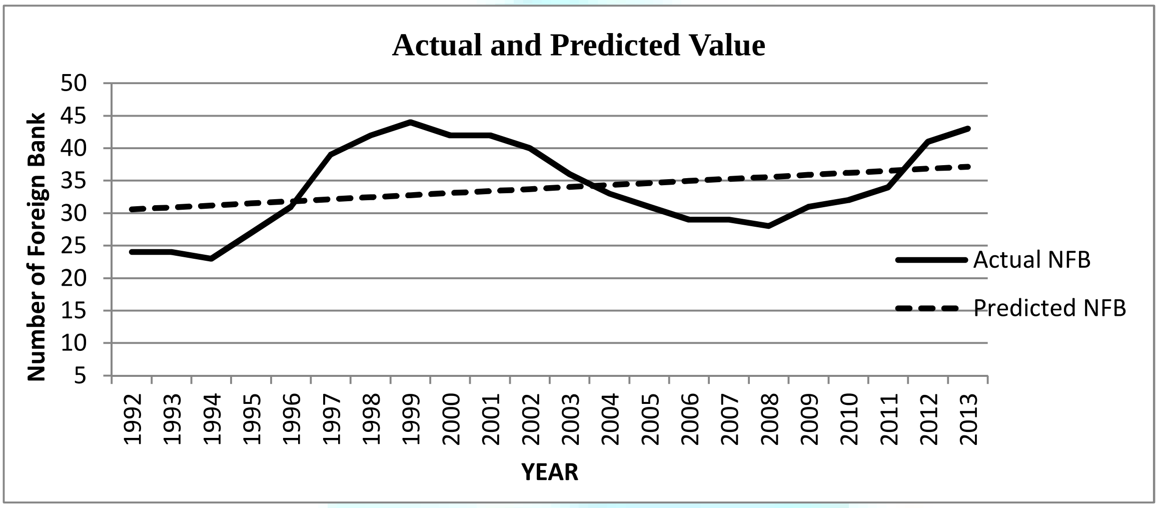
A cursory look at the above table reveals that, the number of foreign banks rises during the first half of the period and then falls during the latter half but again rises at the end of later half gradually. It appears from the above data that a number of new foreign banks entered after being enthused by the new liberal policy, but started withdrew after the new scenario was exactly not in accordance with their expectations. However they again started to enter at the end of the later half century, as the whole world is suffered by the global financial crisis and India is in a much better position than other part of the world in terms of financial soundness. It will be a very interesting exercise to analyze these new banks, their source countries and how they are different from the foreign banks who remain committed to India. These detailed bank level issues will be taken up in the next chapter, while the current chapter will provide a broad analysis at the level of the industry.

Let us statistically examine growth in foreign banks in the country.

TABLE II: REGRESSION RESULTS RELATING TO NUMBER OF FOREIGN BANKS DURING 1992-2013

Regression Statistics					
Multiple R	0.2987				
R Square	0.0892				
Adjusted R Square	0.0436				
Standard Error	6.6619				
Observations	22				
ANOVA					
	Df	SS	MS	F	Significance F
Regression	1	86.9635	86.9635	1.9594	0.1768
Residual	20	887.6273	44.3813		
Total	21	974.5909091			
	Coefficients	Standard Error	t Stat	P-value	
Intercept	-593.6843	448.3124	-1.3242	0.2003	
YEAR	0.31338	0.22387	1.3998	0.1768	

FIGURE I: PROVIDE THE GRAPH RELATING BOTH THE ACTUAL AND THE PREDICTED VALUES OF NUMBER OF FOREIGN BANKS (NFB) DURING THE TIME PERIOD 1992-2013



After looking how the number of foreign banks was evolving during the 1992-2013. Let us look at some of their conduct and performance variables during the said period. We begin by looking at variables relating to conduct: provisioning behaviour, interest income, spread, interest expenditure and Intermediation cost. Table II provides each of these variables in the above order.

SECTION V: CONCLUSION

The objective of the chapter was to analyze the evolution of foreign banks in India through different phases. The chapter rationalizes discussion of the process of evolution in three distinct phases. The first phase runs up to independence, the second relates to pre-liberalization period and the third may be christened as the post-reforms period. During the first phase, it is observed that foreign banks carried on a virtual monopoly in a very profitable business with no transparency and negligible risk, defended their monopoly against domestic as well as foreign competition through various means, created an adverse impact on the development of the banking market through thwarting development of local banking talent, while undermining the authority of the central bank. However, it needs to acknowledge that they played a very significant role in financing foreign trade at a time when Indian joint stock banks were not capable of providing such a service. In the second phase, the policy regime in the country remained hostile to the participation of foreign capital in banking. The third phase with its liberal policy regime introduced a fair amount of dynamism in the industry. Post reforms phase saw a significant rise in the number of banks by more than 70% of what was in the beginning of the time period of the study. However, such a rise was found to be accompanied by considerable fluctuations. It is not apparent how supposed benefits of entry of foreign banks will accrue to the economy in the absence of stability of new entrants

REFERENCES

1. Bhanu Murthy, K. V. and Ashis Taru Deb (2011) ,"Corporate Governance in Foreign Banks in India in Corporate Governance in Banks", edited by Mridula Sahay, S. Sreenivasa Murthy and R.K. Mishra, *Macmillan Publishers India Ltd*, Macmillan Advanced Research Series, New Delhi.
2. Bhanu Murthy, K.V. and Ashis Taru Deb (2012a)," Foreign Banks in India: Keeping the Bank Street Dull in Contemporary Challenges for the Indian Banking Sector" edited by Mishra, R.K., Murthy, Sreenivasa S. and Kiramai, J. *Bloomsbury Publishing Private Limited*, New Delhi.
3. Charvaka (1993), "Foreign Banks in India: The Drain", *Economic and Political Weekly*, January 30, pp 155-57.
4. Deb, Ashis Taru (2010) ,"Status Quo For Foreign Banks: In Defense of the Current Monetary Policy", Paper presented at 46th Indian Econometric Conference, held on 4th to 6th March.
5. Deb, Ashis Taru Deb and K.V. Bhanu Murthy (2012b)," Institutional Economics: An Approach Towards Analysis of Conduct of Foreign Banks in India", Paper presented in World Finance Conference in Shanghai, China on 17th and 18th December, 2012.
6. Karunagaran, A. (2006)," Foreign Banks in Historical Perspective", *Economic and Political Weekly*, 41(11), pp. 1087-1094.
7. Panandikar, S.G. and Mithani, D.M. (1966)," Banking in India", New Delhi: Orient Longman.
8. Vishwanathan, Aparna. (1993)," Foreign Banks: Need for Control", *Economic and Political Weekly*, March 22-27, pp 503-04.

COST–BENEFIT ANALYSIS OF BUS TRANSPORT IN KUMBAKONAM REGION OF TAMIL NADU

DR. C. KUMARAN
ASST. PROFESSOR
THIRU.VI.KA. GOVERNMENT ARTS COLLEGE
TIRUVARUR

ABSTRACT

The study analyzed the costs involved in the operation of bus services of the TNSTC Kumbakonam Division I and benefits extended to its passengers. The study reveals that the TNSTC Kumbakonam Division I has been rendering good services to the public in their operating area despite certain limitations. But the passengers in the study area were not satisfied with the operating and service efficiency of the study unit as there exists a big gap between the expectations and perceptions of the passengers. The study suggests that mini buses may be operated in large number and more frequently to fulfill the transport demand of the commuters and to minimize revenue losses. Instead of sticking on to the scheduled times, the operation of the buses be budgeted on zero base, wherever there is no competition from private operators. The Corporation may think about diversification of business in the lines of courier service, parcel service along with regular bus service to improve its revenue as these lines are highly potential. The Corporation can allow the sites both inside and outside the buses suitable for advertising to gear up the non operating revenues. The number of Non-stop buses without conductors is to be increased to minimize losses. Conducting frequent training programmes, for crew members will improve the quality of services and cordial relationship between the crew and the passengers. Besides rendering service to the people by extending bus services to economically unviable routes, it should also endeavor to earn profit by increasing the bus fare atleast to cover the total fixed and operating costs and to fulfill the expectations of its stake holders and to emphasis more on Passenger - Friendly services.

KEYWORDS
bus transportation, Kumbakonam.

INTRODUCTION
Transport plays a crucial role in the economic development of a nation and the social and cultural life of its people. It provides a vital link between production centers, distribution areas and the ultimate consumers. There are five principal modes of transportation in India, i.e., rail, road, air, ocean and inland water transport. In road Transport, the bus transport is the primary mode which provides effective link to each and every part of the country.

TAMIL NADU SCENARIO
The nationalization of passenger road transport service in Tamil Nadu commenced with the takeover of all routes in Madras city in 1948. At present there are 8 State Transport Undertakings functioning under the administrative control of the transport department. These undertakings with a fleet strength of 21,169 buses provide one of the largest network of bus services in the country.

TNSTC KUMBAKONAM DIVISION I
The present study relates to Tamil Nadu State Transport Corporation, Kumbakonam Division I. This Corporation came into existence on 1st March, 1972 with its head quarters at Kumbakonam.
The objective of the Corporation is to provide efficient, economical and coordinated transport facility to the public in the jurisdiction of Thanjavur, Nagapattinam and Thiruvarur Districts.
Presently the Corporation is operating with a fleet strength of 1,246 buses in these districts. About five lakh rural passengers per day are benefited in Kumbakonam Division I by this transportation.

PROBLEM OF THE STUDY
At present, the transport services in rural areas do not meet all the requirements of the passengers up to the expected level due to many reasons. The passengers face a number of problems caused by Corporation, crew and co-passengers in connection with their traveling. Ultimately these problems dissatisfy the rural passengers very much. Similarly the Corporation has to encounter a lot of problems in running rural services. The rural road conditions are not as good as towns. Moreover, plying of services in sparsely populated rural areas results in low efficiency and uneconomical return to the Corporation. Ultimately the State Road Transport Corporations are running in heavy losses.

OBJECTIVES OF THE STUDY
The present study has been taken up with the following objectives
1. To analyze the costs involved in the operation of bus services of the TNSTC Kumbakonam Division I and benefits extended to its passengers.
2. To examine the problems of the bus passengers that they encounter while traveling in the buses in TNSTC Kumbakonam Division I.
3. To investigate the problems of the service provider, TNSTC Kumbakonam Division I.
4. To assess the level of satisfaction of the passengers over the bus services offered by the TNSTC Kumbakonam Division I.
5. To make suggestions to ensure satisfactory bus services by improving the functioning of the TNSTC Kumbakonam Division I a 'Passenger-Friendly' one.

In the Cost – Benefit Analysis, Cost analysis is carried out in the study with the help of various components of cost data for the past 20 years and Benefit analysis is carried out in terms of passenger satisfaction.

METHODOLOGY
The study is empirical in nature. Both primary and secondary data were used in the study. Secondary data were collected from a wide spectrum of sources such as books, magazines, Government Reports, Records of TNSTC and Websites of various transport organizations. **The Primary data** were collected from the passengers conducting sample surveys using structured, pre-tested interview schedule.
POPULATION OF THE STUDY: The population of the study constitutes the total number of passengers using TNSTC buses in the study area. The passenger population is infinite one.
SAMPLES FROM PASSENGERS: From the lists of bus routes from the 20 selected branches of the Corporation 20 routes were selected at random. 20 passengers were selected at random in each route giving due weightage to different age groups. Thus, a total of 400 sample passengers were selected conveniently using stratified random technique.

LIMITATIONS OF THE STUDY
The study has been confined to the TNSTC Kumbakonam Division I only. The study is restricted to services marketing in terms of cost benefit analysis only and nothing is discussed regarding human resource management, financial management, material management etc., of the Corporation.

COST ANALYSIS

In case of road passenger transport undertakings the cost of operation of service consists of material cost, personnel cost, motor vehicle tax, depreciation cost, interest cost, and other sundry costs. These cost elements are grouped as variable cost. The fixed cost consists of personnel cost, motor vehicle tax, depreciation cost and interest cost.

BENEFIT ANALYSIS

Being a Public Utility Corporation, the TNSTC has to be reviewed by the utility it has extended to the general public. So, the benefits are the transport services offered by the Corporation and the beneficiaries are the general public. So, to analyse the benefits derived from the Corporation, the beneficiaries are surveyed and their opinion in terms of satisfaction levels about the services, (the benefits) are recorded.

FINDINGS OF THE STUDY

Cost of Operations: The rising cost of operations on account of increasing prices of inputs without matching increase in fares, Inefficiency in operations, constraints of financial resources, organizational inadequacies, procedural delays, shortage of essential materials, etc. were enlisted as the problems encountered by the Corporation in discharging its services.

Reasons for Loss: The TNSTC Kumbakonam Division I has been incurring losses due to various reasons such as hike in the price of diesel, tyres and tubes, spares etc., increased fixed cost due to increase in the wage bill, quarterly tax of town buses and cut throat competition from the private operators.

Inadequate Service: The problem**s** with respect to the Corporation include the problems of inadequate services, poor conditions of buses in rural routes, and unreasonable waiting time at bus stops.

Regular Commuters: Students and employees, being the regular commuters, are only 28.25 per cent in the study area. Labourers and businessmen constitute nearly half of the total passengers.

Average Distance Travelled: 78.75 per cent of the total passengers travel only a distance of less than 20 Kilo meters. The average distance travelled per passenger is 13.33 km only.

Passenger Comforts: The overall satisfaction of the respondents is negative as majority of them (56 per cent) were dissatisfied with it. The adult group is the most dissatisfied group.

Punctuality and Regularity: 58 per cent of the respondents were satisfied with punctuality and regularity of the bus services operated in the study area.

Safety and Reliability: 56.50 per cent of the total respondents were dissatisfied with the safety and reliability measures provided in the buses operated in the study area.

Satisfaction with Crew: 55 per cent of the respondents were dissatisfied with the crew members.

Social Responsibility: 55.75 of the total respondents were satisfied with the social responsibility of the bus operators in the study area.

SUGGESTIONS

To Clean Better: The Corporation shall pay due attention to clean the buses and water service them regularly and properly. The rate fixed for cleaning buses may be increased so as to attract the cleaners who are doing the work on contract basis.

To Arrange Seating Comfortable: The Corporation shall see that the seats in the buses are well designed, suitably sized and adequately cushioned to suit all the categories of passengers especially old people.

To Improve Ventilation Facility: The Corporation shall instruct the body building units to design the body of the buses with adequate ventilation facility. Air coolers may be fitted in the buses to improve airflow inside the buses.

To Make Mobility of Window Shutters: The sideways moving windows may be replaced by upward or downward moving windows.

To Avoid Foot Board Travelling: The Government shall take steps to eradicate food board travelling which is illegal. There are court orders not operate buses without doors, but still buses are operated without doors. If doors are fixed, there is no room for foot board travelling.

To Control Cancellation of Services: The Corporation shall see that no one night or early morning service be cancelled. Whatever be the reason, the scheduled trips should not be cancelled particularly during nights especially in single route services.

To Ensure Spare Bus Service: The Government shall take steps to ensure spare bus services during regular vehicles are kept away from their routes. Permits be granted only to these operators, who are capable of operating spare bus services without cancelling trips.

To Ensure Safety Provisions: The Government shall see that safety provisions are ensured in the buses. Emergency exit must be provided in all the buses.

To Control Speed: Speed control devices must be fixed in all the buses.The Government should strictly implement the orders already passed in this regard.

To Minimize of Revenue Losses: Linking remote area with feeder services and trunk roads by plying **mini buses** frequently may fulfill the transport demand of the commuters. Instead of sticking on to the scheduled times, the operation of the buses be **budgeted on zero base,** wherever there is no competition from private operators.

To Solve the Problems of the Passengers: The problems of the passengers such as undue waiting time, not stopping buses at scheduled places, failure to pick up privileged passengers, overcrowding etc., can be solved to a greater extent by proper planning and effective supervision.

To Improve the Quality of Service: Poor courtesy of the crew members creates bad image for the Corporation. Conducting frequent training programmes, seminars, and workshops for crew members on fuel consumption, accidents, breakdowns, and also in human relations will improve the quality of services and cordial relationship between the crew and the passengers.

To Improve the Revenue: The Corporation may think about **diversification of business in the lines of courier service, parcel service** along with regular bus service to improve its revenue as these lines are highly potential.

To Improve the Non-operating Revenue: The Corporation shall take steps to allow the sites both inside and outside the buses suitable for advertising to the advertising agencies. This will definitely gear up the non operating revenues of the Corporation.

CONCLUSION

To conclude, it is clear from the study that the TNSTC Kumbakonam Division I has been rendering good services to the rural masses in their operating area despite certain limitations. But the passengers in the study area were dissatisfied though not totally but to some extent with the operating and service efficiency of TNSTC Kumbakonam Division I. There exists a big gap between the expectations and perceptions of the passengers. Still they, as tax payers, consumers and customers expect some more efficient and adequate bus services. So, the TNSTC Kumbakonam Division I has still a long way to fulfill their expectations. Besides rendering service to the people by extending bus services to economically unviable routes, it should also endeavor to earn profit atleast to cover the total fixed and operating costs and to fulfill the expectations of its stake holders and to emphasis more on **Passenger - Friendly** services.

REFERENCES

1. **Arora, S.K.** : Economics of Management in Road Transport Industry. New Delhi: Deep and Deep Publication, 1970.
2. **Bighom, T.C., and M.J.Robert,** :Transportation Principles and Problems. New Central Institute of Road Transport. : Compendium of Transport Terms. Pune:CIRT Publication, 1989.
3. **Cresswell R, ed.,** : Rural Transport and Country Planning. London : Leonard Hill, 1978.Delhi : McGraw, 1952.
4. **Devasahyam, M.G.**: State Transport", Institute of Road Transport, News Letter, Madras, Article No.109,1885.pp. 1-20.
5. **Krech David, Richard S. Crutchfield, and Egerton L. Ballachey**. : Individual in Society. New York. McGraw, 1962.
6. **Krech, F., and R.S.Crutchfield**. : Theory and problem in Social Psychology.New York : McGraw, 1984.
7. **Menderson, Hillman M., and Whally.** : Personal Mobility and Transport Policy. London : PEP Broadsheet, 1973.

8. **Mohandoss, S.K.**: Pricing in Passenger Transport Services by Road with Special Reference to Tamil Nadu, Ph.D., Thesis, Madras University, 1983.
9. **Rao Panduranga, D.**: Trends in Indian Transport System. New Delhi : Inter-India Publications, 1985.
10. **Schiffman, Leon G., and Leslie Lazar Kanuk.** : Consumer Behaviour. New Delhi : Prentice, 1990.
11. **Smith, Karl, V., and William Smith.** : The Behaviour of Man and Introduction to Psychology. London : Henry Holt, 1958.
12. **Thomas, D. St. J.** : The Rural Transport Problem. London : Routledge and Kegarpaul, 1963.
13. **United Nations Centre for Human Settlements**. Transportation Strategies for Human Settlements in Developing Countries. Nairobi : 1984.

RELATIONSHIP BETWEEN INDIAN CAPITAL MARKET AND FOREIGN INSTITUTIONAL INVESTMENT

DR. SUMAN DAHIYA GAINA
ASST. PROFESSOR
PDM COLLEGE OF ENGINEERING
BAHADURGARH

ABSTRACT

This paper studies the relationship between Indian capital markets and foreign institutional investment which in turn will cater to the interest of policy makers and investors especially focusing on the behavioral study during phases of change in the market. The study is based on secondary data taken for approx. 12 years spanning from January 2001 to October 2012. VAR approach and Granger Causality tests have been used in research of subjected study. The study founds a positive correlation between FII's and Sensex in all the phases of market and strong relationship between the Sensex and FIIs during the technology crisis in Indian economy.

KEYWORDS

FIIs, Stock return, BSE Sensex, Foreign Investment, and Granger Causality.

1. INTRODUCTION

Emerging economies like India are focusing on investment from external financing agencies or say inflow of foreign capital to create foreign exchange reserve in the nation, to meet their trade deficit and for the development of the economy via international trade. As every coin always has the two sides likewise foreign capital inflow brings economical threats as well as opportunities in the country. On the one hand due to the entry of foreign capital, domestic industries may face stiff competition from MNC's. Whereas on the other hand the inflow of foreign capital will lead to enhancement of the skills, knowledge and technology of Indian industries. FDI and FIIs are main source of attracting the foreign investment in a nation. FII's includes "Overseas pension funds, mutual funds, investment trusts, asset Management Companies, Nominee Companies, banks, institutional portfolio managers, university funds, endowments, foundations, charitable trusts, charitable societies etc. The term FII is used most commonly in India to refer outside companies investing in the financial markets of India. After 1991 Economic reforms, which leads to liberalization of Indian economy in world market, In September, 1992 FIIs were allowed to invest in Indian stock market. Since then, India has witnessed a significant rise in capital Inflows. The variation in the cost of capital is also one of the important factors resulting in attracting foreign capital in India.

During the year FY2002-2003, Net FIIs investment in Indian stock market had been decreased from 82.73 to 26.69 billion rupees. This was the time when world market was facing IT crisis. After an impressive performance for nearly five years, foreign capital inflows lost their momentum in the second half of 2008. The most significant change was observed in the case of FIIs, which saw a strong reversal of flows. Against a net inflow of 625.84 rupees billion in FY2007–2008, there was a net outflow of -433.38 rupees billion from Indian markets during FY2008–2009 as foreign portfolio investors sought safety and mobilized resources to strengthen the balance sheet of their parent companies. This massive outflow of FII's created panic in the Indian stock markets. Consequently, equity markets lost more than 60% of their index value.

Therefore the flow of foreign institutional investment and its relationship with stock returns has been of immense interest to investors and policy makers alike. Generally the flow of foreign institutional investment has been highly correlated with the market returns and the study of markets behavior becomes utmost important especially at the time of phases of upward and downward movement of the returns. The present study has been done with focus on phases of change in Indian stock market.

2. LITERATURE REVIEW

A large number of studies have been conducted to explore the cause and effect relationship between FIIs and market indices of Indian stock market. These studies present the mixed findings.

Rao, Murthy and Rangnathan (1999), conducted a study of developed market by taking the data for a period of 8 years (1990 to 1998). They suggest that FIIs investments would help the stock markets directly through widening investor base and indirectly compelling local authorities to improve the trading system. In their study they analyzed the investment exposure of the five US-based India specific funds that suggested a close resemblance between FII investment and trading pattern at the BSE. On behalf of that they interpreted that net FII investment influences stock prices in India as it traces the relationship to the sectoral level. They found that heavy emphasis of FIIs was on computer software and consumer goods industry. The other finding was that the FIIs are having a strong presence in the Indian Mutual Funds segment.

Chakrabarti (2002) examined the nature and causes of FII flows to India. The study has found FII inflows were highly correlated with equity returns in India and argued that FII flows are effects of returns rather than the cause of it. The study also argued that, FIIs do not seem to have informational disadvantage compared to local investors. It was found that Asian crisis resulted in a regime shift and since then domestic equity returns became the single most important determinant of FII flows to India.

Panda (2005), tried to examine the impact of FIIs Investments on the Indian stock market by applying VAR analysis on the daily data from October 2003 to March 2004 and found Mutual Fund investments having better explanatory power than FIIs investments in explaining returns on both of the main Indian markets BSE and NSE Nifty. The investigation found that FIIs investments did not affect BSE Sensex rather it was affected by the later.

Suresh Babu and Prabheesh (2008) examined the causal relationship between foreign institutional investment and stock returns. The study has found bi directional causality between FIIs investment and stock returns. FIIs investment flows were more stock return driven.

Bansal And Pasricha (2009), studied the impact of market opening to FIIs, on Indian stock market behavior. India announced its policy regarding the opening of stock market to FIIs for investment in equity and related instruments on 14th September 1992. Using stock market data related to Bombay Stock Exchange, for both before and after the FIIs policy announcement day, they conducted an empirical examination to assess the impact of the market opening on the returns and volatility of stock return. they found that while there is no significant changes in the Indian stock market average returns, volatility is significantly reduced after India unlocked its stock market to foreign investors.

Goudarzi and Ramanarayanan (2011) investigated the cointegration and causality between the Indian stock market and foreign institutional investment (FII) In India during world financial turmoil of 2008. Found that BSE500 stock index and FII series are cointegrated and causality between them is bilateral.

Gupta (2011) examined the relationship between Indian stock market and FIIs investment in India and found that both, Indian stock market and FIIs influence each other; however, their timing of influence is different.

Mamta, Priyanka and Mathur (2012) made an attempt to understand the behavioral pattern of FII during the period of 2001 to 2010 and Also examined correlation between FII and BSE sensex by the Karl Pearson' Coefficient of correlation test. They found that sensex has increased when there are positive inflows of FIIs and there were decrease in sensex when there were negative FII inflows. The Pearson correlation values indicated positive correlation between the foreign institutional investments and the movement of sensex.

Sultana and Pardhasaradhi (2012) made an attempt to study the relationship and impact of FDI & FII on Indian stock market using statistical measures correlation coefficient and multi regression. Based on 11 years data starting from 2001 to 2011, they found that Flow of FDIs and FIIs in India determines the trend of Indian stock market.

3. DATA AND RESEARCH METHODOLOGY

DATA

Time span of the study is from January 2001 to October 2012.The study period has been divided into three phases as per the global event and market trends. The first phase covers period from January 2001 to December 2003 during which global economy faced the IT crisis and result into explosion of the bubble of the internet and technology value. During this phase share price of the IT companies came to their lowest level. The second phase from January 2004 to December 2007 characterize by the revival of stock market and positive flow of foreign capital in emerging economies, commonly known as the bull run period. In the third phase from January 2008 to October 2012 economies went through financial crisis. Recession raised the eyebrows of all the eminent economists and finance professionals of world economy.

The present study is based on secondary data. FIIs net investment in Equity and closing price of sensex of Bombay Stock Exchange has been taken in this study. BSE is the oldest stock exchange of India and barometer of Indian economy. FIIs data and stock prices data has been taken from the websites of SEBI and BSE stock exchange respectively.

METHOD OF ANALYSIS

First of all, the following formula is used to calculate the daily stock returns for the above mentioned stock index.

$R_t = [\log (P_t) – \log (P_{t-1})]*100$

Where P_t is the price of stock index on date t, P_{t-1} is the price of the stock index on day t-1 and R_t is the daily return on day t.

To analyze the relationship between foreign institutional investments (FIIs) and stock returns the study proposes to use VAR approach and Granger Causality test.

UNIT ROOT TEST

Studies which are based on time series data assume that time series is stationary that implies mean and variance are constant over the time. Stationary condition has been tested using Augmented Dicky Fuller (ADF) and Phillips- Perron tests.

Augmented Dickey–Fuller (ADF) Test:

Augmented Dickey-Fuller (ADF) test has been carried out which is the modified version of Dickey-Fuller (DF) test. ADF makes a parametric correction in the original DF test for higher-order correlationby assuming that the series follows an AR (p) process. The ADF approach controls for higher-order correlation by adding lagged difference terms of the dependent variable to the right-hand side of the regression. The Augmented Dickey-Fuller test specification used here is as follows:

$\Delta Y_t = b_0 + \beta\ Y_{t-1} + \mu_1\ \Delta Y_{t-1} + \mu_2\ \Delta Y_{t-2} + ... + \mu p\ \Delta Y_{t-p} + e_t$

Yt represents time series to be tested, b0 is the intercept term, β is the coefficient of interest in

The unit root test, μi is the parameter of the augmented lagged first difference of Yt to represent the pthorder autoregressive process, and et is the white noise error term.

Phillips-Perron (PP) Test:

Phillips and Perron(1988) use non-parametric statistical methods to take care of the serial correlation in the error terms without adding lagged difference terms. The test regression for the Phillips-Perron (PP) test is the AR (1) process:

$\Delta Y_t = b_0 + \beta\ Y_{t-1} + e_t$

GRANGER CAUSALITY TEST

According to the concept of Granger's causality test (1969, 1988), a time series x_t Granger-causes another time series y_t if series y_t can be predicted with better accuracy by using past values of x_t rather than by not doing so, other information is being identical. If it can be shown, usually through a series of F-tests and considering AIC on lagged values of x_t (and with lagged values of y_t also known), that those x_t values provide statistically significant information about future values of y_t time series then x_t is said to Granger-cause y_t i.e. x_t can be used to forecast y_t .The pre-condition for applying Granger Causality test is to ascertain the stationarity of the variables in the pair. Engle and Granger (1987) show that if two non-stationary variables are co-integrated, a vector auto-regression in the first differences is unspecified. If the variables are co-integrated, an error-correcting model must be constructed. In the present case, the variables are not co-integrated; therefore, Bivariate Granger causality test is applied at the first difference of the variables. The second requirement for the Granger Causality test is to find out the appropriate lag length for each pair of variables. For this purpose, we used the vector auto regression (VAR) lag order selection method available in Eviews. This technique uses six criteria namely log likelihood value (log L), sequential modified likelihood ratio (LR) test statistic, final prediction error (F & E), AKaike information criterion (AIC), Schwarz information criterion (SC) and

Hannan–Quin information criterion (HQ) for choosing the optimal lag length. Among these six criteria, all except the LR statistics are monotonically minimizing functions of lag length and the choice of optimum lag length is at the minimum of the respective function.

Since the time series of FII is stationary or I(0) from the ADF and PP tests, the Granger

Causality test is performed as follows:

$\Delta S_t=\alpha_1+\beta_{11}\Delta S_{t-1}+ \beta_{12}\Delta S_{t-2}+...+ \beta_1 n\Delta S_{t-n}+ \gamma_{11}F_{t-1}+ \gamma_{12}F_{t-2}+...+ \gamma_1 nF_{t-n}+\varepsilon_1,t$

$Ft=\alpha_2+\beta_{21}F_{t-1}+ \beta_{22}F_{t-2}+...+ \beta_2 nF_{t-n}+ \gamma_{21}\Delta S_{t-1}+ \gamma_{22}\Delta S_{t-2}+...+ \gamma_2 n\Delta S_{t-n}+\varepsilon_2, t$

Where n is a suitably chosen positive integer; β_j and γ_j, j = 0, 1… k are parameters and α's are constant; and u_t's are disturbance terms with zero means and finite variances.

(ΔS_t is the first difference at time t of Sensex where the series is non-stationary.)

VARIANCE DECOMPOSITION

The vector auto-regression (VAR) by Sims (1980) has been estimated to capture short run causality between Sensex and FII investment. VAR is commonly used for forecasting systems of interrelated time series and for analyzing the dynamic impact of random disturbances on the system of variables. In VAR modeling the value of a variable is expressed as a linear function of the past, or lagged, values of that variable and all other variables included in the model. Thus all variables are regarded as endogenous. Variance decomposition offers a method for examining VAR system dynamics. It gives the proportion of the movements in the dependent variables that are due to their 'own' shocks, versus shocks to the other variables. A shock to the ith variable will of course directly affect that variable, but it will also be transmitted to all of the other variables in the system through the dynamic structure of the VAR [Chris Brooks (2002)]. Variance decomposition separates the variation in an endogenous variable into the component shocks to the VAR and provides information about the relative importance of each random innovation in affecting the variables in the VAR.

IMPULSE RESPONSE

Since the individual coefficients in the estimated VAR models are often difficult to interpret, the

Practitioners of this technique often estimate the so-called impulse response function (IRF). The IRF traces out the response of the dependent variable in the VAR system to shocks in the error terms. So, for each variable from each equation separately, a unit shock is applied to the error, and the effects upon the VAR system over time are noted. Thus, if there are m variables in a system, total of m2 impulse responses could be generated. In our study there are four impulse responses possible for each phase, In econometric literature, both impulse response functions and variance decomposition together are known as innovation accounting (Enders, 1995).

4. EMPIRICAL FINDINGS

TESTING OF NORMALITY

The normality test has been conducted by using Jarque–Bera statistics for FIIs and Sensex. The results are shown in Table 1 & 2 along with the descriptive statistics. Table shows that value of skewness and kurtosis is different from 1 and 3 in all the phases of FIIs and Sensex which indicate frequency distribution is either leptokurtic or platykurtic. Result is further supported by Jarque–Bera statistics where Null hypothesis of normality is rejected as the value of probability is less than .05 in all cases except in the phase two of Sensex.

TESTING OF STATIONARITY

Simple way to check for the stationary is plot the time series graph and observe the trend in mean, variance and autocorrelation. If these are constant over time then time series is said to be stationary. Sensex has a clear upward slope(Figure 1) and vertical fluctuation is not same at different time indicating that Sensex time series is non stationary whereas in case of FIIs mean and variance are seems to be constant(Figure 2) which indicate the presence of stationary in the time series of FIIs. Econometrics tests have also been used to check actual nature of time series. On the basis of the ADF and PP test statistics (Table 3&4) it can be said that Sensex is stationary at first difference but non stationary at level in all the phases. In case of FIIs, it is stationary at the level itself in all the cases except first phase at 5% level of significance.

TESTING OF CORRELATION

Correlation test has been conducted between FIIs and Sensex for each phase because this test is considered as the first indication of interdependency among the time series. The correlation coefficient are shown in table 5 which presents that correlation coefficient between FIIs and Sensex is highest in bear phase of stock market (third phase) and lowest in the bull phase(second phase). This might be due to increased participation of others players in the bull phase when equity price shows the increasing trends.

TESTING OF BILATERAL CAUSAL RELATIONSHIP

The correlation need to be further verified for the direction of influence by the granger causality test. Results are shown in table 6. From table it can be inferred that null hypothesis sensex does not granger cause FIIs, is rejected only in case of first phase otherwise accepted in second and third phase. It means during the IT crisis sensex shows the frequent downward trend which cause the FIIs activity increase in the Indian stock market that support the outcome sensex cause FIIs. The null hypothesis of FIIs does not granger cause Sensex is accepted in all the phases which shows that activities of FIIs not have any influence on Indian stock market during upward and downward market.

RESULTS OF VAR

Variance decomposition determines how much of the n step ahead forecast error variance of a given variable is explained by innovations to each explanatory variable. Generally it is observed that own series shocks explain most of the forecast error variance of the series in a VAR. Table 7 shows the result of Variance decomposition of FII and Sensex at 2, 5 and 10 variance periods. In case of Bivariate modeling of Sensex and FII for Phase 1, FII explains nearly 86% of its own forecast error variance while Sensex explains only 27% of FII variance; but Sensex explains approx 72% of its own forecast error variance while FII explains only 14% of Sensex variance, this indicates that Sensex defines FII more than FII defines Sensex which conclude to the result that Sensex causes FII in short run. This result is same in each phase. It indicates that FII don't hesitate to pull out their money from Indian market whenever market faces downward trend.

Impulse response graphs shows that in the first phase response of FIIs to one standard deviation shock to sensex is severe and significant as compare to response of sensex to FIIs. The picture is different in the second phase where the response of FIIs to one standard deviation shock to sensex is weak and short lived. Response of sensex to FIIs presents the same picture. It means there is a weak correlation between Sensex and FIIs during the bull phase of market. In the third phase Response of Sensex to one standard deviation shock to FIIs is very sharp and significant whereas FIIs response to Sensex is not significant and dies before the ten lags.

5. CONCLUSION AND POLICY RECOMMENDATION

This paper empirically investigates the relationship between stock market and FIIs in Indian economy. First the normality test was applied and found that both Sensex and FIIs time series are not normally distributed. Unit root test shows that Sensex time series is not stationary at level but the FII series is stationary at level itself. The present study found that sensex is positively correlated to FIIs. During the bear phase (IT Crises and Financial crisis) correlation between the FIIs and Sensex was high but it was low during the bull phase might be due to the participation of other players in the market. Bi-variate Granger Causality Test shows that sensex caused the FIIs during the first phase, means Sensex had a great bearing on the activity of the FIIs whereas the reverse causality doesn't hold true but second and third phase indicated that there is no causal relationship between FIIs and Sensex. It was found that Sensex explained more variance of FIIs than by the FIIs in all the phases. FIIs respond to Sensex severely during the first phase and Sensex respond FIIs significantly during the third phase. .Therefore it can be concluded that Sensex and FIIs shows strong relationship whenever Indian economy faces crisis but the situation is opposite in bull phase of market.

Policy measure must be taken by Regulator and Policymaker of Government of India to strengthen our economy from the bad news, fluctuations and crisis of foreign countries. Indian economy should provide sound infrastructure, stable economic environment and effective regulatory mechanism to attract FIIs. Deficit risk, which affects the countries Global rating, may be reduced by FIIs

REFERENCES

1. Bansal. A and Pasricha. J.S. (2009), "Foreign institutional investor's impact on stock prices in India", journal of academic research in economics, vol 1, no 2.
2. Chakrabarti, R. (2002),"FII flows to India: Nature and Causes", Money and Finance, Vol. 2, No. 7.
3. Goudarzi, H and Ramanarayanan ,C.S. (2011), "Empirical Analysis of the Impact of Foreign Institutional Investment on the Indian Stock Market Volatility during World Financial Crisis 2008-09", International Journal of Economics and Finance, Vol. 3, No.3, 214-226.
4. Gupta (2011), "Does the Stock Market Rise or Fall Due to FIIs in India", Journal of Arts, Science & Commerce, Vol. – II, Issue –2,99-107.
5. Kumar, S. (2001), "Does the Indian Stock Market Play to the tune of FII Investments? An Empirical Investigation". ICFAI Journal of Applied Finance, vol-7, issue-3, 36-44.
6. Mamta, Priyanka and Mathur(2012), " Impact of Foreign Institutional Investment On Stock Market With Special Reference to BSE: A Study of Last One Decade", Asian Journal of Research in Banking and Finance, Vol.2 Issue 4,31-47.
7. Panda Chakradhara (2005), "An Empirical Analysis of the Impact of FIIs‟ Investment on Indian Stock Market", Applied Finance, January, pp 53-61.
8. Rao, K.S., Murthy, M.R. and Ranaganathan, K.V.K. (1999), "Foreign Institutional Investment and the Indian Stock Market", Journal of Indian School of Political Economy, Vol. 11 (4), pp.623-647.
9. Sultana, S.T and Pardhasaradhi, S. (2012), "Impact of Flow of FDI & FII on Indian Stock Market", Finance Research, Vol 1, NO 3, 4-10.
10. Suresh Babu, M. and Prabheesh, K.P. (2008)', "Causal relationships between Foreign Institutional Investments and stock returns in India", Int. J. Trade and Global Markets,Vol. 1, No. 3, pp.259–265.

TABLES

TABLE1: FII DESCRIPTIVE STATISTICS

Time Period	Phase 1(jan2000 to dec 2003)	Phase 2(jan20004to dec 2007)	Phase 3(jan2008 to oct 2012)
Mean	1092.28	4045.30	4391.11
Median	476.35	3999.20	1899.85
Maximum	6797.50	23872.40	28562.90
Minimum	-1417.80	-7770.50	-15347.30
Std. Dev.	1656.24	6041.60	9834.67
Skewness	1.58	0.85	0.40
Kurtosis	5.79	5.10	2.77
Jarque-Bera	35.52*	14.67*	1.65*
Probability	0.00	0.00	0.04
Results	Not Normal	Not Normal	Not Normal
*Implies significant at 5% level			

TABLE2: SENSEX DESCRIPTIVE STATISTICS

Time Period	Phase 1(jan2000 to dec 2003)	Phase 2(jan20004to dec 2007)	Phase 3(jan2008 to oct 2012)
Mean	3794.00	10153.75	16242.72
Median	3540.74	9658.91	17214.86
Maximum	5838.96	20286.99	20509.09
Minimum	2811.60	4759.62	8891.61
Std. Dev.	752.23	4311.62	2894.96
Skewness	0.88	0.63	-1.25
Kurtosis	2.85	2.47	3.86
Jarque-Bera	6.22*	3.70	16.87*
Probability	0.04	0.16	0.00
Results	Not Normal	Normal	Not Normal
*Implies significant at 5% level			

TABLE 3 : UNIT ROOT TEST OF SENSEX

Sensex	ADF Test Statistics		PP Test Statistics	
Time period	Level	First Difference	Level	First Difference
Phase 1(jan2000 to dec 2003)	-0.606166	-5.491877	-0.96956	-5.713947
Phase 2(jan20004to dec 2007)	1.648207	-6.451823	2.22032	-6.451823
Phase 3(jan2008 to oct 2012)	-1.527897	-7.356843	-1.70424	-7.35587
* indicates significant at 5% level				

TABLE 4 : UNIT ROOT TEST OF FII

FII	ADF Test Statistics		PP Test Statistics	
Time period	Level	First Difference	Level	First Difference
Phase 1(jan2000 to dec 2003)	-1.075292	-11.75843	-2.96459	-12.76008
Phase 2(jan20004to dec 2007)	-8.10836	-11.03589	-8.13288	-12.01574
Phase 3(jan2008 to oct 2012)	-4.571946	-8.485612	-4.62879	-15.05266
* indicates significant at 5% level				

ASYMPTOTIC CRITICAL VALUES

1% level	-3.581152	-3.552666
5% level	-2.926622	-2.914517
10% level	-2.601424	-2.595033

TABLE 5 : CORRELATION MATRIX BETWEEN FII AND SENSEX

	Phase 1		Phase 2		Phase3	
Symbol	FII	SENSEX	FII	SENSEX	FII	SENSEX
FII	1	0.567022245	1	0.558283244	1	0.608458205
SENSEX	0.56702	1	0.55828	1	0.60846	1

TABLE 6: SUMMARY OF GRANGER CAUSALITY TEST

	Phase 1		Phase 2		Phase 3	
Null Hypothesis	**F Statistics**	**Probability**	**F Statistics**	**Probability**	**F Statistics**	**Probability**
Sensex does not Granger Cause FII	4.05818*	0.02466	1.1883	0.31501	0.87769	0.35301
FII does not Granger Cause DAILY	0.23386	0.79252	0.75166	0.47797	0.01191	0.91352
Lags	2		2		1	
* indicates significant at 5% level						
Note: Number of lags is determined by AIC criteria. Lag values differ because of the different number of observations in each phase.						

TABLE 7: SUMMARY OF VARIANCE DECOMPOSITION

		Phase 1		Phase 2		Phase 3	
Variance Decomposition	Variance Period	FII	SENSEX	FII	SENSEX	FII	SENSEX
FII	2	99.15	0.85	95.63	4.37	98.80	1.20
	5	86.39	13.61	95.41	4.59	98.51	1.49
	10	85.08	14.92	95.41	4.59	98.51	1.49
SENSEX	2	26.02	73.98	30.89	69.11	38.91	61.09
	5	27.38	72.62	30.89	69.11	38.92	61.08
	10	27.84	72.16	30.89	69.11	38.92	61.08

FIGURES

FIGURE 1: SENSEX TIME SERIES

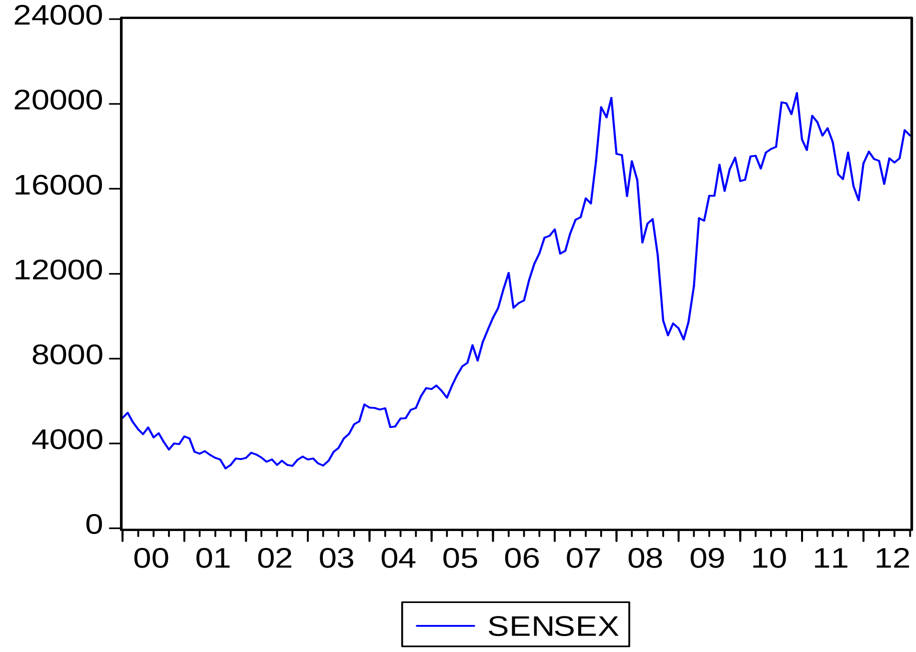
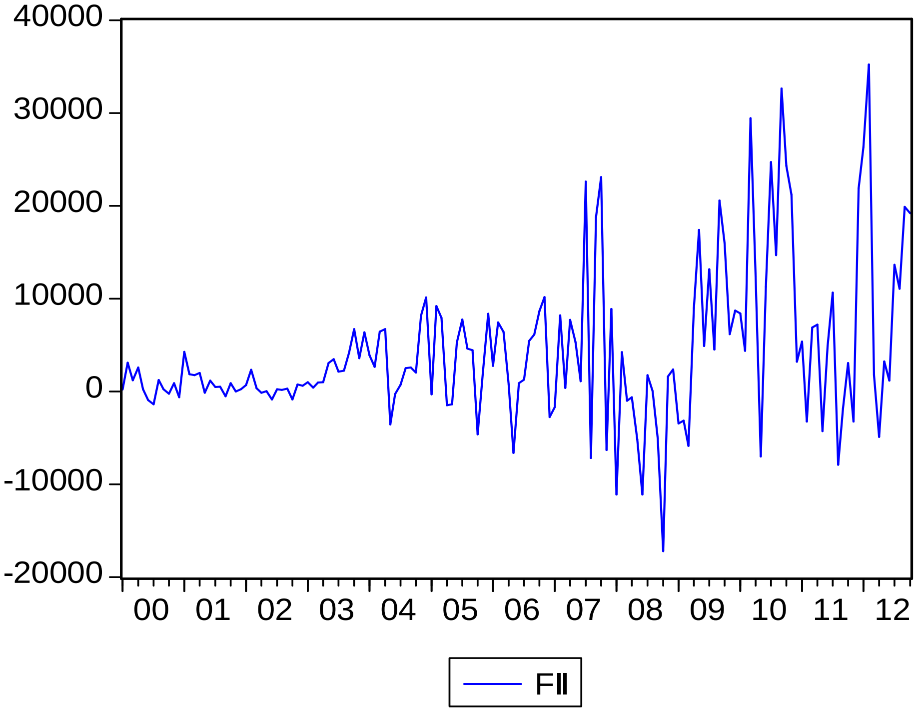


FIGURE2: FII TIME SERIES



AN ANALYSIS OF EFFECTS OF ENVIRONMENTAL PERFORMANCE OF CONSUMER GOODS INDUSTRY AND THE FINANCIAL PERCEPTION OF THE INVESTORS: A COMPARISON OF INDIAN AND US FIRMS

AMOGH TALAN
ASST. PROFESSOR
SRI AUROBINDO COLLEGE (EVENING)
UNIVERSITY OF DELHI
NEW DELHI

ABSTRACT
A lot of studies suggest that the environmental performance of firms affect their financial performance. Financial performance could be the operational or market performance of the firm. However, in this paper we have looked through a different perspective where we have analyzed whether how do the investors of a company perceive environmental performance of the company and affect the future prices of the stocks and the earnings. We find that the environmental performance of companies does in fact affect how investors perceive a company's reputation and certainty of its future, and hence affecting the future stability of company's stock prices. By comparing the results of US and India we find that in US investors' perception about the company's future and reputation is affected more due to its environmental performance, as compared to the perception of Indian investors.

KEYWORDS
Environmental performance, financial perception.

JEL CLASSIFICATION
G00

INTRODUCTION
Since the rise industrialization, the question has been raised from time to time whether the industrialization is deteriorating the environment. Top researches have in fact linked industrialization directly to the global warming (nationalgeographic.com). Certain managers of companies believe it their social responsibility to give back to the environment and prevent their companies to affect environment in a negative manner, however some other need a more concrete motivation linking directly to their firm's performance. To get an answer to whether a company's actions which are detrimental to the environment affect its performance in any manner, several researchers have tried to reach an answer, but a consensus could never be reached (Stanwick PA, Stanwick SD. 1998, Wagner M, Schaltegger S. 2004, Wagner M. 2005, McWilliams A, Siegel D. 2001, Fogler HR, Nutt F. 1975, Jensen MC. 2001). Needless to say, a research analyzing such relation for India cannot be found in the published literature. With the help of this paper, we would not only try to analyze whether the environmental performance of consumer goods industry has any relation with the market performance of the company, but we would also compare this relation for Indian and US firms.

LITERATURE REVIEW
A lot of researchers over the decades have tried to answer whether a socially responsible company has a positive effect on its financial performance. The result have been mixed, while some showing a positive relation, some showing neutral relation while few showing even a negative relation. The reasons for this discrepancy are many. First of all, being socially responsible could mean a lot of things. Few researchers considered it to be environmentally responsible (Russo MV, Fouts PA. 1997, Christmann P. 2000, Natalia Semenova and Lars G. Hassel 2008), while few considered it as a much broader concept consisting of economic, social, environmental and governance dimensions (Dong-shang Chang and Li-chin Regina Kuo, 2008, Pratima Bansal (2005), Bert Scholtens and Yangqin Zhou 2008). Also, the financial performance can either be considered as an operational measure, market performance or financial risk measure. Also, different industries are likely to perform differently on environmental aspects due to social and governmental pressures. Due to these variations of measures, different researches have concluded different result. We could not find any research in the published literature which tried to determine the relation between the environmental impacts of a company and their effect on the company's financial position for India. We have considered choosing the Consumer Goods industry for this study because consumer goods industry is considered as a high risk industry (FTSE4Good) which has a very high environmental impact due to its high level of production activities. Such an environmental impact cannot go unnoticed by the investors of the company, and we believe that it's going to affect the way they perceive the reputation and certainty of the company's future, and are likely to panelize it for that in the future. In this section we will discuss few studies which tried to establish a relation between a company's environmental performance and its financial performance.

STUDIES WHICH SHOWS A POSITIVE RELATION BETWEEN A COMPANY'S ENVIRONMENTAL PERFORMANCE AND ITS FINANCIAL PERFORMANCE

Porter and van der Linde (1995) proposed that properly designed environmental standards and practices could induce innovativeness which could lower the overall cost of the product, give a competitive advantage to the firm and improve its value. Stanwick PA, Stanwick SD. 1998 analyzed 24 chemical companies and found that their environmental disclosures and social responsiveness had a positive impact on the firms' financial performance. Russo MV, Fouts PA. 1997 found that "it pays to be green" after analyzing 243 firms where high returns with respect to their environmental performance were seen among high-growth industries. Wagner M, Schaltegger S. 2004 conducted research on the manufacturing sector of Europe and found that for firms with shareholder value-oriented strategies the relationship between environmental performance and different dimensions of economic performance was more positive than for firms without such a strategy. Wagner M. 2005 analyzed the European paper industry and found a U-Shaped relationship between firms' environmental and economic performance. Christmann P. 2000 analyzed 88 chemical firms and established that environmental management is a significant factor to determine a firm's economic success. It was further established that firms can take certain actions which could simultaneously protect the environment and reduce costs. Waddock SA, Graves SB. 1997 proposed that slack resource availability and CSR are positively related. Brammer S, Millington A. 2005 proved that corporate philanthropy has a positive impression on shareholders of a firm. Frooman J. 1997 using a meta-analysis proved that socially irresponsible and illicit behaviors have a negative impact on the company's share's performance. According to Argandoña A. 1998 social performance is an asset to the firm which would give it strategic advantage in terms of lower cost. Orlitzky M, Schmidt FL, Rynes SL. 2003 did meta-analysis of 52 studies and found a strong positive link between CSR and CFP. Orlitzky 2001, using a meta analysis concluded that higher firm's CSP results in the lower financial risk. McGuire et al. (1988) found that a firm's prior performance, assessed by both stock-market returns and accounting-based measures, is more closely related to corporate social responsibility than is subsequent performance. Moskowitz M. 1972 found that firms could benefit from socially responsible actions by increasing employee's productivity and hence lowering the cost. Cornell and Shapiro (1987) suggested that if stakeholders' implicit contracts are not served properly, parties to these contracts concerning social responsibility of the firm may attempt to transform them into (more costly) explicit contracts. Dowell et al. (2000) found that firms adopting stringent environmental measures have much higher market values than firms with poor standards. Konar and Cohen (2001) found that companies with lower environmental risks had higher market values. King and Lenox (2002) found a positive relation between waste prevention and company value. Guenster et al. (2006) found that eco-efficiency have a positive impact on the operating performance and market value of the firm. Preston and O'Bannon (1997) revealed a positive relation between a firm's social and financial performance.

STUDIES WHICH SHOWS A NEUTRAL RELATION BETWEEN A COMPANY'S ENVIRONMENTAL PERFORMANCE AND ITS FINANCIAL PERFORMANCE

McWilliams A, Siegel D. 2001 found a neutral relationship between CSR and financial performance and argued that firms invest in socially responsible activities only to satisfy the demands of the stakeholders. Fogler HR, Nutt F. 1975 found no significant linkage of the measures of environmental and profitability. Alexander, G. J., and R. A. Buchholz. 1978 indicated insignificant relationship between a firm's performance and the degree of social responsibility. Aupperle, K. E..A B. Carroll and 1. Hatfield. 1985 too did not find any correlation between a firm's social performance and profitability.

STUDIES WHICH SHOWS A NEGATIVE RELATION BETWEEN A COMPANY'S ENVIRONMENTAL PERFORMANCE AND ITS FINANCIAL PERFORMANCE

Jensen MC. 2001 proposed that social constraints on firms and socially responsible behavior may conflict with value maximization. According to Ullmann A. 1985 Firms face a trade-off between various aspects of social responsibility and financial performance. According to Williamson OE. 1964 there will be a negative link between social and financial performance when managers pursue their own objectives, which may conflict with shareholder and stakeholder objectives. Palmer K, Oates WE, Portney PR. 1995 argue that the pollution abatement expense required for complying with environmental regulations is a cost and it can never be recovered. Walley N, Whitehead B. 1994 suggested that companies that respond actively to environmental challenges incur extra costs and thus reduce their profits and shareholder value.

IMPORTANT OF THE STUDY

This study is unique because it is the first study done for Indian companies to compare their environmental performance and its impact on the investors' financial perception as reflected by the P/E Ratio. Also, this is the first study to compare such relation between Indian and US. If we are able to establish the relation between company's environmental performance and its investors' financial perception, then the managers can use the evidence to indirectly affect their investors' perception by being environmentally responsible, hence securing a high market earnings in the future.

OBJECTIVES

The objective of this study is to add to the already existing literature on the relationship between firms' environmental and financial performance. Though, our study would add uniqueness to the literature because we have considered investors' financial perception which reflects the financial performance of a company in the future, rather than considering the firms' present or past financial performance.

HYPOTHESES DEVELOPMENT

Based on the literature above, it is clear that even though there is no clear answer to whether a firm's environmental performance would have a positive effect on a firm's financial performance and investor's perception, majority of the studies do make us think that there should be a positive relation between the two for the Consumer Goods industry. Hence, on the basis of the above literature we propose the following hypothesis:

H1: There exists a positive relation between a firm's environmental performance and investors' perception about the reputation and future certainty of the firm as reflected by the firm's P/E ratio.

Also, it is clear from the literature that the environmental performance and the investors' perception may vary from one region to another hence affecting the relationship between firm's environmental performance and its P/E ratio in different regions differently. Hence, we propose the following hypothesis:

H2: The relation between a firm's environmental performance and investors' perception about the reputation and certainty of the firm as reflected by the firm's P/E ratio would vary between US and India.

DATA COLLECTION

Our data was collected for 80 firms from Consumer Goods industry from US and India (41 US firms and 39 Indian firms).

To measure the environmental performance, we used the ratings supplied by the csrhub.com which uses over 291 sources to compile this rating. Sources include Thomson Reuters, Newsweek green rankings, GMI Ratings, MSCI, Vireo, REP Risk ratings, CLIMATECOUNTS.org, CDP ratings, among others. Environmental ratings are a cumulative of ratings on energy and climate change, policy and reporting, and resource management, making it a very comprehensive environmental rating.

The financial perception of the investors is the the perception of investors about the environmental responsiveness of the company which could affect the earnings of the shares of the company in the future. We measure this financial perception using Price-Earning (P/E) ratio. A P/E Ratio is a valuation ratio of a company's current share price compared to its per-share earnings which is calculated as:

$$\frac{\text{Market Value per Share}}{\text{Earnings per Share (EPS)}}$$

A low price-earnings ratio generally means that most investors perceive the company to be facing an uncertain future. In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E (www.investopedia.com).

The information regarding the P/E ratio of the Indian companies was collected from www.indiainfoline.com which keeps a constant and accurate record of financial status of registered Indian companies, and that for the US companies was collected from http://www.nasdaq.com which keeps the financial information of the companies registered with NASDAQ.

METHODOLOGY

We used SPSS V20 for our analysis. Regression and ANOVA models were applied to find out the relationship between both variables (environmental ratings and P/E ratio) of the companies in order to test our hypotheses. Firstly, we ran the regression analysis and ANOVA on the cumulative data of companies from both countries to test our first hypothesis, if whether a positive relation exists between the environmental ratings and P/R ratio of the companies. We log transformed the dependent variable (P/E ratio) because the distribution of log-transformed P/E ratio was found to be closer to normal and the linear regression model works better with normal variables, but few of the P/E ratios were 0, hence we had to add 1 to each score of the P/E ratios to make every value positive as a log-transformation would not run on a 0 value. Then we removed the outliers. To do this we calculated the z values of the transformed variable environment rating first. To qualify as an outlier, we used the criteria where any absolute Z value greater than 3.29 would be considered as an outlier. There was only one outlier in the environment rating variable with a z value of -3.51. To remove the outliers from the analysis we set the range of 0-3.7 as missing values. We repeated the same procedure for the P/E Ratio variable but found no outliers.

RESULTS

The summary of the regression analysis and ANOVA of the cumulative data is as follows:

TABLE 1: MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.358[a]	.128	.210	156.79315

a. Predictors: Environmental Ratings

TABLE 2: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	140.639	1	140.639	150.978	.006[b]
	Residual	149.358	78	.930		
	Total	289.997	79			

a. Dependent Variable: Log of P/E

b. Predictors: Environmental Ratings

TABLE 3: COEFFICIENTS[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.859	3.109		4.094	0.215
	Environment Ratings	0.663	0.039	0.287	0.248	0.005

a. Dependent Variable: Log of P/E ratio.

The value of R^2 indicates that 12.8 % of the variation in the dependent variable (P/E ratio) is explained by the independent variable (environment ratings). Value of R=0.358 shows that P/E ratio is positively correlated to the dependent variable at a degree of 0.358. The other table is the ANOVA table. This table indicates that the regression model predicts the outcome variable significantly well. Here, p = 0.006, which is less than 0.05, our accepted level of significance, and the value of F statistics is greater than the value of mean square, which indicates that, overall, the model applied can statistically significantly predict the outcome variable. Third table named "Coefficients" provides us with information on the predictor variable, environment ratings. It is clear that environment rating significantly predict P/E Ratios at a degree of 28.7%. These results prove our first hypothesis that there exists a positive relation between a firm's environmental performance and investors' perception about the reputation and future certainty of the firm as reflected by the firm's P/E ratio.

To test our second hypothesis we look at the ANOVA results from both US and India. The results are summarized as follows:

RESULTS FOR INDIAN CONSUMER GOODS COMPANIES

TABLE 4: MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.259[a]	0.067	0.207	156.7932

a. Predictors: (Constant), Environmental Ratings

TABLE 5: ANOVA[a]

Model		Sum of Squares	df	Mean Square
1	Regression	47.412	1	47.412
	Residual	49.077	37	1209.272
	Total	96.489	38	

a. Dependent Variable: Log of P/E

b. Predictors: (Constant), Environmental Ratings

TABLE 6: COEFFICIENTS[a]

Model		Unstandardized Coefficients
		B
1	(Constant)	4.923
	Environment	0.14

a. Dependent Variable: Log of P/E Ratio

Results for US Consumer Goods companies:

TABLE 7: MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.427[a]	0.182	0.41	156.7932

a. Predictors: Environmental Ratings

TABLE 8: ANOVAa

Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	64.760	1	64.760	92.906
	Residual	22112.879	39	566.997	
	Total	23760.480	40		

a. Dependent Variable: Log of P/E

b. Predictors: (Constant), Environmental Ratings

TABLE 9

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.088	2.292		5.474	.655
	Environment	.229	.028	.364	8.088	.000

a. Dependent Variable: Log of P/E Ratio

These results clearly shows that environment ratings are a significant predictor of P/E ratio in both India and US because for Indian p=0.008 which is much lesser than our acceptable significance level of alpha=0.05 and for US p=0.000, again highly significant at alpha=0.05 level, though in US the environment ratings have a higher impact on P/E ratio as compared to India, because the value of beta value for standardized coefficients for US, 0.364 is larger than that for India, 0.194. This means that in US the investors may be more aware of the environmental performance of their companies and would likely lose confidence in the future performance of the company if they believe that the company is not adhering to the environmental policies. Hence, this supports our second hypothesis that the relation between a firm's environmental performance and investors' perception about the reputation and certainty of the firm as reflected by the firm's P/E ratio would vary between US and India.

DISCUSSION

This is the first study which analyzed the effects of Environmental Performance of Consumer Goods Industry and the Financial Perception of the Investors in Indian and US consumer goods industry. We confirmed to the majority of the literature which shows a positive relation between a firm's environmental practices and the financial performance. We also found that the US investors as compared to those from India, of at least the consumers goods industry are more aware of the environmental attentiveness of their companies and lose their confidence in them in case the environmental performance is found low, hence panelizing them in the future.

CONCLUSION
With the help of our study we have concluded that environmental performance of the companies, at least for the consumer goods industry, has an impact on investors' financial perception. This has the implications for the managers because in case they do not adopt adequate environmental measures, investors may start to perceive that the company may not have certain and blooming future, which would be reflected by a lowering P/E Ratio. This could result to a low market earning in the future for the company.

LIMITATIONS
The biggest drawback in our study has been that a highly comprehensive measure for the financial performance of the firms was not adopted which would include past, present and future financial performance of the company. By concentrating on the financial perception of the investors, we focused on the future aspect of the financial performance of the company. Also, the results could have been more conclusive in case we had considered more than one industry. In our research, we focused only on the Consumer Goods industry because of it being a highly risky industry for the environment. We expected that investors of such industry would more likely pay attention to the environmental performance in the industry.

SCOPE FOR FUTURE RESEARCH
It would be interesting if a research would combine past, present and future aspects of the financial performance of the company while establishing a relation between its environmental and financial performance. Also future researchers should compare the performance over a variety of industry. It would more clearly establish the relation between environmental and financial performance if a comparison is made between low risk industries like finance and IT and high risk industries like consumer goods, and construction. Future researchers should also focus to establish a reciprocal relation between the environmental and financial performance of a company which has a very limited literature.

REFERENCES

1. Alexander G, Bucholtz R. 1978. Corporate social responsibility and stock market performance. Academy of Management Journal 21: 479–486.
2. Argandoña A. 1998. The stakeholder theory and the common good. Journal of Business Ethics 17(9/10): 1093–1102
3. Aupperle, K. E.. A B. Carroll. and 1. Hatfield. 1985. "An Empirical Examination of the Relationship Between Corporate Social Responsibility and Profitability?' Academy of Management Journal 28 (2).446-61.
4. Bert Scholtens and Yangqin Zhou (2008): Stakeholder Relations and Financial Performance
5. Brammer S, Millington A. 2005. Corporate reputation and philanthropy – an empirical analysis. Journal of Business Ethics 61: 29–44
6. Christmann P. 2000. Effects of 'best practices' of environmental management on cost advantage: the role of complementary assets. Academy of Management Journal 43(4): 663–680
7. Christmann P. 2000. Effects of 'best practices' of environmental management on cost advantage: the role of complementary assets. Academy of Management Journal 43(4): 663–680
8. Cornell B, Shapiro A. 1987. Corporate stakeholders and corporate fi nance. Financial Management 16: 5–14.
9. Dong-shang Chang and Li-chin Regina Kuo The Effects of Sustainable Development on Firms' Financial Performance – an Empirical Approach.
10. Dowell G, Hart S, Yeung B. 2000 Do Corporate Global Environmental Standards Create or Destroy Market Value?
11. Fogler HR, Nutt F. 1975. A note on social responsibility and stock valuation. Academy of Management Journal 18(000001): 155–160.
12. Fogler HR, Nutt F. 1975. A note on social responsibility and stock valuation. Academy of Management Journal 18(000001): 155–160.
13. Frooman J. 1997. Socially irresponsible and illegal behavior and shareholder wealth, a meta-analysis of event studies. Business and Society 36(3): 221–249
14. FTSE4Good.com
15. Guenster N, Derwall J, Bauer R, Koedijk K. 2006. The Economic Value of Corporate Eco-Effi ciency, ECCE Research Note 2006- 02.
16. Jensen MC. 2001. Value maximization, stakeholder theory, and the corporate objective function. Journal of Applied Corporate Finance 14(3): 8–21
17. Jensen MC. 2001. Value maximization, stakeholder theory, and the corporate objective function. Journal of Applied Corporate Finance 14(3): 8–21
18. King A, Lenox M. 2002. Exploring the locus of profi table pollution reduction. Management Science 48(2): 289– 299
19. Konar S, Cohen M. 2001. Does the market value environmental performance? The Review of Economics and Statistics 83(2): 281–289
20. McGuire JB, Sundgren A, Scheneeweis T. 1988. Corporate social responsibility and firm financial performance. Academy of Management Journal 31(4): 854-872
21. McWilliams A, Siegel D. 2001. Corporate social responsibility: a theory of the fi rm perspective. Academy of Management Review 26: 117–127
22. McWilliams A, Siegel D. 2001. Corporate social responsibility: a theory of the fi rm perspective. Academy of Management Review 26: 117–127
23. Moskowitz M. 1972. Choosing socially responsible stocks. Business and Society Review 1: 71–75.
24. Natalia Semenova and Lars G. Hassel (2008) Financial Outcomes of Environmental Risk and Opportunity for US Companies
25. nationalgeographic.com
26. Orlitzky M, Benjamin J. 2001. Corporate social performance and fi rm risk: a meta-analytic review. Business and Society 40(4): 369–396.
27. Orlitzky M, Schmidt FL, Rynes SL. 2003. Corporate social and fi nancial performance: a meta-analysis. Organization Studies 24: 403–441.
28. Palmer K, Oates WE, Portney PR. 1995. Tightening environmental standards: the benefi t–cost or the no-cost paradigm? The Journal of Economic Perspectives 9(4): 119–132.
29. Porter ME, Van der Linde C. 1995. Green and competitive: ending the stalemate. Harvard Business Review 73(5): 120–134.
30. Pratima Bansal (2005) Evolving sustainability: A longitudinal study of corporate sustainable development
31. Preston LE, O'Bannon DP. 1997. The corporate social–fi nancial performance relationship: a typology and analysis. Business and Society 36: 419–429.
32. Russo M, Fouts P. 1997. A resource-based perspective on corporate environmental performance and profi tability. Academy of Management Journal 40: 534–559.
33. Russo MV, Fouts PA. 1997. A resource-based perspective on corporate environmental performance and profitability. Academy of Management Journal 40(3): 534-559.
34. Stanwick PA, Stanwick SD. 1998a. The relationship between corporate social performance, and organizational size, fi nancial performance, and environmental performance: an empirical examination. Journal of Business Ethics 17(2): 195–204
35. Stanwick PA, Stanwick SD. 1998a. The relationship between corporate social performance, and organizational size, fi nancial performance, and environmental performance: an empirical examination. Journal of Business Ethics 17(2): 195–204
36. Ullmann A. 1985. Data in search of a theory: a critical examination of the relationships among social performance, social disclosure, and economic performance. Academy of Management Review 10: 540–577.
37. Waddock SA, Graves SB. 1997. The corporate social performance – fi nance performance link. Strategic Management Journal 18(4): 303–319
38. Wagner M, Schaltegger S. 2004. The effect of corporate environmental strategy choice and environmental performance on competitiveness and economic performance: an empirical study of EU manufacturing. European Management Journal 22(5): 557–572.

39. Wagner M, Schaltegger S. 2004. The effect of corporate environmental strategy choice and environmental performance on competitiveness and economic performance: an empirical study of EU manufacturing. European Management Journal 22(5): 557–572.
40. Wagner M. 2005. Sustainability and competitive advantage: empirical evidence on the infl uence of strategic choices between environmental management approaches. Environmental Quality Management 14(3): 31–48.
41. Wagner M. 2005. Sustainability and competitive advantage: empirical evidence on the infl uence of strategic choices between environmental management approaches. Environmental Quality Management 14(3): 31–48.
42. Walley N, Whitehead B. 1994. It's not easy being green. Harvard Business Review 72(3): 46–52.
43. Williamson OE. 1964. The Economics of Discretionary Behaviour: Managerial Objectives in a Theory of the Firm

DESIRED CONTRIBUTION: IMPACT OF PENSION FUND MANAGERS PERFORMANCE ON RISK AND RETURN

SATHISHA H K
ASST. PROFESSOR
P. G. DEPARTMENT OF COMMERCE
GOVERNMENT R. C. COLLEGE OF COMMERCE & MANAGEMENT
BENGALURU

SOWMYA G S
ASST. PROFESSOR
P.G. DEPARTMENT OF COMMERCE
VIVEKANANDA DEGREE COLLEGE
BENGALURU

SUSHMA K
LECTURER
BMS COLLEGE FOR WOMEN
BENGALURU

ABSTRACT
A pension fund is a plan, fund, or scheme which provides retirement income. The National Pension System (NPS) is a defined contribution based pension system launched by Government of India with effect from 1 January 2004. The pension contributions of Central Government employees covered by the National Pension System (NPS) are being invested by Professional Pension Fund Managers in line with investment guidelines of Government applicable to non-Government Provident Funds. The Indian population is greying. According to the latest UNFPA report, the number of Indians above 60 years is projected to rise to 55% by 2050. The demographics also indicate an increasing longevity with a more active lifestyle after retirement owing to betterment in medical facilities. The NPS is a sophisticated innovation that is based on the world's best practices in the pension sector. Pension fund managers will invest it in stocks and shares and the returns earned by it will be given to the pension holders. This paper examines the impact of pension fund managers performance on return and risk pattern in recent years.

KEYWORDS
Retirement savings, Desired contribution, Risk hedge, Pension fund managers, Return.

JEL CLASSIFICATION
G11, G23, G28.

INTRODUCTION
Pension Policy in India has primarily and traditionally been based on financing through employer and employee participation. As a result, the coverage has been restricted to the organized sector and a vast majority of the workforce in the unorganized sector has been denied access to formal channels of old age financial support. Only about 12 per cent of the working population in India is covered by some form of retirement benefit scheme. Besides the problem of limited coverage, the existing mandatory and voluntary private pension system is characterized by limitations like fragmented regulatory framework, lack of individual choice and portability and lack of uniform standards. High incidence of administrative cost and low real rate of returns characterize the existing system, which has become unsustainable.

India has nearly eighty million elderly people, which is one eighth of world's elderly population. This segment of population is growing at a rate of 3.8% per annum as against a rate of growth of 1.8% for the overall population. A vast majority of this population is not covered by any formal old age income scheme and are dependent on their earnings and transfer from their children or other family members. These informal systems of old age income support are imperfect and are becoming increasingly strained.

Poverty and unemployment may have acted as deterrents to provide a tax financed state pension arrangement for each and every citizen attaining old age. Therefore, in the organised sector (excluding the Government servants) a pension policy has been adopted based on financing through employer and employee participation. This has, however, denied the vast majority of the workforce in the unorganized sector access to formal channels of old age economic support.

A comprehensive pension system has 3 basic pillars.

Pillar I covers every citizen of the country through a standardized, state-run pension system, which offers basic coverage and is primarily focused on reducing poverty**.** It covers indigent persons above 65 years through the NSAP for poor and elderly and persons employed by the Government through the traditional PAYG scheme or the defined benefit scheme.

Pillar II is mandatory occupational pension system where employee and employer contribute towards their pension i.e. DC-cum-DB scheme.

Pillar III is a voluntary scheme is present in a very restrictive form through PPF, private funded system, including individual savings plans, insurance, superannuation schemes etc.

Most pension fund managers in India see investment management as a simple exercise of deploying funds according to the pattern prescribed by the government. Some of them have an appreciation of the credit risk inherent in their investment decisions, but a large number believe that all eligible securities are equal. Perhaps pension fund investment management is still in its infancy in this country and is constrained by regulations. Pension funds have not been in operation long enough and macro-economic parameters such as inflation and interest rates have been stable enough (well, in a very broad sense) to cause serious concerns of deficits in pension funds. The investment and risk characteristics of a pension fund depend on the plan structure.

The National Pension System is an attempt towards providing adequate retirement income to every citizen of India. NPS aims at ensuring financial security to every citizen by encouraging them to start contributing towards the old age saving. NPS has been designed to enable the subscribers to make optimum decisions regarding their future through systematic savings during their employment. NPS seeks to inculcate the habit of saving for retirement amongst the citizens. Initially launched for Central Government employees, later it was offered to employees of various State Governments, corporate, and individuals belonging to unorganized sector and economically disadvantaged sections (NPS-Lite).

Broadly, there are two types of pension plans: defined benefit plans and defined contribution plans.

DEFINED BENEFIT PLANS

Defined benefit plans promise specified benefits to the plan participants, which are not directly related to the contributions made to the fund by them or by their employer on their behalf. The Employees' Pension Scheme, 1995 (EPS 1995), the pension plans implemented in RBI, IDBI and other commercial banks as well as those in several public sector undertakings are in the nature of defined benefit plans. Most of the pension funds in India are single employer defined benefit plans. EPS 1995 and Coal Mines Pension Scheme are examples of multiple employer defined benefit plans.

Defined benefit plans in India usually offer the following types of benefits to participating employees

1. **Superannuation Pension**: Superannuation Pension is payable on attaining the age of retirement and is usually dependent on the salary during the period immediately preceding retirement and the length of service. Under the Employees' Pension Scheme, 1995, the normal Monthly Superannuation Pension would be Pensionable Salary x Pensionable Service x 70. Pensionable Salary is defined as the average monthly pay drawn during the 12 months preceding retirement, subject to a maximum of `5000 per month.
2. **Monthly Pension payments by the fund or insurance company**: Some of the pension funds such as EPS 1995 and RBI/IDBI also handle monthly pension payments. Others like NTPC purchase a life annuity from LIC on retirement of a participating employee by making a one-time lump-sum payment.
3. **Cost of Living Adjustments**: Some pension plans provide for increase in pension amounts to compensate for inflation, while others do not.
4. **Premature Retirement Pension**: Premature Retirement Pension is payable to an employee who retires before attaining the age of retirement but has put in the minimum period of service specified (e.g. 20 years of eligible service under EPS 1995).
5. **Disability Benefits:** In the case of permanent disability, the plans generally provide for payment of pension without requiring minimum qualifying service.
6. **Survivor Benefits**: The plans provide for payment of Family Pension in the case of death of the participating employee while in service or after retirement. EPS 1995 provides for payment of pension to surviving spouse (until death or remarriage). It also provides for surviving children's pension until the children attain the age of 25 (payable for a maximum of two children).
7. **Withdrawal Benefit**: Some of the plans provide for return of full or part of the contributions to the employee on resignation or otherwise leaving the plan without qualifying for pension.
8. **Funding**: Defined benefit plans may be funded out of contributions by the employees or the employer or both. The Employees' Pension Scheme, 1995 is funded by diversion of 8.33% from employer's share of contribution to the provident fund and the Central Government contributes 1.16% as Government contribution. RBI/IDBI schemes are funded by the full amount of employer's contribution to the provident fund.

Defined benefit plans are in the nature of savings cum- insurance plans. The plans, therefore, bear insurance risk as well as risk of investment performance. Defined benefit plans provide for stable retirement income based on salary. They provide insurance against longevity; therefore, an individual does not face the risk that his savings may run out before he dies. However, the employee takes the risk that his benefits may not be related to the contributions made by him. An employee who dies soon after retirement may draw by way of pension a sum far smaller than what he contributed through his working life. While another who lives long and leaves behind survivors may get by way of benefits more than what he contributed. Defined benefit plans do not generally provide for bequeathing of wealth. However, most plans in India allow commutation of a part of the pension; this makes it possible for an employee to take a lump-sum amount on retirement and draw a reduced pension for life.

SOME OF THE PROBLEMS OF DEFINE BENEFIT PLAN

TABLE NO 1.1: SHOWS THE PROBLEMS OF DEFINED BENEFIT PLAN

DB Plan Assumptions	Issues to Consider	Impact on PBO
1. Retirement benefit formula	Benefit formula may change over time.	Any type of benefit change will materially affect the estimated PBO.
2. Employee salary growth rate estimate	Future compensation growth rates are impossible to accurately project.	A higher salary growth rate will increase the PBO.
3. Estimated length of working career	It is impossible to know how long an employee will work for an organization.	The more years of service the employee accrues, the greater the PBO.
4. Years of service used to make the PBO calculation	Actuarial guidelines mandate that the PBO take into account future salary growth estimates, but ignore any potential future service.	If actuarial guidelines required the inclusion of potential future service, the estimated PBO would increase dramatically.
5. Vesting uncertainties	It is impossible to know if employees will work for the employer long enough to vest their retirement benefits.	Vesting provisions will increase the uncertainty in the estimate of the PBO.
6. Length of time employee will receive a monthly retirement benefit	It is impossible to know how long employees will live after they retire.	The longer retirees live, the longer they will receive retirement benefits and the greater the impact on the estimate of the PBO.
7. Retirement payout assumption	It is difficult to know what type of payout option employees will select, because their beneficiary status may change over time.	The election of survivor benefits will affect the length of the time horizon benefits are expected to be paid. This in turn will affect the estimate of the PBO.
8. Cost of living adjustment (COLA) provisions.	It is difficult to know if a COLA feature will be made available in the future, what the future COLA benefit rate will be, or how frequently a COLA will be granted.	Any type of COLA benefit will increase the estimate of the PBO.
9. Discount rate applied to benefits over the retirement period to the employee\'s retirement date	It is impossible to know what discount rate should be applied to determine the present value of the retirement benefit at retirement.	The higher (lower) the assumed discount rate, the lower (higher) the estimated PBO. The flexibility afforded to management to set the discount rate increases the ability of corporate management to manipulate their company\'s financial statements by manipulating the net pension liability amount recorded on the company\'s balance sheet.
10. Discount rate applied to annuity value of retirement benefit at retirement date to the current valuation date	It is impossible to know what discount rate should be applied to determine the present value of the retirement benefit today.	

DEFINED CONTRIBUTION PLANS

Defined contribution plans are in the nature of individual retirement plan accounts. The contributions made by or on behalf of the employee are accumulated and paid on retirement along with such return as may be generated by the fund on the investments made. The Employees' Provident Fund Scheme as well as all the exempted provident funds in India is essentially defined contribution plans.

Defined contribution plans in India usually offer the following types of benefits

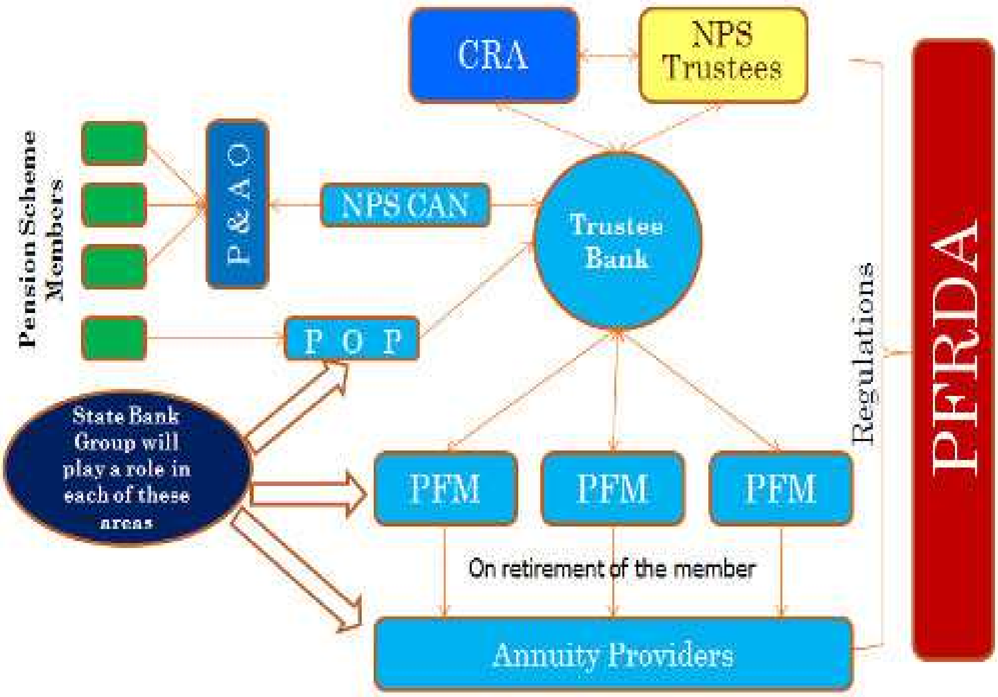
1. The pension amount depends on the amount accumulated to the credit of the employee. In all the provident fund schemes, the accumulated balance at the credit of an employee is paid out on retirement and there is no monthly pension. Provident funds also allow withdrawal of balance for specified purposes such as acquisition of house, education of children, etc.
2. The Group Superannuation Scheme, on death of the participating employee before retirement, the accumulated contribution is used to purchase an annuity to pay monthly pension to the nominee. On withdrawal before retirement, the corpus can be used to purchase an annuity to start pension either immediately or after the normal age of retirement.

National Pension System – Government

In India, till recently, the concept of retirement planning was restricted to the organized sector (salaried class) while there was no such arrangement for the large unorganized work force. To enable individuals to plan and prepare for post-retirement life, the Pension Fund Regulatory and Development Authority (PFRDA), the regulator of pension sector in India, launched the National Pension System (NPS) in January 2004. The scheme was first introduced for government recruits and then in May 2009 for the general public.

NPS is available to all Indian citizens between 18 to 55 years of age. It is a defined contribution based product where returns are market determined (not fixed) while periodic contributions are fixed (defined). For example, one can invest `1,000 every month (defined contribution) in the NPS which can increase every year based on one's income levels. The accumulations would be invested in the chosen asset classes by professional fund managers. The final corpus available at the age of 60 years would depend on how the markets (equity and debt) have performed over the years and the value of the pension will depend on the size of this corpus. However, there is no assurance on the quantum of pension value to the beneficiary while opening an NPS account.

CHART NO. 1.1: SHOWS THE FUND MANAGEMENT STRUCTURE OF PFRDA



(Sources: PFRDA)

NATIONAL PENSION SYSTEM - CITIZENS

National Pension System was made available to the Indian Citizens from 1st May 2009.

All citizens of India, whether resident or non-resident aged between 18-60 years can subscribe to this scheme.

Under NPS two types of accounts have been made available

- **Tier-I account:** Non-withdraw able, pure retirement account launched with effect from 1st May 2009.
- **Tier II account:** Launched w.e.f. 1st December 2009. Citizens having Tier – I account can only open an account under Tier – II. This can be operated like a savings account. Individuals are free to withdraw their savings whenever they require.

NPS-LITE

The Pension Fund Regulatory and Development Authority (PFRDA) have introduced the **National Pension System-Lite (NPS-Lite) with effect from April 01, 2010**. PFRDA has appointed NSDL e-Governance Infrastructure Limited as Central Recordkeeping Agency (CRA) for NPS – Lite. CRA is the first of its kind venture in India which will carry out the functions of Record Keeping, Administration and Customer Service for all subscribers under NPS - Lite.

The NPS-Lite is basically designed with the intention to secure the future of the people who are economically disadvantaged and who are not financially well to do. Towards this endeavor NSDL has developed a NPS Lite system on a low charge structure. The servicing model is of NPS Lite is based on group servicing. The people forming part of this low income groups will be represented through their organizations known as 'Aggregators' who would facilitate in subscriber registration, transfer of pension contributions and subscriber maintenance functions. Subscribers in the age group of 18 to 60 can join NPS - Lite through the aggregator and contribute till the age of 60.

FUNDING OF DEFINED CONTRIBUTION PLANS

Defined contribution plans can also be funded by contributions of either the employee or the employer or both. Provident funds in India are funded by contributions of both the employee and the employer. The LIC Group Superannuation Scheme is funded by contribution by the employer of a fixed percentage of the salary of each employee. Provident funds declare interest annually based on the income they earn on investments made, which is credited to the employee's account. In the last few years, EPF has declared 12% interest; most exempted provident funds pay a similar rate. LIC declares interest on the accumulated contribution every year, which is a slab rate, based on the size of the fund.

Pension funds in India do not have a well-articulated mission statement. Even if not articulated, trustees often see their primary mission as compliance with the myriad guidelines and regulations. With respect to investments, the primary objective is usually to achieve the investment pattern prescribed, while a secondary objective is to achieve at least the return declared by the government provident fund. The focus has rarely been on ensuring adequate funding levels, matching of assets and liabilities or target replacement rates. The reason is partially the limited flexibility in investment management under the regulatory framework and partially a lack of focus on pension fund risk and the risk tolerance of the plan sponsors.

In defined contribution plans, the risk is usually borne entirely by the participating employee as his benefits are directly related to the accumulated contribution to his credit. If the pension or provident fund loses money in investments or earns lower than benchmark return, the employee bears the loss or opportunity loss. In defined contribution plans, each individual's contribution remains his and hence bequeathing of wealth is possible in case of premature death. However, the retirement income is less predictable as it depends on investment performance. There is no insurance element.

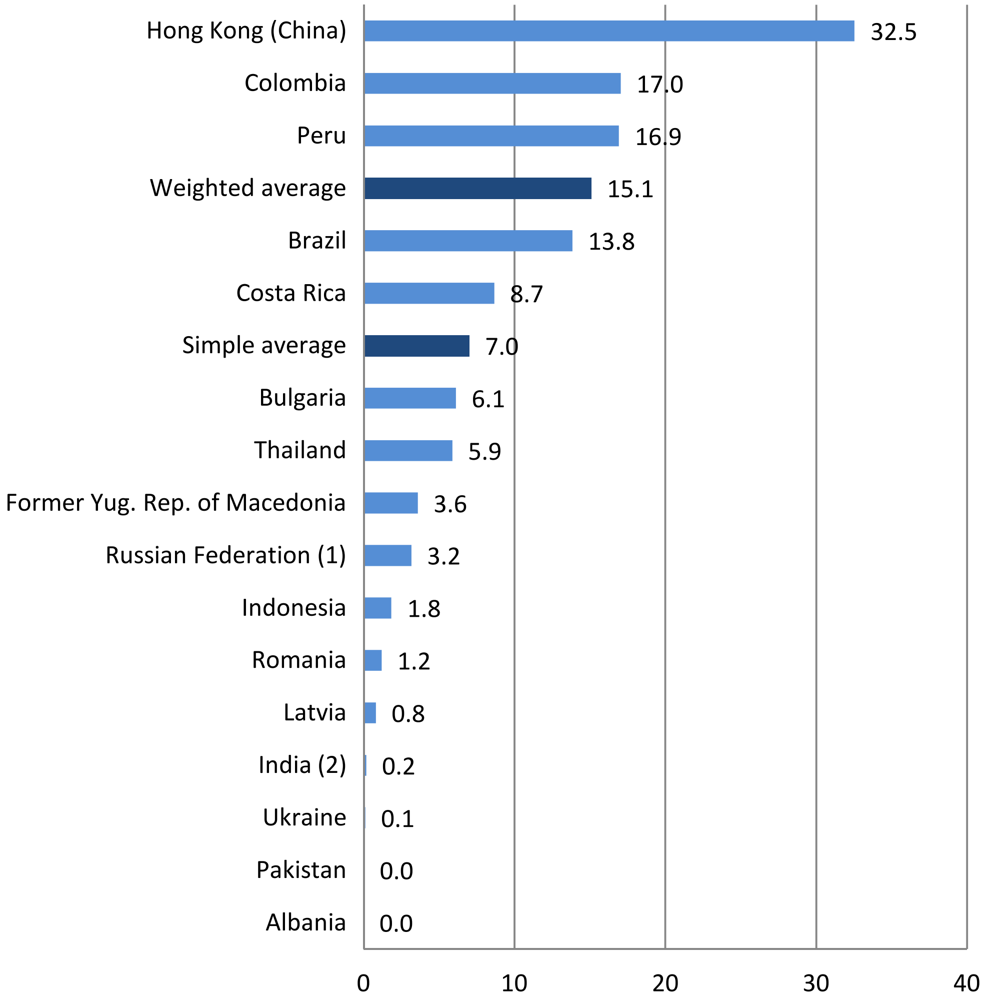
Conventionally, the focus has always been on "return" rather than "risk". Pension fund sponsors and trustees tend to see themselves as "return maximisers" rather than as "risk controllers". Even in India, a pension fund manager may bandy the return he generated without reference to the risk of the underlying portfolio. A deeper understanding of risk is rare to find. Pension fund risk may broadly be defined as the possibility that the fund's mission may not be achieved. Precise delineation and definition of all risks that the pension fund is exposed to is vital to good risk management. However, this is not a simple, but a highly challenging process.

PENSION FUND RISK

To the extent that assets and liabilities of a pension fund are not fully matched, the fund would be exposed to the following types of risk, which could cause underfunding.

1. Reinvestment risk
2. Inflation risk
3. Interest rate and price risks
4. Credit risk
5. Real wage growth risk
6. Insurance risks

CHART NO 1.2 SHOWS IMPORTANCE OF PENSION FUNDS RELATIVE TO THE SIZE OF THE ECONOMY COUNTRIES, 2011 (***AS A PERCENTAGE OF GDP***)



Source: OECD Global Pension Statistics.

METHODOLOGY

It's important to study about the performance of pension fund managers to know about the efficiency involved in maximization of returns and minimization of risk. There are so many factors influence on the performance of pension fund managers while calculating the returns, but one of the major factors is volatility of the stock market returns. In this globalised economy there are lot of changes in pension structure of the countries, even in India government changed from defined benefit scheme to defined contribution scheme and also private pension funds growing very fast in developing and developed economies. So the returns of these defined contribution funds depend of fund performance these fund performance resulted based on fund manager performances.

In this paper its made an attempt to know the returns from desired contribution based pension schemes in India, and also paper is covering the importance of fund managers performance for the growth and better returns of pension funds.

This study throws the light on the efficiency of pension fund manager's performance regarding maximization of the returns by diversifying the risk by introducing different schemes, considering the major factor of stock market volatility.

DATA ANALYSIS

INVESTMENT PATTERN PRESCRIBED FOR PENSION FUNDS

1. Fresh accretions to the fund and redemption amounts of investments made earlier should be invested as per the proportions specified.
2. Interest received under each category should be reinvested in the same category, without reference to any pattern. More particularly, interest received on Special Deposit Scheme should be reinvested in the Special Deposit Scheme.
3. The prescribed asset allocation in India has two objectives: To ensure safety of funds by disallowing investment in 'risky' assets such as equities. Investment in public sector undertakings is seen by the government as safer compared to investment in private sector companies.
4. To direct pension fund investments into channels desired by the government.

INVESTMENT OPTIONS

- **Risky option**: The higher allocation in this option will be in equity. To decrease the risk, equity investment is allowed only in index funds which track Sensex or Nifty with the equity exposure is capped at 50 per cent.
- **Moderate**: In this option most of the exposure would be to corporate debt and fixed income securities with some exposure in equity and govt. securities. It will be moderately risky and rewarding.
- **Safe**: In this option mainly the investment will be done in government securities, and very little will be invested in equities.
- **Default option**: Allocation will be decided on your age, with high equity allocation when you are young, which reduce as your age increases. You can also decide your asset allocation as per your risk appetite. Moreover, individual will also have choice to choose from 3 different asset classes: equity (E type), Govt. securities (G Type) and Credit risk-bearing debt or fixed income based investments (C Type).
- **Active Choice investment**: Investor can mix E, C and G type options as per their choice proportionately.
- **Auto Choice investment**: This is auto choice life cycle fund and the investment allocation will be done based of investor's age. In this scheme, equity portion (Asset class E) will be 50 per cent till age 35 after which it will reduce 2 per cent per year until it becomes 10 per cent by age 55. Credit risk portion (Asset class C) will be 30 per cent till age 35 after which it will reduce 1 per cent per year until it becomes 10 per cent by age 55. Investor will have option of investing monthly or quarterly, but minimum 4 investments in a year is compulsory.
- **As per the notification by PFRDA**, currently only half of the investment can go into equities, even if investor chooses the equity type funds. This limit will only be reviewed after a year.
- There will be regular account statements to keep information transparent.
- ***Target Asset Allocation***

A fund's asset allocation determines its investment performance more than any other factor. Active management strategies such as stock picking, sector weightage and trading strategies have been shown to contribute relatively less to investment performance. How well a fund achieves its objectives is, therefore, determined by how well its trustees have drawn up a long-term asset allocation policy.

Point of Presence (POPs)

Points of Presence (POPs) are the first points of interaction of the NPS subscriber with the NPS architecture. The authorized branches of a POP, called Point of Presence Service Providers (POP-SPs), will act as collection points and extend a number of customer services to NPS subscribers.

PENSION FUND MANAGERS

Pension Fund Managers for Government Sector NPS

1. LIC Pension Fund Ltd
2. SBI Pension Funds Pvt. Ltd
3. UTI Retirement Solutions Ltd

LIST OF PENSION FUND MANAGERS FOR PRIVATE SECTOR NPS

1. HDFC Pension Management Company Ltd
2. ICICI Prudential Pension Funds Management Company Ltd
3. Kotak Mahindra Pension Fund Ltd
4. LIC Pension Fund Ltd
5. Reliance Capital Pension Fund Ltd
6. SBI Pension Funds Private Ltd
7. UTI Retirement Solutions Ltd

ASSET VALUATION METHODOLOGIES ACROSS COUNTRIES

TABLE NO 1.2: SHOWS ASSET VALUATION METHODOLOGIES ACROSS COUNTRIES

Area	Country	Valuation methodology
Latin America	Argentina	Market value except certain public bonds, which are valued at "book value"
	Bolivia	Market value
	Brazil	Market value except certain bonds, which are valued at "book value"
	Chile	Market value
	Colombia	Market value except certain variable income securities (equities), which are valued according to a liquidity index during the valuation date.
	Costa Rica	Market value except for those instruments which a period of maturity less than 180 days, where the valuation at market prices is optional.
	El Salvador	Market value
	Mexico	Market value. However, due to practical limitations (e.g. liquid markets), some securities are marked-to-model
	Peru	Market value
	Uruguay	Market value
CEE	Czech Republic	Market value except financial instruments held to maturity, securities of a collective investment fund or financial instruments not actively traded on market, for which the valuation procedure is the average price of executed transactions.
	Estonia	Market value except cash and deposits with credit institutions, which are valued according to their book value
	Hungary	Market value
	Poland	Market value
	Kazakhstan	Market value
North Amer	Canada	Market value
	United States	Market value
Western Europe	Netherland	Market value
	Sweden	Market value
	United Kingdom	Market value
Asia Pacific	Australia	Market value
	Hong Kong	Market value
	Japan	Market value

FUND ALLOCATION STRUCTURE

Investors have the option to actively decide as to how your NPS pension wealth is to be invested in the following three options:

E - "High return, High risk" - investments in predominantly equity market instruments

C - "Medium return, Medium risk" - investments in predominantly fixed income bearing instruments

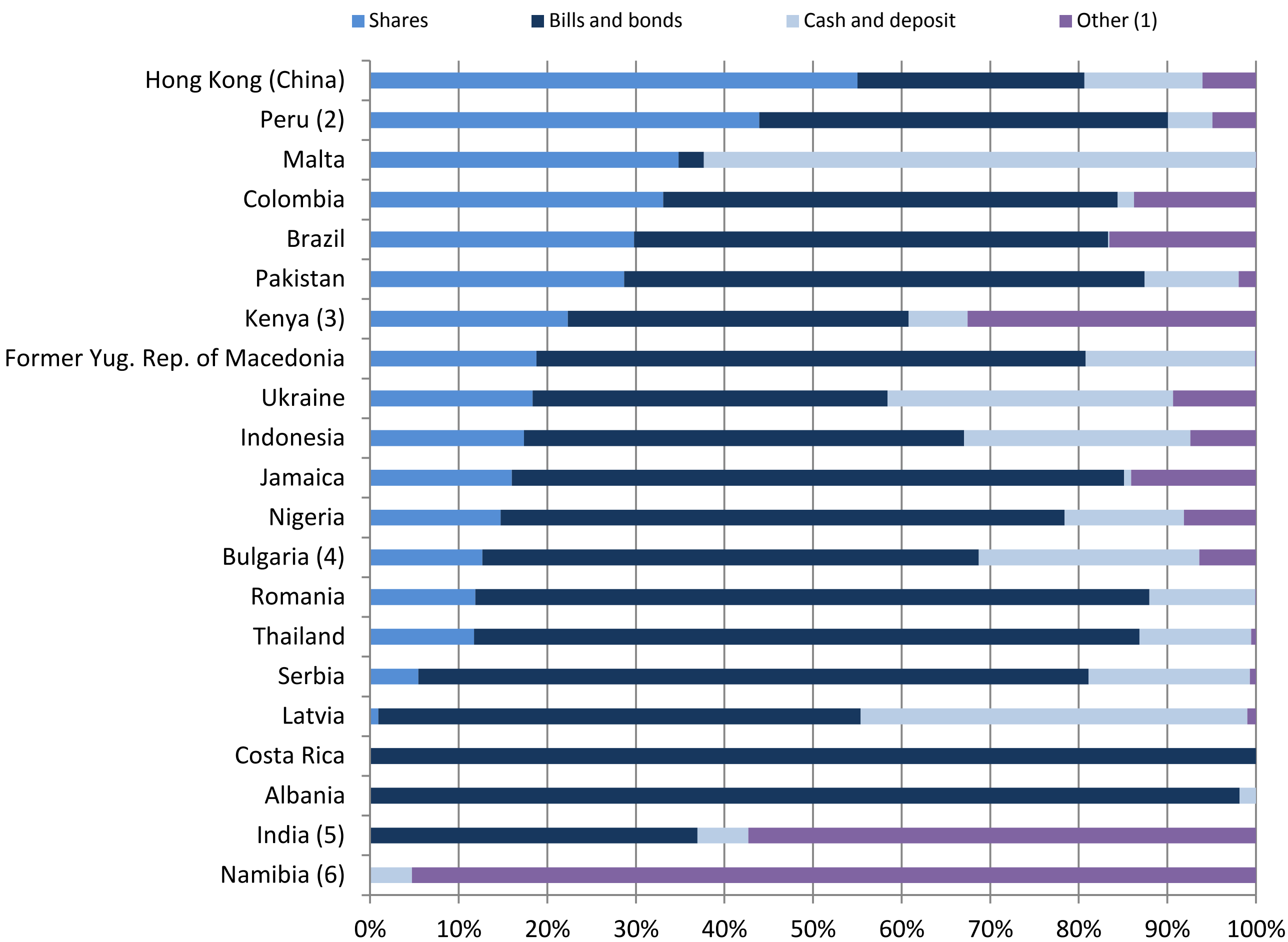
G - "Low return, Low risk" - investments in purely fixed income instruments.

Investors can choose to invest their entire pension wealth in C or G asset classes and up to a maximum of 50% in equity (Asset class E). Investors can also distribute their pension wealth across E, C and G asset classes, subject to such conditions as may be prescribed by PFRDA. The investments will be made in a life-cycle fund. Here, the percentage of funds invested across three asset classes will be determined by a pre-defined portfolio

TABLE 1.3: SHOWS THE FUND ALLOCATION STRUCTURE - LIFECYCLE OF FUND

Age	Asset Class E	Asset Class C	Asset Class G
Up to 35 years	50%	30%	20%
36 years	48%	29%	23%
37 years	46%	28%	26%
38 years	44%	27%	29%
39 years	42%	26%	32%
40 years	40%	25%	35%
41 years	38%	24%	38%
42 years	36%	23%	41%
43 years	34%	22%	44%
44 years	32%	21%	47%
45 years	30%	20%	50%
46 years	28%	19%	53%
47 years	26%	18%	56%
48 years	24%	17%	59%
49 years	22%	16%	62%
50 years	20%	15%	65%
51 years	18%	14%	68%
52 years	16%	13%	71%
53 years	14%	12%	74%
54 years	12%	11%	77%
55 years and above	10%	10%	80%

CHART NO 1.3 SHOWS PENSION FUND ASSET ALLOCATION FOR SELECTED INVESTMENT CATEGORIES IN SELECTED COUNTRIES, 2011 (AS A PERCENTAGE OF TOTAL INVESTMENT)



Source: OECD Global Pension Statistics.

APPOINTMENT OF INVESTMENT MANAGERS

Trustees have a duty to take expert advice on matters where they need help. This will normally apply to the duty to invest. For investments which are covered by the Financial Services Act 1986, trustees will need advice from a person who is properly authorised to carry out investment business. For other investments not covered by the Financial Services Act 1986, the trustees will need to be satisfied that the person from whom they take advice has appropriate knowledge and experience. Under the Financial Services Act 1986 it is a criminal offence for a person who is not properly authorised to carry on investment business. This means that anyone involved in the day to day management of the pension scheme's investments, or anyone giving advice on investments, must be authorised to do so. It is unusual for a board of trustees to seek authorisation under the Financial Services Act 1986. In practice, most trustees delegate the work of investment management to an authorised investment manager. Usually the investment manager will be authorised by the **Investment Management Regulatory Organisation (IMRO**). As with other professional advisers, the investment manager must be appointed by the trustees in writing. In addition, the Financial Services Act 1986 requires the trust to have a formal agreement with the investment manager setting out the investment needs and responsibilities.

Consequent upon the consensus arrived at the Chief Ministers' Conference; Government has authorized PFRDA to appoint a Central Record-Keeping Agency (CRA) and three Fund Managers from the Public Sector to manage the accumulated funds of Central Government employees. The services of the CRA and the Fund Managers have also been offered to the State Governments to manage the funds of their employees.

PFRDA has identified National Securities Depository Limited (NSDL) as the CRA and is in the process of finalizing a contract with it. Three sponsors of Pension Fund Managers have also been appointed; they are SBI, LIC, UTI- AMC. All the three sponsors have incorporated Pension.

An NPS Trust has also been registered which will be the registered owner of assets under the NPS. Thus, all the intermediaries under the NPS have been identified and the system is now ready to be rolled out by 1st June 2008. As regards the cost structure of the NPS, the fund management charges are to be in the range of 3-5 basis points (0.03% - 0.05%) of assets under management. The record keeping costs are low compared to the low volume at present. This cost will decline further once the volume increases under the system. The total cost of the NPS is estimated to be around 1% of the total assets under management (AUM) in the initial years and expected to decline to less than 0.5% of AUM within few years of its operation.

AVAIL BENEFITS AT A LOW COST

TABLE NO 1.4: SHOWS COST OF FUNDS

Intermediary	Charge Head	Service charges*	Method of Deduction
CRA	PRA Opening charges	`50	Through Cancellation of Units
	Annual PRA Maintenance Cost Per Account	`190	
	Charge per transaction	`4	
POP (Maximum Permissible Charge for each subscriber)	Initial subscriber registration	`100	To be collected upfront
	Initial contribution upload	0.25% of the initial contribution amount from subscriber subject to a minimum of `20 and a maximum of `25,000	
	Any subsequent transaction involving contribution upload	0.25% of the amount subscribed by the NPS subscriber, subject to minimum of `20 and a maximum of `25000	
	Any other transaction not involving a contribution from subscriber	`20	
PFM charges	Investment Management Fee	0.0009% p.a.	Through NAV deduction
Trustee Bank	Per transaction emanating from a RBI location	Zero	Through NAV deduction
	Per transaction emanating from a non-RBI location	`15	
Custodian (On asset value in custody)	Asset Servicing charges	0.0075% p.a. for Electronic segment & 0.05% p.a. for Physical segment	Through NAV deduction

**Service tax and other levies, as applicable, will be levied as per the existing tax laws.*

PENSION FUNDS (PFs)/PENSION FUND MANAGERS (PFMs)

Appointed PFMs would manage the retirement savings of subscribers under the NPS Lite. The PFMs are required to invest strictly in accordance with guidelines issued by the Government/PFRDA.

- The aggregators may choose one of the PFMs to whom the entire corpus can be entrusted, Or
- They may also choose to invest the contributions through all the three PFMs as per Central Govt. scheme.

TAX IMPLICATION OF NPS

- Employer contributing to the NPS on behalf of an employee will get deduction from his income (i.e. employer's income) an amount equivalent to the amount contributed or 10% of BASIC SALARY + DA of the employee, whichever is less. (Section 36 (1) (iv a) of the Income Tax Act 1961)
- Corporate can help their employees to lessen tax burden by saving in NPS up to 10% of their basic salary. This investment is another avenue over & above those of Section 80C of the Income Tax Act 1961, to secure their retirement well in advance.
- Additional contribution by individual employee is eligible for deduction from Income under Section 80CCD of the Income Tax Act 1961. However, investments under Section 80C plus the premium on pension products on Section 80CCC should not exceed `1 lakh per assessment year to claim for the deduction.

RETURNS FROM FUNDS

Subscribers of National Pension System (NPS) regulated by Pension Fund Regulatory and Development Authority (PFRDA) earned double digit returns of as much as 14.19 per cent during 2012-13. The pension scheme for other than government employee with investment focus on corporate debt generated return of 14.19 per cent while investment in government debt earned 13.52 per cent, an official statement said. Besides, Swavlamban scheme generated a return of 13.40 per cent. Pension scheme for Central Government earned a return of 2.39 per cent while the scheme for State Government generated 13 per cent, it said. The NPS, which was introduced by the Central Government in January 2004 for its new entrants and subsequently extended to the private sector in May 2009, has accumulated a corpus of `33,000crore contributed by 50 lakhs subscribers, it said. It is not only the cheapest retirement product but also as the highest returns generating scheme, PFRDA added.

TABLE NO 1.5 SHOWS NAV OF NPS LITE SCHEME OF LIC AND SBI

Year	NAV of LIC NPS LITE-Govt. Pattern	NAV of SBI Pension Fund - NPS Lite
2010	10.07	10.22
2011	10.68	10.88
2012	11.94	12.16
2013	13.25	13.61

CHART NO 1.4: SHOWS NAV OF NPS LITE SCHEME

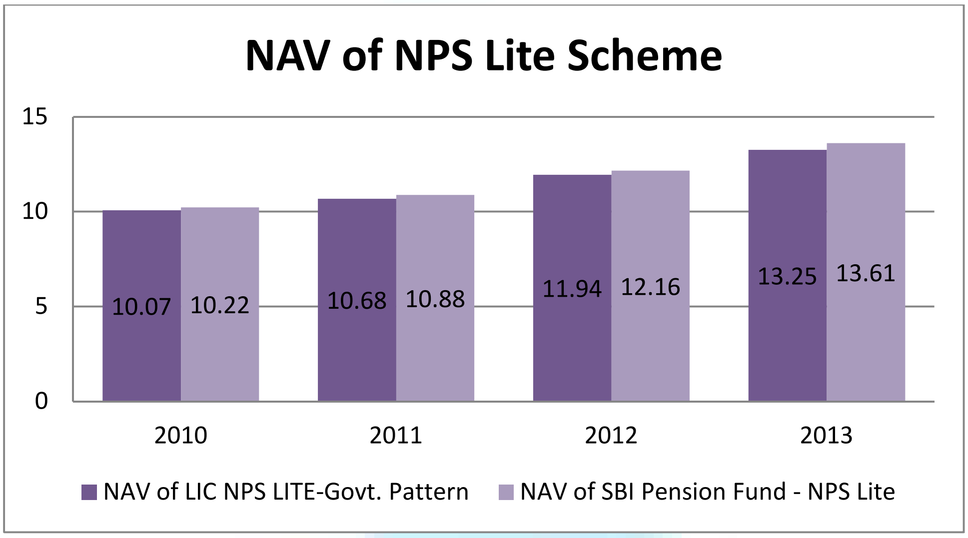
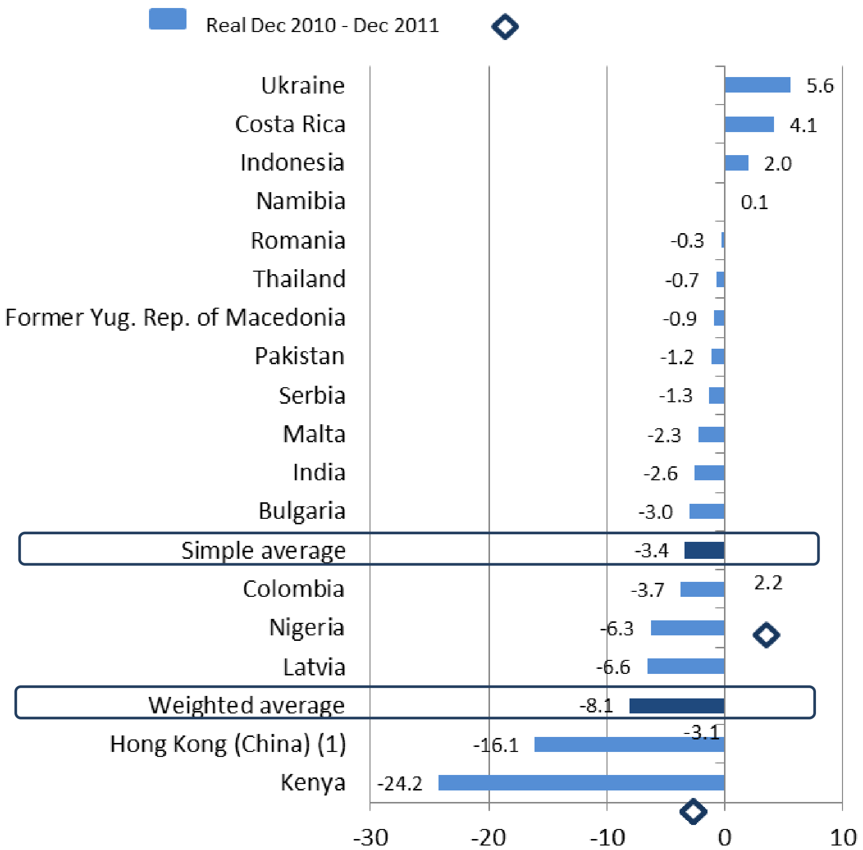


CHART NO 1.5 SHOWS CALCULATED AVERAGE REAL NET INVESTMENT RETURN OF PENSION FUNDS IN SELECTED COUNTRIES, 2011 IN PER CENT



Source: OECD Global Pension Statistics.

Performance of Pension Fund Managers, managing funds of Government Employees, was reviewed by the New Pension System Trust (NPST). The weighted average return as on 30/09/09, as reported by the Pension Fund Managers (un-audited figures), is as under:-

TABLE NO 1.6: SHOWS WEIGHTED AVERAGE RETURN AS ON 30/09/09 (MTM BASIS)

Sl. No.	Name of the Company	Returns (%)	% of funds allocated	Weightage %
1	LIC Pension Fund Ltd.,	10.57	29	3.0653
2	SBI Pension Fund Pvt. Ltd.,	13.41	40	5.364
3	UTI Retirement Solution Ltd.,	12.73	31	3.9463
			Weighted Average Return	12.3756%

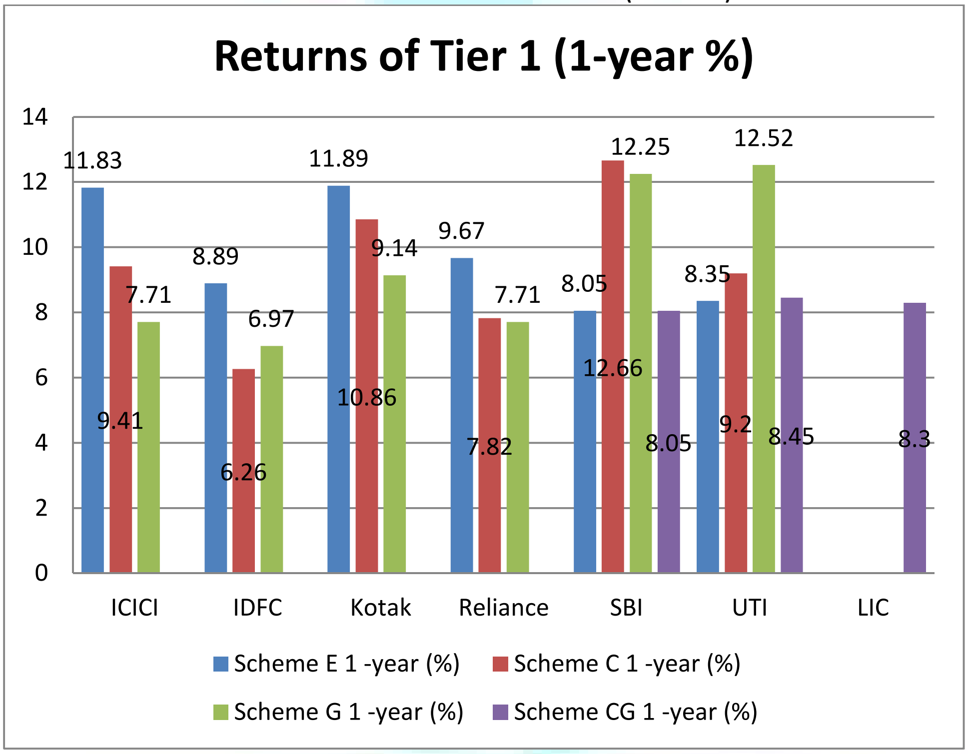
Source: OECD Statistics

TABLE NO 1.7: SHOWS RETURNS OF TIER 1 (1 –YEAR %)

	Scheme E	Scheme C	Scheme G	Scheme CG
PMF	1 -year (%)	1 -year (%)	1 -year (%)	1 -year (%)
ICICI	11.83	9.41	7.71	-
IDFC	8.89	6.26	6.97	-
Kotak	11.89	10.86	9.14	-
Reliance	9.67	7.82	7.71	-
SBI	8.05	12.66	12.25	8.05
UTI	8.35	9.2	12.52	8.45
LIC	-	-	-	8.3

*Source: NSDL

CHART NO 1.6: SHOWS RETURNS OF TIER 1 (1 –YEAR %)



*Source: NSDL

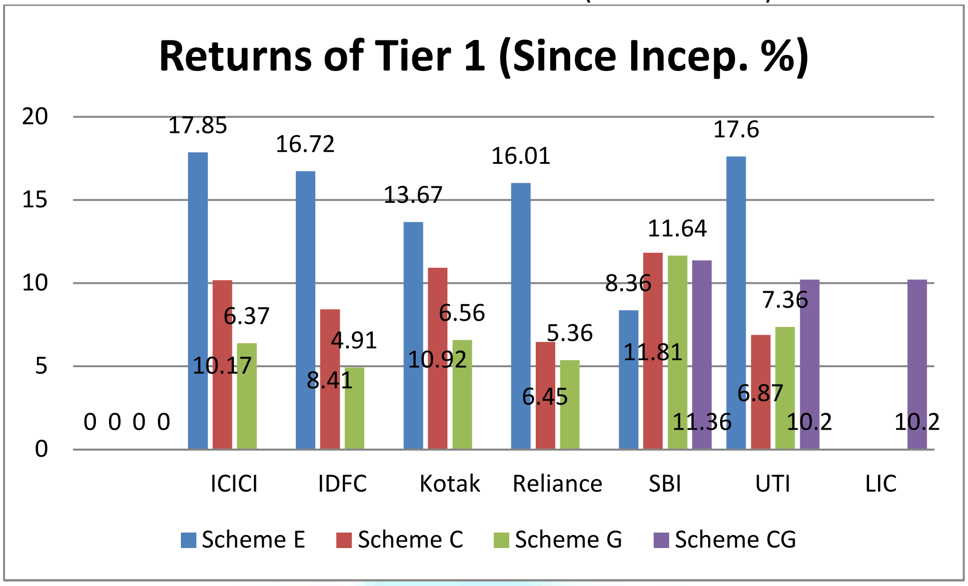
TABLE NO 1.8: SHOWS RETURNS OF TIER 1 (SINCE INCEPTION %)

	Scheme E	Scheme C	Scheme G	Scheme CG
PMF	Since Incep. (%)	Since Incep. (%)	Since Incep. (%)	Since Incep. (%)
ICICI	17.85	10.17	6.37	-
IDFC	16.72	8.41	4.91	-
Kotak	13.67	10.92	6.56	-
Reliance	16.01	6.45	5.36	-
SBI	8.36	11.81	11.64	11.36
UTI	17.6	6.87	7.36	10.2
LIC	-	-	-	10.2

*Source: NSDL

*Inception date of Scheme E, C and G are 1st May 2009 and Scheme CG is 1st April 2008

CHART NO 1.7: SHOWS RETURNS OF TIER 1 (SINCE INCEPTION %)



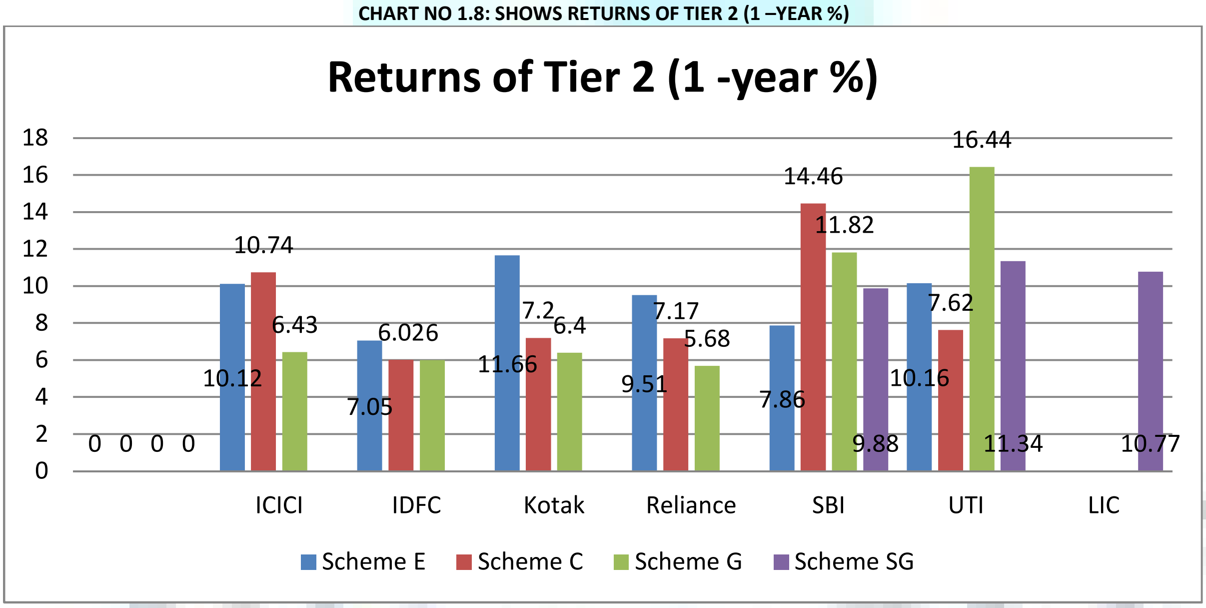
*Source: NSDL

TABLE NO 1.9: SHOWS RETURNS OF TIER 2 (1-YEAR %)

	Scheme E	Scheme C	Scheme G	Scheme SG
PMF	**1 -year (%)**	**1 -year (%)**	**1 -year (%)**	**1 -year (%)**
ICICI	10.12	10.74	6.43	-
IDFC	7.05	6.02	6	-
Kotak	11.66	7.2	6.4	-
Reliance	9.51	7.17	5.68	-
SBI	7.86	14.46	11.82	9.88
UTI	10.16	7.62	16.44	11.34
LIC	-	-	-	10.77

*Source: NSDL

CHART NO 1.8: SHOWS RETURNS OF TIER 2 (1 –YEAR %)



*Source: NSDL

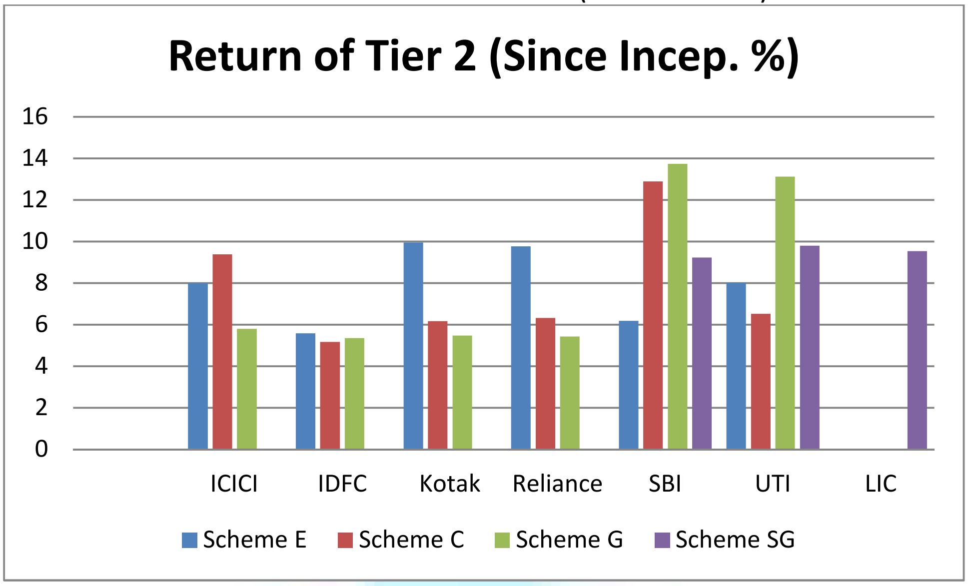
TABLE NO 1.10: SHOWS RETURNS OF TIER 2 (SINCE INCEPTION %)

	Scheme E	Scheme C	Scheme G	Scheme SG
PMF	**Since Incep. (%)**	**Since Incep. (%)**	**Since Incep. (%)**	**Since Incep. (%)**
ICICI	7.99	9.38	5.79	-
IDFC	5.58	5.17	5.34	-
Kotak	9.95	6.17	5.47	-
Reliance	9.77	6.32	5.43	-
SBI	6.18	12.88	13.74	9.22
UTI	8.01	6.52	13.11	9.8
LIC	-	-	-	9.53

*Source: NSDL

*Inception date of Scheme E, C and G are 14th December 2009 and Scheme SG is 25th June 2009

CHART NO 1.9: SHOWS RETURN OF TIER 2 (SINCE INCEPTION %)



*Source: NSDL

CONCLUSION

With the above analysis it is concluded in this paper, there has been a continuing trend into index funds and a movement away from active fund management, as a portfolio strategy for pension funds. It's suggest that there appears to be a role for active fund management of pension funds. It's very important the performance of the fund managers to give better returns on pension funds because retired person depend on the accumulated value of the assets in the pension fund at retirement. This is clearly situation for a defined contribution scheme where the relationship between the value of the fund and the pension is explicit. The value of the pension fund increases over time due to defined contribution and return from investment on the funds. These returns depends on the asset allocation and portfolio construction decisions of the fund managers.

The fund managers want to construct a good portfolio based on the investment objectives, by choosing best among the portfolio strategies of aggressive or passive portfolios, the portfolio which he manages should give good return when compared to the index return and another very important role by minimising the risk associated with the pension funds. Identifying and understanding the long term sustainability of defined contribution scheme in India in regard to return and risk will be considered for further research.

REFERENCES

1. Asher, Mukul G. 2008. "Pension Reform in India." In Raghbendra Jha, ed., The Indian Economy: Sixty Years after Independence, 66–93. London: Palgrave Macmillan.
2. Asher, Mukul G., and Amarendu Nandy. 2009. "NPS: Rationale and Suggestions." CFO Connect, September, 30–33.
3. Halan, M. 2009. "Is the New Pension System Really that Cheap?" LiveMint, 6 May.
4. Klumpes, P. J. M. and M. McCrae (1999), 'Evaluating the Financial Performance of Pension Funds: An Individual Investor's Perspective', Journal of Business Finance & Accounting , Vol. 26, Nos. 3&4, pp. 261–81.
5. Michaud, R. (1998), Efficient Asset Management, Harvard Business School Press, Boston, Massachusetts.
6. Occupational Pensions Regulatory Authority (2001). Annual Report 2000/2001. Brighton: OPRA.
7. Palacios, R., and Pallares-Miralles, M. (2000). 'International Patterns of Pension Provision'. Social Protection Discussion Paper No. 0009. Washington: World Bank.
8. Papke, Leslie E., Petersen, Mitchell, and Poterba, James M. (1996). 'Did 401(k) plans replace other employer-provided pensions?' in David Wise (ed.), Advances of the Economics of Aging. Chicago: University of Chicago Press
9. "Performance measurement for pension funds", Auke Plantinga, 2006 – available on the internet.
10. Sharpe, W. (1966), —Mutual fund performance. Journal of Business 39(1), 119-138.
11. Tapia, W. (2008a), —Private pension systems across countries , OECD Working Paper on Insurance and Private Pensions, No. 21.
12. Thomas, A., and Tonks, I. (2001). 'Equity performance of segregated pension funds in the UK'. Journal of Asset Management, 1/4: 321–43.
13. Tonks, I. (2002). 'Measuring pension fund performance in the UK', in J. Knight and S. Satchell (eds.), Performance Measurement in Finance. Oxford: Butterworth-Heinemann, 342–64.
14. Treynor, J. L. (1965). 'How to rate management of investment funds'. Harvard Business Review, 43 (Jan.–Feb.): 63 –75.
15. Walker, E, and A. Iglesias (2007), — Financial Performance of Pension Fund Systems around the World: An Explanatory Study, report prepared for the OECD – World Bank project on Investment Performance of Privately Managed Pension Funds.
16. Zheng, L. (1999), "Is Money Smart? A Study of Mutual Fund's Investors' Fund Selection", Journal of Finance, Vol.54 (3), pp.901-933.

AGE WISE STUDY OF JOB SATISFACTION OF DELHI UNIVERSITY FACULTY

NARANDER KUMAR NIGAM
RESEARCH SCHOLAR
DEPARTMENT OF FINANCIAL STUDIES
UNIVERSITY OF DELHI
NEW DELHI

SAUMYA JAIN
ASST. PROFESSOR
SHRI RAM COLLEGE OF COMMERCE
UNIVERSITY OF DELHI
NEW DELHI

ABSTRACT

The relationship between job satisfaction and performance can never be undermined. Job satisfaction is an inherent component in occupation of any nature. It is particularly important amongst teachers who are endowed with the task of imparting education to the future of the country and have great influence on their attitude and thinking. Little empirical research has been done till date regarding the job satisfaction level of teachers in higher education in developing countries like India. Through this study an attempt has been made to find out the level of satisfaction of teachers across age groups to find out how job satisfaction varies as age progresses. Factors contributing to satisfaction/dissatisfaction have also been identified. One of the most prestigious central universities, University of Delhi was chosen for this purpose. The study was a descriptive study and made use of standardized job satisfaction scale as a research tool. 163 faculty members working in Delhi University in 18 different colleges were selected between September to November 2013. The findings of study showed that most academic members of Delhi universities were satisfied with their job across all streams. There is no significant difference in job satisfaction amongst faculty members as a whole, however in faculty members within 25-35 age and 35-45 age , we found significant difference in satisfaction level in arts and commerce/economics.

KEYWORDS

Arts, Commerce, Delhi University, Faculty, Job Satisfaction.

INTRODUCTION

I am not a teacher, but an awakener."

— ***Robert Frost***

The above mentioned statement summarises the role that a teacher plays in the life of a student. Among many things, job satisfaction plays an important role in influencing the quality of teaching. Teachers, like all other employees have expectations from their job and dissatisfaction if any, may hamper their performance at work. As a person progresses in age, his expectations from work also change and consequently his perception about his job. An attempt has been made to find out the factors that contribute to satisfaction in different age groups and whether the satisfaction level of all age groups is equal. There are many studies regarding the factors contributing to satisfaction level of teachers. Some of them have been reviewed below.

LITERATURE REVIEW

Quality in teaching and learning can only enhanced if the faculty members are satisfied and content (Chen, 2006). In 1994 Luthans defined Job satisfaction as "an attitude developed by an individual towards the job and job conditions". In 1997 Spector refined the definition of job satisfaction to constitute an attitudinal variable that measures how a person feels about his or her job, including different facets of the job. Telman & Unsal 2004 classified the factors affecting job satisfaction into internal, external and personal. Internal factors include characteristics inherent to the nature of work. External factors are the conditions such as job responsibilities, promotion criteria, equation with superiors and co workers, creativity, job security, organizational structure and culture. Personal factors include factors such as gender, age, length of service, educational level , personality traits and incentive, knowledge and skills. There are several recent studies that have addressed the question of job satisfaction among academic members of higher education in Asia – Pacific area. Regarding the relationship between faculty job satisfaction and demographic variable of academics in a public higher education in Singapore, Paul and Phua (2011) indicated that respondents related satisfaction with interpersonal relationships with students and co-workers, the autonomy and flexibility that the job offered. Conversely, they expressed dissatisfaction over the amount of administrative/non academic work they had to shoulder, heavy workload, salary, presence of 'red tape' and other corporate practices and dealing with disruptive students. Age and job position affected the job satisfaction levels of the respondents. However, variables such as gender, academic qualification, length of employment and marital status showed no significant difference. The study of Noordin and Jusoff (2009) comprised two hundred and thirty-seven of academics from a public university in Malaysia that overall the academic staff of the university has a moderate level of job satisfaction. In addition, current status, marital status, age and salary appear to have significant impact on the respondents' level of job satisfaction. In their research with faculty from three private universities in Malaysia, Santhapparaj and Alam (2005) found that pay, promotion, working condition and support of research have positive and significant effect on job satisfaction. Regarding the relationship between incentives, rewards and recognition on employee motivation and job satisfaction of two hundred and nineteen of academic member of Hue University in Vietnam, Nguyen et al., (2013) found that significantly positive relationship between reward and recognition, satisfaction with supervision and the job characteristics, with job satisfaction as well as a very positive and significant relationship was also observed between job satisfaction and personal motivation. Sabharwal & Corley (2009**)** concluded that across all disciplines, female faculty members expressed lower levels of satisfaction when compared with male faculty members and that women might place a greater emphasis on intrinsic (contribution to the society, opportunities for advancement, intellectual challenges) than extrinsic factors (salary and benefits)

NEED OF THE STUDY

University of Delhi is a premier educational body that attracts students from all over the world. Given the high regard which parents, students, academicians and foreign universities attribute to this institution it becomes necessary to examine how motivated the faculty members are with respect to their duties and the level of satisfaction and security they have at work. Delhi University offers numerous courses across many streams and this study attempts to make intra and inter stream comparision of job satisfaction . In 1998, UGC made NET a minimum eligibilty requirement. After the introduction of Sixth Pay Commission, salaries of teachers increased considerably and this profession became attractive for youngsters who traditionally chose other career options. Due to this trend, Delhi University now consists of a pool of teachers of all age groups. Through this study, an attempt has been made to find out the how level of satisfaction varies with age. This study has been done post the introduction of historic change in undergraduate education-the introduction of Four Year Undergraduate Program (FYUP) so as to present the most recent trend in job satisfaction. It is hoped that this study can become the reference point for addressing the concerns of the teachers.

OBJECTIVES OF THE STUDY

The following were the objectives of the study:

1. To see the impact of age on job satisfaction.
2. To study the impact of age in job satisfaction across academic streams.
3. To find the causes of job satisfaction and job dissatisfaction at different age levels.

RESEARCH HYPOTHESIS

1. Job satisfaction level across age groups is equal.
2. Job satisfaction level of different age group faculty is equal across academic streams.

RESEARCH METHODOLOGY

SAMPLING DESIGN

At present, there are 16 faculties, 86 academic departments, 77 colleges and 5 other recognised institutes spread all over the city. The current research focuses job satisfaction amonst age groups of different academic streams. So in order to find job satisfaction in Delhi University, 18 colleges were chosen out of 77. To know impact of ages on job satisfaction, sample was divided into four age groups: Less than 25, 25-35, 35-45 and more than 45. In our data 15 respondents were less than age of 25, 88 respondents were between 25-35 age, 31 respondents were between 35-45 age and 29 respondents were more than age of 45.

TABLE 1 :AGE OF RESPONDENTS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 25	15	9.2	9.2	9.2
	25-35	88	54.0	54.0	63.2
	35-45	31	19.0	19.0	82.2
	above 45	29	17.8	17.8	100.0
	Total	163	100.0	100.0	

For further study we took three streams namely Arts, Science and commerce/economics to see the impact of age on academic stream. In the first age group, the sample consisted of total 15 members less than 25 age, 7 in arts, and 8 members in commerce/economics. No respondents were there in this age group in Science.

TABLE 2 : ACADEMIC STREAM OF RESPONDENT (LESS THAN 25)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Arts	7	46.7	46.7	46.7
	commerce/economics	8	53.3	53.3	100.0
	Total	15	100.0	100.0	

There were 88 members between ages 25-35, 21 members in arts, 50 members in commerce/economics, and 17 members in science.

TABLE 3 : ACADEMIC STREAM OF RESPONDENT (25-35)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Arts	21	23.9	23.9	23.9
	commerce/economics	50	56.8	56.8	80.7
	Science	17	19.3	19.3	100.0
	Total	88	100.0	100.0	

There were total 31 members between ages 35-45, 10 members from arts, 7 from commerce/economics and 14 members from science.

TABLE 4 : ACADEMIC STREAM OF RESPONDENT (35-45)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Arts	10	32.3	32.3	32.3
	commerce/economics	7	22.6	22.6	54.8
	Science	14	45.2	45.2	100.0
	Total	31	100.0	100.0	

There were total 29 members belonging to age more than 45, 9 in arts, 8 in commerce/economics, and 12 members in science

TABLE 4: ACADEMIC STREAM OF RESPONDENT (MORE THAN 45)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Arts	9	31.0	31.0	31.0
	commerce/economics	8	27.6	27.6	58.6
	Science	12	41.4	41.4	100.0
	Total	29	100.0	100.0	

PRETESTING

It was pretested (self administered tests) on a sample of 12 respondents who were chosen as a result of judgment sampling and take their feed back to finalize Questionnaire.

RESULTS OF PRETESTING

In this research, internal consistency analysis (Cronback's alpha) was conducted to assess the reliability of this constructed measurement for job satisfaction of academic members. All five aspects were indentified to measure the variable of job satisfaction which is the dependent variable of this study.

DEPENDENT AND INDEPENDENT VARIABLES

Job satisfaction has been identified as the dependent variable in this study. It consists of seventeen dimensions of five aspects. The first aspect is nature of Job such as qualification, manageable workload, and atmosphere contributing to professional growth, academic challenges, and sufficient freedom. The second aspect is Benefits from Job such as satisfactory salary, job security, growth opportunities, and learning opportunities. The third aspect is Social Relations such as cooperation from colleagues, responsive seniors, and student's interaction. The fourth aspect is Managerial Aspects of Job such as work is recognized, employee friendly management policies, and extent of involvement in management decisions. The fifth aspect is such as Facilities: infrastructure facilities and welfare facilities.

DATA ANALYSIS METHOD

Questionnaire survey was used to gather data in this study. As there were 17 question in questionnaire and each question has 5 option (1 = Strongly Disagree, 2 = disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree.) The respondents were weighted on a 4-point Likert's scale to measure job satisfaction of faculty in Delhi university (1 = Very Dissatisfied, 2 = Dissatisfied, 3 = Satisfied, 4 = Very Satisfied). The questions were combined into one summated scale on which the tests were performed.

1= Less than to equal 33,
2= Between 34-50,
3= Between 51-67,
4= More than equal to 68.

All data were analyzed using the Statistical Package for the Social Sciences (SPSS) 20.0 software. As the number of respondents are more than 30, data is normally distributed and all parametric tests can be applied (Central Limit Theorem).

Statistical Tools Used

1. Co-efficient of Reliability
2. Student's 't'- test
3. Test of Homogeneity of Variances
4. Arithmetic mean and median
5. ANOVA
6. Kruskal Wallis Test (Nonparametric)

RESULTS AND DISCUSSION

RELIABILITY

In this research, internal consistency analysis was conducted to assess the reliability of this constructed measurement for job satisfaction of academic members. All five aspects were indentified to measure the variable of job satisfaction which is the dependent variable of this study.

TABLE 5: RELIABILITY STATISTICS

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.761	.810	17

The internal consistency analysis yielded Cronbach's alpha coefficients 0.761, which is significantly higher than the 0.7. Hence, based on the validation of construct reliability it is concluded that research construct of job satisfaction is reliable in this study.

LEVEL OF JOB SATISFACTION

Across ages

As there are four independent samples, so to apply ANOVA, Variances should be equal across the groups. At a significance level of 5% there is difference between Variances among groups or we can say variance of at least two groups is different. So ANOVAcannot be applied. To compare of mean more than two groups Kruskal Wallis test is used.

TABLE 6 : TEST OF HOMOGENEITY OF VARIANCES

Levene Statistic	df1	df2	Sig.
3.527	3	159	.016

At a significance level of 5% there is no difference in level of satisfaction across ages, as p- value (.629) is more than then 0.05. It is concluded that ages do not impacts level of satisfaction across different age groups.

TABLE 7: RANKS

	age of respondent	N	Mean Rank
Jst	less than 25	15	85.40
	25-35	88	85.06
	35-45	31	72.44
	above 45	29	81.17
	Total	163	

Test Statistics[a,b]

TABLE 8 : KRUSKAL WALLIS TEST

	Summated Scale
Chi-Square	1.734
df	3
Asymp. Sig.	.629
a. Kruskal Wallis Test	
b. Grouping Variable: age of respondent	

Comparision across Academic streams

Age Group : Less the Age 25

In our data there are only two streams of faculty members, aged less than 25, Arts and Commerce/Economics. As sample size is two so "T" test is applied.

TABLE 9 : GROUP STATISTICS

	Acad Stream of respondent	N	Mean	Std. Deviation	Std. Error Mean
jst	Arts	7	60.4286	5.91205	2.23455
	commerce/economics	8	65.8750	6.72814	2.37876

On the basis of mean score, all comes under third group (mean score within 50-67) means all groups are satisfied.

TABLE 9 : INDEPENDENT SAMPLES TEST

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
jst	Equal variances assumed	.198	.664	-1.653	13	.122	-5.44643	3.29394	-12.56256	1.66970
	Equal variances not assumed			-1.669	12.997	.119	-5.44643	3.26369	-12.49736	1.60450

At a significance level of 5% there is no significance difference in level of satisfaction in arts and commerce/economic as p- value (.122) is more than then 0.05. This means younger faculty member's satisfaction level does not change as streams changes.

Age Group: 25 - 35

As there are three independent samples, so to apply ANOVA Variances should be equal across the groups. At a significance level of 5% there is no difference in Variances across groups.

TABLE 10 : TEST OF HOMOGENEITY OF VARIANCES (JOB SATISFACTION)

Levene Statistic	df1	df2	Sig.
.857	2	85	.428

At a significance level of 5%, for faculty ages within 25-35, there is a significant difference in level of job satisfaction among different academic streams, as p-value (.015) is less than 0.05 so we can say Satisfaction level of at least two groups is different.

TABLE 11 : ANOVA (JOB SATISFACTION)

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	467.697	2	233.848	4.397	.015
Within Groups	4520.122	85	53.178		
Total	4987.818	87			

To see which groups have different level of satisfaction, we apply multiple comparisons (Tukey).

Dependent Variable: Job Satisfaction

Tukey HSD

TABLE 12: MULTIPLE COMPARISIONS

(I) Acad Stream of respondent	(J) Acad Stream of respondent	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
arts	commerce/economics	-5.61143*	1.89627	.011	-10.1349	-1.0880
	science	-4.33613	2.37916	.168	-10.0115	1.3392
commerce/economics	arts	5.61143*	1.89627	.011	1.0880	10.1349
	science	1.27529	2.04736	.808	-3.6086	6.1592
science	arts	4.33613	2.37916	.168	-1.3392	10.0115
	commerce/economics	-1.27529	2.04736	.808	-6.1592	3.6086
*. The mean difference is significant at the 0.05 level.						

According to our scale all faculty members are satisfied, mean value of satisfaction level faculty in commerce/economics (mean= 64.04), faculty in arts (mean= 58.42) and faculty in science (mean= 62.76).

At significance level of 5%, level of job satisfaction among commerce/economics and arts differ significantly, as p- value (.011) is less than 0.05.

At significance level of 5%, satisfaction level of faculty in Science is not significantly differing from faculty in Arts.

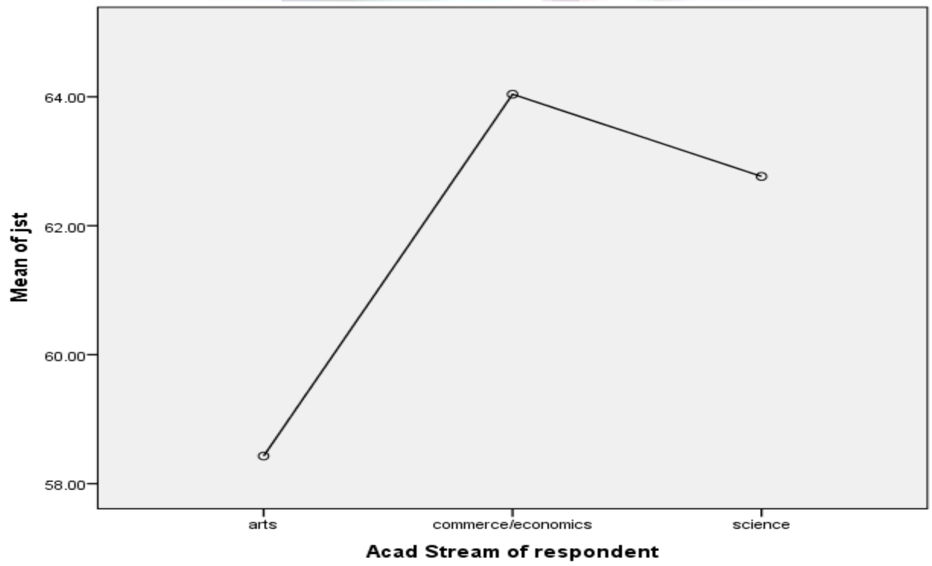
At significance level of 5%, satisfaction level of faculty in Science is not significantly differing from faculty in commerce/economics.

Tukey HSD

TABLE 13 : MEAN

Acad Stream of respondent	N	Subset for alpha = 0.05	
		1	2
Arts	21	58.4286	
Science	17	62.7647	62.7647
commerce/economics	50		64.0400
Sig.		.107	.819
Means for groups in homogeneous subsets are displayed.			
a. Uses Harmonic Mean Sample Size = 23.726.			
b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.			

The mean plot shows satisfaction level of faculty member ages within 25-35 across different stream.



Ages Group : 35-45

As there are three independent samples, so to apply ANOVA Variances should be equal across the groups. At a significance level of 5% there is difference between Variances among groups or we can say variance of at least two groups is different. So ANOVA is not appropriate test here. To compare of mean more than two groups Kruskal Wallis test is used (Nonparametric test)

TABLE 14: TEST OF HOMOGENEITY OF VARIANCES

Levene Statistic	df1	df2	Sig.
3.823	2	28	.034

At a significance level of 5% there is difference in level of satisfaction across different academic streams in faculty ages within 35-45, as p- value (.028) is less than 0.05.

Test Statistics[a,b]

TABLE 15: KRUSKAL WALLIS TEST

	Job Satisfaction
Chi-Square	7.125
Df	2
Asymp. Sig.	.028
a. Kruskal Wallis Test	
b. Grouping Variable: Acad Stream of respondent	

Faculty member in commerce/economics (Mean rank= 23.07) are more satisfied then faculty members in Science (Mean rank= 15.93) and Arts (Mean rank= 11.15), in particular this age group. This maybe because of greater opportunities in Commerce stream and large number of enrolments.

TABLE 16: RANKS

	Acad Stream of respondent	N	Mean Rank
jst	Arts	10	11.15
	commerce/economics	7	23.07
	Science	14	15.93
	Total	31	

Age Group : 45 and above

As there are three independent samples, so to apply ANOVA Variances should be equal across the groups. At a significance level of 5% there is no difference between Variances among groups.

TABLE 17: TEST OF HOMOGENEITY OF VARIANCES

Levene Statistic	df1	df2	Sig.
.404	2	26	.672

At a significance level of 5%, for faculty ages 45 and above, there is a no significant difference in level of job satisfaction among different academic streams, as p-value (.4) is more than 0.05 or we can say Satisfaction level of all groups is same.

TABLE 18: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	256.860	2	128.430	.950	.400
Within Groups	3515.347	26	135.206		
Total	3772.207	28			

CAUSES OF JOB SATISFACTION AND JOB DISSATISFACTION

Age Group : Less than 25

Faculty members in this section are satisfied with work acc. to qualification and skills (mean= 4.6), student interaction in class room (mean= 4.46) and satisfactory salary (mean= 4.26), and dissatisfied with welfare facilities (mean=2.866) like gym, parking, sports, health facilities etc, management decision involvement (mean= 2.6) and job security (mean= 2.90). The following table shows the factors contributing to satisfaction/dissatisfaction.

TABLE 19: DESCRIPTIVE STATISTICS

	N	Mean	Std. Deviation	Minimum	Maximum
work acc. to qualification and skills	15	4.6000	.50709	4.00	5.00
job security	15	2.8667	1.12546	1.00	4.00
conducive atmosphere contributing to growth	15	3.8667	.63994	3.00	5.00
academic challenges	15	3.9333	.59362	3.00	5.00
learning opportunities	15	3.3333	.97590	2.00	5.00
cooperation from colleagues	15	4.4667	.63994	3.00	5.00
workload managable	15	3.8000	.77460	2.00	5.00
seniors responsive to needs	15	4.3333	.72375	3.00	5.00
student interaction	15	4.4667	.83381	2.00	5.00
sufficient freedom	15	4.0667	.96115	2.00	5.00
is ur work recognized	15	3.533	.9155	2.0	5.0
growth opportunities	15	3.3333	.81650	2.00	4.00
employee friendly management policies	15	3.8667	.74322	2.00	5.00
involves u in manag decisions	15	2.6000	1.40408	1.00	4.00
satisfactory salary	15	4.2667	.70373	3.00	5.00
satisfactory acaemic infrastructure	15	3.1333	1.24595	1.00	5.00
welfare facilities	15	2.8667	1.35576	1.00	5.00

Age Group : 25-35

In this group faculty members are satisfied with work acc. to qualification and skills (mean= 4.47) and student interaction (mean= 4.45) in class room, and dissatisfied with job security (mean= 2.90) and management decision involvement (mean= 2.79).

DESCRIPTIVE STATISTICS

	N	Mean	Std. Deviation	Minimum	Maximum
work acc. to qualification and skills	88	4.4773	.60605	3.00	5.00
job security	88	2.9091	1.40309	1.00	5.00
conducive atmosphere contributing to growth	88	3.6818	.91658	1.00	5.00
academic challenges	88	3.9773	.74243	1.00	5.00
learning opportunities	88	3.3523	1.00619	1.00	5.00
cooperation from colleagues	88	3.9773	.71079	2.00	5.00
workload manageable	88	4.0227	.83014	2.00	5.00
seniors responsive to needs	88	3.9659	.74970	2.00	5.00
student interaction	88	4.5682	.56315	2.00	5.00
sufficient freedom	88	3.9091	.76769	2.00	5.00
is ur work recognized	88	3.500	.8023	1.0	5.0
growth opportunities	88	3.4432	.94514	1.00	5.00
employee friendly management policies	88	3.5341	.84349	1.00	5.00
involves u in manag decisions	88	2.7955	1.25175	1.00	5.00
satisfactory salary	88	3.8864	.86346	1.00	5.00
satisfactory acaemic infrastructure	88	3.3409	1.22133	1.00	5.00
welfare facilities	88	3.1136	1.18837	1.00	5.00

Age Group : 35-45

Faculty members in this section re satisfied with work acc. to qualification and skills (mean= 4.35) and student interaction in class room (mean= 4.58), and dissatisfied with welfare facilities (mean= 2.83) like gym, parking, sports, health facilities, management decision involvement (mean= 2.74) and learning opportunities (mean= 2.83)

DESCRIPTIVE STATISTICS

	N	Mean	Std. Deviation	Minimum	Maximum
work acc. to qualification and skills	31	4.3548	.75491	2.00	5.00
job security	31	3.9032	.94357	1.00	5.00
conducive atmosphere contributing to growth	31	3.5484	.96051	2.00	5.00
academic challenges	31	3.8387	.77875	2.00	5.00
learning opportunities	31	2.8387	.86011	1.00	4.00
cooperation from colleagues	31	4.0000	.73030	2.00	5.00
workload manageable	31	3.4839	.99569	1.00	5.00
seniors responsive to needs	31	3.6774	.87129	2.00	5.00
student interaction	31	4.5806	.50161	4.00	5.00
sufficient freedom	31	3.6774	.87129	2.00	5.00
is ur work recognized	31	3.710	.9727	1.0	5.0
growth opportunities	31	3.1613	.93441	1.00	5.00
employee friendly management policies	31	3.2258	.92050	1.00	5.00
involves u in manag decisions	31	2.7419	1.06357	1.00	5.00
satisfactory salary	31	3.6774	.74776	2.00	5.00
satisfactory acaemic infrastructure	31	3.0000	1.29099	1.00	5.00
welfare facilities	31	2.8387	1.21372	1.00	5.00

Age Group : 45 and above

Faculty members in this section were satisfied with work acc. to qualification and skills (mean= 4.44), student interaction in class room (mean= 4.55), satisfactory salary (mean= 4.41) , job security (mean=4.58) and dissatisfied with welfare facilities (mean= 2.93), management decision involvement (mean= 2.86), learning opportunities (mean= 2.82) & academic infrastructure (mean= 2.89)

DESCRIPTIVE STATISTICS

	N	Mean	Std. Deviation	Minimum	Maximum
work acc. to qualification and skills	29	4.4483	.82748	2.00	5.00
job security	29	4.5862	.50123	4.00	5.00
conducive atmosphere contributing to growth	29	3.3103	1.13715	1.00	5.00
academic challenges	29	3.6207	1.17758	1.00	5.00
learning opportunities	29	2.8276	1.00246	1.00	5.00
cooperation from colleagues	29	3.5172	1.08958	2.00	5.00
workload manageable	29	4.0000	.92582	1.00	5.00
seniors responsive to needs	29	3.5862	.90701	2.00	5.00
student interaction	29	4.5517	.73612	2.00	5.00
sufficient freedom	29	3.9310	.84223	2.00	5.00
is ur work recognized	29	3.724	.9963	2.0	5.0
growth opportunities	29	3.1379	.99010	1.00	5.00
employee friendly management policies	29	3.3448	1.14255	1.00	5.00
involves u in manag decisions	29	2.8621	1.30176	1.00	5.00
satisfactory salary	29	4.4138	.50123	4.00	5.00
satisfactory acaemic infrastructure	29	2.8966	1.37178	1.00	5.00
welfare facilities	29	2.9310	1.27982	1.00	5.00

CONCLUSION

The findings described in this study, there is no significant difference in level of job satisfaction across age groups. However, in faculty age groups 25-35 and 35-45, satisfaction level is significantly different across academic streams.On the basis of mean commerce/economics satisfied more than Arts.

In the initial age , teachers are satisfied with salary, student's interaction in class rooms and work according to their qualification and skills.In this young age,the prime concern is earning money and getting a job suited to one;s qualification. Delhi university scores good on these counts. As people grow older , satisfaction shifts to job security and as they get permanent position in Delhi University, salary also increases which contributes to greater satisfaction.

In the initial age faculty members are dissatisfied with job security, welfare facilities provided by University and management decision involvement. This is because in the intial age, teachers are appointed on an ad-hoc/temporary basis contributing to job insecurity. Due to lack of experience, they are also not involved in decision making. However, in later ages they are dissatisfied due to lack of learning opportunities as they become stagnant in their career after achieving permanent position and repeatedly teaching the same subject over the years , and they want change and opportunity to grow.

LIMITATIONS

In this study, the data obtained through questionnaires were all self-reports from the participants to determine which aspects of their position are satisfying and dissatisfying, hence, the findings may be subject to response consistency effect. On the other hand, this study cannot be generalized to all other university in India; the findings of this study are restricted to the University of Delhi which the samples were drawn.

REFERENCES

1. Abdul, Q.C. (2013), '*Job satisfaction of university teachers across the demographic. Bulletin of Education and Research*' Pp 1-15
2. C.L. & Au, W.T. (2006), *Teaching satisfaction scale: measuring job satisfaction of teachers*, Educational and psychological Measurement, 66, 172-185
3. Gautam, M., Mandal, K. &Dalal (2006), *'Job satisfaction of faculty members of veterinary sciences: An Analysis.* Livestock Research for Rural development
4. Ghafoor, M.M. (2012), *Role of demographic characteristics on job satisfaction,*Far East Research Centre
5. Ghazi, S.R., Ali, R., Shahzada, G. &Israr, (2010)*, 'University teachers' job satisfaction in the North West Frontier province of Pakistan'*
6. http://ies.ed.gov/ncee/wwc/pdf/practiceguides/Turnaround_pg_04181.pdf
7. http://www.informaworld.com/smppcontent~content=a713677196? words=factors %7crelated%7cjob%7c satisfaction&hash=2182297297
8. Jaime X. Castillo & Jamie Cano (2004) '*Factors explaining job satisfaction among faculty*', Journal of Agriculture Education, Vol 45, 65-74
9. '*Job satisfaction and gender factor of administrative staff in South West Nigeria universities*'.Olorunsola, O.E. (2010) EABR & ETLC Conference proceedings Dublin, Ireland, 91-95
10. M.R.(1999*),Teacher job satisfaction in developing countries. Educational research supplemental series*, ERIC Document Reproduction Service No. ED 458 150
11. Malik, N. (2011), *Study on job satisfaction factors of faculty members at university of Balochistan*, International Journal of Academic Research, 267-272
12. Mehboob, F., Sarwar, M.A. & Bhutto, N.A. (2012), '*Factors affecting job satisfaction among faculty members*, Asian Journal of Business and Management Sciences, 1 (12), 1-9
13. Noordin, F. & Jusoff, K. (2009), *Levels of job satisfaction amongst Malaysian academic staff.* Asian Social Science, 5 (5), 122-128
14. Platsidou, M.,& Diamantopoulou, G. (2009*), Job satisfaction of Greek university professors: Is it affected by demographic factors, academic rank and problem of higher education?*

THE EFFECT OF OWNERSHIP STRUCTURE ON AUDIT QUALITY

ROYA DARABI
ASST. PROFESSOR
DEPARTMENT OF ACCOUNTING
SOUTH TEHRAN BRANCH
ISLAMIC AZAD UNIVERSITY
IRAN

NOTASH MOGHADAM
STUDENT
DEPARTMENT OF ACCOUNTING
ESLAMSHAHR BRANCH
ISLAMIC AZAD UNIVERSITY
IRAN

ABSTRACT

The objective of the current study is to survey the effect of the ownership structure on the auditing quality of the companies accepted in Tehran's Securities Exchange. Therefore, by using the data collected from the study sample which includes 106 companies during a 5-year period from 2007 to 2012, this effect has been studied. The study methodology is in the applied form from the study objective point of view and it is of the descriptive-correlation type and the model's variables relationship has been dealt with by making use of the Pierson correlation coefficient and to analyze the model logistic regression has been used. To test the ownership structure as the independent variable this structure was evaluated in three items which include ownership concentration, block ownership, and institutional ownership. The company size and the company leverage were chosen as the study control variables. The study results show that, generally, from among the three hypotheses of the study one is confirmed and it became clear that corporate ownership has a direct and significant effect on the audit quality of the companies doing business in Islamic Republic of Iran's capital market and the ownership concentration and block ownership have a significant effect on the audit quality of the companies accepted in Tehran's Securities Exchange.

KEYWORDS

Audit Company Size, Audit Quality, Company Leadership System, Institutional Shareholders, Ownership Concentration, Ownership Structure.

INTRODUCTION

Accounting scandals that have been experienced in the last few years such as Enron, Arthur Anderson and World Com have affected the regulators trust of financial statements'. The total demise of Arthur Anderson in 2002, one of the Big 5 of U.S public accounting firms, sent shock waves all over the world and is often viewed as having generated considerable stress on the principles of accountancy (Gendron, et al., 2006). This scandal and its subsequent results were a main reason for drawing attention towards the quality of financial statements. Moreover, the financial crisis which has affected most of the world in the recent years has pushed up the demand for high quality audits.

Fargher and Jiang (2008) found that auditors were more likely to issue going concern opinions for financially stressed companies immediately after the crisis. This result may signal that auditors are being more watchful after such crisis and that they now tend to perform their work in a highly ethical and ensure the quality of their work. Davidson and New (1993) mentioned that audit quality is viewed as one of the main factors that affect the credibility of financial information and the higher the audit quality is, results in the information being more accurate. This can be a motive for deep research and insight in audit quality and the factors that may affect it.

This study is an extension to the current researches and it analyzes the effective factors on the audit quality and it does this through concentrating on the ownership structure effect on the audit quality basis for the general listed companies in Iran's stock exchange market. The significance of the current study stems out of the lack of similar studies about the audit quality in this field. Therefore, this study continues with covering this field and it adds practical details to it and this has been performed through heuristic methods to evaluate the ownership structure effect on the audit quality in Iran.

REVIEW OF LITERATURE

Audit quality and the audit quality measurement have been studied extensively. Although it is difficult to measure the real audit quality, the general public comprehension of the audit quality is easy to measure and the market reaction in contrast to the audited data can be observed.

Reisch (2000) attributes the lack of a single scale of the audit quality to this fact that it is a latent multidimensional construct and therefore its evaluation and scaling is somewhat difficult. This is the reason why many researchers study this field and has used different tools to measure the audit quality level.

The importance of the ownership structure is to the extent that it is regarded as a subsystem to the leadership. So, getting informed of the ownership structure and its constituents is of a great importance. By ownership structure we mean the amount to which the stockholders are blended. That means that different cohorts of the share owners such as institutional, individual, real and managerial can create various combinations (Brailsford and colleagues, 2000).

Various studies have been undertaken about representative expenses and request for high quality audit.

Defond (1992) found out that there is a direct relationship between the change in the organization ownership type and the variations in financial leverage with audit quality. Major owners and credit companies are seeking to exercise more intensive supervision on their investing activities. One of the methods to achieve this goal is the request for high quality audit. Managers have enough motivation to apply for the independent auditors' services in order to reduce the representative expenses and as a result not to offset the benefits and salaries from the owners. To defend the representative expenses factor in order to stimulate the managers to use the qualified and independent auditors Watsman and Ziemerman (1983) referred to evidences based on which 84% of the companies accepted in the New-York stock exchange market in 1926 used the independent auditors services and that is one year before the sanction of the stock market regulations signifying that the auditing has been made obligatory.

Audit quality adds a significant value to investors in capital markets because they often use audited financial statements by auditors as the main basis for investment decisions (Sudsomboon and Vssahawanitchakit, 2009). The use of audited financial statements by investors has been proved by many researches (Loudder, et. al., 1992; Chen, et. al., 2000; Zureigat, 2010; Kathleen, et. al., 2007) who found a market reaction to the different types of audit reports. Because the purpose of an audit is to provide an assurance as regards to the financial statements, this role can be successful only; if an audit opinion reflects the true findings of the audit engagement (Al-Ajmi, 2009).

DeAngelo (1981) argued that audit quality depends on the joint probability of an auditor discovering and disclosing a problem in an accounting system. Bradshaw et. al. (2001) defined audit quality as the willingness to report any material manipulation or misstatements that will increase the material

uncertainties and/or going concern problems; Baotham and Ussahawanitchakit (2009) addressed another definition as the probability that an auditor will not issue an unqualified report for statements containing material errors.
Kilgore (2007) indicated that no single generally accepted definition of audit quality has emerged, nor has any single generally accepted measure been introduced**,** Chen et al. (2010) used the propensity to issue modified audit opinion as a proxy for audit quality.
Knechel & Vanstraelan (2007) used the likelihood of an auditor issuing a going concern opinion as an indicator of audit quality**,** Kilgore (2007) indicated that the most commonly used surrogate for audit quality is the size of the audit firm, Chang et. al. (2008) agreed because of the wide range of theoretical and empirical evidence that large audit firms may provide higher quality audits.
Simunic and Stein (1987) asserted that larger audit firms are better than smaller audit firms at detecting errors because they have greater resources at their disposal and can attract employees with superior skills and experience.
In Jordan, Hmedat (2002) aimed to investigate the relation between audit quality and some factors related t o t he audit firm and to her fact or s related t o t he clients' firms like client size, client financial position, sales growth, and department ratio. The findings showed that audit quality is related to the audit firm's size, client's size, and client's financial position, while the other factors did not have a significant relation to audit quality. Unlike Humedat (2002) who focused on financial factors related to the clients' firm, the main aim of this s study is to investigate the effect of the ownership structure for audited firms, as a corporate governance characteristic, rather than to study financial indicators.
Al-Nawaiseh (2006) studied audit quality, the aim of his study was to analyze factors affecting audit quality from the perspective of Jordanian auditors using two questionnaires circulated to a sample of auditors, the findings indicated an agreement regarding the important role of audit quality, the most effective variables were the factors associated with the audit work team, while the lowest effect was for variables concerning the organization of the audit company. However, some of the studies that addressed the factors that affect audit quality were mainly about variables related to the auditor's clients firm and their institutional characteristics. Some of these studies indicated that there is no negative impact of client importance on audit quality (Chang and Kallapur, 2003; Kinney, et. al., 2004), while Chen et. al. (2010) found that the propensity to issue modified audit opinions, as indicator for audit quality, is negatively correlated with client importance in China from 1995 to 2000. Gaeremynck et al. (2008) found that not so much the size of an audit firms portfolio but other portfolios and client characteristics drive audit quality, like client visibility characteristics and solvency characteristics.
Helfin and Shaw (2000) argued that monitoring by large shareholders may give them access to private and value relevant information. In companies with concentrated ownership, the large shareholders can affect management, especially when they become board members, and they have a lot beyond the board. Gul et al. (2010) investigated the effect of the largest-shareholder ownership concentration on the amount of firm specific information incorporated into share prices, as measured by stock price synchronization.
They found that synchronization is a concave function of ownership by the largest shareholders. Hu & Izumida (2008) indicated that ownership concentration has a significant effect on the contemporary and subsequent corporate performance. Chen et al. (2007) pointed out that the audit service demand by firms with controlling shareholders could be different from that demanded by firms without controlling shareholders; they found that audit quality is indeed deteriorated and compromised when an auditor faces a business of family-controlled clients.
Lukas 2009) found t hat ownership concentration has a negative impact on board independence; Abdul lah's (2008) results indicated that there is a significant positive relationship between board independence and audit quality. Based on these results, the author proposes a negative relationship between ownership concentration and audit quality.

RESEARCH HYPOTHESES
According to the theoretical literature and the study background the following hypotheses are proposed:
H1: there is a significant relationship between the audit quality and ownership concentration.
H2: there is a significant relationship between the audit quality and the block ownership.
H3: there is a significant relationship between audit quality and organizational (institutional) ownership.

RESEARCH METHODOLOGY
In the present study, the correlation analysis was used to test the hypotheses. Since the information required for the current study is collected from the companies accepted in Tehran's securities market the study population includes all of the above companies (The company should not be a holding company, an investing company or among the banks and institutions and financial brokers, that is because of their special attributes and regulations, otherwise, they are excluded from the financial information submission) for a 5-year period from 2007-2012.
Based on the formal website of Tehran's securities market announcement all of the companies accepted until 2012 include 466 companies in 37 industrial groups. In the current study the systematic omission has been used to homogenize the statistical population. To do so, the following 5 scales are considered and in case a company satisfies all of the following scales, it is included in the study population:
- The company should have been accepted in Tehran's Securities Exchange before 2007.
- The company should have been active from 2007 to 2012 and its stock transactions should not have been ceased for more than 6 months.
- The company should not have changed its fiscal year during 2007-2012 and its fiscal year should end at the end of December.
- The company should not be a holding company, an investing company or among the banks and institutions and financial brokers, that is because of their special attributes and regulations, otherwise, they are excluded from the financial information submission.

Regarding the above-mentioned limitations, the total number of 147 companies with the above standards remained as the screened population from among the companies accepted in Tehran's securities market.
In the current study, the randomized sampling was taken advantage of to select the sample. To do so, at first, by using the Cocran relation (relation 1) the sample volume was calculated and the sample companies were randomly chosen from the screened study population:

$$n = \frac{Nz^2 pq}{Nd^2 + z^2 pq} \quad (1)$$

Where,
n=sample volume
N=population volume
z=normally distributed variable size in the expected confidence level which can be extricated from the normal distribution table
p=the percent of the characterized individuals distribution in the study population
q=the percent of the uncharacterized individuals distribution in the study population
d=the error value which equals the differential of the characteristics real ratio in the society to the researchers estimation amount for its existence in the society.

TABLE 1: THE CALCULATION PARAMETERS FOR THE STUDY STATISTICAL SAMPLE

N	Z	p	Q	d	Sample volume
147	1/96	0.5	0.5	0.05	106

RESEARCH VARIABLES
Audit quality is the dependent variable which is calculated by measuring the audit company size.

In the current paper the ownership structure is the independent variable. By the companies' ownership structure we mean the stock owners composition. The ownership structure has been directly extracted from the yearly sample reports of the companies accepted in the stock exchange market.
Control variable: the companies' size and the companies' leverage are considered as the control variables.
The companies' size measurement has been performed by total natural log of the total assets.
Companies' leverage has been measured by the companies' total debts divided by the companies' assets.
Ownership concentration is denoted by a significant amount of the companies' stock belonging to the major stockowners (majority) and it is suggestive what percent of the stocks are owned by a limited number of the stockholders. And, it is obtained by the measurement of the total amount of the stock percentage which is owned by the investors who possess more than 5% of the companies' assets.
Institutional ownership is measured by the total amount of the stock percentage which is owned by the institution (legal individual).
Block ownership is calculated from the highest percentage of the ownership which is owned by the real or legal individual in the related year.

DATA COLLECTION METHOD

Part of the study which was for the compilation of the theoretical principles for the study literature and background has been performed through library method. Since, the current study is a descriptive one, the required data in relation to the variables for the survey of the hypotheses tests has been extracted by the field method that is by using compact disc and the existing software. The collected data has been revised and categorized by Excel and the final analysis has been performed by taking advantage of SPSS software. The resource for the data collection has been the financial statements of the companies.

RESEARCH RESULTS

THE DATA ANALYSIS METHOD AND HYPOTHESES TESTS

In the current study the logistic regression model has been used to test the study hypotheses. The logistic regression is one of the most applied generalized models for analyzing the relationship of one or several explanative variables on a nominal responsive variable. The logistic regression equation is as follows (relation 2):

Log [p/(1-p)] $= \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \ldots + \beta_k x_k$ ***(2)***

Where, p is the occurrence probability of an event, β_0 is the presentation of origin and β_k is the related coefficient with explanative x. The dependent variable is the logarithm of the occurrence probability in relation to its non-occurrence probability. The null hypothesis in the logistic test is as follows:

$H_0 : \beta_1 = \beta_2 = \ldots = \beta_k = 0$

$H_1 : \beta_1 \neq \beta_2 \neq \ldots \neq \beta_k \neq 0$

In the current study, three hypotheses are proposed for the test of three of which the logistic regression has been used and it has been shown in the (relation 3):

AQ=α+β1OC+ β2BO+ β3IO+ β4SI+ β5LE+e ***(3)***

WHERE:
AQ=AUDIT QUALITY
OC=OWNERSHIP CONCENTRATION
BO=BLOCK OWNERSHIP
IO= INSTITUTIONAL OWNERSHIP
SI= COMPANY SIZE
LE= LEVERAGEAGE

In this model, the first, second and the third hypotheses are confirmed in case β1, β2 and β3 coefficients are significant in 95% confidence level.
At first, the general significance is evaluated by taking advantage of the liklihood ratio and Kay-Du value. This test is considered as the model significance test and, in the other words, it expresses that wether the moel fitness results are significant or not. In fact, the null hypothesis of this test, the nullity of all of the Stew variables coefficients in which the p-value is below 5% shows that the model is significant. This test like F-test is normal from the regression point of view and it has χ^2 distribution and it can be calculated as follows:

(4)

$$LR = -2\left(l(\hat{\beta}|H_0) - l(\hat{\beta}|H_1)\right)$$

Then, the amount of the dependent variable is evaluated by using Hosmer-Lemeshow statistic. This index compares the observed dependent variable amount with the predicted dependent variable and if this difference is not significant, goodness of fitness is obtained. In this statistic the observations are categorized in several groups based on the predicted probabilities and they are tested according to the relation 5:

(5)

$$HL = \sum_{j=1}^{G} \frac{n_j\left(\tilde{P}_{1j} - \tilde{Q}_{1j}\right)^2}{\tilde{P}_{1j}(1-\tilde{P}_{1j})} \sim \chi^2$$

In the above relation, G is the number of groups, n_j is the total number of observations in the j-th group, $\tilde{P}_{1j}$ is the estimated probabilities in j-th group and $\tilde{Q}_{1j}$ is the observed probabilities in the j-th group. This statistic has χ^2 distribution and it has the G-2 degree of freedom. The null hypothesis of this statistic is as follows:

$H_0 : P_{1j} = Q_{1i}$ *For All j*

$H_1 : P_{1j} = Q_{1i}$ *For any j*

In this statistic when the p-value is greater than 5%, the H_0 hypothesis is accepted and it is indicative that the differential between the observed dependent variable and the predicted observed variable is not significant and the goodness of fitness is obtained.
As a continuum to this, the model coefficients significance is tested by using the Wald-statistic in 95% confidence level. To test the logistic regression coefficients the Wald-statistic is used which is of almost normal distribution. This test is the same t-test in the linear regression and it is indicative of the significance of each of the model coefficients. If the importance level of each of the coefficients is below 5%, it can be concluded that each of the coefficients are significant in 95% level. The Wald-test is of Z distribution and it is as relation 6:

(6)

$$Z = \frac{\hat{B}}{SE}$$

Also, the model determination coefficient is evaluated by making use of the Nagelkerke coefficient of determination. The determination coefficient is suggestive of the common variance between the two variables and it shows what percent of the variations in the dependent variable is accounted for by the independent variable. In this respect, during 1991, Nagelkerke introduced the generalized determination coefficient as relation 7:

(7)

$$R^2 = 1 - \left(\frac{L(0)}{L(\hat{\theta})}\right)^{2/n}$$

This coefficient is the same as the normal determination coefficient and it is in1 and 0 range in a way that 1 is suggestive of the perfect elaboration of the observed variables by the model and 0 is indicative that the model does not account for any of the variables.

In relation to the decision-making method to accept or reject the hypotheses it is decided based on the probability value or significance level. So, if the calculated probability amount is bigger than or equal to the first error type value (α), the null hypothesis is accepted and if the probability value is smaller than the first error type value (α), the null hypothesis is rejected. It has to be mentioned that the first error type is considered 0.05.

MODEL ESTIMATION

In the current study, the logistic regression model has been used to test the hypotheses and it is shown in relation 8:

(8)

$$AQ_{i,t} = \alpha_{i,t} + \beta_1 OC_{i,t} + \beta_2 BO_{i,t} + \beta_3 IO_{i,t} + \beta_4 SI_{i,t} + \beta_5 LE_{i,t} + \varepsilon_{i,t}$$

Table2 shows the logistic regression estimation for the above model. Based on the obtained results it can be seen that the total percent of the correct model categorization is 76.9. It is in a way that 18 observations out of 131 observations categorized with a high (13.7%) audit quality and 387 observations out of 396 observations categorized with low (97.7%) audit quality which holds true.

TABLE 2: THE MODEL CATEGORIZATION ACCURACY PERCENTAGE

Observations	Prediction		
	High audit quality	Low audit quality	Correctness percentage
High audit quality	18	113	13.7
Low audit quality	9	387	97.7
Total percent			76.9

Also, in the survey of the general model significance in which the test statistic p-value of the likelihood ratio which is the model significance test, is smaller than 0.05, the general model significance is confirmed in the 95% confidence level. The p-value is 0.000 based on the table3 and it is suggestive of the model significance.

TABLE3: MODEL STATISTICS SUMMARY

Test	Chi^2 Statistic value	p-value
Likelihood ratio	62.871	0.000
Hosmer-Lemeshow Statistic	3.190	0.921
Nagelkerke coefficient of determination	0.167	

The goodness of fitness index compares the observed dependent variable value with the predicted dependent variable based on the model and if the differential is not significant the goodness of fitness is obtained. In the current study, this index has been measured by Hosmer-Lemeshow statistic, in this statistic when p-value is greater than 0.05, it is indicative that the differential between the observed dependent variable and the predicted dependent variable is not significant and the goodness of fitness is obtained. Because the p-value of this statistic is 0.921 based on table 3, therefore it can be said that the goodness of fitness is obtained. Nagelkerke coefficient of determination is also indicative of the common variance amount between the two variables and it shows what percent of the variations in the dependent variable can be accounted for by the independent variable. This statistic is in 0 and 1 range. In a way that 1 is suggestive of the perfect elaboration of the observed variables by the model and 0 is indicative that the model cannot elaborate any of the variables. This statistic is 16.7 based on the tables 3 and 4 and it indicates that 16.7% of the entered dependent variables in the model are accounted for by the independent variables. The results of the model estimation and their coefficients are introduced in table 4.

TABLE 4: THE REGRESSION MODEL ESTIMATION COEFFICIENTS

Independent variable	Coefficient	Wald statistic	p-value
Fixed coefficient	-10.092	47.316	0.000
Ownership concentration	0.010	0.947	0.331
Block ownership	0.007	1.232	0.267
Corporate ownership	0.022	8.149	0.004
Company size	0.447	28.104	0.000
Company leverage	0.047	0.006	0.937

THE RESULTS OF THE STUDY FIRST HYPOTHESIS

The objective of the first hypothesis is the survey of the ownership concentration effect on the companies' audit quality and its statistical hypothesis is defined as follows:

H0: There is no significant relationship between the audit quality and ownership concentration.

H1: There is a significant relationship between the audit quality and ownership concentration.

Based on the results obtained from table 4, since the p-value of the Wald statistic related to the ownership concentration variable is greater than 0.05(0.331) therefore HO is confirmed and it is indicative that there is no significant relationship between the audit quality and ownership concentration. So, the first hypothesis is rejected in the 95% confidence level. The above finding is suggestive that the concentration amount or the existing absence of the concentration in the ownership structure of the companies which are active in Iran's capital market has no significant effect on their audit quality and it is minimally effective on these companies audit quality.

THE RESULTS OBTAINED FROM THE STUDY SECOND HYPOTHESIS

The objective of the study second hypothesis is the survey of the block ownership effect on the companies audit quality and its statistic hypothesis is as follows:

H0: There is no significant relationship between the audit quality and the block ownership.

H1: There is a significant relationship between the audit quality and the block ownership.

Based on the results introduced in table 4, since the Wald statistic p-value related to the block ownership variable is greater than 0.05(0.267), H0 is confirmed and it indicates that there is no significant relationship between the audit quality and the block ownership. Therefore, the second hypothesis is rejected in the 95% significance level. The above results show that the presence of block owners in the ownership structure of the companies which are active in the Iran's capital market has no significant effect on their audit quality and their audit quality is not affected by block ownership.

THE RESULTS OF THE STUDY THIRD HYPOTHESIS

The objective of the third hypothesis is the survey of the corporate ownership effect on the audit quality of the companies and its statistical hypothesis is defined as follows:

H0: There is no significant relationship between the audit quality and the corporate ownership.

H1: There is a significant relationship between the audit quality and the corporate ownership.

Based on the results obtained from table 4, since p-value of the Wald statistic related to the corporate ownership variable is smaller than 0.05 (0.004), H0 is rejected and it indicates that there is a significant relationship between the audit quality and the corporate ownership. Therefore, the third hypothesis is rejected in the 95% confidence level. The positive corporate ownership coefficient (0.022) is suggestive of the direct relationship between corporate ownership and audit quality. So, with a single unit of increase in the corporate owners' presence in the ownership structure, 0.022 unit of increase in the audit quality can

be observed. The experimental data obtained confirms that the presence of corporate owners in the ownership structure of the companies which are active in Iran's capital market influences their audit quality significantly and leads to the increase in the companies' audit quality.
The results obtained from the hypotheses tests are given in table5.

TABLE 5: THE SUMMARY OF THE STUDY HYPOTHESES TESTS RESULTS

The H1 hypothesis	Independent variable	dependent variable	Significance level	Wald statistic p-value	Test result
There is a significant relationship between the audit quality and the ownership concentration.	ownership concentration	audit quality	95% confidence level	0.331 is greater than 0.05	So, H1 is rejected
There is a significant relationship between the audit quality and the block ownership.	block ownership	audit quality	95% confidence level	0.267 is greater than 0.05	So, H1 is rejected
There is a significant relationship between the audit quality and the institutional ownership.	institutional ownership	audit quality	95% confidence level	0.004 is smaller than 0.05	So, H1 is accepted

CONCLUSIONS & DISCUSSION
The current study tends to survey the relationship between the ownership structure as one of the important characteristics of corporate administration and audit quality in Iran. By focusing on the ownership concentration, block ownership and institutional ownership as the major constituents of ownership structure in Iran, and the audit company size as a representative of the audit quality, three hypotheses are created to propose the ownership structure effect on the audit quality and they are either positive or negative. These researches stem from the need for audit quality deep distribution specially after auditing scandals and financial crises which have been influential on most of the world's administration economies. Moreover, the nature of new-emerging markets in Iran, as a developing country, requires more work to be done in the audit quality field in order for it to be covered along with experimental documents as a result of the limited number of studies which evaluate audit quality and the factors influencing it. This study also focuses on the ownership structure and that is because ownership structure is one of the company characteristics in order to scrutinize its effect on the audit quality.
In the current study, the logistic regression has been used to test the models and finally it has been dealt with the models' goodness of fitness and the interpretation of the test results. The experimental evidences obtained from the hypotheses tests are indicative of the direct and significant effect of corporate ownership on the audit quality of the companies which are active in Iran's capital market and with the increase of the presence of corporate owners, audit quality is enhanced. Meanwhile, based on the obtained results ownership concentration and block ownership have a significant effect on the audit quality of the companies accepted in Tehran's securities market but it has no effect on the corporate audit quality.
Generally, from among the three hypotheses, one is confirmed and it became apparent that there is no significant relationship between the audit quality and ownership concentration. Therefore, the first hypothesis is rejected in 95% confidence level. The above finding shows that the concentration amount or the absence of the concentration in the ownership structure of the companies which are active in Iran's capital market has no significant effect on the audit quality of these companies and it is minimally effective on the corporate audit quality.
There is no significant relationship between the audit quality and the block ownership. Therefore, the second hypothesis is rejected in 95% confidence level. The above results are indicative that the presence of block owners in ownership structure of the companies doing trade in Iran's capital market has no significant effect on their audit quality and the audit quality of these companies is not affected by the block ownership.
There is a significant relationship between the audit quality and institutional (corporate) ownership. Therefore, the third hypothesis is confirmed in 95% confidence level.
The experimental evidences obtained from the hypotheses tests indicate that corporate ownership has a direct and significant effect on the audit quality of the companies which are active in Iran's capital market and with an increase in the corporate owners' presence there would be an increase in these companies audit quality. While based on the results obtained, ownership concentration and block ownership have a significant effect on the audit quality of the companies accepted in Tehran's securities market, but it has no significant influence on these companies audit quality.

REFERENCES
1. Abdullah, W.Z.W. (2008), "The Impact of Board Composition, Ownership and CEO Duality on Audit Quality: The Malaysian Evidence", Malaysian Accounting Review, Vo.7, No.2, pp.17-28.
2. Al-Ajmi, J. (2009), "Audit firm, corporate governance, and audit quality: Evidence from Bahrain", Advances in Accounting, Vol.25, No.1, pp.64-74 .
3. Al-Nawaiseh, M.I. (2006), "Factors Affecting Audit Quality: An Empirical Study from the Perspective of Jordanian Auditors", Jordan Journal of Business and Administration, vol.2, No.3, pp.390-415 .
4. Atoeijeri, A.A. and Annafaabi, H.M.(2008), "The Quality of Audit Service: A field study analysis for Factors Affecting it from the Perspectives of Auditors", Journal of King Abdelazeez University for Economics and Management, Vo;.22, No.1, pp.219-255 .
5. Baotham, S. and Ussahawanitchakit, P. (2009), "Audit Independence, Quality, and Credibility: Effects on Reputation and Sustainable Success of CPAs in Thailand", International Journal of Business Research, Vol.9, No.1, pp.1-25 .
6. Bradshaw, M. T., Richardson, S. A. and Sloan, R. G. (2001), "Do Analysts and Auditors Use Information in Accruals?",Journal of Accounting Research, Vol. 39, No.1, pp. 45-73 .
7. Brailsford ,J,.Timothy,B, . Olver, R. and Sandra , L.(2000),"on the Relationship between Ownership Structure and Capital Structure", Journal of Accounting and Finance, Vol.42, pp.1-26.
8. Carcello, J.V., Hermanson, R.H. and McGrath, N.T. (1992), "Audit Quality Attributes: The Perceptions of Audit Partners, Preparers, and Financial Statement Users", Auditing: A Journal of Practice and Theory, Vol.11, No.1, pp.1-15 .
9. Chang, X., Gygax, A.F., Oon, E. and Zhang, F.(2008), "Audit Quality, Auditor Compensation and Initial Public Offering Underpricing", Accounting and Finance, Vol.48, No.3, pp.391-416 .
10. Chen, C., Yen, G., Fu, C. and Chang, F.(2007), "Family Control, Auditor Independence, and Audit Quality: Empirical Evidence from the TSE-Listed Firms (1999-2002)", Corporate Ownership and Control, Volume 4, Issue 3, pp.96-110 .
11. Chen, S., Sun, S.Y.J. and Wu, D. (2010), "Client Importance, Institutional Improvements and Audit Quality in China: An Office and Individual Auditor Level Analysis", The Accounting Review, Vol.85, No.1, pp.127-158 .
12. Chi, W., Huang, H. and Liao, Y. (2009), "Mandatory Audit Partner Rotation, Audit Quality, and Market Perception: Evidence from Taiwan", Contemporary Accounting Research, Vol. 26, No. 2, pp. 359-91 .
13. Defond,M.L.1992. The association between changes in client firm agency costs and auditor switching. Auditing : Journal of Practice & Theory11(1): 16-31
14. Fra gher , N.L. and Jiang, L.(2008) , " Changes i n t he Audi t Environment and Auditor s' Propensi t y t o Issue Going-Concern Opinions", Auditing: a Journal of Practice & Theory, Vol.27, No.2, pp.55-77 .
15. Francis, J.R. and Yu, M.D.(2009), "Big 4 Office Size and Audit Quality", The Accounting Review, Vol.48, No.5, pp.1521-1552.
16. Gendron, Y., Suddaby, R. and Lam, H.(2006), "An Examination of the Ethical Commitment of Professional Accountants to Auditor Independence", Journal of Business Ethics, Vol.64, No.1, pp.169-193 .
17. Gul, F.A., Kim, J.B. and Qiu, A.A.(2010), "Ownership Concentration, Foreign Shareholding, Audit Quality, and Stock Price Synchronicity: Evidence from China", Journal of Financial Economics, Vol.95, No.3. pp.425-442 .
18. Heflin, F. and Shaw, K. (2000), "Blockholder Ownership and Market Liquidity", Journal of Financial and Quantitative Analysis, Vol.35, No.4, pp.621-633 .

19. Hmedat, M. (2002), "Assessing the Level of Audit Quality and Factors Affecting it, Unpublished Master Dissertation", Yarmouk University, Irbid, Jordan .
20. Hu, Y. and Izumida, S. (2008), "Ownership Concentration and Corporate Performance: A Causal Analysis with Japanese Panel Data", Corporate Governance: An International Review, Vol.16, No.4, pp.342-358 .
21. Kilgore, A. (2007), "Corporate Governance Professional Regulation and Audit Quality", Malaysian Accounting Review, Vol.6, No.1, pp.65-83 .
22. Kneche, W.R. and Vanstraelen, A. (2007), "The Relationship between Auditor Tenure and Audit Quality Implied by Going Concern Opinions", Auditing: A Journal of Practice and Theory, Vol.26, 11.No.1, pp.113-131.
23. Kneche, W.R. and Vanstraelen, A. (2007), "The Relationship between Auditor Tenure and Audit Quality Implied by Going Concern Opinions", Auditing: A Journal of Practice and Theory, Vol.26. No.1, pp.113-131.
24. Li, J. and Lin, J.W.(2005), "The Relation between Earnings Management and Audit Quality", Journal of Accounting and Finance Research, Vol.13, No.1, pp.1-11 .
25. Lukas, S.A. (2009), "Governance Mechanisms and Firm Value: The Impact of Ownership Concentration and Dividends", Corporate Governance: An International Review, Vol.17, No.6, pp.709-716 .
26. Reisch, J.T. (2000), "Ideas for Future Research on Audit Quality ", The Audit Report, Vol.24, No.1, Fall .Salleh, Z., Stewart, J. and Manson, S. (2006), "The Impact of Board Composition and Ethnicity on Audit Quality: Evidence from Malaysian Companies", Malaysian Accounting Review, Vol.5, No.2, pp.61-83 .
27. Simunic, D.A. and Stein, M.T. (1987), "Product Differentiation in Auditing: Auditor Choice in the Market for Unseasoned New Issues", Canadian Certified General Accountants' Research Foundation Monograph .
28. Sudsomboon, S. and Ussahawanitchakit, P.(2009), "Professional Audit Competencies P: The Effect on T HAI' S CPAs Audit Quality, Reputati on, and Success", Review of Business Research, Vol.9, No.3, pp.66-85.

A REFLECTION ON THE NATURE OF CORPORATE GOVERNANCE IN INDIA

SHWETA SATIJA
FORMER ASST. PROFESSOR
SHYAMLAL COLLEGE (M)
UNIVERSITY OF DELHI
NEW DELHI

ABSTRACT

Wholesome corporate governance doings are a prerequisite for environmentally sustainable business. It marks for producing long-term significance to all its shareholders and other stakeholders. Corporate governance (CG) is not a new or recent spectacle. It is in existence for a number of years. The abrupt and unexpected breakdown of recognized and reputed corporations like World Com and Enron created quivers and waves of disbelief around the globe. These incidents therefore have paved the path for the need of corporate governance in directing or controlling a company. Corporate Governance is needed to create a corporate culture of consciousness, transparency and openness. It enables a company to maximize the long-term value of the company's performance. Corporate governance is a term that refers broadly to the rules, processes, or laws by which businesses are operated, regulated and controlled. In India, various suggestions have been received from committees and boards which were set up to assess the appropriateness of prevailing corporate governance practices with a vision to improvise. It is a given that if upright and suitable corporate government is adopted, it may provide stability and growth to the enterprises. It aids in building conviction and confidence among the stakeholders. In this perspective, an attempt has been made in this paper to discuss about 'Corporate Governance' embracing the concept, definition, importance, ingredients, doctrines, assistances and regulatory framework (in Indian context).

KEYWORDS

corporate governance, stakeholders, committees, boards.

INTRODUCTION

Virtuous and upright corporate governance practices are a sine qua non for viable business. It marks for creating long-term significance to all its shareholders and other stakeholders. Regulators such as the Ministry of Corporate Affairs and SEBI govern and administer some facets of corporate governance that is protected in the law. A transparent, ethical and responsible corporate governance framework is very much needed for good governance. These generally radiate from the fundamental will and appetite that is embedded in the business entity. It is the global financial crisis during the recent past and corporate failures etc. that have accelerated the adoption of basics of corporate governance that help in building trust and increasing confidence among the stakeholders. The introduction of corporate governance strengthens reputation and goodwill, develops an image built on reliability, accountability and transparency.

DEFINING CORPORATE GOVERNANCE

Business Directory defines Corporate Governance as the framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company's relationship with its all stakeholders (financiers, customers, management, employees, government, and the community). It stipulates a set of procedures that can direct or control the company so as to meet its goals and objectives. It enhances value of the company and is also advantageous for all stakeholders in the long term. It encompasses and lays down procedures and processes according to which an organization is directed and controlled. According to Cadbury Committee (UK), 1992, corporate governance is the system by which companies are directed and controlled. According to the Institute of Company Secretaries of India, corporate governance is "the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders". It encompasses the entire mechanics of the functioning of a company and attempts to put in place a system of checks and balances between the shareholders, directors, employees, auditors and the management. India's SEBI Committee on Corporate Governance defines corporate governance as the "acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct, and about making a distinction between personal and corporate funds in the management of a company."

NEED FOR CORPORATE GOVERNANCE

With increased global competitiveness, the growing market in India is faced with the task of attracting and preserving investment in order to contribute more fully in the global economy and address growing demographic concerns. Growing awareness and employment of good corporate governance practices can improve the investment climate and promote the development of an energetic private sector and capital market. Briefly, Corporate Governance can be summarized by FAT principle, that is, Fairness, Accountability and Transparency in the operations and management of corporate entities.(Narang,Malhotra,Seth (2013). In addition, good governance is portrayed by a firm promise and assumption of ethical practices by an organization across its complete value chain, in all of its trades and dealings with a wide group of stakeholders, including employees, customers, vendors, regulators and shareholders (including minority shareholders). To manage this, certain checks and exercises need to be whole-heartedly incorporated. Trust and integrity play an important role in economic life and it is the duty of boards and management to ensure that these attributes are adequately recognized for the sake of future prosperity. Businesses are becoming aware of the benefits corporate governance and responsibility provides their company and their nation. However, in order to advance corporate governance, stakeholders must find and coordinate ways to implement principles that produce internationally acceptable standards and reflect local business realities. It is imperative to ensure that good corporate governance practices are aimed at achieving

- Inclusive growth which ends up in producing corporate growth
- Achieve sustained productivity so as to maximize the operational efficiency and protect the shareholders interests.
- High ethical standards are in the long term interests of the company as a means to make it credible and trustworthy, not only in day-to-day operations but also with respect to longer term commitments.
- Corporate governance is intended to increase the accountability of your company and to avoid massive disasters before they occur.
- Highest level of transparency, accountability and integrity.
- Following good corporate governance practices can satisfy the ambitions and aspirations of all stakeholders.
- It is observed that, the presence of an active and robust group of independent directors on the board provides for ensuring confidence in the market.
- If the company or companies has/have clean image/s on the corporate governance, they can accumulate/raise capital easily at more reasonable costs.

For a company to succeed it is important to pay attention to both economical and social aspects. It needs to be fair to all its stakeholders and serve its responsibilities with sheer diligence and utmost sincerity.

BENEFICIARIES OF CORPORATE GOVERNANCE

- Managers
- Board of Directors
- Shareholders
- Customers
- Employees
- Workers
- Banks and
- Lenders
- Environment and the Community at large
- Suppliers
- Vendors
- Dealers
- Regulators

PREREQUISITES AND CONSTITUENTS OF CORPORATE GOVERNANCE

Today assumption of good Corporate Governance practices has evolved as an essential component for conducting business. It is not only a pre-requisite for facing strong competition for viable growth in the emergent global market situation but is also an personification of the considerations of fairness, accountability, disclosures and transparency to boost significance for the stakeholders.

Studies of corporate governance practices across several countries conducted by the Asian Development Bank, International Monetary Fund, Organization for Economic Cooperation and Development and the World Bank reveal that there is no single model of good corporate governance.

Range of different approaches to corporate governance have been developed which are recognized by the OECD Code that acknowledges different legal systems, institutional frameworks and traditions across countries. However, a high degree of importance has been assigned to the shareholders interest who place their trust in corporations to use their investment funds wisely and effectively which is mutually followed by all good corporate governance administrations.

In the light of the underlying principles of corporate governance, business knowledge resource online mentions three basic inter-related segments, which are

1) Integrity and Fairness
2) Transparency and Disclosures
3) Accountability and Responsibility

These segments lay down the premise for the Board of Directors, the Shareholders and the Management whose job is to ensure that there exists

1) A clear, explicit, understandable and unmistakable jurisdictive and regulatory framework for effective corporate governance.
2) It is important that the codes of conduct of an organization are communicated to all stakeholders.
3) The objective of the company must be clearly documented in a long-term corporate strategy.
4) There should be a clearly established process of identifying, analyzing and treating risks, which could prevent the company from effectively achieving its objectives.
5) An independent board is essential for sound corporate governance. It means that the board is capable of assessing the performance of managers with an objective perspective.
6) Board appointments ensure that the most competent people are appointed in the board and all the board positions must be filled following all rules.
7) It is essential to ensure that directors remain abreast of all development, which are or may impact corporate governance and other related issues.
8) The board requires comprehensive, regular, reliable, timely, correct, and relevant information in a form and of a quality that is appropriate to discharge its function of monitoring corporate performance.

Corporate Governance guidelines should enumerate and lay down the rules to be followed by all stakeholders be it:

- The **board of directors** who perform the pivotal role in any system of corporate governance. They are accountable to the stakeholders and administer directing and controlling the management. They steward the company, set its strategic aim and financial goals and oversees their implementation, puts in place adequate internal controls and periodically reports the activities and progress of the company in the company in a transparent manner to all the stakeholders.
- The **shareholders**' role in corporate governance is to appoint the directors and the auditors and to hold the board accountable for the proper governance of the company by requiring the board to provide them periodically with the requisite information in a transparent fashion, of the activities and progress of the company.
- The responsibility of the **management** is to undertake the management of the company in terms of the direction provided by the board, to put in place adequate control systems and to ensure their operation and to provide information to the board on a timely basis and in a transparent manner to enable the board to monitor the accountability of management to it.

The Main Constituents of Good Corporate Governance are:

- **Role and powers of Board:** the foremost requirement of good corporate governance is the clear identification of powers, roles, responsibilities and accountability of the Board, CEO and the Chairman of the board.
- **Legislation:** a clear and unambiguous legislative and regulatory framework is fundamental to effective corporate governance.
- **Code of Conduct:** it is essential that an organization's explicitly prescribed code of conduct is communicated to all stakeholders and is clearly understood by them. There should be some system in place to periodically measure and evaluate the adherence to such code of conduct by each member of the organization.
- **Board Independence:** an independent board is essential for sound corporate governance. It means that the board is capable of assessing the performance of managers with an objective perspective. Hence, the majority of board members should be independent of both the management team and any commercial dealings with the company. Such independence ensures the effectiveness of the board in supervising the activities of management as well as make sure that there are no actual or perceived conflicts of interests.
- **Board Skills:** in order to be able to undertake its functions effectively, the board must possess the necessary blend of qualities, skills, knowledge and experience so as to make quality contribution. It includes operational or technical expertise, financial skills, legal skills as well as knowledge of government and regulatory requirements.
- **Management Environment:** includes setting up of clear objectives and appropriate ethical framework, establishing due processes, providing for transparency and clear enunciation of responsibility and accountability, implementing sound business planning, encouraging business risk assessment, having right people and right skill for jobs, establishing clear boundaries for acceptable behaviour, establishing performance evaluation measures and evaluating performance and sufficiently recognizing individual and group contribution.
- **Board Appointments:** to ensure that the most competent people are appointed in the board, the board positions must be filled through the process of extensive search. A well defined and open procedure must be in place for reappointments as well as for appointment of new directors.
- **Board Induction and Training:** is essential to ensure that directors remain abreast of all development, which are or may impact corporate governance and other related issues.

- **Board Meetings:** are the forums for board decision making. These meetings enable directors to discharge their responsibilities. The effectiveness of board meetings is dependent on carefully planned agendas and providing relevant papers and materials to directors sufficiently prior to board meetings.
- **Strategy Setting:** the objective of the company must be clearly documented in a long term corporate strategy including an annual business plan together with achievable and measurable performance targets and milestones.
- **Business and Community Obligations:** though the basic activity of a business entity is inherently commercial yet it must also take care of community's obligations. The stakeholders must be informed about the approval by the proposed and on going initiatives taken to meet the community obligations.
- **Financial and Operational Reporting:** the board requires comprehensive, regular, reliable, timely, correct and relevant information in a form and of a quality that is appropriate to discharge its function of monitoring corporate performance.
- **Monitoring the Board Performance:** the board must monitor and evaluate its combined performance and also that of individual directors at periodic intervals, using key performance indicators besides peer review.
- **Audit Committee:** is inter alia responsible for liaison with management, internal and statutory auditors, reviewing the adequacy of internal control and compliance with significant policies and procedures, reporting to the board on the key issues.
- **Risk Management:** risk is an important element of corporate functioning and governance. There should be a clearly established process of identifying, analyzing and treating risks, which could prevent the company from effectively achieving its objectives. The board has the ultimate responsibility for identifying major risks to the organization, setting acceptable levels of risks and ensuring that senior management takes steps to detect, monitor and control these risks.

Good corporate governance recognizes the diverse interests of shareholders, lenders, employees, government, etc. The new concept of governance to bring about quality corporate governance is not only a necessity to serve the divergent corporate interests, but also is a key requirement in the best interests of the corporates themselves and the economy.

Since the period of Independence in 1947, public companies in India were only needed to fulfill with partial governance and admission standards detailed in the Companies Act of 1956, the Listing Agreement of the market regulator, and the accounting standards set out by the Institute of Chartered Accountants of India (ICAI). India’s corporate governance administration was predominantly fragile prior to 1991 and perpetually since the liberalization of the Indian economy in 1991, the prerequisite for improved corporate governance structure was all the more felt with a succession of corporate scandals occurring in a row such as Harshad Mehta scam, Ketan Parikh scam, UTI scam, the vanishing company scam, the Bhansali scam and so on.

ADMINISTRATIVE AND LEGAL MACHINERY OF CORPORATE GOVERNANCE IN INDIA

Corporate governance is beyond the realm of law. It cannot be regulated by legislation alone. Legislation can only lay down a common framework – the "form" to ensure standards. The "substance" will ultimately determine the credibility and integrity of the process. Substance is inexorably linked to the mindset and ethical standards of management.

However, the present structure works on the following parameters:

- It is the Indian Companies Act 1956, the Securities and Exchange Board of India (SEBI) and the professional body of auditors created by the Institute of Chartered Accountants of India (ICAI) which are the legal and institutional mechanisms in India to oversee and control the financial reporting by Indian companies.
- In India there is no specific corporate governance code for all companies. Clause 49 of the Listing Agreement for listed companies and voluntary guidelines for corporate governance issued by MCA are the codes followed.
- The structure of the board is unitary and as per Indian Companies Act, 1956, a private company must have a minimum of two directors whereas a public company must have at least three directors. There is no limit on the maximum number of directors.
- The law states that in case of number of independent directors of a listed company, at least 50% of the total number of directors must be non- executive directors. Further, if the chairman of a company is a non- executive director, at least one-third of the total number of the company's directors must be non-executive. On the other hand, if the chairman is an executive director, then at least one-half of the total members should be independent directors.
- Further regarding tenure of office of directors, In the case of public companies and private companies that are subsidiaries of public companies, one-third of the total number of directors are permanent directors and two-thirds of the directors are rotational directors. One-third of the rotational directors must retire by rotation at every annual general meeting. The term of any director required to retire by rotation cannot exceed three years and this term can be extended by re-appointment only. A director retiring by rotation can be re- appointed at the same annual general meeting.
- As regards frequency of Board Meetings, a minimum of 4 Board meetings must be held in each year. There should not be a time gap of more than 4 months between any 2 Board meetings. However, the Audit Committee must meet at least 4 times a year –once in every 4 months and once before the finalization of accounts. The quorum for the meetings of the Audit Committee will be 2 or one-third of the total number of members, whichever is higher At least 2 of the members constituting a quorum must be independent.
- There is no such provision for separation of positions of chairman and CEO. The same individual may perform both the roles.
- An audit committee is to be formed which shall have a minimum of 3 members, all being non-executive directors, majority of the members being independent. At least 1 member must have financial and accounting knowledge. The chairman, being an independent director, shall remain present at the company’s AGM to respond to the shareholders’ queries.
- Clause 49 of the Listing Agreement imposes a non mandatory requirement on listed companies to have a whistle blowing policy. A company may establish a mechanism for employees to report to the management concerns about unethical behavior, actual or suspected fraud or violation of the company's code of conduct or ethics policy. This mechanism could also provide adequate safeguards against victimization of employees who use the mechanism and direct access to the chairman of the audit committee in exceptional cases. There is no other statute in force, which provides statutory protection for whistleblowers.
- Lastly, listed companies must comply with the mandatory provisions set out in Clause 49 of the Listing Agreement. The annual report of a listed company comprises the company's financial statements, the directors' report and such other disclosures as are required under Clause 49 of the Listing Agreement. In relation to unlisted public companies and private companies, the directors must disclose in the directors' report all the pertinent information.

One of the most noteworthy progress in the stream of corporate governance and investor protection was the formation of the securities market regulator, the Securities and Exchange Board of India in 1992. The Confederation of Indian Industry (CII) released a Desirable Code for Corporate Governance in 1998 followed by the codes of two sequential committees instituted by SEBI. The instant result was the origination of Clause 49 of the Listing Agreement which is the most meaningful and momentous development in Indian legal regime linking to corporate governance. This clause, announced in 2000 and revised later, specifies the standards of corporate governance that is a prerequisite for every listed company to be adopted and followed. Clause 49 of the listing agreement recommends numerous corporate governance means in the following subject areas:

a. Board of Directors and Independent Directors
b. Audit Committees
c. Subsidiary Companies
d. Disclosures
e. Report on Corporate Governance
f. Compliance Certifications

Similarly, the Government of India, through Ministry of Corporate Affairs (MCA) took many initiatives to boost the corporate governance framework in India. Some such measures are as follows:

a. Voluntary Guidelines on Corporate Governance released in 2009

b. Green Initiatives
c. Serious Fraud Investigation Office ("SFIO")
d. Investor Grievances Management Cell ("IGMC")
e. National Foundation for Corporate Governance ("NFCG")

Recently Companies Act 2013 has been enacted which is a step towards replacing the six decades old and outdated company legislation. The new Act has numerous procedures to strengthen the legal structure of corporate governance such as class action suits, whistleblower policy, corporate social responsibility, prohibition of insider trading, entrenchment provisions among others. However, it is too early to comment upon the implementation and working of these new measures.

CONCLUSION

Corporate governance is of supreme significance to a company and the economy as a whole. The lifeblood of corporate governance is in stimulating and sustaining integrity, transparency and accountability in the management of a company. Good corporate governance is a must in our corporate arrangement for today's complicated and vibrant business environment to ensure sustainability. If it is executed commendably, it can prevent and counteract corporate scandals, fraud and the civil and criminal liability of a company. A corporation without a system of corporate governance is repeatedly considered as a body without a soul or conscience. Weedy corporate governance leads to waste, mishandling and corruption. Strong and healthy corporate governance recognize the diverse interests of shareholders, lenders, employees, government etc. It enhances company's values and stakeholders' trust resulting into robust development of capital market, the economy and also helps in the evolution of a vibrant and constructive shareholders' activism.

REFERENCES

1. Corporate governance and directors' duties in India: Overview available at http://crossborder.practicallaw.com/0-506-6482?q=India
2. Das, Subhash Chandra (2008), Corporate Governance in India: An Evaluation, New Delhi, Prentice Hall India.
3. Narang, Malhotra, Seth (2013), Corporate Governance in BRICS: A Comparative Study, International Jouranl of Research in Commerce, IT & Management (2231-5756), Volume No. 3 (2013), Issue No. 11 (NOVEMBER)

WEBSITES

4. http://business.gov.in/corporate_governance/prerequisites_constituents.php
5. Study on the State of Corporate Governance in India: Evolution, Issues and Challenges for the Future available at http://www.iica.in/images/ Evolution_ of_ Corporate_Governance_in_India.pdf
6. Study on the State of Corporate Governance in India: Evolution, Issues and Challenges for the Future available at http://www.iica.in/ images/ Evolution_ of_Corporate_Governance_in_India.pdf
7. www.businessdirectory.com
8. www.en.wikipedia.org
9. www.mca.gov.in

THE PERCEPTION OF AGRICULTURAL STUDENTS AND SELF-EMPLOYMENT IN AGRIBUSINESS: A CASE STUDY OF STUDENTS OF UNIVERSITY FOR DEVELOPMENT STUDIES, GHANA

HUDU ZAKARIA
LECTURER
DEPARTMENT OF EXTENSION
RURAL DEVELOPMENT & GENDER STUDIES
UNIVERSITY FOR DEVELOPMENT STUDIES
GHANA

HAMZA ADAM
LECTURER
DEPARTMENT OF COMMUNITY DEVELOPMENT
UNIVERSITY FOR DEVELOPMENT STUDIES
GHANA

AFISHATA MOHAMMED ABUJAJA
LECTURER
DEPARTMENT OF EXTENSION
RURAL DEVELOPMENT & GENDER STUDIES
UNIVERSITY FOR DEVELOPMENT STUDIES
GHANA

ABSTRACT
Graduate job placement has become a major challenge facing developing countries including Ghana. This has pushed some policy makers to advocate for the training of graduates who are skill oriented to go into self-employment ventures. University for Development Studies (UDS) is one of such Institutions in Ghana mandated to train self-employed graduates. This paper therefore examines the perception of UDS students in Ghana towards seeking self-employment in agribusiness sector. Structured questionnaire was used as a data collection instrument for this study. Students' perception regarding the prospects of agribusiness as a self-employment avenue was measured on a five point Likert Scale. The study found that students interviewed generally agreed that agribusiness has a high potential for self-employment and that there is high prospects of its success in Ghana. However, students generally were undecided with regards to the easiness of self-employment creation in agribusinesses. More than half (54.8%) of the 192 students interviewed do not prefer agribusiness as an avenue for self-employment after graduation. Investment in self-employment of agriculture graduates is likely to fail if proper sensitisation is not made to motivate agricultural science graduates to go into agribusiness. The paper also recommends a review of self-employment policies to capture the interest of agriculture graduates because the current packages are not attractive to them.

KEYWORDS
Perception, job preference, Agribusiness, students, Self-employment, Ghana.

INTRODUCTION
Notwithstanding the fact that the service and industry sectors have in recent time overtaken agriculture as the leading contributor to Ghana's GDP, agriculture still remains a key to solving the unemployment problem and the overall development of the economy (MoFA, 2010). The agricultural sector employs directly about 50.6% of the Ghanaian workforce and accounted for 2,639 million dollars of the country's export earnings in 2010, and directly or indirectly supports about 80% of the total population economically, through farming, distribution of farm products and provision of other related services (ISSER, 2012). However, according to MOFA (2012), agriculture in Ghana is predominantly practised on smallholder and family-operated farms using rudimentary Technology. Smallholder farmers (approximately 2.74 million) produce about 80% of Ghana's total agricultural output.

As such the Government of Ghana blue print on agriculture as captured in the Food and Agriculture Sector Development Policy (FASDEP I & II), Ghana Poverty Reduction Strategy (GPRS I & II), Medium Term Agricultural Sector Investment Plan (METASIP) for 2011 – 2015 and the recent Ghana Shared Growth and Development Agenda (GSGDA) all identified the modernization of agriculture and encouraging the youth to go into agriculture as a means for solving the unemployment and food security problems in the country and ensuring general prosperity of the populates. In line with these policies, government through Ministry of Food and Agriculture, Youth and Employment Ministries and other relevant agencies have implemented several programmes and projects such as the Youth in Agriculture Programme, the Block Farming Programme, the Agriculture Services Sub-sector Investment Programme (AgSSIP), the National Service in Agriculture among others. All aimed at encouraging and involving the youth in farming and agribusiness related enterprise.

Despite the implementation of these laudable policies, programmes and projects, MoFA, (2007) review of the implementation of Food and Agriculture Sector Development Policy (FASDEP) observed that, there is an aging farmer population yet the sector is unable to attract the youth. It also identified high illiteracy among producers which hindered the need for facilitating their access to information on modern technologies, approaches and opportunities. As such the success of Ghana drive to modernize agriculture and encourage commercial farming and large scale production of agricultural commodities cannot be realised if the quality human resource of the youth, especially graduates from agricultural faculties and colleges is not harnessed.

The current phenomenon of increasing global unemployment, especially among the youth, has increasingly made the promotion of self-employment to gain popularity around the world. According to the International Labour Organization (ILO) figures which are corroborated by the 2005 World Youth Report, the youth unemployment in the world has been increasing since 1993, moving from 11.7 per cent in 1993 to a record high of 14.4 per cent (88 million) in 2003.

The problem of youth unemployment in Ghana had engaged the attention of stakeholders for some time now. A closer examination of youth unemployment in the country revealed an alarming situation of rising joblessness amongst graduates of tertiary institutions. Furthermore, the universities in the country continued to turn out teaming masses of graduates without a matching increase in employment opportunities. Owusu-Ansah *et al,* (2012) cited Joy FM online report in which Professor Aryeetey revealed that the extent of joblessness and under-employment is evident Because a huge number of the youth are found in the street selling things nobody will buy. It is reported that as many as 50% of graduates from Ghanaian universities and polytechnics will not find jobs for two years after their national service, and 20% of them will not find jobs for three years (Aryeetey, 2011; as cited in Owusu-Ansah *et al*., 2012). The statistics of Ghana unemployment rate is relatively high compared to the global unemployment rate of 6.1% (Asante, 2011; as cited also in Owusu-Ansah *et al,* 2012).

Governments over the years have been saddled with the mounting challenge of finding lasting and effective solution to the unemployment problems affecting the teaming unemployed university graduates being chained out from the various tertiary institutions annually. There are records of high levels of graduate and non-graduate youth unemployment rates standing as high as 20% (World Factbook, 2008). The country stand to gain by harnessing this critical mass of its human resources, especially so, after the state had spent its scarce resources in providing university education in various disciplines for these unemployed graduates.

Inculcating entrepreneurship intention and capability among university graduates and facilitating them through the establishment of enabling environment for self-employment enterprise creation had been noted as the effective and lasting solution to graduate unemployment problem in the country. Several initiatives in this direction such as the Youth in Agriculture, youth training and entrepreneurial development under the 'Ghana Youth Employment and Entrepreneurial Development Agency' (GYEEDA) of the former National Youth Employment Programme' (NYEP), Local Enterprises and Skills Development Programme (LESDEP) among others have been implemented with the aim of developing the entrepreneurial skills of the youth and promoting self-employment in the country.

However, the critical question that always arises is how the youth, especially graduates from the tertiary institutions, perceive self-employment as an employment opportunity for them. Since people act based on their perception (Barraclough *et al.* (2009); Lowden *et al*. (2011) and Highfliers (2012)), it is important to examine the perception of university graduates towards self-employment so as to be able to obtain empirical information to guide employment policy formulation, skills training and entrepreneurial development. This paper therefore analyses the perception held by the 2012/2013 final year agricultural students of the University for Development Studies, Nyankpala campus towards creating self-employment in agribusiness upon completion which is part of the mandate for establishing of the university.

The mandate of the University for Development Studies established in May 1992 by PNDC Law 279, was to ''blend the academic work with practical and community engagement in order to provide constructive and meaningful interaction between the academia and the larger society for the total development of Northern Ghana, in particular, and Ghana as whole''. The faculty of agriculture being the first faculty of the University began academic work in September, 1993 with its thirty-nine (39) pioneering students. Effah, (1998) observed that "the UDS was borne out of the new thinking in higher education which emphasizes the need for universities to play a more active role in addressing problems of the society, particularly in the rural areas". The university has since conducted its teaching; research and community out-reach programmes in line with its mandate. Is exactly two decades now after the first faculty of the University started academic work in agriculture.

This study was deemed important because, individuals behave in a given manner based not on the way their external environment actually is but, rather, on what they see or believe it to be. The nation may spend huge resources and efforts to get the youth into agriculture, however, in spite of these expenditures, if the youth believes that agriculture is lousy, for instance, they will behave accordingly.

METHODOLOGY

STUDY AREA

The study was conducted at the Nyankpala Campus of the University for Development Studies (UDS). The University whose mission is 'to be a Home of World Class Pro-Poor Scholarship' was established by PNDC Law 279 in May 1992 to 'blend the academic work with that of the community engagement through community out-reach in order to facilitate the total development of Northern Ghana, in particular, and Ghana as whole'. The UDS was borne out of the new thinking in higher education and research which emphasizes the need for universities to play a more active role in addressing problems of the society, particularly in the rural areas (Effah, 1998).

SAMPLING AND DATA COLLECTION

The study population consists of all level 400 students of 2012/2013 academic year of the Faculty of Agriculture and the Faculty of Agribusiness and Communication Sciences of the Nyankpala campus of the University for Development Studies. About 60% of the 521 final year students of the two faculties comprising of 72 agribusiness and 449 agricultural technology students were initially targeted for the study. Thus the initial sample size being targeted was 313 comprising 43 agribusiness students and 270 agricultural technology students. As such 313 structured questionnaires were sent to respondents selected through a lottery method of simple random sampling techniques. However, 292 questionnaires representing 93% of the targeted sample size were received and found to be usable. As such the sample size used for this study was 292 comprising of 42 agribusiness students and 250 agricultural technology students.

The structured questionnaire used as a data collection instrument for this study comprised of two sections. Section A was used to obtain data on demographic characteristics of respondents such as age, sex, place of domicile and parental background, while section B was used to elicit information on students' perception towards the prospects of self-employment in agribusiness and students job preference after graduation.

In measuring students' perception towards the prospects of self-employment in agribusiness, students were asked to score their agreements with regard to certain statements constructed to elicit their response on a five point Likert Scale as 'Strongly Disagreed' (SD) = - 2; 'Disagreed' (D) = -1; 'Undecided' (U) = 0; 'Agreed' (A) = 1 and 'Strongly Agreed' (SA) = 2. This approach of measuring perception was used by Ayanda, *et al*, (2012) in measuring students' perception of Kwara State University towards farming. Also, Oloruntoba, (2008) in assessing agricultural Students' Perceptions of Farm Practical Year Programme at University of Agriculture, Abeokuta, Nigeria used four point Likert scale in measuring students' perception

The data obtained were entered into SPSS and analysed using descriptive statistics such as frequency counts, means, standard deviations with t-test used to test for significant difference at 5% level of significance. The results were then presented in tables

RESULTS AND DISCUSSIONS

DEMOGRAPHIC CHARACTERISTICS OF STUDENTS

Agricultural Students of Nyankpala campus of the University for Development Studies surveyed for this study were generally young with a mean age of about 23 years old (SD = 3.69), whilst the oldest being 35years old and the youngest was 21years old. Majority (88.7%) of the 292 final years (level 400) students interviewed were 30 years old or younger. Also, most of the students (69.7%) were male with more than half of them (58.9%) coming from urban areas. Majority of the students interviewed (89.4%) were single whilst only 10.6% were married. This finding is similar to Ayanda, *et al*, (2012) which established that agricultural students of Kwara State University, Nigeria were adolescent with mean age of 19.6 years and majority (80.25%) residing in in urban centers.

TABLE 1: DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

Demographic Characteristics	Frequency	Percentage (%)
Age (Years):		
21 – 30 years	259	88.7
Above 30 years	33	11.3
Mean Age = 23.13 years (N = 292; std deviation = 3.69; Range = 21 - 35 years)		
Sex :		
Male	204	69.9
Female	88	30.1
Total	**292**	**100.0**
Status Of Current Place Of Resident:		
Rural	120	41.1
Urban	172	58.9
Total	**292**	**100.0**
Marital Status of Students		
Single	261	89.4
Married	31	10.6
Total	**292**	**100.0**

Source: Field survey, 2013

BACKGROUND OF STUDENTS PARENTS/GUARDIAN

The educational and occupational background of students parents or guardians were assessed and the results shown in the Table 2. As indicated in the Table 2, about 41.4% of the students surveyed indicated that their fathers or guardians have tertiary education with a little over half of them (53.4%) saying their mothers have no formal educational background.

With regard to the occupational background of respondents' parents or guardians, the survey results (Table 2) revealed that about 24.7% and 38% of respondents' fathers and mothers respectively engaged in agriculture as their main source of livelihood. However, students indicated that only 13.3% and 31% of their fathers and mothers respectively engaged in other self-employed enterprises apart from agriculture as their main occupation. Also about 36.3% and 25.7% of respondents interviewed said their fathers were employed in the Civil/Public Service and Private Sector respectively as their main occupation. However, only 16.1% and 14.4% of the students interviewed, mentioned that their mothers were employed in the Civil/public Service and Private Sector respectively.

TABLE 2: DISTRIBUTION OF BACKGROUND OF STUDENTS PARENTS/GUARDIANS

Variables	Frequency	Percentage (%)
Father's/Guardians' Level of Education		
No Formal Education	48	16.4
Completed Secondary Education	123	42.1
Completed Tertiary Education	121	41.4
Total	**292**	**100.0**
Mother's/Guardian's Level of Education		
No Formal Education	156	53.4
Completed Basic Education	58	19.9
Completed Secondary Education	42	14.4
Completed Tertiary Education	36	12.3
Total	**292**	**100.0**
Father's/Guardian's Main Occupation		
Self-employed in Agriculture	72	24.7
Self-employed in other Enterprise	39	13.3
Employed in Civil/Public Sector	106	36.3
Employed in Private Sector	75	25.7
Total	**292**	**100.0**
Mother's/Guardian's Main Occupation		
Self-employed in Agriculture	111	38.0
Self-employed in other Enterprise	92	31.5
Employed in Civil/Public Sector	47	16.1
Employed in Private Sector	42	14.4
Total	**292**	**100.0**

Source: Field survey, 2013

STUDENTS' PERCEPTION REGARDING PROSPECTS OF AGRIBUSINESS

Table 3 is the distribution of the mean scores of students' perception regarding the prospects of agribusiness as a future self-employment avenue upon completion on five point Likert Scale. As shown in the Table, students generally agreed strongly with the statements that 'agribusiness has a high potential for self-employment in Ghana' with a mean score of 1.59 (SD = 0.55; t = 50.5; P<0.05), 'many Ghanaians have made a lot of fortunes from agriculture' as it was rated 1.48 (SD = 0.70; t = 36.16; P<0.05) and 'Agribusiness have a high prospects of success in Ghana' with a mean score of 1.66 (SD = 0.51; t = 55.51; P<0.05). Thus respondents have a positive perception about the potential of agribusiness as an opportunity for self-employment and that there are high prospects of success in agricultural enterprises. Also with a mean score of 1.3 (SD = 0.76; t = 29.66; P<0.05) students interviewed agreed that there is a lot of untapped potential in agricultural sector in Ghana and respondents also merely agreed (with a mean score of 0.9; SD = 0.60; t = 25.49; P<0.05) that agricultural related enterprises are very lucrative. In addition, students generally agreed with a score of 1.10 (SD = 1.06; t = 17.72; P<0.05) that agriculture in their perception is 'a business and not a way of life.

Generally, students were undecided with regard to the statements that "it is easy to create self-employment in agribusiness" with a mean score of 0.31 (SD = 0.1; t = 5.39; P<0.05) and 'government policies favour agriculture enterprise creation' which has a mean score of 0.49 (SD = 1.26; t = 6.62; P<0.05). This implies that notwithstanding government policies captured in the Food and Agriculture Sector Development Policy (FASDEP I & II), Ghana Poverty Reduction Strategy (GPRS I & II), Medium Term Agricultural Sector Investment Plan (METASIP) for 2011 – 2015 and Ghana Shared Growth and Development Agenda (GSGDA), students generally are yet to be convinced that these policies favour agribusiness enterprise creation. Not even the implementation of programmes and projects such as the Youth in Agriculture Programme, the Block Farming Programme, the Agriculture Services Sub-sector Investment Programme (AgSSIP), the

National Service in Agriculture among others are convincing enough for students to perceive government policies as favourable for them to established agricultural enterprise after graduation.

TABLE 3: PERCEPTION OF STUDENTS REGARDING THE PROSPECTS OF AGRIBUSINESS

Statements	Mean	SD	t	Df	Sign.
It is easy to create self-employment in agribusiness	0.31	0.1	5.39	291	0.00
Agricultural related enterprises are very lucrative	0.90	0.60	25.49	291	0.00
Agribusiness has a high potential for self-employment in Ghana	1.59	0.55	50.50	291	0.00
Many Ghanaians have made a lot of fortunes from Agriculture	1.48	0.70	36.16	291	0.00
Agribusiness have a high prospects of success in Ghana	1.66	0.51	55.51	291	0.00
Agriculture In Ghana has a lot of untapped potential	1.3	0.76	29.66	291	0.00
Government policies favour agriculture enterprise creation	0.49	1.26	6.62	291	0.00
Agriculture is a less risk business enterprise in Ghana	-0.41	1.10	-6.42	291	0.00
Agriculture is a business and not a way of life	1.10	1.06	17.72	291	0.00

Source: Field Survey, 2013: Likert Scale: 2 = Strongly Agree; 1 = Agree; 0 = Undecided; -1 = Disagree; -2 = Strongly Disagree: SD = Standard Deviation

STUDENTS' PERCEPTION REGARDING THEIR COMPETENT IN AGRICULTURE

After four years of studying agriculture and agribusiness in the University, students' perception regarding their competency in agriculture and its relation to their view regarding engaging in self-employment in agribusiness and other agricultural related enterprises were sought and the results of its analysis presented in Table 4. Strangely, students generally were undecided regarding whether they made the right choice by studying agriculture or agribusiness. Students mean score regarding the statement 'I made the right choice by pursuing agriculture or agribusiness' was 0.19 (SD = 0.80; t = 4.11; P<0.05). The findings agreed with Ayanda, *et al*, (2012) that agricultural students of Kwara state university are not sure whether they made the best choice by studying a degree in agriculture.

However, students interviewed, generally agreed with the four rated statements that 'Agribusiness enterprise befits my status as a university graduate' which had a mean score of 0.69 (SD = 1.02; t = 11.56; P<0.05), 'UDS Curriculum had equipped me to be successful in agribusiness' with a mean score of 1.26 (SD = 0.80; t = 26.88; P<0.05), 'UDS Third Trimester Field Practical (TTFP) offered me a valuable experience to engage in agribusiness' which was scored 1.0 (SD = 0.92; t = 18.66; P<0.05) and 'I have the requisite technical knowledge to be a successful agribusiness entrepreneur' with a mean score of 1.27 (SD = 1.33; t = 16.27; P<0.05). Also Oloruntoba, (2008) found that students perceived practical training as contributing not only to their academic performance but also their competency level in agricultural which is very important in agribusiness enterprise creation.

TABLE 4: STUDENTS' PERCEPTION REGARDING THEIR COMPETENT IN AGRICULTURE

Statements	**Mean**	**SD**	**t**	**df**	**p**
I made the right choice by pursuing agriculture or agribusiness	0.19	0.80	4.11	291	0.00
Agribusiness enterprise befits my status as a university graduate	0.69	1.02	11.56	291	0.00
UDS Curriculum had equipped me to be successful in agribusiness	1.26	0.80	26.88	291	0.00
UDS TTFP offered me a valuable experience to engage in agribusiness	1.00	0.92	18.66	291	0.00
I have the requisite technical knowledge to be a successful agricultural entrepreneur	1.27	1.33	16.27	291	0.00

Source: Field Survey, 2013

STUDENTS JOB PREFERENCE AFTER GRADUATION

Students' job preference after graduation was measured on a three points Likert Scale as 'Not prefer at all', 'somewhat prefer' and 'most prefer' and the results of the analysis is presented in the Table 5. The job types were categorized as 'self-employed in agribusinesses', 'self-employed in others enterprises' (outside agriculture such as telecommunication, hostel and catering among others) and 'employed by Public/Private Sector' (those who want to be employed in either the public or the private sectors).

Results of the analysis revealed that, notwithstanding their background as agriculturists, more than half (54.8%) of the 192 students interviewed do not prefer agribusiness at all, as an avenue for self-employment enterprise creation after graduation, with only 8.6% of them ranking self-employment in agribusiness as their most prefer job after graduation. With regard to students' preference in other areas of self-employment apart from agricultural related enterprise, about 54.1% and 31.8% ranked their preference as 'somewhat prefer' and 'most prefer' respectively.

The results also established that undergraduate students' preference of being employed in either the public or private sector after graduation is high in spite of the high graduation unemployment rate the country is currently experiencing. Out of the 292 students interviewed, as high as 61.3% of them ranked being employed in the either private or public sectors as their most preferred job type after graduation. This result is similar to that found by Ayanda, *et al* , (2012) in their study on Perception of agricultural students of Kwara State University on farming as future means of livelihood, where they found that majority (72.8%) of students interviewed disagreed that agriculture was prestigious enterprise while (61.7%) and (56.8%) preferred to work in banks and international organizations respectively.

TABLE 5: DISTRIBUTION OF STUDENTS JOB PREFERENCE

Job Type	**Level of Preference**						**Total**
	Not prefer at all		**Somewhat prefer**		**Most prefer**		
	Freq.	**%**	**Freq.**	**%**	**Freq.**	**%**	
Self-employed in Agribusiness	160	54.8	107	36.6	25	8.6	292
Self-employed in others Enterprises	41	14.0	158	54.1	93	31.8	292
Employed by Public/Private Sector	85	29.1	28	9.6	179	61.3	292

Source: Field Survey, 2013

STUDENTS' PREFERENCE OF AGRIBUSINESS ENTERPRISES

The distribution of students' preference in the various agribusiness enterprises of the 132 students out of the 292 interviewed who preferred to be self-employed in agribusiness after graduation is shown in the Table 6. From the Table, about 31.8% preferred livestock and poultry production, while 24.2% preferred crop production as agribusiness enterprise as Self-employment enterprise. Also 17.4% of the 132 students who preferred self-employment in agribusiness wish to engage in agro-processing and agricultural marketing as their preferred enterprise upon graduation whiles only 8.3% preferred to engage in fishery and aquaculture as self-employment enterprise after graduation. Agro-forestry and tree crop production was preferred by 17(12.9%) respondents while 7 (5.3%) respondents also preferred bee keeping/snail/mushroom production as a self-employment enterprise.

TABLE 6: DISTRIBUTION OF STUDENTS' PREFERENCE OF AGRIBUSINESS ENTERPRISES

Agribusiness Enterprise	Frequency	Percent (%)
Crop Farming	32	24.2
Livestock and Poultry Enterprise	42	31.8
Agro-forestry and Tree crops	17	12.9
Agro-processing and Agricultural marketing	23	17.4
Fishery and Aquaculture	11	8.3
Bee keeping/Snail/Mushroom Production	7	5.3
Total	**132**	**100.0**

Source: Field Survey, 2013

CONCLUSION AND RECOMMENDATIONS

The 2012/2013 final year agricultural students of the University for Development Students surveyed for this study were generally young with a mean age of about 23 years old. After four years of studying agriculture and agribusiness in the University, strangely, students generally were undecided regarding whether they made the right choice by studying agriculture or agribusiness in the first place. Despite students' uncertainty regarding their choice of pursuing a degree in agriculture, the study found that they generally have a positive perception about the potential of agribusiness as an avenue for self-employed enterprise creation for them and that they see themselves succeeding in agricultural enterprises upon graduation. Also students interviewed perceived agricultural sector in Ghana as having a lot of untapped potential which they can exploit to establish themselves upon completion. Notwithstanding the positive perception students interviewed hold about the prospects of agribusiness as an avenue for self-employment after graduation, majority of them (54.8%) do not intend at all to engage in self-employed agribusiness enterprise upon graduation, instead they prefer to be employed either in the public or private sector. However, most of the remaining 45.2% of the 292 students interviewed who preferred to engage in self-employed agribusiness enterprise after graduation mentioned crop production, livestock and poultry production and agro-processing and marketing as their most prefer agribusiness enterprises. Inspite of government policy of involving the youth in agriculture, students interviewed were generally undecided as to whether government policies favour agricultural enterprise creation.

In order to convert the positive perception students hold about the prospects of agriculture as an avenue for self-employed enterprise development to a real desire and intention to engage in self-employed agribusiness enterprise after graduation. This paper therefore recommends the introduction of entrepreneurial and skills development courses as part of the curriculum of students studying agricultural technology and agribusiness. This will help train agricultural students on enterprise creation, management and development. Also the University must ensure the proper orientation of students to help shape their perceptions and appropriate attitude towards the prospects of agriculture as an avenue for job creation and their employability as agricultural technology and agribusiness students. This can be achieved through the improvement of the university's practical training and career guidance programmes in order to motivate students who are currently studying agriculture and arouse their interest in making career from agriculture.

REFERENCES

1. Aryeetey, E, (2011) 'Jobs are our greatest worry', Business and Financial Times, Ghana, September
2. Asante, F (2011) 'State of the Ghanaian Economy 2010', Business and Financial Times, Ghana, September Audretsch, D.B. and Fritsch, M. (1994) "The Geography of Firm Births in Germany," Regional Studies, 28(4), July, 359-365
3. Ayanda I.F., Olooto F., Motunrayo A., Abolaji G.T. , Yusuf O. J. , Subair S.K. (2012). 'Perception of Kwara state university agricultural students on farming as means of future livelihood', International Journal of AgriScience Vol. 2(11): 1053-1061.
4. Barraclough, N., Luhrs, J. and Ehiyazaryan, E (2009) Cited in Butcher, V., Smith, J., Kettle, J. and Burton, L. (2011) Review of good practice in employability and enterprise development by Centres for Excellence in Teaching and Learning. York: HEA. Available from: http://www.heacademy.ac.uk/resources/detail /employability/EEL_CETLs_Review (19th June, 2013)
5. Effah, P. (1998) An Address at a Students' Symposium, 14th May. Nyankpala Campus, UDS, Tamale.
6. Highfliers (2012): The UK Graduate Careers Survey 2012. Available from: http://www.highfliers.co.uk/ (10th June, 2013)
7. ISSER (2012), "The State of the Ghanaian Economy in 2011". Institute of Statistical Social
8. JoyFM online (2011) 'Jobs are our greatest worry' (Online) Available: (www.myjoyonline.com) (September 12, 2011).
9. Lowden, K., Hall, S., Elliot, D. and Lewin, J. (2011). Employers' perceptions of the employability of new graduates. Edge Foundation. Available from: http://www.edge.co.uk/media/63412/employability_skills_as_pdf_-_final_online_version.pdf (27th June, 2013)
10. MoFA (2007), Food and Agricultural Sector Development Policy (FASDEP II). Available on http://www.mofa.gov.gh/FASDEP%20II (Accessed on 10th July, 2013)
11. MoFA (2010) , 'Medium Term Agriculture Sector Investment Plan (METASIP) 2011 – 2015
12. MoFA , 2012, 'Performance Of The Agricultural Sector In Ghana: 2006-2012. Gross Domestic Product (GDP) At 2006 Prices By Economic Activity :2006-2012
13. Oloruntoba A. (2008). 'Agricultural Students' Perceptions of Farm Practical Year Programme at University of Agriculture, Abeokuta, Nigeria', Agriculturae Conspectus Scientifi cus Vol. 73 (2008) No. 4 (245-252).
14. Owusu-Ansah W. and Kofi P. (2012), 'Entrepreneurship Education, a Panacea to Graduate Unemployment in Ghana?' International Journal of Humanities and Social Science Vol. 2 No. 15; August 2012
15. World youth report 2005: Available on http://www.un.org/esa/socdev/unyin/wyr05.htm (Accessed on 9th July, 2013)

ISLAMIC BANKING AND IJARAH FINANCING IN PAKISTAN

KALSOOM AKHTAR
LECTURER
THE DEPARTMENT OF MANAGEMENT SCIENCES
ISLAMIA UNIVERSITY OF BAHAWALPUR
BAHAWALPUR

AIMAN CHISHTI
STUDENT
DEPARTMENT OF MANAGEMENT SCIENCES
ISLAMIA UNIVERSITY OF BAHAWALPUR
BAHAWALPUR

SAMRA KANWAL
STUDENT
DEPARTMENT OF MANAGEMENT SCIENCES
ISLAMIA UNIVERSITY OF BAHAWALPUR
BAHAWALPUR

NADIA ASLAM
STUDENT
DEPARTMENT OF MANAGEMENT SCIENCES
ISLAMIA UNIVERSITY OF BAHAWALPUR
BAHAWALPUR

SOBIA ASLAM
STUDENT
DEPARTMENT OF MANAGEMENT SCIENCES
ISLAMIA UNIVERSITY OF BAHAWALPUR
BAHAWALPUR

ABSTRACT
Islamic banking came into existence four decades ago and now it is very popular all over the world due to its unique attraction and continuous growth. Muslims accept it because of its religious prospects and its growth trend which is increasing day by day. Islamic banking system increases rapidly not only in Muslim world but other Non-Muslim countries also adopting this system. It is getting more attention now-a-days. Islamic financing is different from Conventional financing in all respect. Ijarah is the one of highly popularize product innovation by Islamic banks. It is also known as AITAB (al Ijarah Thumma Al Bai'). Conventional Banks are using leasing concept which is opposite to the Ijarah financing. Pakistan is among the pioneer countries that embedded Islamic banking concept at early stages. In present scenario Pakistan come into the list of major player of Islamic banking industry. The aim of this study is to understand Islamic banking system and its challenges, and future growth. Further this study investigates the nature and difference of Ijarah financing compared to conventional banks and also sees its growth, challenges and future prospects.

KEYWORDS
Islamic bank, Ijarah financing, Islamic banking system in Pakistan.

ACRONYMS
IBI-Islamic Banking Industry
SBP-State Bank of Pakistan
AITAB- Al Ijarah Thumma Al Bai'

INTRODUCTION
Establishment of Pakistan was based on the name of Islam. Islam prohibits taking or giving interest (riba) on any monetary transactions and this leads towards the concept of Islamic banking. It introduced 4 decades ago and getting more attention now-a-days. First Islamic bank was established in 1963 in Egypt, then in 1973 started at Jeddah; Saudi Arabia. And then it spread all over the world gradually. Today there are about 300 Islamic banks and financial institutions in 75 countries having a paid-up capital of more than 13 billion dollar, having an average annual growth of 15%. It is estimated that its growth increased in future.

Financial system of the Pakistan adopted this concept after 60's. In 1962 it is stated in 2nd constitution to remove the interest factor from the economy of Pakistan particularly from banking sector. In 1991, Supreme Court of Pakistan ordered the interest free economic structure until 30th-june-1992. It was little success rate till 1980s but in 2001 SBP took solid steps in order to induced Islamisation in Pakistan's financial systems. For this SBP agreed upon the parallel banking approach where conventional and Islamic banks both can be operated together and worked independently. Mezan bank was the first bank in Pakistan, which was established on this new concept of Islamic banking. So for the first time in January 2002 Al Meezan investment bank took license from SBP to operate as Meezan Islamic bank from 20th March 2002.

The existing structure allows three types of Islamic banking institutions in the country. (State Bank of Pakistan, 2012)

a. Full fledged Islamic banks,
b. Islamic banking subsidiaries of conventional banks, and
c. Islamic banking branches (IBBs) of conventional banks.

The ethical, native and fair mode of finance is Islamic finance which is purely based on Islamic laws. There are difference between Islamic finance and Conventional finance. These differences are consequent from three main prohibitions by the *Shari'ah Islami'ah*. The first prohibition is against *riba'* (usury), which is deliberate to avoid misuse and to maximize social benefits. Secondly, Islam prohibits *gharar* (uncertainty) in activities. *Gharar* is considered as not Islamic because it is reason of injustice to another party. The third prohibition is against *maisir* (gambling). For the development of Islamic banking and finance, product innovation is a key factor to get competitive edge. The financial instruments of Islamic banking or its products are consisting of nine types of products like Mudarabah (profit & loss sharing), Musharakah (partnership or joint venture), Murabaha (cost plus sale contract), Ijarah (leasing), Salam (sales contract), Sukuk, Takaful, Qarz-e-Hasna, and Istisna. These are according to Shariah board regulations. The first objective of this study is to observe the nature of *Ijarah* financing and its differences with conventional lease financing from the legal and accounting perspectives. The second objective of this study is to discuss different types of products offered by Islamic Banking, its growth in Pakistan, challenges and future forecast of Islamic banking and Ijarah.

Islamic hire-purchase present two new contracts with new modes of financing namely *al-ijarah thumma al-bai' (a contract of leasing ending with sale)* or *al-ijarah muntahiya bittamlik* (a contract of leasing ending with ownership). It is famously known as AITAB. *Ijarah* is basically the Arabic word used for leasing. *Ijarah* means to give something on rent or the "contract of exchange". AITAB still faces some challenges like both customers and Bank's staff has lack of awareness, lack of Shariah framework, difficult documentation process and competition with conventional banks. But it is also estimated that in future Islamic banks overcome all these Challenges and grow rapidly because it is accepted by Muslims and non-Muslims also..

AIMS AND OBJECTIVES

The objective of this study is to observe:

- What is Islamic Banking and its background, and principles.
- The nature of Ijarah financing.
- Difference of Ijarah financing and conventional lease financing.
- Discuss different types of products offered by Islamic Banking.
- Growth of Islamic Banking in Pakistan.
- Challenges and future forecast of Islamic Banking and Ijarah financing.

IMPORTANCE OF THE STUDY

This study examines the nature of Ijarah financing in different banks of Pakistan and its difference with conventional lease financing from the legal and accounting perspectives. There is a great difference between Islamic finance and Conventional finance. This difference is consequent from three main prohibitions by the *Shari'ah Islami'ah*. The first prohibition is against *riba'* (usury), Second is *gharar* (uncertainty) in activities and the third prohibition is against *maisir* (gambling).This study also discuss different types of products offered by Islamic Banking, growth of Islamic Banking in Pakistan, challenges and future forecast of Islamic Banking and Ijarah. Some recommendations have also been made to overcome all these Challenges because it is estimated that in future Islamic banking could attain more market shares and grow rapidly because of its wider scope in Muslim and non-Muslim countries also by overcoming all these challenges.

LITERATURE REVIEW

ISLAMIC BANKING & ITS HISTORY

Khan and Bhatti (2008) found about four (4) decades ago, the concept of the Islamic banking and finance came into existence. In late 1940s, Islamic banking got a great attention and in the next two (2) decades, a model was made which was adopted by the Middle Eastern countries to have their own banks. According to Ahmed (2009), 1st Islamic bank in Egypt was established in 1963. In 1973, Islamic financial system was started at Jeddah and Saudi Arabia. Khan and Bhatti (2008) wrote that in 1970s, many Islamic banks came into existence like Nasser Social Bank Cairo (1972), Islamic Development Bank (IDB) (1975), Dubai Islamic Bank (1975), Kuwait Finance House (KFH) (1977), Faisal Islamic Bank of Sudan (1977) and Dar Al-Maal Al-Islami (1980). In early 1980s, three Muslim countries that include Iran, Pakistan and Sudan change their economies and fiscal segment according to Islamic laws. Moreover, to enhance their deposits from the Middle East and Muslims customers in local markets, many Western financial market players like Citibank, Goldman Sachs, Kleinwort Benson and others made their own Islamic subsidiaries. Due to creativity and variety of products the Islamic banking and finance system is growing day by day. The growth is in the areas like Sukuk, Takaful, hedging funds, Mutual Funds, private equity and assets management, wealth management, real estate, corporate finance, liquidity management, treasury, derivatives, swaps, future and forward market, Islamic Stock Exchange and Dow Jones Islamic Index. Ahmed (2009) found that in 1983, many conventional banks were changed into Islamic banks in Malaysia. Moreover, in 1990's decade Islamic banking practices were started all over the world especially in the Muslim countries.

According to Khan and Bhatti (2008), main growth of Islamic banking and finance activities is around three parts of the world including Middle East, South Asia and Southeast Asia. The Middle East is a motherland of Islamic banking and finance and it is tremendously occupied by Muslims. Middle Eastern countries are Bahrain, Iran, Jordon, Kuwait, Lebanon, Qatar, Saudi Arabia, Syria and United Arab Emirates. South Asian countries include Bangladesh, Afghanistan, India, Maldives and Pakistan. Islamic practices are being followed in Pakistan and Bangladesh only but there are chances that Islamic banking will be start in Afghanistan and India in near future. Three Southeast Asian countries like Indonesia, Malaysia and Singapore are supporting the broad and highly developed version of Islamic banking and finance in their areas. Recently, the Islamic banking and finance practices are also increasing in Sudan. Many Western and European countries are also promoting the Islamic banking and finance in their region. These countries include Australia, United Kingdom and United States of America & Canada.

Today there are about 300 Islamic banks and financial institutions in 75 countries, having a paid-up capital of more than 13 billion dollar, controlling assets of value 300 dollar to 500 dollar and investments of 500 billion dollar to 800 billion dollar, having an average annual growth of 15%. According to an estimation Islamic banking and finance industry has aimed to have 40 % - 50 % of total savings of the Muslim community (estimated as large as 1.5 billion) in all over the world in upcoming 8-10 years (Alam, 2006; Arekat, 2006; Cader, 2007).

BASIC PRINCIPLES OF ISLAMIC FINANCING

Shariff and Rahman in International Journal of Islamic Financial Services illustrated that the ethical, native and fair mode of finance is Islamic finance, which derives its principles from the *Quran* (The revealed book of Muslims), the traditions of the Prophet Muhammad (peace be upon him), and the *Shari'ah Islami'ah* (Islamic law), which is based on the *Quran* and *Sunnah.* There is apparent difference between Islamic finance and 'conventional' finance (Qureshi and Millet, 1999). These differences are consequent from three main prohibitions by the *Shari'ah Islami'ah*. The first prohibition is against *riba'* (usury), which is deliberate to avoid misuse and to maximize social benefits. Secondly, Islam prohibits *gharar* (uncertainty) in activities. *Gharar* is considered as not Islamic because it is reason of injustice to another party. The third prohibition is against *maisir* (gambling).

Riba' can be defined as preset payment over and beyond the actual amount of the principal. It is prohibited because while profit is reasonably allowed, the parties cannot set a certain profit. This is based on the principle of "uncertain gains" which, on a strict understanding, even not allow an responsibility from the customer to repay the borrowed principal plus an amount to take into account inflation. Injustice (*zulm*) is another reason to prohibited Riba and Islam is against all forms of injustice and misuse and pleads for an economic system, which *Gharar means risk and uncertainty and it* is derived from Arabic. It is a kind of sale, which involves giving a commission, which the seller is not sure to fulfill like the sale of fish before they are caught. Gharar is not considered good because it

affects both the subject-matter and the price, which can create unearned profit or an unacceptably huge loss. To avoid the risk in sale Gharar is considered prohibited.
In Islamic law, Riba is prohibited as it is clear from Quran. In Surah Al-Imran, Allah said that;
''O you who believe! Do not devour Riba multiplying it over and keep your duty to Allah that you may prosper'' (3:130).
This prohibition against Riba is strict, complete and unequivocal. The Holy *Qur'an* in verse 278 of Surah Al-Baqarah states:
"O ye who believe! Fear Allah and give up what remains of your demand for riba, if ye are indeed believers",
And verse 2: 279 says:
"If you do it not, take notice of war from Allah and His Messenger, but if ye turn back,
ye shall have your capital sums. Deal not unjustly and you shall not be dealt with unjustly".
According to Surah Al-Rum (39), Al-Nisa (160-161) and Al-Baqarah (275-281), fixed interest is prohibited. Gharar indicates the assumptions and guesswork. Islamic banking includes the Islamic finance and all those dealings which have no interest.

FINANCIAL INSTRUMENTS/PRODUCTS OF ISLAMIC BANKING

For the development of Islamic banking and finance, product innovation is a key factor to get competitive edge. As the rate of globalization increase, secure competitiveness increases the demand for more strong and flexible Islamic banking product. As the primary focus has been on institutional building and financial infrastructure development, it is also important to give some attention to raising the variety of products and services to fulfill the needs and requirements of customers and increase the overall efficiency of business.
The financial instruments of Islamic banking or its products are consisting mainly on 9 types of products like Mudarabah (profit & loss sharing), Musharakah (partnership or joint venture), Murabaha (cost plus sale contract), Ijarah (leasing), Salam (sales contract), Sukuk, Takaful, Qarz-e-Hasna, and Istisna. These are according to Shariah board regulations.
MURABAHA: Siddiqui (2008) stated that there are 3 parties involved in a Murabaha contract. i.e. seller, buyer and bank as an intermediary. According to this contract, bank buys the merchandise preferred by the buyer from the seller and sells to the buyer at a rate which involves the cost of the purchase and a pre-agreed profit. Murabaha contract involves competitive pricing, minimum limitations and flexible repayment conditions. This contract is used for financing raw material, equipment, machinery, real estate and creditor durables.
MUSHARAKAH: According to Siddiqui (2008), such a contract is called Musharakah when debtor/purchaser does not search for 100% bank financing of the project but contributes some of his own equity capital. In this profit and loss sharing system, two(2) parties are involve and profit is shared according to pre determined percentage whereas loss sharing depends upon the amount of equity contributed. This contract is used for financing trade, imports and to issue letters of credit. It is also used in agriculture and industry sector.
MUDARABAH: Siddiqui (2008) said that in this contract, there is no equity partnership but only Profit & Loss Sharing. This contract is between bank and customer. According to this contract, bank lends the capital to the investor/consumer and both parties share profit according to an agreed ratio and only bank bears all the losses if occurred. If customer mismanages the capital, then customer is held the legally responsible for losses. This contract is illustrated in balance sheet of the bank.
SALAM: Siddiqui (2008) wrote that it is the future sales contract. According to this contract, bank pays the price of the commodity in advanced in terms of cash to the seller and delivery of the product will be done in future. On the delivery date, bank receives the product and sells it either for cash or on credit. Bank also can permit to the seller to sell the product on its behalf to the third party against fees or without fees. This contract can be used to meet the capital requirements as well as cost of operations of farmers, industrialists, contractors or traders. This facility is also used by the craftsmen and small producers.
IJARAH: According to Siddiqui (2008), it is a contract in which goods are hire /purchase at least price. In Islamic banks this facility is provided by two sub contracts. First, the bank signs a purchasing contract with the seller for the desired commodity of the buyer, pays and gets the commodity from the seller. Second, bank signs a leasing contract with the buyer in which commodity is leased to the customer and permit him ownership of the asset after payment of lease installments and outstanding charges. This facility is used for sale of vehicles, equipment or property to start or run the operations of business. Usually the leasing contract is used for dealings in real estate, cars, computers and machinery.
SUKUK: According to Nanava (2007), Sukuk is the asset-backed security that follows the Islamic rules and Shari'ah principles on financial transaction. Sukuk contract may be formed either through Islamic bonds or securitization of assets. Funds of Islamic bonds are used for specific projects and bondholders get their income later. While asset securitization is started with the recognition of assets of company that have a need to increase their finances through securitization.
TAKAFUL: Nanava (2007) stated that it is an insurance scheme that follows the Shari'ah principles. This contract is based on trust and collaboration of parties joined for common interest and financial resources. Policyholders/Participants of this scheme contribute certain amount of capital and Takaful operator manages the insurance business on behalf of policyholders. Takaful operators receive shares or agency fee for their services.
QARZ-E-HASNA: Siddiqui (2008) stated that this facility is for the poor people of society like needy students or small rural farmers. These loans have negative NPVs for the banks. Traditional banks don't have such interest free loan facility for needy people. This facility is manifested funded through charities and grants or scholarships.
ISTISNA: SBP (2008) defined Istisna as, this facility is used to finance the manufacturing of commodities, construction of houses, plants, projects and building of bridges, roads and highways. In this type of loan, constructor or manufacturer receives cash in advance or in future and delivery is made in future.
IJARAH & ITS FINANCING:
In Ijarah one party enjoys the benefit which they take in term of services by another party in return for a concern for the services rendered and from the use of an asset. Simply Ijarah is "contract of exchange". Several scholars agree that *Ijarah* is a contract on using the benefits or services in return for reward (Kharofa, 1997).
To understand the nature of *Ijarah* and its differences with conventional leasing is very important. So the first objective of this study is to observe the nature of *Ijarah* financing and its differences with conventional lease financing from the legal and accounting perspectives. Consequently, the second objective of this study is to discuss different types of products offered by Islamic Banking, its growth in Pakistan, challenges and future forecast of Islamic banking and Ijarah.
Literally, *Ijarah* means to give something on rent. As a term of Islamic *fiqh*, *Ijarah* can also refer to wages paid to a person in contemplation of the services rendered by him. In the perspective of Islamic banking, *Ijarah* can be defined as a process by which the "usufruct of a particular property is transferred to another person in exchange for a rent claimed from him/her" (Hairetdinov, 1998). This is done even before the time of Prophet and was popular amongst the *fuqaha.*
It is one of the modern approach which is an alternative product to conventional hire-purchase. The major difference between them is that, Islamic hire-purchase is an exclusive contract relating a combination of two different contracts, and also invoking a number of legal and *Shari'ah* issues. At some stages it applies important rules on leasing and sale in the light of *Shari'ah*.
Islamic hire-purchase has developed in numerous stages. The proposal of Islamic hire purchase developed when the scholars introduced a new product via reasoning (*ijtihad*) based on the Islamic traditional contract of *ijarah* and *al-bay'*. Thus, the Islamic hire-purchase presents two new contracts with new modes of financing namely ***al-ijarah thumma al-bai'** (a contract of leasing ending with sale)* or ***al-ijarah muntahiya bittamlik*** (a contract of leasing ending with ownership). It is famously known as AITAB, and widely used in motor vehicles financing however after some time also applied by some banks in corporate financing. This paper focuses on AITAB due to its wider use and demand in the present banking operation. AITAB is still facing problems which are specially related to insufficiency of *Shari'ah* narrow framework to oversee its practice. Still there is no specific law introduce to support AITAB operation.
According to El-Din and Abdullah (2007) Islamic Banking is increasing day by day from the last two decades. It spread in all over the world in no time. Countries especially with dual banking system adopting it more, like Malaysia, Saudi Arab and Egypt. Dual banking system make country system more controlled and tightly governed. Here there is a separate regulatory authority for Islamic banks and this system increase the intensity of the competition. This intense rivalry

leads Islamic banks to explore more opportunities and they have to introduce more innovative products in order to survive in this stiff competition. One of the innovation come in result of this scenario is ***Ijarah wa-iqtina***, which is one of the financing approaches of hire-purchase according to Shariah rules and regulation.

Ijarah is basically the Arabic word used for leasing. It is growing importance in today's world because every person cannot afford to buy a house or a land by their own. This is a contract where three parties involved; customer, financing company (Islamic banks) and vendor. For instance we take an example to justify this whole mechanism, let suppose that customer wants to take a car from Islamic bank on leasing, then: (El-Din and Abdullah, 2007)

- The role of Islamic bank comes here as it will purchase car from car dealer on the demand of customer.
- Then bank will rent this vehicle to customer at agreed rate and for particular time duration.
- Ownership doesn't transfer to customer; customer is only allowed to use that vehicle for a specific time period.
- Customer is obliged to pay insurance and road tax with fixed rental payment.
- At the end of this contract customer (hirer) has given two choices; either return this vehicle back to Bank or enter into second contract which is based on purchase of this vehicle from the owner (bank).
- While by purchasing that vehicle entitled customer (lessee) as a owner of the vehicle.

DIFFERENCES BETWEEN CONVENTIONAL HIRE PURCHASE AND ISLAMIC HIRE PURCHASE FROM SHARIAH PERSPECTIVES

Item	Conventional Hire Purchase	Islamic Hire Purchase
Terms	▪ Type of Loan ▪ Interest rate ▪ Hiring charges ▪ Late payment interest	▪ Financing mode ▪ Profit rate ▪ Markup ▪ Late payment charges
Eligibility based on	Good credit rating	Not involved in immoral activities against Shariah
Goods	Limited to consumer goods, motor vehicles & non-Act goods (corporate)	Applicable to all types of goods
Contract	one standard contract	2 Aqad in sequential contracts [a hiring agreement (*'aqad ijarah*) and a sale and purchase agreement (*'aqad bai'*)]
Purchase Price/Installments	(cost price x interest rate)/months	(cost price + profit)/no. of payments
Profit Margin /Interest Rate	Floating based on the annual rate, decided up front	Determined based on market value
Responsibility	Hirer/customer bears all costs of maintenance	Owner bears basic and structural maintenance

Source: El-Din and Abdullah (2007)

RESEARCH METHODOLOGY

This research is descriptive nature of research. In this research paper our main purpose is to collect data on Islamic banking, its growth trends from last few years in Pakistan as well as globally, Ijarah and its types, Ijarah financing in Pakistan and Banks in Pakistan who is offering different types of Ijarah. This study also explores the challenging facing by Ijarah financing and future prospectus of Ijarah. We collect these above mentioned data from different sources including; SBP reports, articles, books, Islamic bank's websites, Commercial banks which have Islamic banking branches, we collected data from their official websites and from their annual financial statements, and by electronic media.

ISLAMIC BANKING IN PAKISTAN

In 1947 Pakistan came into being in the name of Islam and the purpose behind that to build a homeland where Muslims can live their lives freely and according to the teachings of Quran and Sunnah. According to Ahmed (2009), in the 1st constitution of Pakistan in 1956 Islam was stated as an official religion of country where all the rules, regulations and laws would be according to the teachings of Quran and Sunnah. In 1962, 2nd constitution was formed to remove the interest factor from the economy of Pakistan particularly from banking sector. In 1973, the purpose of 3rd constitution was the removal of interest-which is also called Riba- as early as possible. So the discussion was started in 1980s about the creation of different alternatives to change interest based monetary arrangements in the economy. So finally in 1991, Supreme Court of Pakistan ordered the interest free economic structure until 30th-june-1992. In the year 2001 State Bank of Pakistan defined the criteria for the establishment of a complete and a private Islamic bank. For the first time in January 2002 Al Meezan investment bank took license from SBP to operate as Meezan Islamic bank from 20th March 2002.

All over the world due to the rapid changes in technology and establishment of more means of communication Islamic banking networks had moved to other countries and it still is continuously expanding in both Muslim and non Muslim countries including USA, Malaysia, UK, Canada, Iran, Qatar, Kuwait and Spain etc (Rashid et al., 2012).

The Islamic banking zone is emerging extremely from many of the previous years and also has the ability to grow further in future. In the year 2010 total assets owned by Islamic banks were Rs.477 billion, industry share of Islamic banking was 6.7% due to the value of total assets, total deposits with Islamic banks were Rs. 390 billion with the industry share of 7.2% and Net Financing and Investment was Rs. 338 Billion and their share in industry was 6.2% (Rashid et al., 2012). The Islamic banking industry's share has increases to over 7 % in 2011 from just 0.5 % in 2002. Islamic finance industry has been growing double in digits constantly (Shaikh, 2012).

Shaikh (2012) illustrated in his paper of "Islamic Banking in Pakistan: A Critical Analysis" that, In Pakistan there are 5 developed Islamic banks functioning and 13 conventional banks with Islamic banking branches in Pakistan. Estimated growth in total assets of the overall Islamic finance industry is about $1.6 trillion by 2012. According to some reports assets seized by Islamic financial banks may rise by 5 times than the current level to attain more than the $5 trillion mark in next few years (Source: Moody's Investor Service). This growth is due to some distinctive and intrinsic characteristics of Islamic financial products offered to its customers.

TABLE 1: INDUSTRY PROGRESS AND MARKET SHARE (DEC 2011-DEC 2012)

	Industry Progress			Growth (QoQ)			Share in Industry		
	Dec-11	Sep-12	Dec-12	Dec-11	Sep-12	Dec-12	Dec-11	Sep-12	Dec-12
Total Assets	641	742	837	12.8%	4.3%	12.8%	7.8%	8.1%	8.6%
Deposits	*521*	628	706	12.5%	4.2%	12.5%	8.4%	9.3%	9.7%
Net Financing & Investment	*475*	*571*	*626*	28.8%	8.2%	23.0%	7.4%	7.8%	8.1%
Total Islamic Banking Institutions	*17*	*18*	*18*	_	_	_	_	_	_
Total No. of Branches*	*886*	*977*	*1097*	_	_	_	_	_	_

Source: Islamic Banking Bulletin- State Bank of Pakistan (2012) *(Quarterly Unaudited Accounts)*

**number includes sub-branches*

TABLE 2: INDUSTRY PROGRESS AND MARKET SHARE (DEC 2003-DEC 2010)								
Rupees in billion & shares and growth in percent								
	Dec 10	**Dec 09**	**Dec 08**	**Dec07**	**Dec 06**	**Dec 05**	**Dec 04**	**Dec 03**
Total Assets	*477*	*366*	276	206	119	71	44	13
Share in industry	*6.7*	*5.6*	*4.9*	*4*	*2.8*	*2*	*1.5*	*0.5*
Growth (YoY)	*30.2*	*32.7*	*34*	*73.1*	*65.3*	*63.6*	*238.5*	
Deposits	*390*	*283*	202	147	84	50	30	8
Share in industry	*7.2 %*	*5.9%*	*4.8 %*	*3.8%*	*2.6%*	*1.8 %*	*1.3 %*	*0.4 %*
Growth (YoY)	*38.0*	*39.9*	*37.4*	*75*	*68*	*66.7*	*275*	
Net Financing & Investment	*338*	*226*	186	138	73	48	30	10
Share in industry	*6.2*	*4.5*	*4.3*	*3.5*	*2.3*	*1.7*	*1.3*	*0.5*
Growth (YoY)	*49.8*	*21.3*	*34.8*	*89*	52.1	*60*	*200*	
Total Islamic Banking Institutions	17	19	18	18	16	11	11	4
Total No. of Branches*	751	651	515	289	150	70	48	17
*Source: Annual Accounts except for December 2010, data for which is based on Unaudited Quarterly Accounts *number includes sub-branches*								
Source: Islamic Banking Bulletin- State Bank of Pakistan (October-December 2010)								

TABLE 3: PROVINCE WISE ADDITIONAL BRANCHES (DECEMBER 2012)			
Province	**Additional Number**	**Total Number**	**Share (percent)**
Punjab	47	476	43.4
Sindh	38	369	33.6
Khyber Pakhtoonkhawa	16	120	10.9
Baluchistan	7	51	4.6
Gilgit Baltistan	2	4	0.4
FATA	1	4	0.4
Federal Capital	7	60	5.5
AJK	2	13	1.2
Total	**120**	**1097**	**100.0**
Source: Islamic Banking Bulletin- State Bank of Pakistan (2012)			

IJARAH FINANCING IN PAKISTAN

TABLE 5: FINANCING MIX					
Rupees in billion					
	Dec-09	**Dec-10**	**Dec-11**	**Sep-12**	**Dec-12**
Murabaha	67.1	85.4	92.8	81.0	96.1
Ijarah	22.6	24.1	22.1	22.0	22.4
Musharaka	2.8	5.5	5.1	2.2	1.9
Mudaraba	0.6	0.3	0.3	0.3	0.6
Diminishing Musharaka (DM)	48.2	56.1	67.9	77.8	87.5
Salam	1.9	2.7	5.1	4.7	7.3
Istisna	9.8	11.0	9.3	12.8	15.7
Qarz/Qarz-e-Hasna	0.0	0.0	0.0	0.0	0.0
Others	5.7	4.9	9.2	8.9	10.5
Total	**158.6**	**190.2**	**211.8**	**209.8**	**242.1**
% Share					
Murabaha	42.3	44.9	43.8	38.6	39.7
Ijarah	14.2	12.7	10.4	10.5	9.3
Musharaka	1.8	2.9	2.4	1.0	0.8
Mudaraba	0.4	0.2	0.1	0.2	0.2
Diminishing Musharaka (DM)	30.4	29.5	32.0	37.1	36.2
Salam	1.2	1.4	2.4	2.3	3.0
Istisna	6.1	5.8	4.4	6.1	6.5
Qarz/Qarz-e-Hasna	-	-	0.0	0.0	0.0
Others	3.6	2.6	4.4	4.3	4.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Source: Islamic Banking Bulletin- State Bank of Pakistan December 2009, December 2012.					

CHALLENGES IN THE OPERATION OF AITAB

Abdullah and Dusuki presented a paper at 4th International Islamic Banking and Finance Conference, there they mentioned number of issues that AITAB (*al Ijarah Thumma Al Bai')* facing now-a-days. Shari'ah expert and bankers discuss or expressed these issues.

- Customers have lack of awareness about AITAB; even some say this that it is similar to conventional hire-purchase except for its Arabic name which sounds more 'Islamic'.
- There is also lack of experience among Bank officers, so they are unable to provide satisfactory information to customers.
- Dealer plays an important role between financial institution and a customer. So it is also necessary that dealer know all information related to AITAB then he can easily explain it Advantages and differences to customers.

- The documentation process is difficult and time consuming so customer prefer conventional facility.
- There is a high competition among conventional and AITAB because Conventional hire-purchase business is well established in market and its operations is easier as compare to Islamic hire-purchase
- Hire-Purchase Act (1967), protect customers to dishonest dealers but it also have some disadvantages :
  - ✓ Insufficient documentation in respect of *Ijarah*
  - ✓ Limited application to certain goods only
  - ✓ Involvement in elements of interest in calculation of term charges.
- Lack of Shari'ah Framework.
- No proper regulation and no understanding of Islamic law.

FUTURE PROSPECTS OF AITAB

There is a very bright future of AITAB. AITAB can be viewed in four aspects,

- Strong public acceptance
- Competitiveness
- Legal protection, and
- The proposed *Shari'ah* law of AITAB. (Abdullah and Dusuki).
- Muslim customers who know and understand its features and operations prefer it to conventional banking. AITAB charge 1% penalty for late payment, as compared to conventional banking which charge 8% penalty. Because of this advantage Non-Muslims also prefer AITAB.
- There is no more difference between AITAB and conventional banking but according to Hire-Purchase Act 1967, AITAB is relatively beneficial as compared to conventional because it provide to customer to use a fixed or variable rate in the transaction, protections of customers and guarantors and clear practice of recovery. It also charge very minimal penalty.
- To control the inadequacy of Hire-Purchase Act 1967, *Mu'amalah* Bill introduced the advantages of *Mu'amalah* Hire-Purchase Bill is its wider scope of application as compared to conventional hire-purchase. The law applies to all goods stated in the first Schedule.

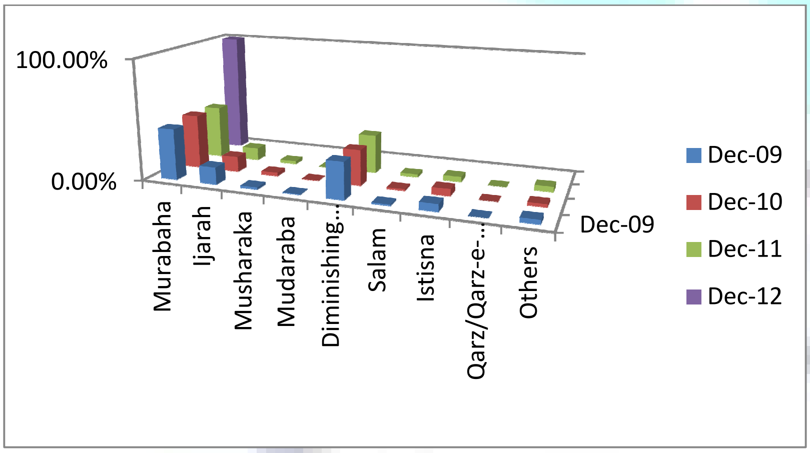
RESULTS & DISCUSSION

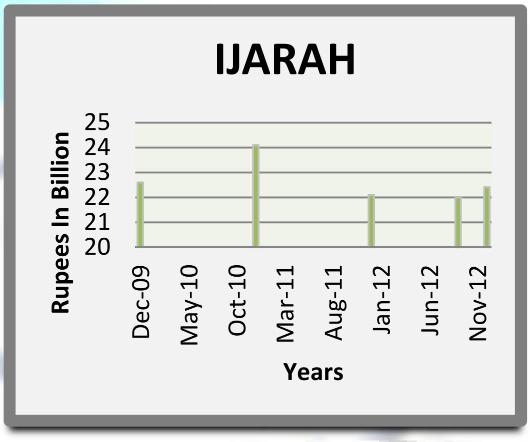
Islamic Banking Industry getting more popular in present era. It is showing positive growth rate not only in Pakistan from last decade as well as globally too. Ernst & Young published the World Islamic Banking Competitiveness Report 2013 in December 2012. They discussed Islamic banking growth trends in last few years globally and also highlighted some major economies who are major player of Islamic banking industry. These countries which have included in the report are; Pakistan, Egypt, UAE, Kuwait, Malaysia, Bahrain, Qatar, Turkey, Indonesia and Saudi Arabia. In this report they mentioned that an average annual growth rate over the past 4 years of Islamic banking is 19%, except 24% in 2011. According to the estimate Islamic banking assets are also growing to US$ 1.3 trillion and equity base of 13 Islamic banks have more than US$ 1 billion. Top 20 Islamic banks make up 55% of the total Islamic banking assets and are concentrated in 7 countries, including GCC, Malaysia and Turkey. But in 2011 the average ROE of Islamic banking sector was 12% while conventional banking sector was 15%. This decreasing ROE of Islamic banking sector was mainly due to the risky financial decisions, poor quality of asset, low earnings, & some losses. Its profitability can be improved up to 25%.In this report Ernst & Young also forecasted future growing rate of global Islamic banking industry, they predicted the assets of Islamic banking sector will reach in 2013 up to US$ 1.8 trillion and in 2014 it will go more than US$ 2 trillion. (State bank of Pakistan, 2012)

Table#1, table#2 shows that, according to SBP the Total assets of the Islamic banking sector of Pakistan during the period of 2003 to 2012 showing increasing trends throughout these years. In 2012 assets are of Rs.837 billion by 12.8% and 8.6% share in industry. The deposits during these years also increasing as it is Rs.202 billion in 2008, Rs.283 billion in 2009, Rs.390 billion in 2010, Rs.521billion in 2011, Rs.706 billion in 2012 and its growth rate of deposit in 2012 is 12.5%. Total number of branches is also increasing day by day. In 2003 there were just 17 Islamic branches but then it increasing till now; 1n 2008 it was 515, in 2009 it was 651, in 2010 it increased by 751, in 2011 it become 886, and now in 2012 it reached 1097 no. of branches.

This bar-chart of Ijarah shows that Ijarah Financing in Pakistan which shows increasing trend in 2010 by 24.1 billion rupees but then it decreased in 2011 by 22.1 and then it increased by 0.3 billion rupees in 2012. (Illustrated in Table#5)

The diagram demonstrated below shows Islamic Banking product's percentage share. (From table#5) Murabah and DM have more shares relative to all other mix. While Ijarah is showing increasing trends but it percentage share in all over the mix is low. In 2009 percent shares of Ijarah is 14.2% then its decreasing by 12.7% in 2010, 10.4% in 2011, and 9.3% in 2012 which is not good.





Above these discussion shows the increasing trends of Islamic banking industry globally. This continuous increasing growth rate makes Islamic banking more attractive. Many muslim and non-muslim countries rapidly adopting Islamic banking. But still there is some challenges which this industry is facing now-a-days. By overcoming these challenges this industry can enjoy more market shares and can show more growth rate in future.

SOME OF THE CHALLENGES OF ISLAMIC BANKING ARE

- Low expertise of Management and staff, they even did not have full knowledge of benefits or advantages of Islamic banking. There is a need to train them.
- Conventional Banking is well established, by this Islamic banking face high competition.
- There is low product innovation and diversification.
- Another big problem is that, peoples are not fully aware of Islamic banking. They consider that there is no difference between both of them.
- There is no strong legal framework of Islamic banking present; by the absence of Islamic law the enforcement of agreements in courts may require extra efforts and costs.

- There is "Monthly Payment Agreement" between customers and Banks. There is more risk in it because if customers default Bank has no security to overcome bank's interest.
- Products offer by all Islamic banks is similar, (90 per cent Murabaha, DM and Ijarah) but all have their own Islamic scholars who approve bank's products and they perform differently.
- Lack of consumer protection.
- Islamic banking just provides Ijarah and Murabaha. They do not deal with interest bearing bonds.
- There is also a liquidity issue in Islamic Banking.
- Islamic money market and capital market is not developed and very small.
- Lack of capital, so a lot of capital needed to compete with conventional banking system.
- Lack of It development as compare to conventional Banks.
- Market demand is good but as well as low.
- Lack of Islamic branches comparatively to conventional banks and it needed to increase at least 3 times more of present number of branches.

CONCLUSION

About last four decades Islamic Banking came into existence and adopted by different Muslims and non-Muslims countries as well. Islamic Banking becomes more popular in present era. It is showing positive growth rate not only in Pakistan from last decade as well as globally too. However there is misconception by some people who consider it as similar to conventional financing. They have no full information about its operations and advantages. So, the purpose of this study is to understand the nature of *Ijarah* financing and its differences with conventional lease financing. Also discuss its growth in Pakistan as well as globally, Ijarah and its types, Ijarah financing in Pakistan and Banks in Pakistan who is offering different types of Ijarah. (Mentioned in Table#7, 8 in Annexure)

The results shows that, however Islamic Banking still face some challenges but its growth rate increased in future because customers who understand its operations and advantages accept it rapidly. According to SBP the Total assets of the Islamic banking sector of Pakistan during the period of 2003 to 2012 showing increasing trends throughout these years. In 2012 assets are of Rs.837 billion by 12.8% and 8.6% share in industry. The deposits during these years also increasing as it is Rs.202 billion in 2008, but it go more up as in 2011 it was Rs.521billion, Rs.706 billion in 2012 and its growth rate of deposit in 2012 is 12.5%. Total number of branches is also shows increasing trends day by day. In 2003 there were just 17 Islamic branches but then it increasing till now as; 1n 2008 it was 515, in 2011 it increased by 886, and now in 2012 it reached 1097 number of branches. This continuous increasing growth rate makes Islamic banking more attractive. Many countries all over the world are rapidly adopting Islamic banking system in their economies. Therefore, Islamic Banking has a very bright future in coming years.

FUTURE PROSPECT OF IBI/IJARAH FINANCING & RECOMENDATION

- In future it replaces conventional banking system.
- Expand their branches in future, in the next five years 1200 branches to be opened.
- Pakistan is an Islamic republic nation and Islamic bank is link with religious proposition so people naturally preferred more Islamic banking system.
- There are more opportunities in Islamic banking because it is getting more attention by both Muslims and non-Muslims.
- Its shares also increasing (in 2012 shares in banking sector was 12%).
- According to Ernst & Young report they forecasted that IBI will reach in 2013 up to US$ 1.8 trillion and in 2014 it will go more than US$ 2 trillion.
- Providing seminar and training to management and staff which enable them to provide all information and advantages of Islamic banking & Ijarah financing to their customers.
- Experts should be hired in order to conduct detail market research to increases Ijarah financing and Islamic banking growth.
- Islamic banks should Increase target market and do more segmentation by facilitating more customers with more diversify products.
- Islamic banking industry (IBI) should focused more on its R & D in order to introduce more innovative products.
- IBI should do more research to investigate consumer behaviors for Ijarah.
- IBI should consult with experts of Shariah and take their opinions and advices while designing new products or transforming existing products which enables them to give better services according to Islamic laws.
- Should spread more awareness of Ijarah financing by increasing promotions and conducting seminars, workshops and programs.
- IBI should integrate with e-commerce by providing product and services directly to customers through internet, and this direct approach will increase sales and customer cycle.
- For increasing Ijarah financing IBI should hired expert or skilled HR.
- IBI should create a separate Shariah body where Islamic scholars take all decisions and it will enable banks to perform and operate on Quran and Shariah rules and regulation.

LIMITATIONS OF THE STUDY

This study focuses just on the nature of Ijarah financing in different Islamic and commercial banks of Pakistan and it determines the difference of Ijarah financing and conventional lease financing. But this paper has not focus on the other financial instruments or products offered by Islamic banks in Pakistan.

SCOPE OF THE FUTURE RESEARCH

This paper emphasizes on Islamic hire purchase (Ijarah). Scope of the future study can be widened by doing further research on other Islamic banking instruments like Mudarabah, Musharakah, Murabaha, Ijarah, Salam, Sukuk, Takaful, Qarz-e-Hasna, and Istisna.

ACKNOWLEDGEMENT

With the name of Allah Almighty, the most merciful, the most beneficent, we are very grateful to Him. We also pay heartiest tribute to the Holy Prophet Muhammad (peace be upon him) being an ideal personality to follow his practices. The Holy prophet Muhammad (Peace be upon him) is one of the greatest leader. He preached Islam as the religion of peace, brotherhood and welfare oriented for success in this life and in the life hereafter. We are very thankful for all blessings which Allah almighty granted us and we pray for further successes too.

We are very thankful to our supervisor respected Ma'am Kalsoom Akhtar for the Guidance, support and her kindness. Because of her encouragements and supervision we are able to complete this research paper successfully.

REFERENCES

1. Ahmed, A., (2009), "A Comparative Study of Islamic Banking in Pakistan: Proposing and Testing a Model", thesis, Foundation University, Islamabad, Pakistan, pp. 1-201
2. Akram, M., Rafique, M., and Alam, H.M. (2011), " Prospects Of Islamic Banking: Reflections From Pakistan", Australian Journal of Business and Management Research, Vol.1 No.2, pp. 125-134
3. Alam, M. (2006), ''Islamic finance: going strong'', Oman Economic Review, 21 June, p. 8, available at: www.oeronline.com/php/2006_ june/cover.php (accessed 22 June 2007).
4. Arekat, Z., (2006), ''Islamic finance forum'', Islamic Finance News, 6 February, Vol. 3 No. 3, p. 19.

5. Cader, S.A. (2007), ''The glass has yet to become full'', Islamic Finance News, Vol. 4 No. 20, 18 May, pp. 18-9.
6. DR. ABDULLAH, N.I., and DR. DUSUKI, A.W. (n.b) "A Critical Appraisal of Al-Ijarah Thumma al-Bay' (AITAB) operation: Issues and Prospects", paper presented at 4th International Islamic Banking and Finance Conference, Monash University of Malaysia, Kuala Lumpur, pp.1-15
7. El-Din, S.I.T., and Abdullah, N.I., (2007), "Issues of Implementing Islamic Hire Purchase in Dual Banking Systems: Malaysia's Experience", Thunderbird International Business Review, Vol. 49(2), pp. 225–249
8. Ernst & Young., (2012), "World Islamic Banking Competitiveness Report 2013", December 2012, pp. 1-22
9. Hairetdinov, R., (1998), "Islamic Financial System", http://www.witness-pioneer.org/vil/ Articles/economics/islamic_finsys.html
10. Khan, M.M., and Bhatti, M.I., (2008), "Islamic banking and finance: on its way to globalization", Vol. 34 No. 10, pp. 708-725
11. Kharofa, A. 1997. *Transactions in Islamic Law*. Kuala Lumpur: A.S. Noordeen.
12. Nanava, R., (2007), "Islamic banking and Islamic financial products: comparative study of UK,US, Malaysia", CEU eTD Collection, pp.1-95.
13. Qureshi, F. & Millett, M. (1999), "An Introduction to Islamic Finance", *Harvard Business School,* NR-200-002
14. Rashid, H.A., Noreen, H., and Karamat, M., (2012), "Growth and Prospects of Islamic Banking In Pakistan", Far East Journal of Psychology and Business, Vol. 7 No. 2, pp. 48-61
15. Shaikh, S.A. (2012), "Islamic Banking in Pakistan: A Critical Analysis", Islamic Economics Project, MPRA Paper No. 42497, posted 7, pp.1-21
16. Shariff, R.A.M., and Rahman, A.R.A., "An Exploratory Study Of Ijarah Accounting Practices In Malaysian Financial Institutions", *International Journal of Islamic Financial Services, Vol. 5, No. 3,pp. 1-15*
17. Siddiqui, A., (2008), "Financial contracts, risk and performance of Islamic banking", journal of Managerial Finance, Vol. 34 No. 10, pp. 680-694
18. State Bank of Pakistan, (2008), "Handbook of Islamic Banking Products & Services", Islamic Banking Department, December 2008, pp. 1-132
19. State Bank of Pakistan, (2010), "*Islamic Banking Bulletin",* Islamic Banking Department October-December 2010, Vol.5, No.4, pp. 1-22
20. State Bank of Pakistan, (2012), "*Islamic Banking Bulletin",* Islamic Banking Department, December, 2012, pp. 1-23

ANNEXURE

FIGURE 1: ISLAMIC BANKING BRANCH NETWORK (As Of December 31, 2012)

	Name of Bank	No of Branches
Islamic Banks	*AlBaraka Bank (Pakistan) Limited*	92
	BankIslami Pakistan Limited	88
	Burj Bank Limited	67
	Dubai Islamic Bank Pakistan Limited	100
	Meezan Bank Limited	310
		657
amic Branches Of Conventional	*Askari Bank Limited*	33
	Bank AL Habib Limited	13
	Bank Alfalah Limited	110
	Faysal Bank Limited	52
	Habib Bank Limited	33
	Habib Metropolitan Bank Limited	4
	MCB Bank Limited	27
	National Bank of Pakistan	8
	Silkbank Limited	7
	Soneri Bank Limited	8
	Standard Chartered Bank (Pakistan) Limited	14
	The Bank of Khyber	36
	United Bank Limited	22
	Sub Total	**367**
Sub Branches	*AlBaraka Bank (Pakistan) Limited*	2
	Askari Bank Limited	2
	BankIslami Pakistan Limited	58
	Burj Bank Limited	8
	Habib Bank Limited	2
	United Bank Limited	1
	Sub Total	**73**
	Grand Total	**1097**

Source: State Bank of Pakistan (2012).

Islamic Banking Branch Network(As of December 31, 2012)

FIGURE 2: FULL FLEDGED ISLAMIC BANKS OFFERING IJARAH

Serial	Islamic Banks	Ijarah Offerings	Features
1	AlBaraka Bank (Pakistan) Limited	▪ Ijarah for Plant & Machinery ▪ Ijarah on office equipment ▪ Ijarah on Vehicles	▪ Minimum Tenor 3 years& Maximum Tenor 5 years. ▪ Ijarah available for consumers & Corporate/SME & Customer falling under salaried, self-employed and businessmen categories for consumer financing.
2	BankIslami Pakistan Limited	Car Ijarah	▪ Minimum Cost of Vehicle Rs. 250,000 ▪ Security Deposit30% to 50% ▪ Tenure of Ijarah: Min- 3 Years, Max-5 years ▪ All Vehicles costing above Rs. 800,000 are required to be installed with tracker. ▪ Target customers: individual, corporate
3	Burj Bank Limited	Car Ijarah, Equipment/Machinery	▪ Minimum Tenor 3 years & Maximum Tenor 5 years. ▪ Payment period: Monthly/Quarterly/Semi-annually
4	Dubai Islamic Bank Pakistan Limited	Car Ijarah	▪ New or Used Cars. ▪ Local or Imported/Re-conditioned Cars. ▪ Payment plan with tenure options ranging from 1-7 years ▪ Financing Amount, DIBPL will finance up to 85% of the car value ▪ Target customers: Salaried, Self Employed Businessmen and self employed professionals, Manufacturing industries, Construction Industries, Transportation Industries
5	Meezan Bank Limited	Car Ijarah	▪ Minimum security deposit as low as 10% ▪ The minimum security deposit for a vehicle up to 2 years of age is 20%, while minimum security deposit for a vehicle over 2 years of age is 30%. ▪ Target Customers: Salaried Individuals, Self-employed Professionals, Business Individuals

Source: State Bank of Pakistan (2008)-Handbook of Islamic Banking Products & Services, & official websites of Banks (2012).

FIGURE 3: ISLAMIC BRANCHES OF COMMERCIAL BANKS OFFERING IJARAH

Serial	Islamic Branches of Commercial Banks	Ijarah Offerings	Features
1	Askari Bank Limited	Askari Ijara Bis Sayyarah(vehicle)	▪ Its a vehicle based Ijarah ▪ Minimum to max. tenor is 3-5 Years, & Target Customers Salaried Individuals, Self-employed Professionals, Business Individuals
2	Bank AL Habib Limited	Ijarah	▪ Minimum Financing Limit Rs. 2 Million ▪ Maximum Financing Limit Rs. 1.2 Million ▪ Tenors up to 3 to 10 Year ▪ Target Customers Corporate, SME,
3	Bank Alfalah Limited	▪ Alfalah Car Ijarah ▪ Ijarah Finance	▪ Financing of new, used and imported vehicle for personal use ▪ Multiple tenure options of 3 to 5 years ▪ Ijarah Finance is offering asset hire/purchase for corporate sector, Tenor is 3 to 7 years
4	Faysal Bank Limited	Barkat Auto Finance	▪ Barkat Auto Finance is based on Diminishing Musharakah, where you participate with Barkat Islamic Banking in a joint ownership of your vehicle ▪ Tenure up to 5 years
5	Habib Bank Limited	Habib Bank Ijarah	▪ Facilitates the rental of vehicles, plant and machinery on medium and long term basis Maximum Financing Limit Rs.50million ▪ Minimum Tenors 3 years & Maximum Tenors 5 years ▪ Target Customers Small/medium size traders/Manufacturers & Corporate Customers
6	Habib Metropolitan Bank Limited	Ijarah	▪ Financing for consumer and commercial vehicles & financing equipments and machinery ▪ Minimum Tenors 1 year & Maximum Tenors 5Years, 7 years(for consumer) ▪ Target customers are Corporate, SME Consumer
7	MCB Bank Limited	▪ Al-Makhraj Car Ijarah ▪ Al-Makhraj Equipment Ijarah	▪ For car: Minimum Financing Limit Rs. 250,000 & Maximum Financing Limit Rs. 1600,000 & tenor is 1-5 Year ▪ No financing limit for equipment Ijarah. ▪ Target Customers Individual and Corporate clients
8	National Bank of Pakistan	NBP Ijarah ▪ Vehicles (both Commercial and Private) ▪ Office Equipment ▪ Plant and Machinery	▪ Maximum Financing Limit Upto Rs.20 million for SMEs and Rs.50 million for Commercial / Corporate Customers, Minimum Tenors 3 Year And Maximum Tenors 5 Years ▪ Target Customers: The Small and Medium Enterprises (SMEs) as well as corporate and commercial clients
9	Soneri Bank Limited	Ijarah (Vehicle/Machinery)	▪ Basis for Pricing KIBOR plus Margin ▪ No Financing Limit ▪ Target Customers Manufacturers, Importers/Exporters, ▪ Traders, individual
10	The Bank of Khyber	Ijarah Muntahia Bitamleek (Vehicle & house)	▪ Minimum Tenors 1 Year & Maximum Tenors 5 years in case of Car Ijarah and Commercial Ijarah, 3 years in case of Motorcycle Ijarah and 15 years in case of House Ijarah Facility. ▪ Target Customers Business Community, Employed & Self Employed
11	United Bank Limited	▪ Ameen Auto Ijarah ▪ Ameen Commercial Ijarah	▪ Minimum Financing Limit Rs.200,000 & Maximum Limit is Rs.1,500,000 ▪ Minimum Tenors 1 Year & Maximum Tenors 7 Years ▪ Target Customers salraried/Professional/Self employed/Govt. Employees, Multinational Companies, large local corporates, public sector entities, sole proprietor, private limited companies.

Source: State Bank of Pakistan (2008)-Handbook of Islamic Banking Products & Services, & official websites of Banks (2012).

ENVIRONMENTAL AUDIT: STEP TOWARDS SUSTAINABLE DEVELOPMENT

DR. S. K. JHA
FACULTY
MANAGEMENT PROGRAMME
L. N. MITHILA UNIVERSITY
DARBHANGA

ABSTRACT
Environmental pollution has a great impact on men and society. It adversely affects on the human health or public health, animals and plants. Managing environment is really an issue of life and death. The 'Environmental Audit' is an initial step towards the pursuit of environmental quality management. This environment audit makes the organization self-regulating. Moreover undertaking of 'environmental audit' on regular basis provides a platform for improvement aiming at "zero spills, zero pollution, zero waste and zero accidents". Against this background, different aspects of Environmental Audit framework have been highlighted in this paper.

KEYWORDS
Environmental Accounts, Environmental Audit, Environmental Impact Assessment, Social-Cost Benefit Analysis, Sustainable Development.

BACKDROP
Environment and its management is recognised as the highest priority for its sustainable development. Since the *Rio Summit* in 1992 (Agenda 21), environmental management and allied activities phased into a top priority throughout the earth. Pollution of environment has assumed serious dimensions. The whole world is worried that the existence of mankind itself may be threatened if the timely and corrective measures are not taken at the regional, local, national and international levels. Industry is considered one of the main polluters of environment. Unplanned industrialization and the release of huge amounts of effluents, hazardous wastes and emissions of chemicals by industrial units in environment are the main cause of damage to environment. Any sustainable industrial development aimed at the service of humanity has to be environment friendly and compatible with Eco-system.

Corporate enterprises are facing the challenges to determine their true profits which are environmentally sustainable ones. For this Companies need to account for the environment. They should take account of its most significant external environmental impacts and effect, to determine what profit level would be left (if any) if they attempted to leave the planet in the same state at the end of the accounting period as it was in the beginning. Rapid industrialization, inspite of its positive effects on economic development of the world, has very seriously threatened the world's natural environmental balance. There is a growing pressure from Environmentalists, Government, Society, Customers, Employees and Competitors on business firms to be environmentally accountable.

THE ENVIRONMENTAL DEGRADATION – UNIVERSAL PROBLEM
Environment includes entire biological, physical and social milieu in which man and other organisms are placed and no organism however simple or complex can survive on their removal from the environment. In order to make progress, man has produced destructive, hazardous and often irreversible changes in the environment in which he is totally dependent. With a view to improving living and nutritional standards, man has interfered with practically every sphere in natural ecosystem. The man-made pollutants that greatly influence the quality of environment are – metals, petroleum products, volatile industrial chemicals, heat and exhausts generated due to the burning of fossil fuels, radioactive species from reactors and nuclear reactors, organic and domestic wastes – as most of these are discharged untreated into the environment. Pollution is thus a kind of interference to the environmental degradation. The problems of such environmental degradation – air, water, noise pollution, solid wastes, radiation hazards, thermal pollution, are threats to wildlife, depletion and destruction of natural resources, etc. are all environmental crisis and threats affecting the delicate balance of natural ecosystem.

TYPOLOGY OF POLLUTION
The level of pollution varies with the density of population and per capita income and inversely with the extent of recycling, technology and waste treatment. The different types, causes and effects of environmental pollution may be:

- **Air Pollution**
  Air pollution is the human introduction into the atmosphere of chemicals, particulates or biological materials that cause harm or discomfort of human beings or other living organisms or damage the environment. Air pollution is caused by burning coal or crude oil like naptha in power stations, smokes from factories, exhaust fumes from automobiles, solvent losses and agricultural chemicals, etc. Air pollution leads to deaths and respiratory diseases.
- **Water Pollution**
  Water pollution is the contamination of water bodies such as lakes, rivers and/or oceans caused by effluents from breweries and tanneries, coal washeries, chemical plants, discharge of coolants from nuclear power plants, pesticides and agricultural chemicals. Water pollution affects public health and safety, causes damage to property and leads to many economic losses.
- **Noise Pollution**
  Noise pollution is a type of energy pollution in which distracting, irritating or damaging sounds are freely audible and is caused by noise due to running of heavy machines, big aircrafts, aircraft, drilling machines, etc. Noise pollution may lead to loss of efficiency at work, loss of hearing and causes psychological disorders, even insanity.
- **Smell Pollution**
  Discharge of industrial products, nuclear garbage dumps, open sewers, etc. It affects physical wellbeing and even causes psychological disorders.
- **Thermal Pollution**
  Large input of heated water from a single plant or a number of plants using the same lake or slow-moving stream can have harmful effects on aquatic life. Thermal pollution is radiation of heat generated by plants in industries. Warmer temperatures lower dissolved oxygen content and cause aquatic organisms to increase their respiration rates consume oxygen faster and increases their susceptibility to disease, parasites, and toxic chemicals. Thermal pollution affects ecological balance and thereby the inhabitants.
- **Visual Pollution**
  Effluents from chemical plants and washeries are discharged into the waterways causing reduced visibility. Industrial fumes and dust causing loss of landscape attractiveness and strain to vision of pedestrians and motorists, may cause more road accidents and traffic deaths.
- **Climate Pollution**
  Radiation of heat in highly industrial centres is leading to "micro climate zones" causing deforestation, shortening plants growth and affecting surroundings. It affects ecological balance and causes damages to plant and surroundings.

- **Radiation Pollution**
  Radioactive fallouts, leakage from nuclear reactors and prolonged exposures to small doses of radiation results in a bio-accumulative process, causes a significant chronic affect by increasing the rate of genetic mutation.
- **Soil/land Pollution**
  Indiscriminate use of fertilizers and pesticides, pollution of soil with man-made chemicals, indiscriminate disposal of solid use etc. are causing soil/land polluted. Due to pollution the quality of soil deteriorates to the extent that they fail to support vegetation. It affects the global climate also.

ACCOUNTING ASPECT OF ENVIRONMENT

Accounting deals with information systems for economic entities. Environmental accounting is the scientific selection, measurement and collection of all environmental and socio-economic activities and conditions in the macro and micro sectors of the economy. Environmental accounting employs '*benefit-cost analysis'* to ensure efficient management of limited resources for the well-being of mankind. The recent escalation in concern for environmental issues has increased considerably attention to business social responsibility.

Environmental accounting tracks and manages direct and indirect environmental costs, and improves environmental decision making. Environmental accounting is a broader term which encompasses every aspect of the corporate landscape: legal, financial, technological and scientific. Internal and external forces are constantly at work forcing companies, governmental agencies and the accounting profession to view the issues and derive measures for dealing with environmental costs. Environmental costs and obligations must be reported upon and disclosed. Management decision making must consider them.

Environmental Accounting Comprises of

- Accounting aspect of Environment of a concern,
- Reporting aspect of Environment of a concern,
- Auditing aspect of Environment of a concern and
- Environmental Management Accounting of a concern.

The first Environmental Accounts (EA) was constructed by Norway in the 1970s and was only slowly adopted by other countries. In the early 1990s, the World Bank conducted a review of environmental accounting (EA), providing a compendium of which countries had compiled environmental accounts, the methods that had been used to construct environmental accounting, and the extent of coverage (Peskin and Lutz, 1990). Since that time, environmental accounting has increasingly been recognized as a useful economic tool, resulting in a great deal of activity in both developed and developing countries. Over the last decade, conceptual and technical aspects of construction of environmental accounting have received a great deal of attention. Environmental accounting tracks and manages direct and indirect environmental costs, and improves environmental decision making.

ENVIRONMENTAL AUDIT – CONCEPTUAL FRAMEWORK

The Concept of Environmental Audit, which has its origin in the United States, has experienced significant growth and evolution over the last four decade throughout the world with a view to redirect attention of corporate entities and business organizations to the matter of improving the management of environmental, health and safety risks. In absence of accepted audit practices in the environment audit field, many companies have approached environmental auditing from different directions and perspectives. However, Environmental Auditing has helped companies to assess their current performance, correct identified deficiencies and reduce risk **(Centre For Environmental Assurance 1992)** to the health and improving safety. The need for this assurance emanates from a number of external and internal factors. **CIMA** defines environment audit "as a systematic, documented, periodic and objective evaluation of how well an organisation, its management and equipment are performing, with the aim of helping to safeguard the environment by: (i) facilitating management control of environment practices; and (ii) assessing compliance with company policies and Government regulations."

Environmental audit is, nowadays, absolutely necessary for the survival of the industry and the economy to serve the best interest of the society at large. It is a systematic, documented, periodic and objective review by regulated entities, of facility operations and practice related to meeting environmental requirements.

The objectives of an environmental audit are

- To ensure cost effectiveness compliance with the statutes and company policies
- Cost saving from improved practices
- To prepare data-base relating to pollution potential of all facilities
- To make a social cost-benefit analysis
- To develop social reputation, confidence of customers
- To develop overall awareness, identifying problems and areas of risk
- To encourage the use of low waste technologies and prudent use of resources and to identify potential hazards and risks.

Environmental audit has the following aspects –

- Technological and operational aspect involving audit of the technology of environment management as well as the operation of environment management system.
- Environment valuation and environment costing without which environment management plans and policy implementation becomes useless and non-viable. Thus, in the absence of such environment valuation and environment costing, the cost of environment damage cannot be assessed for determination of compensation. In brief, we can point out that no effective Environment Regulatory policies and measures can be formulated and implemented without proper environment valuation/costing.

Environmental audit may cover, broadly:

- Compliance Audit
- Environmental Issues – Management Audit
- Environment Management System Audit
- Audit Review
- Environmental Audit Standard framed by individual company according to their requirements.

Environmental auditing is a management tool comprising a systematic, documented, periodic and objective evaluation of how well, environmentally, the organisation, management and equipment, are performing, with the aim of helping to safeguard the environment by:

- Facilitating the management control of environmental practise and
- Assessing compliance with company policies which would include meeting regulatory requirements.

GLOBAL REPORTING INITIATIVE

Recently, the Institute of Chartered Accountants of India (ICAI), the statutory body that sets accounting and auditing standards for the corporate sector, is working on a new set of rules on GSR, making it a must for companies to report on social, environmental and economic initiatives. Broadly, the concept is to ensure that today's development and growth does not come at the cost of the future generation. Inspired by Global Reporting Initiative (GRI), a collaborating centre of the United Nations Environment Programme, ICAI has formed a committee to develop a framework for standardising the disclosures related to sustainability reporting, which is likely to come out with its suggestions.

GRI has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The framework sets out principles and indicators that organisations can use to measure and report their economic, environmental, and social performance. The cornerstone of the framework is the Sustainability Reporting Guidelines. The GRI framework understands that the same principles cannot be applied across various industries and nations and thus has worked out sector supplements (unique indicators for industry sectors) and protocols (detailed reporting guidance) and national annexes (unique country level information). According to GRI, more than 1500 companies, including many of the world's leading brands, have given consent to voluntary adoption of its Sustainability Reporting Guidelines worldwide. The Indian economy is growing rapidly and in the era of globalization, adoption of sustainability reporting is inevitable in order to access global markets and attract foreign capital.

ENVIRONMENTAL REPORTING FOR SUSTAINABLE DEVELOPMENT

Environmental reporting calls for preparation of Environmental Reports that would show the resources used by the company and pollution and other effects of the company on the environment. The environmental resources used by a business concern can be categorized as water, energy, raw materials and hazardous chemicals. The quantities of these resources used should be disclosed. The second part of the report would measure a company's pollution of the environment in the form of effect on air, water and industrial and hazardous waste, noise and land. The effects of the output cannot be quantified and measured in monetary terms. The disclosures by entities would normally refer to positive impact of their activities on the environment. It is argued that requiring companies to report publicly both the positive and negative impact of their operations of the environment and wider community will argue them to improve their social responsibilities.

Gray (1990) in his study has suggested a number of reports to be prepared within environmental accounting: a compliance report or audit; an ethical audit; a waste audit; an energy audit; an emerging issues audit; environmental impact assessment/appraisal/analysis; a general environmental audit; and a financial environmental audit. The purposes of each are evident from the titles. The compliance report or audit would make sure that the organisation complies with legal requirements in relation to the environment. The ethical audit refers to above-the-law requirements which management may require. Setting such requirements would necessitate an open discussion about a large range of issues within the organization. The waste audit should identify waste, the costs associated with the treatment and disposal of waste, and that which may be recycled. A similar modification to the accounting and management information system would allow energy flows to be audited. The emerging issues audit would act as a reminder that the problems of the environment are ongoing, and that initiatives must be maintained.

'Sustainable Development' was brought in use by the World Commission on Environment and Development (The Brundtland Commission) in 1987. Nature has provided resources to be used, not only by the present generation but also for generations to come in the future. Moreover, knowledge about environmental conditions (e.g. how to define soil depletion, loss of natural habitats, air pollution, etc.) is necessary. If these are used without care, they will fully deplete, and nothing would be left for the future generations. The future generations would like to live in at least in the way the present one is living, if not better. Sustainable development requires meeting the needs of the present generation without compromising the needs of the future generations, i.e. the future generations are not deprived of the resources provided by nature.

It does not mean that we should not have economic growth or progress. A trade-off has to be struck between economic growth and sustainability. The economic system should be so designed as to sustain progress. Sustainable development does not prohibit the use of natural resources but restricts their use in such a way that enough or as much as possible is left for the future generations. It can be achieved by increasing efficiency or cutting down on waste or by adopting other methods such as imposing a tax on environmental resource use, as well as using non-conventional source of energy. Therefore attention has to be drawn to recognize the value of environmental resources and services, and changes therein, and to find a method to improve the national accounts in such a way that they not only measure the present income but also give due regard to the needs of the future generations.

LEGAL FRAMEWORK IN INDIAN CONTEXT

It is unfortunate that there is a lack of awareness about pollution and environmental hazards among the general public in our country although there are several enactments in our country relating to environment protection, some of which are as follows:

- Constitutional Provisions Article 51A
- The Factories Act, 1958
- Water (Prevention and Control of Pollution) Act, 1974
- Water (Prevention and Control of Pollution) Cess Act, 1981
- Forest Conservation Act, 1980
- Air (Prevention and Control of Pollution) Act, 1981
- Environment Protection Act,1986
- Hazardous Waste (Management and Handling) Rules, 1989
- Public Liability Insurance Act, 1991
- Motor Vehicles Act, 1991
- Indian Fisheries Act, 1987
- Merchant of Shipping Act, 1958
- Indian Ports Act
- Indian Penal Code

In India there is no specific provisions in any environment related Acts and Rules thereof for statutory Environment Audit by External Auditors. However, there exists Environmental Impact Assessments (EIA) and Annual Appraisal of environment related performances documented in the form of Environment Statements which require exercise in the nature of audit. As a matter of policy followed by the Pollution Control Board, EIA statements are submitted after a kind of assessment/appraisal by external examiners i.e. Environmental Consultants with the State Pollution Control Boards. Rule 14 of the Environment (Protection) Act, 1986 requires an industry to submit annual Environmental Statement by 30th September each year from 1993 onwards to the relevant State Pollution Control Board. Rule 14 is applicable to any industry which possesses or requires consent/authorization under Water (Prevention and Control of Pollution) Act, 1974, Air (Prevention and Control of Pollution) Act, 1981, and/or Hazardous Waste (Management and Handling) Rules, 1989.

ENVIRONMENTAL IMPACT ASSESSMENT

Environmental Impact Assessment (EIA) is now mandatory for most types of developmental projects. The main purpose of the Environmental Impact Assessment may be stated to be an attempt to internalize environmental costs of a project so that development duly considers environmental preservation besides economic and other factors. As a decision making tool, EIA attempts to capture and superimpose the possible environmental impacts of a developmental project on the present environmental setting of a proposed project location. Quantitative estimation of environmental parameters is often not possible and decisions may have to depend upon subjective judgments. Various methods have been proposed to quantify environmental costs and compute cost benefit ratios of developmental projects. Valuation of environmental liabilities is rapidly becoming important as environmental concerns are beginning to influence project financing, stock markets, market acceptability of product etc.

SUGGESTED FRAMEWORK

Developing the culture of environmental accountability within the organization, from top management to supervisory and manual staff is very essential for progressing from legal compliances to sustainable development stage. This can be effectively achieved with the help of measurement systems of the organization. Therefore, the measurement system must include explicit criteria for environmental accountability. For that *the following Management Control System is suggested:*

✓ Framing of environmental policy

- ✓ Special drive for increasing sensitivity towards environmental accountability
- ✓ Identification of Environmental accountability as one of the Key Result Areas (KRA)
- ✓ Deciding the environmental objectives – strategic and operational
- ✓ Identifying responsibility for different objectives with managers
- ✓ Development of measures for strategic and operational objectives
- ✓ Allocation of resources – long term budget, capital budget and revenue budget

Environmental problems should be identified quickly and accordingly remedial steps should also be taken. A recommended environmental process consist of

- Identification and Appraisal,
- Measurement,
- Disclosure and Recognition, and
- Remediation and Control.

Environmental Costs and obligations must be reported upon and disclosed. Management decision making must consider them. Environmental Costs should be compared to budgeted amounts; variances may be computed and tracked. Environmental Cost information is useful in

- Product and Service Mix Decisions,
- Pricing Policies,
- Selecting Production Inputs,
- Evaluating Pollution Prevention Programmes, and
- Appraising Waste Management Approaches.

IMPROVEMENT IN ENVIRONMENTAL QUALITY

Environmental quality may be improved by the adoption of steps like

- ✓ Voluntary efforts made by business houses to keep the physical environments clean by taking certain steps like uses of low pollution fuel, collective action by industrial units for waste treatment, etc.
- ✓ Legislative measures may be taken by Government to tackle the pollution problem.
- ✓ Waste/effluents disposal facilities may be provided by the Government.
- ✓ Subsidies may be given to industries to construct facilities for disposal of industrial waste.
- ✓ Tax relief may be provided on the expenditure on anti-pollution measures.

The costs of environmental improvement may be economic costs as well as social costs. Cost-benefit analysis needs to be applied to environmental improvement.

CONCLUDING REMARKS

Environmental pollution makes the people physically weak and mentally morbid. Men and animals suffer from different types of incurable diseases and the public health is detonated to a great extent. The growth of men and plants are hampered. The ecological balance is partially lost and the social environment is also lost. The environmental pollution extends a network of disasters and distress throughout the world. If this situation exists for a long period of time, the days are not far when the human civilization, men animals and plants will be wiped away from the universe. Environmental accounting and auditing is important because it could improve the value of economics as a decision making tool, particularly in determining national policy. Our motto should be *"Save the Environment, Save the Planet"*, we need to save our environment. Only then, environment can save us!

REFERENCES

1. Agarwal, N. P. and Jain, Sugan (Ed.) (2002), Environmental Reporting and Auditing, Raj Publishing House, Jaipur.
2. Das Gupta, N. (1997), Environmental Accounting, Wheeler Publishing, New Delhi.
3. Debnath, S. K. (2003), Environmental Pollution and Social Degradation, Management Accountant, Vol. 38, No. 6, June, pp. 410-411.
4. Ghosh, A. and Chakraborty, S. (2005), Environmental Accounting: An Attempt for Sustainable Development with Methodological Approach, Management Accountant, Vol. 40, No. 6, pp. 448-453.
5. Gray, R. H. (1990), The Greening of Accountancy, Certified Research Report 17, Chartered Association of Certified Accountants, London.
6. Lal, Jawahar (2009), Corporate Financial Reporting Theory, Practice and Cases, Taxmann, New Delhi.
7. Oza, H. S. (2005), Environmental Accounting: Linkages with Management Control Systems, Management Accountant, Vol. 40, No. 6, pp. 454-458.
8. Rajaraman, N. (1997), Environmental Auditing, Management Accountant, Vol. 32, No. 9, September, pp. 647-649.
9. Saxena, V. K. and Vashist, C. D. (1999), Cost Audit and Management Audit, Sultan Chand and Sons, New Delhi.

CHIT FUND- ROTATION OF MONEY

NAZIA ABBAS ABIDI
FACULTY
DEPARTMENT OF BUSINESS MANAGEMENT
DR. ZAKIR HUSSAIN INSTITUTE
RANCHI

ABSTRACT
Today, investment is related to saving and deferring consumption. This word investment is investment is involved in a lot of areas of economy. There are basically two types of institution where an individual invest his/her money. The first one is bank and the second one is NBFC. Bank is one that holds banking license and works under the Rules and regulations of RBI. Whereas NBFC are financial institution that provide banking facility without meeting the services without meeting the legal definitions of bank. Chit Fund also comes under definition of NBFC by RBI under the sub head miscellancusnon banking company (MNBC). But RBI not laid down any regulatory frame work for them. Due to this a lot of chit fund companies are making fraud with poor people.

KEYWORDS
Chit Fund, NBFC, RSCA.

INTRODUCTION
There are so many ways of money investment by people, in which chit is a very common form of investing money by people. Chit fund is a kind of saving schemes that is practiced in India. These chit fund companies come under Non Banking Financial Companies (NBFC), NBFC is that under which a person enters into an agreement with a specified person that everyone of them shall subscribe a certain sum of money by the way of periodic installment over a definite period and that each subscriber, shall in his turn, as determined by lot or a auction or by tender or in such other manner as specified in the chit agreement, be entitled to the chit amount. Such chit fund schemes may be conducted by organized financial institution or may be unorganized schemes that are conducted between friends or relatives. In early decades these chit funds were in an unorganized form that was done through money lender.

Chit fund business is mainly regulated under the Central Act of Chit Fund Act, 1982 and the rules framed under this Act are by various State Government for this purpose. Central Government has not framed any rule to operate this institution. As we know that a chit fund is financial institution, they are of various form and lack in standardized form. Chit funds have regular members who make periodical subscriptions to the fund. The periodic collection is given to some members of the chit funds selected on the previously agreed criterion. The beneficiary is selected usually on the basis of bids or by draw of lots or in some cases by auction or by tender. In any case , each member of the chit fund is assured of his/her turn before the second round starts and any members becomes entitled to get periodic collection again. Chit fund are Indian version of ROSCA (Rotating Saving And Credit Association) , that found across the globe. ROSCA are the poor man's bank, where money is not idle for long but changes hand rapidly, that satisfies both consumption and production needs.

MATERIALS AND METHODS
While preparing this article focus has been kept on history of chit fund, types of chit fund and about types of chit fund companies. Both primary as well as secondary sources of information have been taken into consideration. Substantial care has been also taken for objectives and corrections that are present in the presentation.

RESULT AND DISCUSSION
There are a lot of chit fund companies as different chit fund operate in different ways and there are also a lot of fraudulent practiced by many private firms. Chit fund operation is not illegal, in fact the operation is almost unique to India and till recently when banks were rare, chit funds are the most acceptable way to get bulk cash for a lot of households that were looking for finance. A chit fund company uses a wide range of trick. The general pattern of the chit fund can be noticed by a simple formula:-

Monthly Premium*Duration of Month= Gross Amount

The chitty starts on an announced date and every subscriber come together for the lot. When there are more than one person want to take that minimum sum, lot are conducted and the "lucky subscriber" got the prize money, for the month. If no individual person is willing to take the minimum sum, then the reverse lot is conducted. Where subscriber open bid for lower amount. That person whose bidding amount is lowest sum gets the bid amount. In both cases the lot discount that is the difference between the gross sum and net amount is equally distributed among subscribers or it is deducted from the monthly premium. The same practice is repeated every month and each of the subscribers get a chance to receive same money. Basically, chit is a mutually beneficial scheme where in a group of people contributes towards the chit value and one member from the group is given the prize amount and the dividends are distributed to all other member. As for example: - if anyone consider a chit value of Rs. 1, 00000/- with 50 members in the group each member has to contribute Rs.2000/- where by (50*2000) Rs 100000/- is collected.

An Illustration To Explain How Chit Fund Works

If we suppose that there is commencing a new chit group. The value of chit is 500,000. This amount is known as Chit value.

Rs. 500,000+50 Months+50 People

For doing the illustration that how a chit works we will consider the duration of the chit to be 50 months. This is known as term period for the chit group. After that the foreman or the chit fund company has to gather 50 people who are interested in investing in this chit group. These 50 persons are called subscriber. Once, the chit group commences the foremen has to register of chits. He has to pay 100% of chit values as security. This amount can be withdrawn only after the chit group closes and every subscriber is paid what is due to him or her. This regulation protects the interest of subscriber to a certain extent. The amount collected from the members in the group is called pot. The amount to be saved every month by the subscriber is called chit value /No of person's i.e. 500,000/50=10,000. This is also known as monthly subscription. It may be noted here that the number of persons investing in a chit and duration of the chit is always the same. The maximum monthly contribution or subscription amount that a subscriber will pay is 10,000.

The subscriber does not always pay the entire subscription amount every month. Let us now see how and why a subscriber does not have to pay the entire amount.

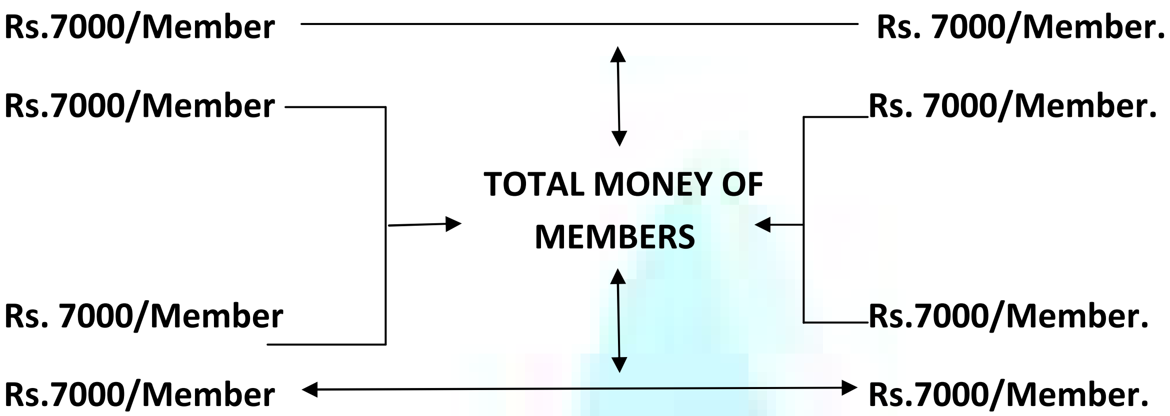
HIGHEST BID 35% of Rs.500, 000 = 175,000 Discount

175,000 are called Chit Discount.

The maximum discount or maximum bid permitted ranges from 30-40%. For the purpose of this illustration we have to assume that a subscriber has bid 35% of the chit value. 35% of 500,000 are 175,000. This amount is called Chit Discount.

5% of 500,000 = 25,000 that is Chits Company's commission.

150,000/50 Members = 3000 Dividend.



The company charges 5% of chit values as commission. In this illustration that amount would be 25,000. This would deduct from chit discount i.e. 175,000-25,000 = 150,000. This amount is available for equal distribution among the subscribers. In this example 150,000 would be divided equally among 50 subscribers. Each subscriber would get a discount of 150,000/50 =3000. This amount is known as dividend. In the following month all subscriber would have to only pay Rs. 7000 instead of Rs. 10,000. This is because they have earned a chit discount of 3000. Depending upon the competition within the chit group the discount percent would vary. The least discount would be 5% which is the company's commission. The bidding process will continue until the end of the chit period.

In this manner, the subscriber can borrow more than what they paid in the first half period of the chit term and save their money if they decide.

There are a lot of chit fund companies in which some are given below:-

- Golden Chit Fund Private Ltd.
- Bindia Funds Pvt. Ltd.
- Mutual Financial Brotherhood Pvt. Ltd.
- Trade Winds Chit Fund Private Ltd.
- Saradha Groups Financial Ltd.

These companies's have a ponzy scheme. They promise their client to double their money in a very short term but they become failure to fulfill their promises. A lot of poor family and middle class family want to make profit or earn money in a short period.

CASE 1

Saradha Group Company its Kolkata based chit Fund Company that was came under scam of fraudulent. It believed to be running a wide variety of collective investment schemes collapsed. As the case demonstrates, there is still a clear need for more transparency correction and regulation is not just India but at the highest level of global financial market.

CASE 2

The Economic Offences Wing (EOW) of Crime Branch (CB) arrested a director of controversial money circulation company Flourish India, on charges of embezzling nearly Rs. 100 crore public deposits.

The company ventured into real estate music, tourism and hospitality business by allegedly diverting public money collected through the money circulation wing. Though a case was recently registered against the company at Barpali Police station in Bargarh District, the CB subsequently took over the investigation.

CONCLUSION

Chit fund is not illegal the problem of chit fund is its rotation of money, its ponzy scheme that has been spread all over the India. So the Government of India and the market regulator SEBI, RBI will have to activate a mandatory regulatory mechanism to control the mushrooming activities of chit fund. People have to be aware before investing money in any Chit Fund or NBFC they have to take proper enquiry of the company.

REFERENCES

1. http://article.economywatch.com
2. http://article.timesofindia.indiatimes.com
3. http://wikipidiaofchitfund
4. http://www.thehindu.com/opinion/editorial
5. www.newindianexpress.com/editorials

CURRENCY DEVALUATION: A STORY FROM 1966 TO 2013

REKHA RANI
GUEST FACULTY
DEPARTMENT OF COMMERCE
PGDAV (EVE) COLLEGE
UNIVERSITY OF DELHI
NEW DELHI

ABSTRACT

This research paper is related to the devaluation of rupee in India. After 1947, India has faced two major financial crises and two consequent devaluations of the rupee. These crises were in 1966 and 1991 and now in 2013 the situation is also parallel and very destructive, as I plan to show in this paper, they had similar causes. The price of 16 Ananas is 1 rupee in 1947. The demand for decimalization existed for over a century. Sri Lanka decimalized its rupee in 1869. The Indian Coinage Act was amended in September 1955 for the adoption of a decimal system for coinage .it, however, was now divided into 100 'Paisa' instead of 16 Ananas or 64 Pice. In 1947 the value of rupee was one against the US dollar and in 1966 was 7.5, and in 1990 was 17.01 but it is 63.54 at November 2013. The Indian rupee touched a lifetime low of 68.85 against the US dollar on August 28, 2013. The rupee plunged by 3.7 percent on the day in its biggest single-day percentage fall in more than two decades. There is no denying that India is not the only emerging market experiencing a rapid decline in its currency's value. Since January 2013, the rupee has lost more than 20 percent of its value, the biggest loser among the Asian currencies. In this research we will learn about the reasons, causes and effects, and suggestions to evaluate the impact of the falling rupee on the Indian economy.

KEYWORDS
Crisis, Devaluation, Distortions, Economy, Exchange.

INTRODUCTION
Devaluation means- "one country's currency is reduced in value in comparison to other currencies" A currency devalues when its value declines in relation to one or more other currencies. Let's say that on Monday $1 bought five rubles and that today, after the devaluation, it buys 10 rubles (not actual figures). Under this scenario, the ruble has devalued by 50%.

Why do countries let their currency fall in value? Well, some do it on purpose, usually to try to boost their exports and decrease their imports. How does that work? Let's imagine I'm a Russian vodka exporter and I charge 100 rubles per bottle. On Monday, one bottle cost foreigners $20 (100 divided by five). Today, at the new exchange rate, one bottle costs $10 (100 divided by 10). In theory, Russia sells a lot more vodka and other goods because they are cheaper in dollar terms -- and exports go up.

Currency depreciation is the loss of value of a country's currency with respect to one or more foreign reference currencies, typically in a floating exchange rate system. It is most often used for the unofficial increase of the exchange rate due to market forces, though sometimes it appears interchangeably with devaluation. Its opposite, an increase of value of a currency, is currency appreciation.

The depreciation of a country's currency refers to a decrease in the value of that country's currency. For instance, if the Canadian dollar depreciates relative to the euro, the exchange rate (the Canadian dollar price of Euros) rises: it takes more Canadian dollars to purchase 1 euro (1 EUR=1.5 CAD → 1 EUR=1.7 CAD).

The appreciation of a country's currency refers to an increase in the value of that country's currency. Continuing with the CAD/EUR example, if the Canadian dollar appreciates relative to the euro, the exchange rate falls: it takes fewer Canadian dollars to purchase 1 euro (1 EUR=1.5 CAD → 1 EUR=1.4 CAD). When the Canadian dollar appreciates relative to the Euro, the Canadian dollar becomes less competitive. This will lead to larger imports of European goods and services, and lower exports of Canadian goods and service. A currency appreciates as a result of increased demand for that currency on world markets: its value in the world market increases.

TYPES OF DEVALUTAION
1. **Planned devaluation:** -Planned devaluations are brought about almost exclusively by government decisions to deliberately reduce the relative value of a currency, usually intended as a means to some improvement in the country's trading position.
2. **Market-driven devaluation:** -Formal recognition by a government, frequently during a monetary crisis, that the value of its currency relative to major world currencies—especially the dollar—has already depreciated through trading in the foreign exchange markets.

REVIEW OF LITERATURE
Fleming emphasize on the fact that the market of goods and services is always simultaneously in equilibrium with the money market. Their model emphases on the simultaneous equilibrium in the money market and the market of goods and services, enabling them to analyze under different exchange rate regimes the impact of alternative macroeconomic policies on the production possibility curve of a country after a change in monetary policy. Mundell and Fleming also insisted on the free movement of capital in the economy and on the fact that the economy is open, but never did they mention in their analysis that the effects of devaluation also depend on the nature of the elasticity of supply and demand of goods and services produced by an economy.

Rose and Yellen (1989) and Rose (1991), not only find that the trade balance does not improve after a depreciation, but also find no statistical relationship exists between the two variables. Rose and Yellen (1989), use data disaggregated on a bilateral basis, that is trade between the US and UK, between the US and Japan, and similarly for the rest of the G-7. Rose (1991) uses aggregate data and, similarly, finds no relationship between the exchange rate and the trade balance. While both of these papers employ cointegration techniques in estimation, they are potentially troubled by several problems. First, they use the technique attributed to Engle and Granger (1987), which involves a two step process. This method does not account for the simultaneity of income and the trade balance and can compound measurement error in the first stage. Next I will turn to the papers that find real currency depreciation has a positive impact on the trade balance, these include, Marwah and Klein (1996), Shirvani and Wilbratte (1997), and Marquez (1991). While these studies use different econometric techniques or different levels of aggregation, they all conclude that, in the case of the United States, real dollar depreciation will improve the trade balance.

NEED OF THE STUDY
There have been many objectives about the study:-

Economic Objectives: -When employment and per capital income in a country increase, the demand for its goods and services increases, along with demand for that country's currency in the local market.

Mobilization of savings: - When employment and per capital income in a country increase, the demand for its goods and services increases, along with demand for that country's currency in the local market.

Larger market for the financial system:-When a country's exports are high, the buyers of these exports need its currency to pay for those exports.

Sustainable livelihood:-If the bank provide at a lower rate of loan, 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.

Political objectives: -When the country's central bank increases interest rates, people will want that currency to deposit in the banks to earn that higher interest rate.

OBJECTIVE OF THE STUDY

- Find the reasons of devaluation of money
- Find the Cause & effect of devaluation
- Find the changes from 1966 to 2013
- How to control the situation

RESEARCH METHOLODOGY

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 CRISIL AND Websites etc.

EVALUATION OF THE RESEARCH

THE 1966 DEVALUATION

As a developing economy, it is to be expected that India would import more than it exports. Despite government attempts to obtain a positive trade balance, India has had consistent balance of payments deficits since the 1950s. From 1950, India ran continued trade deficits that increased in magnitude in the 1960s. The 1966 devaluation was the result of the first major financial crisis the government faced. As in 1991, there was significant downward pressure on the value of the rupee from the international market and India was faced with depleting foreign reserves that necessitated devaluation. There is a general agreement among economists that by 1966, inflation had caused Indian prices to become much higher than world prices at the pre-devaluation exchange rate. When the exchange rate is fixed and a country experiences high inflation relative to other countries, that country's goods become more expensive and foreign goods become cheaper. Therefore, inflation tends to increase imports and decrease exports. Since 1950, India ran continued trade deficits that increased in magnitude in the 1960s. Furthermore, the Government of India had a budget deficit problem and could not borrow money from abroad or from the private corporate sector, due to that sector's negative savings rate. As a result, the government issued bonds to the RBI, which increased the money supply. In the long run, there is a strong link between increases in money supply and inflation. So,

- Current account deficit of over 290 crore due to second five year plan
- Inflation has caused Indian prices to become much higher than world prices
- Budget deficit due to defense spending in 1965/1966 was 24.06% of total expenditure.
- Money supply increase
- Depleting foreign reserves
- The first was India's war with Pakistan in late 1965.

THE 1991 DEVALUATION

1991 is often cited as the year of economic reform in India. Surely, the government's economic policies changed drastically in that year, but the 1991 liberalization was an extension of earlier, albeit slower, reform efforts that had begun in the 1970s when India relaxed restrictions on imported capital goods as part of its industrialization plan. Then the Import-Export Policy of 1985-1988 replaced import quotas with tariffs. This represented a major overhaul of Indian trade policy as previously, India's trade barriers mostly took the form of quantitative restrictions. After 1991, the Government of India further reduced trade barriers by lowering tariffs on imports. In the post-liberalization era, quantitative restrictions have not been significant. While the devaluation of 1991 was economically necessary to avert a financial crisis, the radical changes in India's economic policies were, to some extent, undertaken voluntarily by the government of P V NarasimhaRao. As in 1966, there was foreign pressure on India to reform its economy, but in 1991, the government committed itself to liberalization and followed through on that commitment.

According to Srinivasan and Bhagwati, "Conditionality played a role, for sure, in strengthening our will to embark on the reforms. But the seriousness and the sweep of the reforms… demonstrated that the driving force behind the reforms was equally… our own conviction that we had lost precious time and that the reforms were finally our only option (IESI, pp 93)."In 1991, India still had a fixed exchange rate system, where the rupee was pegged to the value of a basket of currencies of major trading partners. At the end of 1990, the Government of India found itself in serious economic trouble. The government was close to default and its foreign exchange reserves had dried up to the point that India could barely finance three weeks' worth of imports. As in 1966, India faced high inflation, large government budget deficits, and a poor balance of payments position. At the end of 1999, the Indian Rupee was devalued considerably. So,

- The trade deficit in 1990 US $9.44 billion.
- The current account deficit was US $9.7 billion.
- The gulf war to higher imports due to the rise in oil prices.
- Cost pulls inflation.
- Political and economic instability.
- Depleting foreign exchange reserves.
- Gold is pledged to IMF by preceding government

THE 2013 DEVALAUTION

The Indian rupee touched a lifetime low of 68.85 against the US dollar on August 28, 2013. The rupee plunged by 3.7 percent on the day in its biggest single-day percentage fall in more than two decades. Since January 2013, the rupee has lost more than 20 percent of its value, the biggest loser among the Asian currencies.

Due to stagnant reforms, and declining foreign investment, rupee started depreciating in the early 2013. As a result, the Indian Rupee dropped to 68.80 per dollar. Various measures were announced by the Government prior to this drop to prevent it from dropping further. But, none managed to slow down the depreciation. After continued depreciation, and high inflation, the Prime Minister of India, Manmohan Singh, made a statement in the Parliament of India on the issue. He was of the view that, the present depreciation is partly led by global factors as well as domestic factors. He also asked the political parties to help his Government, tide over the crisis that the country was facing with rupee losing its value.

IMPLEMENTATION

In the period 2000–2007, the Rupee stopped declining and stabilized ranging between 1 USD = INR 44–48. In late 2007, the Indian Rupee reached a record high of Rs.39 per USD, on account of sustained foreign investment flows into the country. This posed problems for major exporters, IT and BPO firms located in the country who were incurring losses in their earnings given the appreciation in rupee. The trend has reversed lately with the 2008 world financial crisis as foreign investors transferred huge sums out to their own countries. Such appreciations were reflected in many currencies, e.g. the British Pound, which had gained value against the dollar and then has lost value again with the recession of 2008.In 1947 the value of rupee was one against the US dollar and in 1966 was 7.5, and in 1990 was 17.01 but it is 63.54 at November 2013. The Indian rupee touched a lifetime low of 68.85 against the US dollar on August 28, 2013. The rupee plunged by 3.7 percent on the day in its biggest single-day percentage fall in more than two decades. Since January 2013, the rupee has lost more than 20 percent of its value, the biggest loser among the Asian currencies.

FALL OF RUPEE 2013: CAUSES, IMPACT AND THE ROLE OF RBI

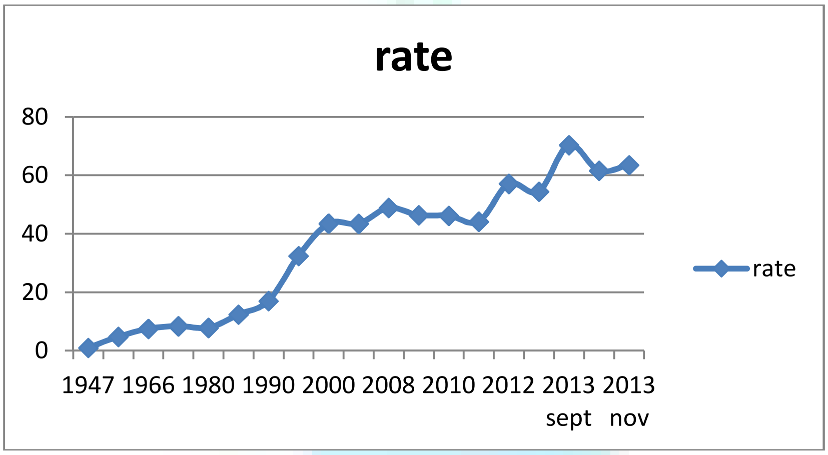
The fall of rupee vs. Dollar has created the same conundrum what the rupee appreciation caused in year 2007. However, the impact has reversed this time with exporters making appreciated revenues and the importers feeling the heat. The increased demand for dollars vis-à-vis the India rupee has led to a sharp depreciation with rupee falling close to 18% from the Aug 2011 levels, and hitting an all-time low of 54.32/USD on 15th December 2011, making it the worst performing Asian currency of the year. Taking a closer look at these issues, the fall in rupee can be **attributed primarily to 3 broad factors.**

Firstly, the grim global economic outlook, essentially due to the European debt crisis. Due to turbulence in European markets, investors are considering dollars as a safe haven for their investments in the longer run. This led to an increased demand for dollars vis-à-vis the supply for rupee and thus the depreciation. The cumulative effect of these factors is leading to a shift in investor sentiments towards dollar market.

Secondly, the fall in rupee can be largely attributed to the speculations prevailing in the markets. Due to a sharp increase in the dollar rates, importers suddenly started gasping for dollars in order to hedge their position, which led to an increased demand for dollars. On the other hand exporters kept on holding their dollar reserves, speculating that the rupee will fall further in future. This interplay between the two forces further fuelled the demand for dollars while sequestering its supply from the market. This further led to the fall in rupee.

Lastly, there has been shift of FII's (Foreign institutional investors) from the Indian markets during the current financial year 2011. FII's leads a high inflow of dollars into the Indian market. As per a recent report, the share of India's FII in the developing markets has decreased considerably from 19.2 % in 2010 to 3.8% in the year 2011. As FII's are taking their investments out of the Indian markets, it has led to an increased demand for dollars, further leading to a spiraling rupee.

INDIAN RUPEE TO ONE US DOLLAR, 1947-2013



Source: www.x-rates.com, http://rtn.asia/1218_indias-crude-oil-bill-rose-40

WHY RUPEE CROSSED 65 AGAINST DOLLAR

As the figure shows that the rupee on Thursday hit a new low of 65 to the dollar amid investor skepticism about the policies of the Reserve Bank of India and the Manmohan Singh government. Traders said the sell-off was intensified by "policy flip-flops" from the RBI. On Tuesday, the RBI announced that it would inject over $1 billion into the markets, just days after saying it was working to tighten liquidity. India, however, is not the only country suffering from a weakening currency. Other emerging markets like Brazil, Indonesia, Russia, Turkey and South Africa are also witnessing huge currency volatility because of fears that US may end its quantitative easing by year-end. Since July last year, the Indian rupee has fallen by more than 27% against the US dollar, one of the biggest declines among Asian currencies. Reasons:-

- Huge trade deficit & Lower capital inflows
- High current account deficit
- Devaluation pressure
- Low growth and high inflation
- Rupee speculation

CAUSES

- Demand Supply Rule: The value of rupee follows the simple demand and supply rule of economics. If the demand for the dollar in India is more than its supply, dollar appreciates and rupee depreciates
- Dollar gaining strength against the other currencies: The central banks of Euro zone and Japan are printing excessive money due to which their currency is devalued. Hence, making the US dollar stronger against the other currencies including the Indian rupee, at least in the short term.
- Oil prices: Oil price is one of the most important factors that puts stress on the Indian Rupee. As the demand for oil or its price increases in the international market, the demand for dollars also increases to pay our suppliers from whom we import oil
- Volatile domestic equity market: Our equity market has been volatile for some time now. So, the FII's are in a dilemma whether to invest in India or not. Therefore, decrease in supply and increase in demand of dollars results in the weakening of the rupee against the dollar.

EFFECTS OF DEVALUATION

- Advantage to Exporters: Weakening of rupee gives up a huge advantage to the exporters. While exporting products, if the rupee devaluates, the exporter gets more money.
- Boom to tourism industry: Travel and tourism is a sector which will benefit from the depreciation of the rupee. If a tourist comes to India and the rupee devaluates then it would become cheaper for him.
- Imports become extremely expensive: A depreciating rupee would mean that the importers would have to pay more for their imports. So, this means that price of the goods or commodity which is being imported to India increases substantially.
- Reduction in Purchasing Power Parity: One of the outcomes of a depreciating rupee will be the rise in inflation in the economy. When the inflation rises, prices of goods and commodities shoots up. Therefore, the purchasing power of the rupee falls down.

HOW TO CONTROL THE SITUATION?

- Government should increase the limit of FDI in the existing sectors
- Government should create a stable political and economic environment in order to make India an attractive destination for foreign investments.
- Government should develop import-substituting industries in order to make India less dependent on imports.
- RBI should sell Forex reserves and buy rupees in an immediate action in order to arrest the further decline in the value of rupees.
- Government should raise import duty on gold in order to decrease the domestic demand for gold import.
- Delay import payments.

RESULTS

Clearly, there are many similarities between the devaluation of 1966, 1991 and 2013. All were preceded by large fiscal and current account deficits and by dwindling international confidence in India's economy. Inflation caused by expansionary monetary and fiscal policy depressed exports and led to consistent trade deficits. In each case, there was a large adverse shock to the economy that precipitated, but did not directly cause, the financial crisis. Additionally, from Independence until 1991, the policy of the Indian government was to follow the Soviet model of foreign trade by viewing exports as a necessary evil whose sole purpose was to earn foreign currency with which to purchase goods from abroad that could not be produced at home. As a result, there were inadequate incentives to export and the Indian economy missed out on the gains from comparative advantage. 1991 represented a fundamental paradigm shift in Indian economic policy and the government moved toward a freer trade stance.

It is easy in retrospect to fault the government's policies for leading to these two major financial crises, but it is more difficult to convincingly state what the government should have done differently that would have averted the crises. One relatively non-controversial target for criticism is the tendency of the Indian government since Independence towards large budget deficits. Basic macroeconomic theory tells us that the current account deficit is roughly equal to the sum of government and private borrowing. Given the fact that the household saving rate in India is quite high, most of the blame for India's balance of payments problems must rest with the government for its inability to control its own spending by borrowing from the Reserve Bank of India and, therefore, essentially printing money, the government could finance its extravagant spending through an inflation tax. Additionally, the large amounts of foreign aid that flowed into India clearly did not encourage fiscal or economic responsibility on the part of the government. In 1966, the lack of foreign aid to India from developed countries could not persuade India to liberalize and in fact further encouraged economic isolation. In 1991, on the other hand, there was a political will on the part of the government to pursue economic liberalization independent of the threats of aid reduction. These two financial episodes in India's modern history show that engaging in inflationary economic policies in conjunction with a fixed exchange rate regime is a destructive policy. If India had followed a floating exchange rate system instead, the rupee would have been automatically devalued by the market and India would not have faced such financial crises. A fixed exchange rate system can only be viable in the long run when there is no significant long-run inflation.

POLICY RECOMMENDATIONS

- Oil imports can be staggered.
- Encourage and increase the flow of foreign investments into India.
- Invite long term FDI in infrastructure sector.
- Government can consider temporary import compression.
- Gold imports should be restricted.
- Export promotion.

CONCLUSIONS

Foreign exchange reserves are an extremely critical aspect of any country's ability to engage in commerce with other countries. A large stock of foreign currency reserves facilitates trade with other nations and lowers transaction costs associated with international commerce. If a nation depletes its foreign currency reserves and finds that its own currency is not accepted abroad, the only option left to the country is to borrow from abroad. However, borrowing in foreign currency is built upon the obligation of the borrowing nation to pay back the loan in the lender's own currency or in some other "hard" currency. If the debtor nation is not credit-worthy enough to borrow from a private bank or from an institution such as the IMF, then the nation has no way of paying for imports and a financial crisis accompanied by devaluation and capital flight results. The destabilizing effects of a financial crisis are such that any country feels strong pressure from internal political forces to avoid the risk of such a crisis, even if the policies adopted come at large economic cost. To avert a financial crisis, a nation will typically adopt policies to maintain a stable exchange rate to lessen exchange rate risk and increase international confidence and to safeguard its foreign currency (or gold) reserves. The restrictions that a country will put in place come in two forms: trade barriers and financial restrictions. Protectionist policies, particularly restrictions on imports of goods and services, belong to the former category and restrictions on the flow of financial assets or money across international borders are in the latter category. Furthermore, these restrictions on international economic activity are often accompanied by a policy of fixed or managed exchange rates. When the flow of goods, services, and financial capital is regulated tightly enough, the government or central bank becomes strong enough, at least in theory, to dictate the exchange rate. There is no denying that India is not the only emerging market experiencing a rapid decline in its currency's value. Several emerging market currencies are also experiencing sharp depreciation over the prospect of imminent tapering of the US Federal Reserve's policy of quantitative easing (QE) program. The South African and the Brazilian are in real touched four-year lows against the US dollar in June 2013. Except the Chinese Yuan and Bangladeshi Taka, most Asian currencies have witnessed sharp depreciation since the beginning of 2013 However, despite these policies, if the market for a nation's currency is too weak to justify the given exchange rate, that nation will be forced to devalue its currency. That is, the price the market is willing to pay for the currency is less than the price dictated by the government.

REFERENCES

BOOKS

1. Arnold, J (2008), "*Do Tax Structures Affect Aggregate Economic Growth?"* Empirical Evidence from a Panel of OECD Countries.
2. Franco, Francesco (2011), "*Adjustment to External Imbalances within the EMU, the Case of Portugal*", mimeo, University of Lisbon
3. Mundell, R. (1963) and Fleming, M. (1962) in readings *Exchange Rates and Trade Balance Adjustment in Emerging Market Economies*.

JOURNALS

4. Cabral, R. (2011), "The troika should target the trade and the income balance deficits", VoxEU.org, 15 May'
5. Calmfors, L. (1998), "Macroeconomic policy, wage setting, and employment – what difference does the EMU make?" *Oxford Review of Economic Policy*, 14(3): 125-151.
6. Cavallo, D. and Cottani, J. (2010), "For Greece, a "fiscal devaluation" is a better solution than a "temporary holiday" from the Eurozone", VoxEU.org, 22 February
7. De Mooij, RA and M Keen (2012), "Fiscal Devaluation" and Fiscal Consolidation: *The VAT in Troubled Times*", IMF Working Paper no. 12/85.
8. The Indian encyclopedias: biographical, historical, religious ..., Volume 6. *Cosmo Publications*. January 2002. p. 1599. ISBN 81-7755-257-0.

WEBSITES

9. "AIndia.htm"Worldcoincatalog.com. Retrieved 2013-06-20. http://worldcoincatalog.com/AC/C3/India/AIndia.htm
10. "Global Financial Data". Global Financial Data. 2011-09-15. Retrieved 2013-06-20. https://www.globalfinancialdata.com/index_tabs.php?action =showghoc&country_name=India
11. "USD to INR Rates on 5/15/2013". Exchange Rates. 2013-05-15. Retrieved 2013-06-20. http://www.exchange-rates.org/Rate/USD/INR/05-15-2013
12. "USD to INR Rates on 6/22/2012". Exchange Rates. 2012-06-22. Retrieved 2013-06-20. http://www.exchange-rates.org/Rate/USD/INR/06-22-2012
13. etymonline.com (September 20, 2008). "Etymology of rupee". Retrieved 2008-09-20. http://www.etymonline.com/index.php?search =rupee& searchmode=none
14. Johri, Devika. "Devaluation of the Rupee: Tale of Two Years, 1966 and 1991". Centre for Civil Society. Retrieved 19 August 2013.
15. Mughal Coinage at RBI Monetary Museum. Retrieved on May 4, 2008. http://www.rbi.org.in/currency/museum/c-mogul.html.
16. profit.ndtv.com
17. www.cnbc.com

18. www.hindustantimes.com
19. www.moneycontrol.com
20. www.moneylife.in
21. www.rbi.org.in

CHILD LABOUR AND TRADE LIBERALISATION

SIDDHARTH RATHORE
ALUMNI
DEPARTMENT OF ECONOMICS
DELHI SCHOOL OF ECONOMICS
UNIVERSITY OF DELHI
NEW DELHI

ABSTRACT

In recent years the impact of globalization on the incidence of child labour has started to spark both public and academic debate, and has become an issue that invokes passion because it brings together people concerned about the exploitation of children on moral and ethical grounds and organized labour interested primarily in protecting jobs .Through this paper, it is argued that trade openness as depicted by stock of Foreign Development Investment (FDI) in the economy, and trade ratio, is negatively related to child labour. The more a developing country is integrated in the world economy, lesser are the chances of the incidence of child labour.

KEYWORDS

Trade Ratio, GDP, FDI Stock, Child Labour, Urbanization.

INTRODUCTION

The term "child labour" is often defined as work that deprives children of their childhood, their potential and their dignity, and that is harmful to physical and mental development. It refers to work that is mentally, physically, socially or morally dangerous and harmful to children; and interferes with their schooling by depriving them of the opportunity to attend school, obliging them to leave school prematurely; or requiring them to attempt to combine school attendance with excessively long and heavy work.

The employment of children is primarily in the non-traded goods and services sectors, such as domestic work, agriculture, fishing, and construction; these are generally considered informal sectors and are less likely to be subject to government regulation and scrutiny. The fact that the children are in the informal sectors also makes it more difficult to obtain reliable estimates of the prevalence of child labour. The sector in which children work, however, is of only limited significance, in that their employment has economy-wide general equilibrium effects on labour and product markets.

Child labour is not a recent phenomenon and certainly not one concerning India only. According to the International Labour Organization's official data, an estimated 218 million children were counted as child labourers as of 2004. Given the prevailing economic conditions, the overwhelming majority of these children are in developing countries in Asia, Africa and Latin America. Numerous children work in occupations and industries, which are plainly dangerous and hazardous.

Section 1 of this paper discusses previous work that gives an idea about the fundamental determinants of child labour, that is, what circumstances at the micro and macro level in an economy leads to the incidence of child labour. Section 2 analyses he possible mechanisms by which international trade would affect child labour. Section 3 of this paper provides a literature survey of previous empirical work that looks at the link between international trade and child labour at the cross-country level. In Section 4, describes the methodology of this study, and also provides with the key findings as obtained from the OLS estimation, by regressing the measure of child labour on the measures for trade, controlling for other determinants that might affect child labour. Section 5 concludes.

DETERMINANTS OF CHILD LABOUR

POVERTY: Child labour is a problem of stark poverty and altruistic parents are compelled to send their children to work for reasons of survival, and are not because of avaricious entrepreneurs seeking cheap labour and selfish parents who would prefer enjoying leisure while the children work (Basu and Van1998). Therefore, a family will send children to labour market only if family's income from non-child labour sources drops very low (Luxury Axiom). From the point of view of firm, adult and child labour are perfect substitutes (Substitution Axiom). As a consequence of these two axioms, the supply of labour is increasing in the wage below this critical level. Then, once the critical level is reached, parents begin withdrawing their children from the labour force. Consequently, the supply of labour begins to bend back. Once child labour has been reduced to zero, the supply of labour resumes its upward slope. As a consequence of this configuration, the demand for labour may intersect the supply of labour more than once. Hence, a potential multiplicity of equilibrium is established, that is, the case for a good equilibrium with high wages and no child labour, and a bad equilibrium with low wages and children's work. However, both this equilibrium is pareto efficient by fundamental theorem of welfare economics. Analyzing the dynamic consequences of child labour, Basu (1999) asserts that a developing country might get stuck in the "Child labour trap" and policy intervention requires a large effort to educate one generation so that economy rolls to the virtuous equilibrium.

CREDIT CONSTRAINTS: Ranjan(1999) argues that poverty alone is not responsible for the phenomenon of child labour. She considers credit constraints to be an important reason why altruistic parents send their children to work instead of sending them to school despite the high return on education. If the poor households could borrow sufficiently they would be willing to send their children to school instead of sending them to work in the presence of high returns on education. Parents with high income send their children to school, while parents with low income are forced to send their children to work, due to missing market for loans against future earnings. Dehejia and Gatti (2002) provides with empirical evidence that confirms existence of significant association between child labour and access to credit. Strong financial markets dampen the impact of income variability on child labour which would otherwise be sizeable.

If we assume selfish instead of altruistic parents, then children will be sent to work if the payoff to parents from such work is higher than the potentially larger, but uncertain and future return of sending the children into education in order to acquire better skills. Credit market constraints play again an important role here as investment in education is expensive, the cost of which is only recovered in the future (Neumayer and Soysa 2004). Child labour thus functions as a mechanism for consumption smoothing. But what might have started as temporary work can translate into more permanent employment if the children lose their right to attend school, lose interest in school, or lose even their capability to pursue education (Baland and Robinson 2000).

SCHOOLING COSTS AND QUALITY/AVAILABILITY OF EDUCATION: Schooling costs and conditions and the availability and quality of education options have an impact upon the demand for child labour in changing the opportunity costs of sending children to work rather than to school. However, school quality is virtually never measured directly. It is quite possibly the case that, when a family is poised to move children out of the workforce into school and fails to do so, the culprit is poor schools. Poor school quality is found to be weakly important in rural Ghana (Lavy, 1996) and very important for Africa generally (Bonnet, 1993). It should be noted, though, that even if poor school quality lowers the value of formal education, there is an abundance of empirical evidence across Latin America, Africa and Asia that the return to education is still quite high and more than offsets the foregone income of children in school (Brown, Deardorff and Stern 2002). Moreover, higher public spending on education, by lowering the cost of educations for the poor, should lower the incidence of child labour.

RURAL AREAS/AGRICULTURAL SECTOR: Child labour is overwhelmingly a rural and agricultural phenomenon (Christopher Udry 2003). Child labour is more prevalent in rural areas than urban areas as the educational system is likely to be of poorer quality and enforcement of school attendance regulations and child labour bans is likely to be lax. Moreover, parents in urban areas tend to be more educated, which spurs an interest in the education of their children (Edmonds & Pavcnik, 2002).

INTERVENTIONS AND BAN ON CHILD LABOUR: Basu (1999) points out that there are three possible kinds of interventions for curbing child labour. Firstly, Intra-national interventions which are laws that country enacts against child labour within the national boundary and includes not only banning/not banning child labour, but also other instruments like literacy programmes and compulsory education, for instance. Secondly, Super-national interventions in which international organizations establish conventions and encourage and cajole nations to rectify them. Thirdly, Extra-national interventions in which legislations by developed countries to curb child labour are imposed on developing countries.

Government can intervene in market to create a variety of incentives like better and more schools, providing school meals and improving conditions in adult labour market that can help decrease the incidence of child labour. Grootaert and Kanbur (1995) points out that there's a possibility that social returns to education may exceed primary returns. Therefore, government intervention to direct children away from work and to classroom may be desirable.

Basu and Van (1998) emphasizes that, if there are two potential multiple equilibrium-good and bad, then a ban on child labour would deflect the equilibrium all the way to good equilibrium. This would make all working class households better off. However, Ranjan (1999) argues that banning child labour is welfare reducing for the poor household who intend to send their children to work. Policy of redistributing parental income through proportional tax and uniform lump sum subsidy would decrease child labour without reducing welfare of the poor. Other things being equal, the more successful a government is in re-distributing income through the tax system , or in directly subsidizing education, the lower the child labour rate associated with any given level of per-capita income (Cigno, Rosati and Guarcello 2002).

INTERNATIONAL TRADE AND CHILD LABOUR

Heckscher-Ohlin theory predicts that countries will specialize in the production of those traded goods that make more intensive use of the non-traded factor of which they have relative abundance. It also predicts that the benefits of trade will accrue to the comparatively more abundant factor; in other words, that the rental price of the comparatively more abundant factor will rise relative to that of the less abundant one. In traditional Ricardo and Hecksher Ohlin framework, developed countries are assumed to export capital-intensive products, and developing countries export labour-intensive goods. However, in recent decades, development process is viewed to be the process of accumulation of human capital, and comparative advantage of countries are determined by different skill endowments (Cigno, Rosati and Guarcello,2002; Shelburne 2001). Endowment effect of child labour is hence, an endowment increase of unskilled labour. Though skill endowments can be modified by education, education takes much longer to be acquired than the purchase of a new machine, or the construction of a plant, and workers are by-and-large more durable than physical capital.

Incidence of child labour has thus, an income effect (increase in income for households with potential children for work) and substitution effect (decrease in the adult wages of unskilled). With these two effects in place, skilled labour gains unambiguously from child labour and unskilled labour without children lose ambiguously. However, unskilled household with potential child workers would be affected ambiguously. This is because, though, both effects reduce the return to education, but the income of poorer families rises, thereby increasing their demand for educated children. In a small open economy, though, non-child labour factors do not gain from child labour making the likelihood of child labour lesser, child labour continues to lower wages. In the long run, trade liberalization might also lead to a sectorial shift toward higher skilled capital-intensive manufacturing and services and away from low skilled, labour-abundant production, thus making the employment of children less attractive (Basu and Van 1998). However, increased exports can increase demand for child labour if child labour is a unique factor of production (example, carpet industry).

Liberalization may also cause reduction in child labour because foreign investors might be less interested in exploiting cheap labour, including that of child labourers, than is presumed by the conventional wisdom. Market size and market growth, political stability, infrastructure and high labour skills are often as important, if not more important, than low wages (Neumayer and Soysa 2004). Linking trade with credit constraints, if it is believed that international trade reduces interest rate, then, as the country opens up, the opportunity cost of education also reduces, and hence, lowers the incidence of child labour (Ranjan 2001).

Therefore, policy initiative aiming to curb child labour and thereby, improve the welfare of poor households, should induce them to send their children to school by providing income support to compensate for the foregone earnings of children.

EMPIRICAL EVIDENCE OF CROSS COUNTRY ANALYSIS

Shelburne (2001) provides a study of 113 countries categorized as low, low middle and upper middle income by the World Bank, for the year 1995. He uses ILO's estimate of labour force participation rate for children 10 through 14 years of age (obtained from World Bank) as the dependent variable, which is a proxy for incidence of child labour. The World Bank's per capita income (formulated using their 'Atlas method'), the economic size of a nation (represented by its gross national product) and the openness of the economy (represented by the trade (imports .exports) to GNP ratio as calculated by the World Bank) were used as the explanatory variables. Also, he introduces a dummy variable for all the ex-communist nations of Eastern Europe and those nations which were previously a part of the Soviet Union. He concludes that all the variables he used are significant and has a negative impact on child labour. Thus these results show that the prevalence of child labour is greater as a country becomes poorer, smaller, and more closed to international trade. Likewise, richer, larger, and more open countries have a lower prevalence of child labour.

Edmonds and Pavcnik (2004) analysis on data from 1995 for the 113 countries and uses the same measure of child labour, that is, labour force participation rate for children 10-14 years of age. The explanatory variable is trade ratio (exports plus imports, divided by GDP), a third order polynomial of log of GDP (that explains three-fourth of the cross-country variation in child labour in 1995) and log of GDP per capita. Moreover, they address the endogeneity of openness by creating an instrumental variable, which is a measure of trade based on geography. Also robustness of the results is evaluated when the endogeneity of GDP is additionally considered. For instruments for income, lagged (15 year) income and lagged (15 year) investment is used. The idea is that lagged income and investment will be correlated with income today, but not child labour today given that there is little opportunity for children to have accumulated work experience. OLS estimates of the association between trade and child labour without controlling for income or the endogeneity of trade indicates a negative relation between the two, which is trade, reduces child labour. In two stage least squares results, where openness is instrumented with constructed trade based on geography, the coefficient of openness becomes more negative. Also, there is little evidence that conditional on income greater openness is associated with child labour. Through various robustness checks, it is established that the cross-country data do not reject the hypothesis that openness to international trade has no effect on child labour on average other than through trade's impact on income. Moreover, the data do not support the idea that heterogeneity across countries in their skill endowments, capital to labour ratios, or signing of anti-child labour agreements interacts with trade to affect child labour.

Dehejia and Gatti(2002), though tries to capture the role of income variability and access to credit across countries in the incidence of child labour, their regression includes a battery of additional controls that confirm that significance of credit is not simply attributable to omitted variable bias. When the explanatory variables of the main estimation are controlled for openness using export and import, the coefficients obtained are insignificant a positive.

Cigno, Rosati and Guarcello (2002) give a study of all developing countries for the relevant years available, namely 1980, 1990, 1995 and 1998. Apart from labour force participation rates for children 10-14 years, an additional dependent variable, that is, the primary school non-attendance rate is used. This is because, the former measure of child labour excludes children younger than 10 years, and therefore, arguably, the most worrisome part of the phenomenon in question is left out. The explanatory variables he uses are trade ratio (exports plus imports, divided by GDP), real per-capita income (measured as GDP in constant PPP units per head of population), health policy (share of public health expenditure in GDP), and skill composition (share of the workforce aged 25 or over which completed only primary education, and by that which attained secondary or higher education). Alternatively, he also uses a dummy variable for openness (dummy=1 if country is open according to Sach Warner definition of openness, otherwise zero) instead of trade ratio. Skill composition is used as an explanatory variable as it reflects the cumulated effects of past educational policies. The Fixed Effect OLS estimates of the effects of trade on the two measures of child labour indicate that if skill composition is not controlled for, trade raises the 10-14 labour participation rates, but has no significant effect on the primary school nonattendance rate. If skill composition is controlled for, trade has no significant effect on either measure of child labour. If the dummy for openness is used instead, then even if skill composition is not controlled for, a negative relation is observed, that is openness reduces child labour. All the remaining explanatory variables have a negative relation with the incidence of child labour. Hence, he concludes that, trade increases the skill premium in countries with comparative abundance of educated workers and only countries with sufficiently educated workforce are able to integrate with the emerging global economy.

Neumayer and Soysa (2004) provide a cross sectional analysis of 117 developing countries for the year 1995. However questions the assumptions which validate the use of primary school nonattendance rate as a dependent variable. Nevertheless, in sensitivity analysis we will use both the primary and the secondary school nonattendance rate as further dependent variables, taken from World Bank (2001). He continues to use, labour force participation rate for children 10-14 years of age as the depended variable in the main estimation. The explanatory variables are trade ratio(trade as a percentage of GDP), measure of poverty (log of GDP per capita in purchasing power parity terms), measure of economy size (log of GDP), the urbanization rate, value added by agriculture as a percentage of GDP, regional dummies for sub-Saharan Africa, Northern Africa and the Middle East, Eastern Europe and Central Asia, East Asia and the Pacific, and Latin America and the Caribbean (in order to capture some crude cultural, historical and labour force skills differences) and ratio of FDI stock to GDP. Additionally, in further regressions, public health expenditure as a percentage of GDP, public education expenditures as a share of GDP, pupil to teacher ratio in primary and the share of primary school entrants that reach grade five are also included as explanatory variables. The results indicate that both trade openness and the stock of FDI per GDP are highly significant and negatively associated with the labour force participation rate of children. Higher per capita income levels and a higher urbanization rate are associated with lower child labour incidence as expected. The coefficient of the GDP share of agriculture is positive, but marginally insignificant. Eastern European and Central Asian countries have a lower labour force participation rate than South Asia, the reference category. The opposite is the case for sub-Saharan Africa, whereas the other regions do not exhibit a difference that is statistically significant. Hence the study provides some some evidence that country that is more open to trade and is more penetrated by FDI display a lower incidence of child labour. The primary school nonattendance rate is the only dependent variable, for which we find no effect of globalization

PRESENT STUDY

METHODOLOGY

While most of the literature reviewed takes labour force participation rate for children aged 10 to 14 years of age, this paper takes percentage of economically active children in the age of 7-14 years (CHLAB), as the measure of child labour. Economically active children (Work Only), is defined here as children involved in economic activity for at least one hour in the reference week of the survey, and is not attending school. Data for 49 developing countries is available at the World Bank Indicators database (2006), for the year 2000, and we consider the same countries for our study, where complete data of all variables are available. This solves the problem of considering primary and secondary non-attendance rates as alternative dependent variable, because CHLAB now “a large and the arguably the most worrisome part of the phenomenon in question” is not left out, as in the previous studies. In theory, there is panel data on child labour which have been used in some of the studies, but due to infrequency of nationally representative household surveys in most low-income countries, the panel element of the data is not used in this study. Moreover, variation in child labour through time more likely reflects ILO adjustments rather than independent observations on child labour in a given country over time (Edmonds and Pavcnik 2004).

In the OLS estimation, two measures of openness are used. Firstly, is the trade ratio (TRADRAT) which is the sum of exports and imports as a percentage of GDP. Secondly, is the Stock of FDI (FDISTK) which is taken to be a measure of volume of trade in the economy. Since, poverty is cited to be one of the major determinants of child labour and a household generally force their children into labour because of necessity, Gross National Income per capita (GNIPC), computed by the Atlas Method, and is taken as an explanatory variable. Log of GNI is taken (LNGNI) as a measure of economy size and is also included as an independent variable. This is because, in a larger economy child labour reduces the welfare of non-child labour factors, and hence, lowers the likeliness of incidence of child labour, and also because, larger economies are likely to draw more closer attention and scrutiny from the ILO and the US State Department than smaller ones.

Since child labour is greater in rural areas and in agricultural sector, urban population as a percentage of total population (URBAN) and agriculture value added as a percentage of GDP (AGRGDP) are taken to be other explanatory variables as taken by Neumayer and Soysa (2004). Apart from these, regional dummies are taken, that is, dummies for Sub-Saharan Africa (D1), North Africa and Middle East (D2), East Europe and Central Asia (D3), East Asia and Pacific (D4) and South Asia (D6). Hence, Latin America and Caribbean region is the omitted category. The countries are categorized as per the classifications in the World Bank database.

Data for public spending on education and public health expenditure was not available for most of the countries in the analysis, and hence, these indicators were not used, so as to maintain the appropriate degrees of freedom in the regression. For the same problem of lack of availability of data, skill composition, taken as explanatory variables by Cigno, Rosati and Guarcello (2002) are not considered in this study. However, the regional dummies are expected to pick up some of the effects of the omitted skill composition. Also, since the dependent variable includes the children who might study in primary school, if not a child worker, pupil to teacher ratio in primary and the share of primary school entrants that reach grade five are not used as explanatory variables (as in Neumayer and Soysa, 2004).

Though, regional dummies and a range of explanatory variables are included, in order to solve the problem of omitted variables, we cannot, however, exclude the possibility that omitted variables might bias our estimations. If omitted variable bias is indeed present, then this calls for the use of Instrumental variables (IV). Fortunately, the consistency of the OLS estimation can be tested by Durbin-Wu-Hausman test, which in this case, does not reject the hypothesis that trade ratio and FDI stock regressors are exogenous variables. Therefore, we use OLS instead of IV estimation. Also, two countries- Madagascar and Turkey, are not included in the analysis since they are outliers.

Data for CHLAB, TRADRAT, GNIPC and LNGNI has been obtained from World Development Indicators (2006). Data for URBAN and AGRGDP on the other hand, was taken from Health, Nutrition and Population Database (HNP, World Bank) and that of FDISTK from UNCTAD(2003).

KEY FINDINGS

TABLE 1: REGRESSION RESULT

Source	SS	df	MS		
				Number of obs =	43
				F(11, 31) =	8.25
Model	17540.4322	11	1594.58475	Prob > F =	0.000
Residual	5988.6192	31	193.181263	R-squared =	0.7455
				Adj R-squared =	0.6552
Total	23529.0514	42	560.215509	Root MSE =	13.899

CHLAB	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
D1	18.59111	8.638519	2.15	0.039	.9727307	36.20948
D2	58.35374	12.038410	4.85	0.000	33.8012300	82.90625
D3	-14.44627	8.457802	-1.71	0.098	-31.6960700	2.803531
D4	.2251145	10.43571 0	0.02	0.983	-21.0586600	21.508890
D5	80.18972	18.25989 0	4.39	0.000	42.94843 00	117.431000
TRADRAT	-.1633175	.0810149	-2.02	0.053	-.3285484	.0019135
URBAN	.3991002	.1758515	2.27	0.030	.0404486	.7577517
FDISTK	-.001156	.0004744	-2.44	0.021	-.0021234	-.0001885
GNIPC	.0018747	.0018221	1.03	0.312	-.0018416	.0055909
AGRGDP	.2898779	.2658049	1.09	0.284	-.2522348	.8319907
LNGNI	-.4705401	.6333570	-0.74	0.463	-1.762280	.8212001
_cons	15.54555	14.9001500	1.04	0.305	-14.84351	45.9346200

The results of the OLS estimation are shown in Table1. Also, the results have been checked for hetersoscedasticity and multicollinearity. In this study, amongst the countries under consideration, percentage of economically active children who are only working in age 7-14 years is highest in Morocco, followed by India and Madagascar. On the other hand, Portugal, followed by Moldova and Uzbekistan has the lowest incidence of child labour.

Higher per capita income levels and higher share of agriculture value added in country's GDP is associated with lower incidence of child labour, as expected. However, both these variables are significant only at 30% level of significance, and hence, do not significantly affect child labour. Also, the economy's size as measured by log of GNP, is positively related to child labour, though insignificantly. This is similar to the result obtained by Neumayer and Soysa(2004). This result can be justified on the ground that, country such as India, has high national income, but at the same time, incidence of child labour is also high. Hence, in this case, population size and income inequality in the country also comes into play. It would have also been desirable, then, to control for differences in income distribution as a way of capturing the proportion of households subject to a binding liquidity constraint, but the information is not comparable across countries and dates of observation (Cigno, Rosati and Guarcello 2002).

However, a surprising result is that urbanization is positively and significantly related to child labour. This is opposed to most of the previous studies, where greater urbanization rate implied lesser child labour. However, migration from rural to urban sector is not a 1-step process, but takes place in two stages. Firstly, from rural traditional sector to urban informal sector, and then, from urban informal to urban formal sector. In the 2nd stage, in urban areas, migrants are employed in urban informal sector where unskilled labour is used. Since, child labour comes under this category of unskilled employment; hence, this result can be justified.

Greater trade ratio and greater stock of FDI in a country, is associated with lower levels of economically actively children who are working only in age group of 7-14 years. These regressors for openness and international trade, together account for approx. 16.5% variation in the incidence of child labour. This result is hence, consistent with the results obtained in the previous studies depicting the relation between international trade and child labour.

The coefficients of dummy variable for Sub-Saharan Africa (D1), North Africa and Middle East (D2), East Europe and Central Asia (D3) and South Asia (D5) are statistically significant. While Sub-Saharan Africa, North Africa and Middle East and South Asia have higher incidence of child labour than Latin America and the Caribbean (the reference category), East Europe and Central Asia have lower levels of labour force participation among children aged 7-14 years. This is consistent with the latest ILO global estimates on child labour which indicate that, in Africa progress towards the elimination of child labour is lagging behind other regions of the world, and child labour has declined substantially in Latin America and Caribbean in recent years. Though, this result cannot be compared with that obtained by Neumayer and Soysa(2004) since the reference category was different, however, here also it is verified that incidence of child labour is higher in South Asia than Latin America and Caribbean.

CONCLUSION

First of all, this study clearly shows that child labour is not a consequence of poverty alone. When controlled for national income, national income per capita, urbanization rate, agricultural value added and regional dummies, it is seen that trade openness and FDI stock in an economy is negatively related to child labour. Since trade openness lowers the benefits of child labour to the non-child labour factors of the society, the society in turn reduces incentive to allow child labour.

What is new in this study is that, urbanization causes greater incidence of child labour. This seems to be new phenomena, and is a result that is different from all the previous studies. As stated above, this can be because of rise of unskilled workers' employed in urban areas. Also, since it's tougher to maintain the adequate standard of living in urban areas than rural areas, parents are forced to send their children to work.

However, one of the shortcomings of the paper is the lack of coverage, because data on child labour was not available for many countries, and hence, the number of observations is limited. Besides, though, the problem that causality is in some sense impossible to establish in a crossnational analysis, endogeneity bias represents a distinct possibility. However, a fairly comprehensive set of explanatory variables, including regional dummies are included to reduce omitted variable bias. The Durbin– Wu–Hausman test results generally fail to reject the hypothesis of exogeneity of our trade and FDI variables. But comprehensive specification and favorable statistical test results can never fully exclude the possibility of spurious regression results due to omitted variables.

Also, from policy point of view, it should be noted that putting trade restriction on countries exporting goods that use child labour, in order to penalize them, isn't an effective way of curbing child labour. Instead, globalization and greater world integration is a mechanism that would eventually curb child labour.

REFERENCES

1. Baland, Jean-Marie and James A. Robinson. 2000. "Is Child Labour Inefficient?" Journal of Political Economy, vol. 108, no. 4, pp. 663-679
2. Basu, K. (1999). Child labour: cause, consequence, and cure, with remarks on international labour standards. Journal of Economic Literature, XXXVII, 1083–1119.
3. Basu, Kaushik and Phang H. Van. 1998. "The Economics of Child Labour." American Economic Review, vol. 88, pp. 412-427.
4. Brown D., Deardorff A., Stern R.(2002), The Determinants of Child Labour:Theory and Evidence. Discussion Paper 486. School of Public Policy, University of Michigan.
5. Cigno, A., Rosati, F. C., & Guarcello, L. (2002). Does globalization increase child labour? World Development, 30, 1579–1589
6. Deheija, R., & Gatti, R. (2002). Child labour: the role of income variability and access to credit across countries. Working Paper 9018. Cambridge, MA: National Bureau of Economic Research.

7. Edmonds, E. V., & Pavcnik, N. (2004). International trade and child labour: cross-country evidence. Working Paper 10317. Cambridge, MA: National Bureau of Economic Research.
8. Edmonds, Eric and Nina Pavcnik. 2002. "Does Globalization Increase Child Labour? Evidence from Vietnam. Working Paper 8760, February. Cambridge, MA: National Bureau of Economic Research.
9. Grootaert, C., & Kanbur, R. (1995). Child labour: an economic perspective. International Labour Review, 134, 187–203.
10. HNPStats –the World Bank's comprehensive database of Health, Nutrition and Population (HNP) statistics. (http://go.worldbank.org/N2N84RDV00).
11. ILO, www.ilo.org
12. Neumayer E., Soysa I.D. (2004). Trade Openness, Foreign Direct Investment and Child Labour, World Development, Vol.33, pp. 43-63.
13. Ranjan, Priya. 1999." An Economic Analysis of Child Labour." Economics Letters, vol. 64, no. 1 (July), pp. 99-105.
14. Shelburne, R. C. (2001). An explanation of the international variation in the prevalence of child labour. World Economy, 24, 359–378.
15. Udry C., Child Labour. Center Discussion Paper 856. Economic Growth Center,Yale University.
16. UNCTAD (2003). World investment directory. Geneva: United Nations Conference on Trade and Development.
17. World Bank (2006). World development indicators on CD-Rom. Washington, DC: World Bank.

CORPORATE SOCIAL RESPONSIBILITY IN INDIAN BANKING SECTOR: A STUDY OF SONIPAT BRANCHES

KAVERI HANS
RESEARCH SCHOLAR
DEENBANDHU CHHOTU RAM UNIVERSITY OF SCIENCE AND TECHNOLOGY
MURTHAL

DR. MANISHA
ASSTT. PROFESSOR
DEENBANDHU CHHOTU RAM UNIVERSITY OF SCIENCE AND TECHNOLOGY
MURTHAL

ABSTRACT

In today's era, deregulation of financial sector, technological advancement and other product innovations makes the market competition stiffer. Various institutions and banks had undertaken CSR practices to have a special edge. Corporate Social Responsibility (CSR) is a concept whereby organizations consider the interest of society by taking responsibility. CSR practices adopted by banks can led to betterment of society specially the weaker section, increased profits, enhancing customer loyalty and brand awareness. Present study put light on the concept of CSR practices taken by Public sector & Private sector banks in Sonipat branches. The study shows that all surveyed banks present themselves as having Corporate Social Responsibility policy and practices. A wide range of Corporate Social Responsibility initiatives ranging from income generation activities for livelihood, mobile health services, education, adult literacy, agricultural development, establishment of credit counseling centers, infrastructure facilities being carried out by these Banks. The main obstacle which comes in the way is of lack of dedicated human resources towards Corporate Social Responsibility.

KEYWORDS

Banks, Corporate social responsibility, Society.

INTRODUCTION

Banks act as financial intermediaries in our society: they price and value financial assets, they monitor borrowers, they manage financial risks and they organize the payment system. By performing these functions, banks have a huge impact on society and appear to play an important role in economic development. The potential and need for the banking sector to contribute to closing the gap between the rich and the poor has never been more apparent.

The problems of hunger, ignorance, ill-health, high mortality and illiteracy are most acute in rural areas. This is not because of inadequate resources but due to inadequate and improper planning process and investment pattern. The solutions for the above problem not lies with government only but private sector also plays a pivotal role in ensuring flow of private investment to those rural areas that have been left out of the development process.

Corporate Social Responsibility began with a focus on the role of business leaders, as initially how they manage their business with a view to society and how they return benefits to their local community. In the 1950s, the focus of Corporate Social Responsibility was on the behavior of companies as a whole. In 1980s, stress was on responsibility and more on the role of the organization in acting responsibly. In late 90s, new concepts like corporate governance, sustainable development also emerged.

Corporate social responsibility is an ongoing process rather than any destination by which an organization gives commitment to its stakeholders to perform business ethically and towards betterment of society. The introduction of privatization and globalization resulted in a demand for corporations to play a central role in efforts to eliminate poverty, achieve equitable and fair governance practices and environmental security. There was a need to merge responsibility of society with the business operations so as to maximize positive benefits that business can bring to human and environment. The initiative taken to achieve all this is known as corporate social responsibility. And banking sector plays important role because they are more associated with majority of people as compare to any other sector.

The World Business Council for Sustainable Development in its publication *Making Good Business Sense* by Lord Holme and Richard Watts used the following definition.

"Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".

Corporate social responsibility can also be broadly explained with four dimensions that are:

1. *Economic responsibility*: that is to produce quality goods and services and to be profitable.
2. *Legal responsibility*: is to perform operations within the limits of law. In other words legal responsibility is about to obey the law.
3. *Ethical responsibility*: is to adopt fair and transparent practices that go beyond legal compliance. Also to do what is right and avoid harm.
4. *Discretionary responsibility*: is to contribute to the community and to the quality of life.

CSR practices helps to put a good impact on their customers, employees, suppliers, shareholders, other stakeholders and on environment. Corporate Social Responsibility (CSR) is a concept whereby organizations consider the interest of society by taking responsibility. Corporate Social Responsibility practices adopted by banks can led to betterment of society specially the weaker section, increased profits, enhancing customer loyalty and also enhancing brand awareness. In today's scenario both public and private banks contribute towards society and environment. The major focus of both banks is social welfare however approaches are different. Public banks mainly focus on rural development where as private banks focus on education and health. The main aim of this paper is to study and analyses the Corporate Social Responsibility activities taken by Public and private Sector Bank's branches. The main objectives of the study are:

1. To discuss major practices adopted by banks at branch level.
2. To analyze the challenges they face in implementing Corporate Social Responsibility activities.
3. To explore towards what their main focus is about.

The present study is divided into five sections; first section gives a brief introduction which is followed by literature review as second section. Third section explains what type of methodology is used by researcher. Fourth section analyses the recent practices taken by banks, Last section summarizes the findings & conclusions.

LITERATURE REVIEW

Corporate Social Responsibility has become an integral part of corporate management strategy for banking industry participants in recent times. The banks are not only under pressure from the shareholders but also from other stakeholders such as suppliers, customers, brokers and so on to become more and more responsible in dealing with social issues in its day to day operations. Over the past few years, a rising emphasis has placed on companies and financial institution's Corporate Social Responsibility. Various studies are undertaken to measure CSR, to check its impact on customer's satisfaction and its impact on society. Some views of researchers in this context are discussed as below:

SenithiKumar, N; Ananth, A. and Arulraj, A. (2011) in their study of "Impact of Corporate Social Responsibility on Customer Satisfaction in Banking Industry" states that customer satisfaction is the mediating factor for banking service quality and the Corporate Social Responsibility is the most influential factor for the customer satisfaction. The main objective of their study was to analyze the overall banking service quality as perceived by the customers and to find out the relationship between the Corporate Social Responsibility and customer satisfaction and their influence on the service quality. They further explored that understanding the customer's perception of bank's service quality dimension is vital and important for banks. Corporate Social Responsibility positively influence customer satisfaction towards banking service quality.

Pria, S and Sangeetha, K. (2011) in their study "Factors influencing Corporate Social Responsibility Initiatives of the banks in Oman: A Study based on Stakeholders perspective" explore the factors that influence the Corporate Social Responsibility activities of the banks. The application of their research was to understand the stakeholder's views. They further state that stakeholders believe that financial performance is not a factor to determine the Corporate Social Responsibility pursuits of the bank. It is found that banks do not phase their Corporate Social Responsibility based on the strategies of their competitors. Corporate Social Responsibility contributions of a bank are positively related to the diversity and nature of the workforce. They also state that presence of non-governmental, social and independent private organization as a factor to boost the banks involvement for social cause. Their research has identified three principle factors i.e. presence of non-governmental organization and social organization, good corporate governance system and diversity of the work force to pre dominantly influence the Corporate Social Responsibility activities of banks

McDonald, Lynette M. and Thiel, Sharyn Rundle (2008) in their study "Corporate Social Responsibility and Bank Customer Satisfaction: A Research Agenda" explores that bank's increasing investment in Corporate Social Responsibility program may not represent the best investment in terms of increasing satisfaction. Instead they propose that customer centric initiatives (Open new branches, Add staff) may achieve better customer outcomes than Corporate Social Responsibility initiatives. Further they identified a number of customer focused initiatives that determine the overall customer satisfaction. Finally they suggest that an understanding of how to best allocate company resources to increase satisfaction will also enable bank marketers to reduce customer churn and hence increase market share and profits.

Sharma, Nishi (2011) in her study "Corporate Social Responsibility Practices & Corporate Social Responsibility Reporting in Indian Banking Sector" explores that banking Sector in India is showing interest in integrating Corporate Social Responsibility into their business models but its Corporate Social Responsibility reporting practices are far from satisfaction. She further analyzes Corporate Social Responsibility practices in India by private & public banks and Corporate Social Responsibility reporting of banks in India. The study attempts to examine the steps initiated by India Scheduled Commercial banks to portray their responsible behavior. She states that there are only few banks which report their activities on triple bottom line principles. Main cause for negligence on the issue of reporting is the absence of mandatory provisions regarding reporting of Corporate Social Responsibility practices. The study further suggested that there is a great use for enacting some stringent regulatory provisions to ensure the adherence to social responsibility principles. Also, banks must provide appropriate training to its employees on environmental and social risks in lending to ensure that climate change is taken into consideration in corporate banking decisions.

RESEARCH METHODOLOGY

The term research methodology is combination of two words namely research and methodology. It explains what type of methodology is used in the research: what type of research researcher is conducting, what is the sample area and sample size, which tools are used etc.

Present study was exploratory cum descriptive in nature. Sample size of the present study comprises the banks both Public and Private.

3 public banks and 2 private banks are selected for the present study. They are:-

NAMES OF BANKS

Public Banks	Private Banks
State Bank of India	HDFC Bank
Punjab National Bank	ICICI Bank
Bank Of Baroda	

For the analysis of present study both primary and secondary data are collected. Primary data are collected through Bank's Branch Manager because to fulfill the objectives of the present study they know the actual position of the Corporate Social Responsibility activities in banks.

Secondary data are collected through journals, Bank's magazines and websites.

ANALYSIS AND INTERPRETATION

The major thrust areas for Corporate Social Responsibility practice in Indian banks are common in public sector and private sector banks. These areas include children welfare, community welfare, education, environment, healthcare, poverty eradication, rural development, vocational training, women's empowerment, protection to girl child, employment. Indian public sector banks most actively participate for alleviation of regional imbalances through initiating various activities for promotion of rural development. Besides it, they primarily focus on the issues of gender equality through women's empowerment. The major areas for Corporate Social Responsibility activities in Indian private sector bank are to enhance the level of education and employment. The other prominent areas for their concern include community welfare, programs for child welfare and protection of environment.

The main challenge in public sector banks is the lack of human resources and the young talent. Young people may take some initiatives but in public sector banks majority of staff is not so young thus they take their steps back sometimes. However challenge in private sector bank is of lack of funds and of know how. The analysis is done with support of different tables which are summarizes as below:

TABLE 1: CORPORATE SOCIAL RESPONSIBILITY DEPARTMENT IN BANKS

Having CSR Department	Public Banks			Private Banks	
	Bank of Baroda	Punjab National Bank	State Bank of India	ICICI Bank	HDFC Bank
Yes	--	--	--	--	--
No	No	No	No	No	No

From the Table:1 we analyzed that none of the banks have separate Corporate Social Responsibility department at Branch level. All initiatives are taken at corporate level. At corporate level every bank have separate Corporate Social Responsibility department such as ICICI foundation, Bank of Baroda's Rural and Agri Banking Department etc.

TABLE 2: REASONS FOR UNDERTAKING CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES

Public Banks			Private Banks	
Bank of Baroda	Punjab National Bank	State Bank of India	ICICI Bank	HDFC Bank
Responsibility for socio-economic development	Government guidelines	RBI guidelines	Public image	Brand image

From the above table we get to know that public sector banks undertake Corporate Social Responsibility activities because they feel responsible for the development of the country and also because of RBI guidelines whereas Private Banks undertake these activities to increase brand image.

TABLE 3: CORPORATE SOCIAL RESPONSIBILITY INITIATIVES TAKEN

	Public Banks			Private Banks	
	Bank of Baroda	Punjab National Bank	State Bank of India	ICICI Bank	HDFC Bank
Initiatives taken by	Founder of the bank	Branch manager at branch level	Government or RBI guidelines	Managing Director	Managing Director
Informed employees through	Meetings and circulars	Meetings and circulars	Letters or circulars	E-mails, E-circulars, meetings	Centralized mails, internal employees portal sites

The above table tells us that generally the head of the bank or the founder of the bank takes the initiatives and then by circulars, emails and meetings they inform their employees and branches about the Corporate Social Responsibility activities and also give them some guidelines to achieve them.

TABLE 4: ACTIVITIES TAKEN BY BANKS

Banks	Activities
Bank of Baroda	Establishment of 36 Baroda sar-yojgar vikas sansthans for imparting training to unemployed youth free of cost for gainful self-employment & entrepreneurship skill development. In addition 52 Baroda gramin pramersh kender, 18 financial literacy & credit councelling centres has been established.
Punjab National Bank	KYC norms, Senior citizen charter, farmer's club, farmer's training center, customer committee, e-knowledge etc.
State Bank of India	Donations to Child Welfare Facilities, Training for Child Care Personnel, adoption of children for further education and quality life.
ICICI Bank	Primary health, elementary education, financial education, sustainable livelihoods
HDFC Bank	The bank has approximately 33% of its branches in rural and under banked locations. The bank partners with NGOs across India to support educational initiatives and livelihood training programs. The bank also involves in promoting financial awareness, banking solutions to SME and lending to self help groups.

TABLE 5: CORPORATE SOCIAL RESPONSIBILITY DEPARTMENT IN BANKS

Willingness to dedicate staff's working hours to CSR activities	Public Banks			Private Banks	
	Bank of Baroda	Punjab National Bank	State Bank of India	ICICI Bank	HDFC Bank
Yes	Y	Y	Y	Y	--
No	--	--	--	--	N

The above table shows that all public banks' managers are willing to dedicate some of working hours of their staff towards Corporate Social Responsibility activities. As per our survey, in private sector HDFC bank does not agree to devote some working hours. This is because lack of know-how and lack of time. Whereas ICICI bank agrees to this point but the problem arises at the employees' interests.

TABLE 6: TOP CORPORATE SOCIAL RESPONSIBILITY DRIVERS (1-3)

CSR drivers	Public Banks			Private Banks	
	Bank of Baroda	Punjab National Bank	State Bank of India	ICICI Bank	HDFC Bank
Responsibility towards customer expectation	--	Yes	--	Yes	Yes
Responsibility towards local community	Yes	--	Yes	--	--
Responsibility towards employees	--	Yes	--	Yes	Yes
Responsibility towards environment	--	--	--	--	--
Responsibility towards shareholders	--	--	--	--	--
Acting responsibly/ethically	Yes	Yes	Yes	Yes	Yes
Being profitable/successful	--	--	--	--	--
Others	Yes, towards under privileged unemployed youth	--	--	--	--

From the above table, we analyze that main driver for Corporate Social Responsibility activities for both public and private banks are to act ethically and responsibly. For public banks next main driver is towards local community whereas for private banks meeting customer expectation is more important. Public banks are generally more towards society and private banks are more towards their customers and employees.

TABLE 7: PERCEIVED BENEFITS FROM CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES

Benefits	Public Banks			Private Banks	
	Bank of Baroda	Punjab National Bank	State Bank of India	ICICI Bank	HDFC Bank
Improve public image	Yes	Yes	Yes	Yes	--
Increase brand image	Yes	--	Yes	Yes	Yes
Increase support from the community	Yes	--	--	--	--
Improve employee morale	Yes	Yes	--	Yes	--
Increase customer loyalty	Yes	Yes	Yes	Yes	Yes
Lower criticism from public	--	--	--	--	--
Enhance investor's confidence	Yes	--	--	--	Yes
Increase sales	--	Yes	--	Yes	--
Minimize regulatory problems	Yes	--	--	Yes	--
Improve market share prices	Yes	--	Yes	Yes	Yes

From the information available in the above table shows that the main benefit arises from the Corporate Social Responsibility activities is the increase in customers' loyalty. Also brand image, public image and market price of shares also enhanced due to Corporate Social Responsibility initiatives. Corporate Social Responsibility approach shows that the bank is not only concerned with their business but also towards society. Thus, the customers and other stakeholders believe in the system of banks and hence increase their loyalty and market share

TABLE 8: FOCUS OF CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES

Activities	Public Banks			Private Banks	
	Bank of Baroda	Punjab National Bank	State Bank of India	ICICI Bank	HDFC Bank
Education	Yes	Yes	Yes	Yes	--
Arts	--	--	--	--	--
Public health			Yes	Yes	Yes
Micro Credit projects	Yes	Yes	--	Yes	Yes
Sports	--	--	--	--	--
Social Investment	--	--	Yes	Yes	Yes
Environment	--	--	Yes	--	--
Others	Yes, Community awareness & involvement youth	Yes, Govt. scheme	--	--	--

This table shows the main focus of Corporate Social Responsibility activities of banks. Public banks mainly focus on education of weaker section. This is further subdivided as education of students of rural areas and as financial literacy. There is lack of initiatives towards arts and sports. No bank had done any activity towards their upliftment. The main focus of private banks is towards social investment and public health. They have taken steps to ensure healthy Children and their proper education. Micro credit projects are common between public and private banks.

TABLE 9: CHALLENGES FACED BY BANKS IN IMPLEMENTING CSR ACTIVITIES

Obstacles	Public Banks			Private Banks	
	Bank of Baroda	Punjab National Bank	State Bank of India	ICICI Bank	HDFC Bank
Lack of HR	--	Yes	--	--	Yes
Lack of employee motivation	Yes	Yes	--	Yes	--
Lack of time	Yes	--	Yes	--	--
Lack of funds	--	--	--	--	--
Lack of know-how	--	Yes	--	Yes	Yes
No support from technology	--	--	--	--	--
No benefits expected from CSR	--	--	--	--	--

We analyze from the above table that the major obstacle in the way of Corporate Social Responsibility in both public and private banks is the lack of employees' motivation and also lack of standard guidelines which can make them aware of the areas where Corporate Social Responsibility is needed. Absence of qualified staff and youth is also a problem. Staff of private banks generally has no information regarding Corporate Social Responsibility activities. So some steps should be taken in order to have standard guidelines.

CONCLUSIONS

Banks are beginning to recognize that they have a social responsibility to fulfill as they emerge from the shadow of traditional banking. Financial institutions can do a lot to assist efforts for corporate social responsibility and achieve sustainability.

Indian banks are realizing that without socio-economic development of the local communities, there can be no stability and sustainability for doing business so as to compete with the global market. In order to get an edge over the competitors, banks have to take a unique stand. It can be concluded that in today's informative world where information are readily available to general public Corporate Social Responsibility has been an important part of any organization to be successful. Organization in present world cannot be successful without taking into account the social responsibility. Corporate Social Responsibility has been a vital component for any organization to have perpetual success and to create brand.

The study shows that all surveyed banks present themselves as having Corporate Social Responsibility policy and practices. A wide range of Corporate Social Responsibility initiatives ranging from income generation activities for livelihood, mobile health services, education, adult literacy, agricultural development, establishment of credit counseling centers, infrastructure facilities being carried out by these Banks

Many banks promote and implement Corporate Social Responsibility initiatives through Human Resource Department, foundation or in partnership with NGOs, but do not have full-fledged Corporate Social Responsibility department. The main focus of banks is towards imparting education and towards rural benefits by providing micro-credit loans. But the main obstacle which comes in the way is of lack of dedicated human resources towards Corporate Social Responsibility. In future, the Corporate Social Responsibility activities should mandatory by govt. in all banks. Appointment of qualified staff should be made. Also the sectors like SME, sports, arts should also gain banks eyes so that these sectors can also become part of economic development. The training and gainful employment of unemployed youth will become most important in days to come.

REFERENCES

1. Pradhan, sanjay and Ranjan, Akhilesh, (2010), "CSR in rural development sector: Evidences from India", School of Doctoral Studies (European Union) Journal.
2. Blowfield, Michael and Murray, Alan (2009), Corporate Responsibility: a critical evaluation", Oxford University Press.
3. Sharma, Nishi (2011) "(IJAEBM) International Journal Of Advanced Economics And Business Management", Vol No. 1, Issue No. 2, 058 – 066
4. N. Senthikumar1, A. Ananth and A. Arulraj, (2011),"African Journal of Business Management", Vol.5 (7), pp. 3028-3039
5. International Institute of Sustainable development, on "Corporate Social Responsibility" (2010) retrieved from http://www.iisd.org/business/issues/sr.aspx
6. Mcdonald, Lynette M. and Rundle-thiele, Sharyn R. (2008), " Corporate Social Responsibility and Bank Customer Satisfaction: a research agenda", International journal of Bank Marketing, 26(3).pp.170-182
7. Sangeetha, K. and Pria, S. (2011), " Factors influencing CSR initiatives of the Banks in Oman: A Study Based on Stakeholder's Perspective", Journal of Management Research, Vol. 3, No. 2.
8. Annual reports of all banks

WEBSITES

9. www.karamyog.com
10. www.admin.wadsworth.com/resource_uploads/static_resources
11. www.icici.com
12. www.sbi.com
13. www.pnb.com
14. www.hdfc.com

AN ASSESSMENT ON JOB SATISFACTION OF ACADEMIC EMPLOYEES: A SURVEY ON ETHIOPIAN PRIVATE INSTITUTIONS OF HIGHER LEARNING

MULU ADERIE ALEMU
RESEARCH SCHOLAR
SCHOOL OF MANAGEMENT
FACULTY OF BUSINESS STUDIES
PUNJABI UNIVERSITY
PATIALA

ABSTRACT
It is a well established business reality that organizations in the world over no longer achieve competitive advantage through their products, but rather through people (employees).However, Managers spend a minimal amount of time learning more about human behavior, communication and how their attitudes and behavior impact employee performance. Concerns about employee job satisfaction are just as critical in the education industry as they are in other business sectors. The major purpose was: to address the major factors of job satisfaction of academic employees in the Ethiopian universities; determine job satisfaction levels of employees in the selected organizations and recommend job satisfaction measures to be taken in to account. The study adopted the quantitative research design. This cross-sectional study was done using Job Satisfaction Survey Job Satisfaction Survey (JSS) questionnaire distributed to the academic employees. 130 respondents were selected using stratified random sampling method. The conclusion of this research showed different factor of job satisfactions were correlated with the independent dependent variable, job satisfaction. Of which highest dissatisfaction levels occur in the area of salary and fringe benefit. In this study, demographic variables such as employees' age, gender, service years, marital status and organizational position were seen as having significant effects on their job satisfaction. Generally, the total job satisfaction of the respondents was 3.77 point (moderate satisfaction) from six credits.

KEYWORDS
academic employees, Ethiopia, factors, job satisfaction.

1. INTRODUCTION
It is a well established business reality that organizations in the world over no longer achieve competitive advantage through their products, but rather through people (employees).However, Managers spend a minimal amount of time learning more about human behavior, communication and how their attitudes and behaviour impact employee performance. (Michael O. Samuel, 2011)

There has been an increase in the number of private higher education institutions in Ethiopia. The leading colleges in the country are currently facing unique challenges as well as continual environment change, as they attempt to meet the human resource demands from various industries. At the same time colleges have been asked to re-examine their roles in nation-building.

According to Mulu Aderie Alemu 2011, organizations are social systems where human resources are the most important factors for effectiveness and efficiency. Organizations need effective managers and employees to achieve their objectives. Organizations cannot succeed without their personnel efforts and commitment. So, Job satisfaction is critical to retaining and attracting well-qualified personnel. This is especially an issue in educational institutions such as colleges where specialist training and retention are highly important.

Researchers with strong humanistic value argue that satisfaction is a legitimate objective of an organization. Not only is satisfaction negatively related to absenteeism and turnover, but, they argue, organizations have a responsibility to provide employees with jobs that are challenging and intrinsically rewarding. Therefore, although job satisfaction represents an attitude rather than behaviour, Organizational Behaviour researchers typically consider it as an important dependent variable. (Stephen P. Robbins 2003:25).

Concerns about employees' job satisfaction are just as critical in the education industry as they are in other business sectors. Similarly, the motivation to investigate job satisfaction among college academic employees is similar to the interest of research concerning job satisfaction in industrial settings.

Organizational success in obtaining its goals and objectives depends on managers and their leadership style. By using appropriate leadership styles, managers can affect employee job satisfaction, commitment and productivity. (Mosadeghrad, 2003). According to Kreitner R. (1995), ideas about management and leadership have changed considerably in recent years. People today are better-educated and more articulate. They can no longer be commanded in the same way as before. There needs to be much more involvement and participation at work.

Despite an increased need to be given for employees, it is surprising that so little research has actually been conducted on the topic, especially in the area of private colleges, in our country Ethiopia.

More or less the main purpose of this study is to explore the major factors of employees' job satisfaction in Ethiopian Private Higher Education Institutions (HEIs).

2. LITERATURE REVIEW
2.1. WHAT IS JOB SATISFACTION?
Job satisfaction is a persons' attitude toward the job. Like any other attitude, then, it represents a complex assemblage of cognitions (beliefs or knowledge), emotions (feelings, sentiments, or evaluations), and behavioural tendencies. A person with a high level of job satisfaction holds very positive attitude about work, and conversely, a person diversified with the job has negative attitudes toward work. (Dennis W.Organ and W. Clay Hamner 1982:287).

Job satisfaction is the general attitude of an individual towards his/her job. It represents an attitude rather than behaviour. The belief that satisfied employees are more productive than dissatisfied employees has been a basic tenet among managers for years. Although much evidence questions that assumed casual relationship, it can be argued that advanced societies should be concerned not only with the quantity of life- that is, concerns such as higher productivity and material acquisition- but also with its quality. (Stephen P. Robbins 2003:25).

2.1.1. Measuring job satisfaction
A person's job is more than just the obvious activities of shuffling papers, writing programming code, waiting on customers, or driving a truck. Jobs require interaction with co-workers and bosses, following organizational rules and policies, meeting performance standards, living with working conditions that are often less than ideal, and the like. This means that an employees' assessment of how satisfied or dissatisfied he/she is with his/her her job is a complex summation of a number of discrete job elements. How, then, do we measure the concept?

The two most widely used approaches are a *single global rating* and a *summation score* made up of a number of job facets. The single global rating method is nothing more than asking individuals to respond to one question, such as "All things considered, how satisfied are you with your job?" Respondents then reply by circling a number between one and five or else that corresponds to answer from "highly satisfied" to "highly dissatisfied". The other approach- a summation of job facets- is more sophisticated. It identifies key elements in a job and asks for the employee's feelings about each. Typical factors that would be included in are the nature of job, supervision, present day, promotion opportunities, and relations with co-workers. These factors are rated on a standardized scale and then added up to create an overall job satisfaction score.

2.1.1.1. Job-Satisfaction Surveys (JSS)

According to Keith Davis (1981), management needs job satisfaction information in order to make sound decisions. This is also known as a morale, opinion, attitude, climate, or quality-of-work life survey. A job satisfaction survey is a procedure by which employees collectively report their feelings about their jobs.

Job satisfaction survey can produce neutral or negative results if they are poorly done, but usually they bring a number of benefits, like:

- ✓ *General Job Satisfaction*: This means, the survey gives the management an indication of the general levels of satisfaction in a company. A Survey also indicates specific areas of satisfaction or dissatisfaction.
- ✓ *Communication*: this is the valuable communication brought by a Job Satisfaction Survey. Communication flows in all directions as people plan the survey, take it, and discuss its results. Upward communications is especially fruitful when employees are encouraged to comment about what is on their minds instead of merely answering questions about what is on management's mind.
- ✓ *Improved attitudes*: one benefit, often unexpected, is improved attitudes. For some, the survey is a safety valve, an emotional release, a chance to get things off their chests. For others, the survey is a tangible expression of management's interest in employee welfare, which gives employees a reason to feel better toward management.
- ✓ *Training needs*: job satisfaction surveys are a useful way to determine certain training needs. Usually employees are given an opportunity to report how well they feel their supervisor performs certain parts of the job, such as delegating work and giving adequate job instructions. In an indirect way, this indicates the kinds of training that different groups of supervisors need.
- ✓ *Union Benefits*: surveys may also bring benefits to unions. As explained by one union officer, both management and union often argue about what the employees want, but neither really knows. The job-satisfaction survey is one way to find out. Unions rarely oppose surveys, and occasionally they give them support when they know that the union will share the data. (Keith Davis 1981:88).

2.2 FACTORS OF JOB SATISFACTION

According to Navie-Waliser et al., (2004); McNeese-Smith (2003), numerous factors influence employee job satisfaction, including salary, fringe benefits, achievement, autonomy, recognition, communication, working conditions, job importance, co-worker, degree of professionalism, organizational climate, interpersonal relationship, working for a reputable agency, supervisory support, job security and so on.

Sources of low satisfaction are associated with working with unskilled or inappropriately trained staff, laborious tasks such as documentation, repetition of duties, tensions within expectations, role ambiguity, role conflict, the increasing need to be available for overtime, and different personal & organizational factors.

3. NEED/IMPORTANCE OF THE STUDY

This study will have a lot of significances to different organizations, specifically to those of Ethiopian Private Higher Education Institutions, to identify the factors that affect employees' job satisfaction. It will also help other researchers as a stepping stone to do more research on this area.

Although this study conducted in Ethiopia, it is anticipated that the findings may have relevance on a broader scale. By replicating this study in different countries and contexts the results could be very helpful for developing a new theory of job satisfaction with new implementation techniques that can be implemented easily and successfully in a cross cultural context.

4. STATEMENT OF THE PROBLEM

Though job satisfaction is an extensively researched topic, it is not as much as required in developing countries like Ethiopia. For the individual, job dissatisfaction can result in feelings of helplessness, burnout, resentment, anger, and fatigue.

Working with a leader who does not provide support, show consideration, or engages in hostile behaviours can be stressful for employees. Negative manager-employee/employee-employee interactions can result in decreased pleasure with work, questioning one's skill on the job, reacting harshly to the leader, and leaving the organization. The costs to the organization can be quite high in terms of worker stress, reduced productivity, increased absenteeism, and turnover.

The conclusion arrived at by the Michigan University researchers strongly favoured the leaders who were employee oriented in their behaviour. Employee-oriented leaders were associated with higher group productivity and higher *job satisfaction* Production-oriented leaders tended to be associated with low group productivity and lower job satisfaction. (Stephen P. Robbins 2003:317).

Despite the fact that job satisfaction has been a widely researched topic in other countries not in Ethiopia, very little attention has been directed toward the job satisfaction in non-profit agencies. The problem that this study is going to address is the major factors of employees' job satisfaction in the profit arena. And also this study is going to answer the research questions, which are in the following part.

5. OBJECTIVE OF THE STUDY

5.1 GENERAL OBJECTIVE OF THE STUDY

The main objective of this cross-sectional study is to assess the major factors of employees' job satisfaction in Ethiopian Private Higher Education Institutions.

5.2 SPECIFIC OBJECTIVES

It includes:

- ✓ To measure job satisfaction of the academic employees according to different demographic parameters and of employees and managers according to different job satisfier factors.
- ✓ To identify how managers and employees give rank to the most important motivators
- ✓ To forward major recommendation to the concerned body on improving job satisfaction of the academic employees.

6. RESEARCH QUESTIONS

This research is intended to address the following research questions:

- ➢ Identify the major factors of job satisfaction?
- ➢ How demographic variables of employees are related with their job satisfaction?
- ➢ Measure the level of overall job satisfaction of academic employees in Ethiopian Higher Education Institutions?

7. METHODOLOGY

7.1 TYPE OF RESEARCH DESIGN

The study has utilized an explorative correlation design and cross sectional survey methodology, in which quantitative research has been adopted.

7.2 POPULATION AND SAMPLE SIZE

The population of this study was the Ethiopian Private Higher Education Institutions which are currently more than 50 colleges, excluding the newly establishing ones with in the last 6 months). 140 samples were participated in the study using a simple random sampling (probable sampling) technique. Of which only 130 were returned and free of any error.

7.3 DATA COLLECTION INSTRUMENT

Both primary and secondary data sources were used. Secondary sources included; books, articles, company profiles, and company web sites. The primary methodology includes; structured questionnaire. Data were collected basically using structured questionnaire through the distribution of questionnaire among employees of these colleges/universities through a stratified random sampling.

The questionnaire, which was used for data collection, was sent out in one package to two different populations. Firstly a questionnaire filled by academic employees had three parts; demographic data (Personal profile), Structured Job Satisfaction Survey (JSS) Questionnaire (developed by Paul. E Spector 1997), and ranking of selected motivators. And the same questionnaire was sent to be filled by managers/leaders of the institutions.

The ranking part includes questionnaires with ten important job motivators. Employees were asked to prioritize these motivators according to their personal interests. And managers were also asked to prioritize these motivators one time according to their personal interests and another time according to their employees' interests to find out more managers knowledge about employees' perception of their most important motivators. Those motivators to consider includes; good working condition, involvement, tactful discipline, recognition, loyalty to employees, good pay, promotion/growth, help with personal problems, job security and interesting work.

The cover letter briefly explains the purpose of the study and the mechanisms to maintain confidentiality. A demographic questionnaire was intended to furnish the researcher with the respondents' biographical, educational information and working experience in the college/university and find out if there is a relationship with their satisfaction. The respondents had received and answered the questionnaires at their work place. Data were collected for approximately a month.

7.4 DATA ANALYSIS PROCEDURE

In analyzing the data collected via questionnaire, the researcher used a tool, mainly SPSS, in addition to the the procedures according to the model used in study (JSS model) to analyze the collected data as follows:

Job Satisfaction Survey (JSS) questionnaire: A standard job satisfaction questionnaire was used to assess the level of job satisfaction among academic employees in the selected college/university according to nine sub-scales (salaries, fringe benefits, recognition, promotion, communication, working conditions, nature of the job, supervision and co workers). This questionnaire has 36 items (four items in each domain). It had used five-point Likert scales to measure the responses to each item (from strongly disagree=1 to strongly agree=5).

The other part of the questionnaire provided ten important job motivators. Employees were asked to prioritize these motivators according to their personal interests. Managers were also asked to prioritize these motivators one time according to their personal interests and another time according to their employees' interests to find out more about managers' knowledge about employees' perception of their most important motivators. Those motivators includes: good pay, job security, good working conditions, involvement, recognition, promotion, interesting work, loyalty to employees, tactful discipline, and help with personal problems.

All data were analyzed using the statistical package for the Social Sciences (SPSS 17.0). Appropriate statistical procedures for description and inference were used. If there were missing values, they were checked prior to further statistical analysis and there was no missed value. Based on the the Likert scale (1-5 scales) for each domain of job satisfaction, higher scores indicated better job satisfaction and lower scale reflects less satisfaction.

Some correlation coefficients were also calculated to evaluate the relationship between the dependent and the independents variables. Data had presented as the mean (μ), standard deviation (SD) and percentage (p values less than 0.05 were considered as significant).

8. DISCUSSION AND RESULT

In this part of the chapter the detailed analysis of the data gather through the two sources were analyzed. It is categorized in to Demographic variables of respondents, job satisfaction survey results, relationship between job satisfaction factors and job satisfaction variable, managerial leadership dimensions, ranking of motivators by both leaders and employees, demographic variable in relation to job satisfaction, demographic variable in relation to managers' leadership style, and the relationship between leadership style of managers and job satisfaction of academic employees in the institutions.

8.1 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

8.1.1 Demographic variables of the respondents

In this survey a total of 130 employees had participated. The following table (table 1) shows the demographic parameters of the employees in frequency and percentages. In this survey a total of 130 employees had participated. These included 102 employees, 20 lower level managers (Department Heads), 4 middle level managers (Faculty heads) and 4 top level managers (Deans/President and Vice- Deans/Vice-Presidents). According to the table 1 the majority age group of the employees is in 26-35 and 20-25 years age range. The ages ranged from 21-55. Male employees were significantly older than female employees. Females' involvement in higher education is also low, i.e. they are only 9.2 percent of the population. And service year of employees arrived in the 1-5 years range, which reflects most of the employees are new to the colleges. The majority of employees of Higher Education Institutions had attained a bachelor's degree more specifically in the range Graduate Assistance II and above, but also PhD holders are too few. This calls attention for the government to develop a balancing strategy in educational level of higher education academic staffs.

In this study, demographic variables such as employees' age, Gender, service years, marital status and organizational position were seen as having significant effects on their job satisfaction.

The participation of Female employees in colleges' managerial positions is low. As it is depicted in the table 2, there is no female manager in the middle as well as at the top level management positions. And also even in the lower level management there are a few female managers (2 in number). So, this shows that, even though female participation in the private sectors nowadays is increasing, in higher education it is still at its infant stage. Therefore, this needs attention.

According to table 3, male employees, on the average, are in the service year ranged from 6-10, while female employees are in the range 1-5 years. Or it means males had significantly more years of working experience than females. This shows the involvement of female employees in Ethiopian Higher Education Institutions is a recent phenomenon or there is high female employees' turnover.

8.1.1.1 Demographic Variable in relation to Job Satisfaction

In this study, variables such as employees' age, Gender, marital status, service year, organizational position were seen as having significant effects on job satisfaction.

As it is depicted in the table 6 (Frequency, Percent, Mean and Standard Deviation Of Demographic Variable of the Respondents), the mean score of job satisfaction of employees, lower level, Middle level, and top level managers was 3.76, 3.80, 3.83 and 3.80 from six credits respectively. Out of these respondents, middle level managers (3.83) are slightly more satisfied than the rest respondents; employees are less satisfied than managers in the colleges.

According to Dennis W. Organ and W. Clay Hamner (1982), the U- shape relationship between age, seniority and job satisfaction requires two interpretations. Among younger employees, a higher level of satisfaction may be due to the fact that inexperienced employees have fewer duties and responsibilities, less pressure and fewer demands from colleagues. For example, they give few credit hours per week; they may not have any other managerial position responsibility and so on. And also they are less exposed to work-to-family conflicts, since most of the younger employees are not married, (look at the demographic table above). Among older employees, higher satisfaction could be explained by a better knowledge of academic workings, by benefits linked to seniority (for example, position, rank and salary), and by fewer external demands. It is also possible that older employees refocus their priorities to factors outside of the working setting, such as family and/or planning for retirement. So, there was strong correlation between the job satisfaction of employees and their age, service year, organizational position and received salaries.

As it is analyzed, satisfaction was higher among employees with higher educational position. This can be attributed to having more control over the job, more decision making latitude, along with a more central position between academic professionals, a valued position within the college hierarchy, higher salaries, and benefits linked to seniority (as it is in the table there is a direct relationship between service year and organizational position in the two colleges) and more social recognition.

The satisfaction scores for men (3.77) were not that much different of those females' (3.76). The mean scores of single employees' job satisfaction (3.82) were significantly higher than those of married employees (3.67).

8.1.2 Job Satisfaction Survey (JSS)

Job Satisfaction is the favourableness or unfavourableness with which employees view their work. It expresses the amount of the job and the rewards that the job provides. Since job satisfaction involves expectations, it relates to equity theory, the psychological contract, and motivation. (Keith Davis, 1981:83).

Employee job satisfaction is the fulfilment, gratification, and enjoyment that come from work. It's not just the money or the fringe benefits, but the feelings employees receive from the work itself. (Linda Powell, Ms, 2001: 7)

Colleges are the center for imparting higher Education. Colleges in the modern world are expected to seek and cultivate new knowledge, provide the right kind of leadership in all walks of life and strive to promote equality and social justice. The Colleges in Ethiopia, however, have to shoulder some additional responsibilities. They have to be conscience to the nation, develop program for adult education assist in improving schools, involve women citizens, and try to bring back the center of gravity of academic life within the country.

The following table (table 4) shows the level of job satisfaction of all employees relative to the selected nine facets of job satisfaction. It is presented in summations and averages. Accordingly, the total job satisfaction of each facet includes: Salary (490.75), Promotion (451.25), supervision (452.5), Fringe benefit (482), recognition (487), working condition (514.5), co-worker (525), nature of the job (538.5) and communication (473.25). And the total job satisfaction was on average summed to 490.53.This table is analyzed in detail in terms of Means and Standard deviations in combination with the next table 3.

As it is depicted in the table 3 below, the total job satisfaction of the respondents was 3.77 point (moderate satisfaction) from six credits. The mean scores of the nine facets of job satisfaction are 3.78, 3.47, 3.48, 3.71, 3.75, 3.96, 4.04, 4.14, and 3.64 of Salary, Promotion, Supervisor, Fringe Benefits, Recognition, Working Condition, Co-worker, Nature of the job, and Communication, respectively.

8.1.2.1 Relationship between Job Satisfaction Factors and Job Satisfaction

According to table 5 the mean score and standard deviation of each of the nine facets and total job satisfaction of the respondents was measured on a six-point scale, where 6 stood for highly satisfied and 1 for highly dissatisfied.

The total job satisfaction of the respondents was 3.77 point (moderate satisfaction) from six credits. The mean scores of the nine facets of job satisfaction are 3.78, 3.47, 3.48, 3.71, 3.75, 3.96, 4.04, 4.14, and 3.64 of Salary, Promotion, Supervisor, Fringe, Benefits, Recognition, Working Condition, Co-worker, Nature of the job, and Communication, respectively.

Participants scored were lowest in the promotion, 3.47; Supervisor, 3.48; communication, 3.64; fringe benefit, 3.71; recognition, 3.75 and Salaries 3.78 areas but scores were highest in the nature of the job, 4.14, co-worker, 4.04; working condition,3.96.

Numerous studies have shown that salary and working condition were the most important factors for dissatisfaction of most type of employees. (Bodur, 2002). The finding, which indicated that there was a significant association between employees' job satisfaction and their received salaries, nature of the job and work conditions is consistent with the findings of previous studies. The current study shows that promotion opportunities were another significant predictor of job satisfaction among the respondents.

Furthermore, according to Abraham Maslow's theory of hierarchy of needs, each individual has a basic-physiological need and as these needs are met, the individual seeks to satisfy other needs. Once individuals have satisfied one need in the hierarchy, it ceases to motivate their behaviour and they are motivated by the need at the next level up the hierarchy. He categorized needs in to physiological, safety, social, self esteem and self actualization. Based up on Maslow's theory of human motivation, employees will seek to fulfil self-actualization needs whenever their other low level needs have met. In this study, employees' job satisfaction in relation to their salary and fringe benefits was low. In other words, they are in the basic needs level. These needs should be met in order to they think about participating in their organization's management process. Therefore at this time participative management may not be a good leadership style.

Generally speaking, participative management is not always a good management style; managers should be first educated and trained in choosing the proper scientific methods and techniques of participative management, as well as its goals, weaknesses, strengths and application in the organization. Then they should determine the organizational maturity level of their employees. After that they should improve their employees' organizational maturity and use this leadership style conservatively.

In this study, the result has shown that employees were moderately satisfied with their jobs. Employees' job satisfaction in relation to promotion, supervision, salary, and fringe benefit was low. This reflects that particular attention should be given to improve employees' job satisfaction.

8.1.3 Ranking of Motivators

Table 6 in this chapter shows ranking of motivators such as good working condition, involvement, tactful discipline, recognition, loyalty to employees, good pay, promotion/growth, help with personal problems, job security, and interesting work. Employees were asked to prioritize these motivators according to their personal interests. And also managers were asked to prioritize these same motivators one time according to their own personal interest and another time according to their employees' interest to find out more about managers' knowledge about employees' perception of their most important motivators.

As table 6 shows motivators such as good pay, interesting work, good working condition, promotion, job security, recognition, and loyalty were more important respectively for employees. From the view point of top level managers, motivators such as loyalty, good pay, promotion, involvement, good working condition, and recognition were more important respectively. From the view point of middle level managers, motivators such as good pay, good working condition, involvement, loyalty, recognition and promotion were more important respectively. From the view point of lower level managers, motivators such as good pay, promotion, recognition, job security, good working condition and loyalty were more important respectively. And when managers were asked to prioritize their employees' job motivators from the view point of their employees, Good pay, Good working condition and promotion were at the front.

Possessing knowledge and information about employee motivation helps managers understand how employees can be involved to achieve process improvement. As management thinks that good pay, good working condition and interesting work are the number one desire of the employees, the results of employees' rank showed that, these factors were put at front. It is interesting to note that the perceptions of managers of the importance of motivators for employees don't vary considerably from how employees view what motivates them. More understanding of the needs and wants of their employees, as well as a better understanding of the impact of their own managerial behaviour on other would help them in terms of improving performance in the work place.

9. FINDINGS

This study was undertaken because the main purpose was determining the major factors that affect employees' job satisfaction. Employees' job satisfaction was significantly correlated and was affected by leadership dimensions of managers' especially employee-oriented dimension. It was also believed that higher managers need a more in-depth understanding of effects of these independent variables have with dependent variable.

In this study, demographic variables such as employees' age, gender, service years, marital status and organizational position were seen as having significant effects on their job satisfaction

Also this study provided information about the status of general and dimension-specific job satisfaction among a group of college/university employees who work in Ethiopian private Higher Education Institutions. The findings show that college/university academic employees were only moderately satisfied with their jobs. Specific job satisfaction dimensions indicated that highest dissatisfaction levels occur in the area of salary and fringe benefit. The total job satisfaction of the respondents was 3.77 point (moderate satisfaction) from six credits. The mean scores of the nine facets of job satisfaction are 3.78, 3.47, 3.48, 3.71, 3.75, 3.96, 4.04, 4.14, and 3.64 of Salary, Promotion, Supervisor, Fringe, Benefits, Recognition, Working Condition, Co-worker, Nature of the job, and Communication, respectively.

Participants scored were lowest in the promotion, 3.47; Supervisor, 3.48; communication, 3.64; fringe benefit, 3.71; recognition, 3.75 and Salaries 3.78 areas but scores were highest in the nature of the job, 4.14, co-worker, 4.04; working condition,3.96.

10. RECOMMENDATIONS/SUGGESTIONS

Employees are the most important resources in organizations. Nevertheless, managers spend a minimal amount of time learning more about human behaviour, communication, and how their attitudes and behaviour impact employee performance. Management requires a keen understanding of human nature, the basic needs, wants and abilities of people. Managers at all level can't cause an employee to become motivated; they can however, through their actions and more participative attitudes help to create the environment for individuals to motivate themselves. So, the following are the possible suggestions or recommendations forwarded from the researcher:

- ✓ The results of this study suggest that management might be able to increase the level of commitment in the organization by increasing satisfaction with compensation, work conditions and then involvement comes next. One way of addressing this could be by changing organizational variables such as benefit scales, employees' input in policy development, and work environment could then be in an effort to increase employees' job satisfaction. And then also by increasing the interactions with employees in staff meetings and college/university committee.
- ✓ More specifically, the salary system in Higher education must be improved. One way of addressing this can be either increasing the salary amount or establishing different mechanisms like institutional credit and saving associations.
- ✓ The fringe benefits should be improved through provision of house (permanent home of residence), transporting services, building standard schools nearby the college/university for the children of the employees and also providing an opportunity for the academic employees for further educational career development.
- ✓ Finally, further studies must evaluate the benefits, challenges, and constraints of dealing with employees' job satisfaction.
- ✓

11. CONCLUSIONS

To conclude, the findings show that private college/university academic employees were only moderately satisfied with their jobs. Specific job satisfaction dimensions indicated that highest dissatisfaction levels occur in the area of salary and fringe benefit.

12. SCOPE FOR FURTHER RESEARCH

The researcher suggests researchers to do a similar research in the area of job satisfaction in public higher education Institutions and make comparison in a similar organizational context. Besides, because job satisfaction is a very subjective perception of employees, researchers are recommended to do same researchers in different countries and make comparatives findings.

13. ACKNOWLEDGEMENT

I express my deepest sense of gratitude, indebtedness and heartfelt thanks to Birhan Habtie Nigusse for her continuous overall support in the research undertaking in particular as well as in my life in general.

14. REFERENCES

1. Aieman Ahmad Al-Omari (2005), "*Leadership styles and style adaptability of deans and department Chairs at three public research universities Washington State University*", journal of college of education,
2. Dennis w. Organ and W. Clay Hammer (1982**), "***organizational behavior; an applied psychological approach*", Business Publications, Inc, Texas
3. Keith Davis (1981**), "***Human Behavior at work*", sixth edition, TATA McGraw-Hill publishing company Ltd, New Delhi
4. Kreitner R. (1995)," *Management*", 6th ed., Houghton Mifflin, Boston, MA
5. Michael O. Samuel (2011), "*Evaluation of job satisfaction and organizational citizenship behaviour*: Case study of selected organizations in Zimbabwe", African journal of Business Management, Vol 5(7), pp. 2910-2918
6. *Mosadeghrad, A.M (2003),* "The role of participative management (suggestion system) in hospital effectiveness and efficiency", journal of research in medical sciences, Isfaham, vol. 8 No. 3 pp. 85-89.
7. Mulu Aderie Alemu (2011), "*Leadership style and job satisfaction: causes, factors and relationships*", Verlag Dr. Müller (VDM) Publishing company, Germany
8. Stephen P. Robbins (2002 *), "Organizational Behavior"*, 10th ed, prentice hall, India

TABLES

TABLE 1: FREQUENCY AND PERCENTAGE OF DEMOGRAPHIC VARIABLE OF THE RESPONDENTS

Demographic Variables	Frequency	Percent
Age		
20-25	54	41.5
26-35	55	42.3
36-50	16	12.3
>51	5	3.8
Gender		
Female	12	9.2
Male	118	90.8
Marital Status		
Single	88	67.7
Married	42	32.3
Organizational Position		
Top Mgt	4	3.1
Middle Mgt	4	3.1
Lower Mgt	20	15.4
Employees	102	78.5
PhD and Above	7	5.4
Educational Qualification		
Masters and Above	50	38.5
Graduate Assistance II and Above	62	47.7
Graduate Assistance I and Above	11	8.5
Service year		
Below 1 year	12	9.2
1-5 years	85	65.4
6-10 years	24	18.5
11-15 years	5	3.8
> 15 years	4	3.1
Salary		
1000-2000 Birr	41	31.5
2001-3000	28	21.5
>= 3001	61	46.9

Source: Data collected through questionnaire

TABLE 2: ORGANIZATIONAL POSITION OF RESPONDENTS * GENDER OF RESPONDENTS MATRIX

			Gender of respondents		Total
	Level of Management		Female	Male	
Organizational Position of respondents	Top Level Management	Count	0	4	4
		% within Organizational Position of respondents	.0%	100.0%	100.0%
		% within Gender of respondents	.0%	3.4%	3.1%
		% of Total	.0%	3.1%	3.1%
	Middle level Management	Count	0	4	4
		% within Organizational Position of respondents	.0%	100.0%	100.0%
		% within Gender of respondents	.0%	3.4%	3.1%
		% of Total	.0%	3.1%	3.1%
	Lower Level Management	Count	2	18	20
		% within Organizational Position of respondents	10.0%	90.0%	100.0%
		% within Gender of respondents	16.7%	15.3%	15.4%
		% of Total	1.5%	13.8%	15.4%
	Employees	Count	10	92	102
		% within Organizational Position of respondents	9.8%	90.2%	100.0%
		% within Gender of respondents	83.3%	78.0%	78.5%
		% of Total	7.7%	70.8%	78.5%
Total		Count	12	118	130
		% within Organizational Position of respondents	9.2%	90.8%	100.0%
		% within Gender of respondents	100.0%	100.0%	100.0%
		% of Total	9.2%	90.8%	100.0%

Source: Data collected through questionnaire

TABLE 3: GENDER OF RESPONDENTS * SERVICE YEAR OF RESPONDENTS IN THE COLLEGE MATRIX

			Service year of Respondents in the college					Total
			Below 1 Year	1-5 years	6-10 years	11-15 years	>15	
Gender of respondents	Female	Count	2	5	4	0	1	12
		% of Total	1.5%	3.8%	3.1%	.0%	.8%	9.2%
	Male	Count	10	80	20	5	3	118
		% of Total	7.7%	61.5%	15.4%	3.8%	2.3%	90.8%
	Total	Count	12	85	24	5	4	130
		% of Total	9.2%	65.4%	18.5%	3.8%	3.1%	100.0%

Source: Data collected through questionnaire

TABLE 4: RAW SCORES OF THE NINE FACTORS OF JOB SATISFACTION AND TOTAL SUMS AND AVERAGES

Four Items of each facets	Salary	Promotion	Supervision	Fringe Benefit	Recognition	Working Condition	Co-worker	Nature of the Job	Communication
Item 1	383	423	481	593	406	531	623	386	453
Item 2	592	469	363	312	461	464	439	608	373
Item 3	544	425	452	405	535	580	612	580	580
Item 4	444	488	514	618	546	483	426	580	487
Sum	1963	1805	1810	1928	1948	2058	2100	2154	1893
Average of items in each facet	490.75	451.25	452.5	482	487	514.5	525	538.5	473.25
Overall Sum & Average	Sum = 17,659 Average = 490.53								

Source: Data collected through questionnaire

TABLE 5: THE MEAN SCORES AND STANDARD DEVIATIONS OF THE NINE FACETS OF JOB SATISFACTION

Salary						
		Salary item 1	Salary item 2	Salary item 3	Salary item 4	**Average of Means**
N	Valid	130	130	130	130	
Mean		2.95	4.55	4.18	3.42	3.78
Std. Deviation		1.718	1.155	1.665	1.916	
Promotion						
		Promotion	Promotion	Promotion	Promotion	
N	Valid	130	130	130	130	
Mean		3.25	3.61	3.27	3.75	3.47
Std. Deviation		1.491	1.553	1.539	1.689	
Supervision						
		Supervision	Supervision	Supervision	Supervision	
N	Valid	130	130	130	130	
Mean		3.70	2.79	3.48	3.95	3.48
Std. Deviation		1.518	1.564	1.600	1.734	
Fringe Benefit						
		Fringe Benefit	Fringe Benefit	Fringe Benefit	Fringe Benefit	
N	Valid	130	130	130	130	
Mean		4.56	2.40	3.12	4.75	3.71
Std. Deviation		1.535	1.461	1.583	1.590	
Recognition						
		Recognition	Recognition	Recognition	Recognition	
N	Valid	130	130	130	130	
Mean		3.12	3.55	4.12	4.20	3.75
Std. Deviation		1.590	1.685	1.715	1.601	
Working condition						
		Working Condition	Working Condition	Working Condition	Working Condition	
N	Valid	130	130	130	130	
Mean		4.08	3.57	4.46	3.72	3.96
Std. Deviation		1.494	1.419	1.365	1.610	
Co-worker						
		Co-Worker	Co-Worker	Co-Worker	Co-Worker	
N	Valid	130	130	130	130	
Mean		4.79	3.38	4.71	3.28	4.04
Std. Deviation		1.357	1.581	1.260	1.595	
Nature of the job						
		Nature of the Job	Nature of the Job	Nature of the Job	Nature of the Job	
N	Valid	130	130	130	130	
Mean		2.97	4.68	4.46	4.46	4.14
Std. Deviation		1.808	1.432	1.610	1.453	
Communication						
		Communication	Communication	Communication	Communication	
N	Valid	130	130	130	130	
Mean		3.48	2.87	4.46	3.75	3.64
Std. Deviation		1.775	1.780	1.531	1.527	
Overall job satisfaction of the respondents				………………	…………………	**… 3.77**

Source: Data collected through questionnaire

TABLE 6: THE MOST IMPORTANT MOTIVATORS RANKING FROM THE VIEW POINT OF EMPLOYEES AND MANAGERS OF THE COLLEGE

	Ranking according to their own personal interest					**Ranking according to their employees' interest**		
Motivators	Ranking from the view point of **All managers**	Ranking from the view point of **top level** manager	Ranking from the view point of **Middle level** managers	Ranking from the view point of **lower level** managers	Ranking from the view point of **Employees**	Employees motivators ranking from the view point of **top level** managers	Employees motivators ranking from the view point of **Middle level** managers	Employees motivators ranking from the view point of **Lower level** managers
Good working condition	4	5	2	5	3	2	1	7
Involvement	9	4	3	10	8	5	6	3
Tactful Discipline	6	7	7	7	10	10	5	6
Recognition	5	6	5	3	6	3	4	5
Loyalty to employees	3	1	4	6	7	8	9	10
Good Pay	1	2	1	1	1	4	2	1
Promotion/Growth	2	3	6	2	4	6	3	2
Help with personal problems	8	9	8	8	9	7	8	4
Job security	7	10	9	4	5	9	10	8
Interesting work	10	8	10	9	2	1	7	9

Source: Data collected through questionnaire

REGULATIONS IN INDIAN CORPORATE DEBT MARKET

ANSHIKA AGARWAL
RESEARCH SCHOLAR
DEPARTMENT OF COMMERCE
DELHI SCHOOL OF ECONOMICS
UNIVERSITY OF DELHI
DELHI

ABSTRACT
Corporate debt can be defined as a debt security issued by a corporation and sold to investors. The backing for the debt is usually the payment ability of the company, which is typically money to be earned from future operations. Corporate debt securities are considered more risky than the government securities. As a result, interest rates are almost always higher, even for top-flight credit quality companies. The aim of this study is to see how Indian Corporate Debt Market is regulated. Well-developed corporate debt market is crucial for a developing country like India to augment the fund requirement for firms and facilitate the much needed infrastructure financing. I have also reviewed the regulatory changes taken by the Securities Exchange Board of India. Over a period of time SEBI has taken many steps to promote the growth of Indian Debt Market. I have presented all the regulatory steps taken by SEBI on yearly basis, this will help the reader to understand how Indian Corporate Debt Market has witnessed growth over a period of time and how the Regulatory body, SEBI has taken steps to stimulate this growth.

KEYWORDS
Corporate debt market, Regulatory Changes, Securitized Debt Instruments.

LIST OF ABBREVIATIONS

BSE	Bombay Stock Exchange Limited
DIP	Disclosure and Investor Protection
FIIs	Foreign Institutional Investor's
FIMMDA	Fixed Income Money Market and Derivatives Association of India
GOI	Government of India
ICCL	Indian Clearing Corporation Limited
IRDA	Insurance Regulatory and Development Authority
MFs	Mutual Funds
NSCCL	National Securities Clearing Corporation Limited
NSE	National Stock Exchange of India Limited
OTC	Over The Counter
QFI	Qualified Foreign Investor's
RBI	Reserve Bank Of India
SEBI	Securities and Exchange Board of India
SLR	Statutory Liquidity Ratio
USD	United States Dollar

INTRODUCTION
The development of debt market has a significant bearing on a country's economic development and its ability to withstand shocks and crises. The debt market supplements the banking system to meet the requirements of the corporate sector for long-term capital investment and asset creation. It provides a stable source of finance when the equity market is volatile and works as an alternative source of finance. It is essential that the government securities market and corporate debt market grow side by side, preferably at a desired rate. Further, it is also advisable to keep the level of total debt within a sustainable limit and the cost composition and risk profiles are managed efficiently.

There are various means of mobilising funds in capital market which include debt issue, public issue, private placement, preferential allotment etc. Bonds, particularly longer tenure ones, are attractive for long-term, large-scale borrowing to finance fixed assets and investments. The corporate bonds can be issued by way of private placements and public offerings. The issuers in these categories are the corporate entities, public financial institutions, banks, public sector undertakings, state owned enterprises etc. Major instruments of mobilising funds include partly/ fully convertible debentures, deep discount bonds, zero coupon bonds, floating rate notes and secured premium notes.

In developed countries, corporate debt market is as developed as the securities market. In USA, the corporate debt market has supplemented the market for Treasury securities by increasing issuance sizes of bonds and periodic regularity to appeal to investor demand. Corporate debt is primarily used as a benchmark to monitor the performance of the market and to evaluate other outstanding corporate debt securities and assist in pricing of new corporate debt issues. In Korea, as well the limited supply of government bonds has been supplemented by dominance of corporate debt issues. India has a very well developed government securities market similar to other developed countries in the world. However, in India the corporate bond market has been lagging behind the government securities market in terms of market infrastructure, trading facilities, number of market participants, etc. Recently, some important measures have been undertaken to develop the corporate bond market in India.

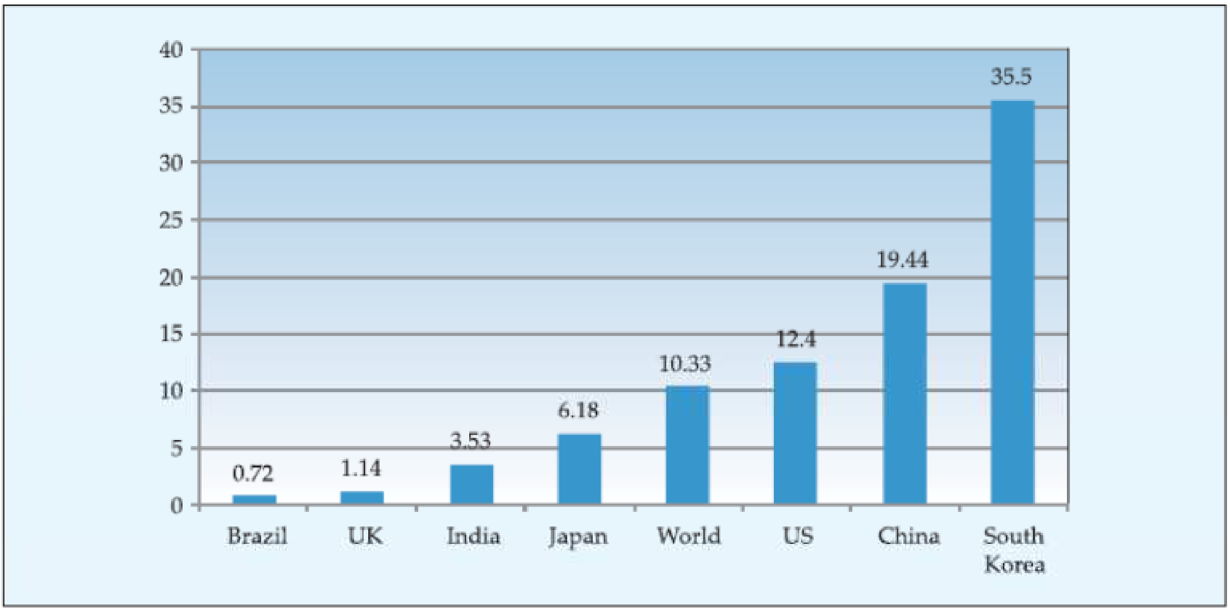
SEBI granted permission to BSE and NSE to set up trading and reporting platforms to capture all information related to trading in corporate bonds. Non-members of the Exchange were, however, provided connectivity through Virtual Private Network (VPN). Later, Fixed Income Money Market and Derivatives Association of India (FIMMDA) were permitted to start Corporate Bond Trade Reporting Platform. The trade matching platform is now order driven with essential features of OTC market. SEBI decided that a system of anonymous order matching shall be established gradually. BSE and NSE provide data pertaining to corporate bonds comprising issuer name, maturity date, current coupon, last price traded, last amount traded, last yield (annualised) traded, weighted average yield price, total amount traded and the rating of the bond and any other additional information. To reduce information asymmetry, the two exchanges co-ordinate among them, check for redundancy and disseminate information on their websites in a homogenous manner. BSE and NSE provide their services for clearing and settlement of corporate bonds traded.

The corporate bond market in India has not kept pace with the developments in the equity market, which has matured and grown to international standards. It has suffered from chronic neglect, both in terms of policy and infrastructure, and has been almost entirely restricted to a set of domestic institutional investors. For an active secondary market, there is a need for a wider range of issuers and of investors, and with different perception for investment and trading in the secondary markets. With continued pace of economic reforms and growing business confidence together with increasing global recognition of India's Technical capabilities and Economic potential, entrepreneurs are willing to invest in large, global scale projects to enhance infrastructure as well as to promote exports. This is expected to result in increased competition for financial resources as companies look to expand. In future, infrastructure development will be a significant growth driver. Broadening and deepening of the bond market is required to provide long tenor project finance. India's financial system is still largely dominated by the banking system with a deposit base largely of less than 3 years tenor. A borrower who requires long term finance (10-15 years) is still dependent upon a few providers of such long maturity loans. As demand for funds from the corporate sector grows rapidly, large government borrowings may create a crowing-out situation for the corporate sector. In several respects the debt market continues to remain highly inefficient especially due to the absence of market infrastructure that would help its development on sound lines.

After, Patil Recommendations in the year 2005 and acceptance of many of them the peculiar issue with the Indian corporate debt market is not that it faces challenges due to a lack of adequate infrastructure. In fact, India is fairly well-placed insofar as the pre-requisites for the development of a corporate debt market are concerned. In spite of this, Indian corporate debt markets are yet to witness the level of activity that an organized financial market should. In India, Corporate Debt Market activity is less as compared to the equity and Government debt bourses. The total corporate bond issuance in India is highly fragmented because bulk of debt raised is through private placements. The private placement route requires that the issuer makes an offer to select a group of investors, no more than 50, to invest in the debt securities for issue. However, corporates are known to circumvent the 49 investor cap in private issuances by making multiple bond issuances for many groups of 49 investors or satisfying the greater demand through immediate secondary market transfers upon the completion of the primary issue, thus diffusing the issue among a greater number of subscribers. Therefore there is a clear need to remove impediments that hinder the development of the institutional side of the market. The dominance of private placements has been attributed to several factors, including ease of issuance, cost efficiency and primarily institutional demand. Furthermore, trading is concentrated in few securities, with the top five to ten traded issues accounting for bulk of the total turnover. The SEBI Issue and Listing of Debt Securities Regulations 2008, lays out conditions for private placement which include, requiring compliance with The Companies Act of 1956, obtaining credit rating, listing of securities, mandating disclosure standards as per Sec 21 that stipulates the documentation and disclosure requirements.

Well-developed corporate bond market is crucial for a developing country like India to augment the long term fund requirement for firms and facilitate the much needed infrastructure financing. The Corporate bond market can also be the alternate source of finance by complementing the available sources of fund raising for corporate like in India. Hitherto, Indian debt markets are dominated by the government securities market. In the recent years, significant policy attention has been showered to revive and nurture the growth of the corporate bond markets in India. But though there have been the signs of the market expanding, the share of corporate bond markets in India remain relatively small vis –a- vis Government Securities market as well as that of other countries as shown below:

CORPORATE ISSUANCES AS PERCENT OF DOMESTIC DEBT SECURITIES



Source: BIS

NEED FOR A WELL-DEVELOPED CORPORATE DEBT MARKET

The 2008 Global Financial Crisis (GFC) highlighted the need to reduce the dominance of the banking system in financing corporate sector by developing a good corporate bond market. India's infrastructure funding requirements (estimated at around 10 per cent of GDP annually) need a robust corporate bond market for diversifying risk, enhancing financial stability, and for better matching of risk-return preferences of the borrowers. Historically, India's financial system has been bank-dominated, supplemented by the Development Financial Institutions (DFIs). However, the financial system has undergone several changes during the recent years and DFIs have been converted into banks. Commercial banks, by nature, are not able to fill the gap in long-term finance, given the asset-liability management issues. A well-developed corporate bond market is critical for Indian economy as:

i. It enables efficient allocation of funds.
ii. It facilitates infrastructure financing.
iii. It improves the health of the corporate balance sheets.
iv. It promotes financial inclusion for the Small and Medium Enterprises (SMEs) and the retail investors.
v. It safeguards financial stability.
vi. It enables development of the municipal bond market.

Accordingly, development of the corporate bond market has been high on the agenda for the regulators. I will cover each of these regulations.

A well-developed corporate bond market provides additional avenues to corporates for raising funds in a cost effective manner and reduces reliance of corporates on bank finance. A deep and liquid debt market augments financial savings and helps match the savers to the borrowers in an efficient manner. By enlarging the financial sector, capital markets promote innovation in financial instruments. In addition, it instils discipline in behaviour of firms leading to increased efficiency of the system. The existence of a well-functioning bond market can lead to the efficient pricing of credit risk as expectations of all bond market participants are incorporated into bond prices. In order to achieve the objective, it is desirable to have diversified issuer and investor base. Issuer profile in India, however, is concentrated among a few category of market participants dominated by financial sector firms including banks, Non-Banking Financial Companies (NBFCs), financial institutions, housing finance companies (HFCs) and Primary Dealers. Similarly, on demand side, majority of investment are made by banks and institutions including Foreign Institutional Investors (FIIs) with very little or negligible part played by retail investors. Thus, there is an urgent need to further develop the Indian corporate debt market.

The Committee on Infrastructure Financing (Chairman: Shri Deepak Parekh) has estimated that Rupees 51.46 trillion would be required for infrastructure development during the 12th Five Year Plan (2012-17) and that 47 per cent of the funds could come through the PPP route. If we add the potential financing needs for upgrading our railways, urban and rural infrastructure, the financing needs could be much larger. As much as the Government security market development has provided a boost to the development of the corporate bond market, the municipal bond market could derive similar benefits from a well-developed corporate bond market. This would provide boost to financing the urban infrastructure in an assured and sustainable manner. In this context, it is important to note that GOI capital expenditure has remained stagnant during the last two years at around 13 per cent. Hence, the role of private sector assumes greater importance in the context of infrastructure development.

Various financial crises have highlighted that even well regulated, supervised, capitalized and managed banking systems may have limitations in mitigating financial vulnerabilities. The crises have underscored that the banking systems cannot be the predominant source of long-term investment capital without making an economy vulnerable to external shocks. It had argued that bond markets could act like a “spare tyre”, substituting for bank lending as a source of corporate funding at times when banks’ balance sheets are weak and banks are rationing credit. The capital inflows to the country through External Commercial Borrowings, while helping the country fund the current account deficits and corporate to raises resources at a lower cost, could become a source of the transmission of severe external shocks to the domestic economy. Therefore, it is important to develop the domestic corporate bond market to enable corporates to meet a substantial part of their funds requirement domestically. Further, credit flow to infrastructure sector by banks has grown manifold in last few years. There is, however, a risk of exposure attached to banks with such long term financing considering ALM mismatch. Moreover, banks’ ability to withstand stress is critical, especially in the context of the recent increase in banks’ non-performing assets on account of their exposure to the infrastructure sector. Bond markets also aids financial stability by spreading credit risks across the economy and thereby shielding the banking sectors in times of stress. Further, a well-developed bond market can also help banks raise funds to strengthen their balance-sheets. Viewed in the above context, a vibrant debt market is critical to meet the funding requirement for infrastructure sector. Hence, going forward, there is a need to increase the reliance on the corporate bond financing so as to reduce macro-economic vulnerability to shocks and mitigate systemic risks.

FRAMEWORK OF CORPORATE DEBT MARKET

With an objective to develop corporate bond market and encourage trading on stock exchange trading platform, it was decided that the stock exchange may create a separate debt segment to provide for trading, reporting, membership, clearing and settlement rules, risk management framework and other necessary provisions in the following:

A. ‘Debt Securities’ are defined in securities and Exchange Bond of India (Issue and listing of Debt Securities) Regulations, 2008.
B. Government securities, Treasury bills, State Government loans, SLR and Non-SLR bonds issued by Financial Institutions, municipal bonds, single bond repos, basket repos and Collateralized Borrowing and Lending Obligation kind of products subject to RBI approval, wherever required.
C. Securitized Debt Instruments as defined in SEBI (Public Offer and Listing of Securitized Debt Instruments) Regulations, 2008.
D. Any other debt instrument as may be specified from time to time by the competent authority.

The salient features of the Debt Securities as follows:

1. TRADING

i. The debt segment shall offer electronic, screen based trading providing for order matching, request for quote, negotiated trades etc.
ii. The segment shall provide separate segments for the markets described below:-
  - Retail Market – which shall be a market for listing of and trading in publicity -issued debt instruments and where participation by registered trading members can be on their own account or for execution of orders placed their clients.
  - Institutional market – which shall be a market for non-publicly-issued debt instruments with a market lot size of minimum Rupees one crore.

2. TRADING RULES

i. The trading hours shall be from 9:00 hours to 17:00 hours to be in alignment with trading hours of government securities as issued by RBI.
ii. The day count convention of Actual/Actual shall be followed for calculating interest rates.
iii. The stock exchange shall facilitate the availability of price quotes or clean price, dirty price and yield.
iv. There shall be no shut period during which trades/ transfers are restricted for payment of interest or part redemptions. For other corporate actions such as redemptions/ put-call options, issuers may choose to specify a shut period.
v. The record date shall be fixed not more than 15 days prior to date of corporate action which shall be displayed on trading terminal by stock exchanges.
vi. In case of negotiated trades by members of the debt segment, the trades shall be reported to stock exchange within 30 minutes of the trade.

3. CLEARING AND SETTLEMENT

i. All trades shall be cleared and settled through a clearing corporation. For this purpose, all trading members shall be self-clearing members or may clear through a clearing member.
ii. The settlement shall depend upon the market type, as given below :
  - For Institutional market all trades shall be settled on T+1 rolling settlement on DVP-1 basis using RBI Real Time Gross Settlement account. Stock exchanges/ clearing corporation may opt to provide clearing and settlement on DVP-II or DVP-III basis for this market in future and shall put in place appropriate risk management framework for the same.
  - For retail market the trades shall be settled on T+2 rolling settlement on DVO-III basis with settlement guarantee.

4. RISK MANAGEMENT FRAMEWORK

i. For retail market, a uniform margin of 10% shall be applicable on debt instruments with rating of ‘AA’ or above (or with similar rating nomenclature) by recognized credit rating agencies and 25% for all other debt instruments. Further, in case of shortages, there shall be compulsory close-out with a markup of 5% in case of debt instruments which are assigned a credit rating of AA and above and 10% in case of other debt instruments.
ii. For institutional market, as and when settlement is done in DVP-II or DVP-III basis, appropriate margins may be prescribed after approval by SEBI.
iii. The clearing corporations shall specify appropriate risk management framework for each market, wherein it shall, inter-alia, provide for computation and collection of margins, capital adequacy norms and collateral requirements for the clearing members, settlement guarantee fund as applicable.

Further, in order to enable direct membership of institutional participants, SEBI Board inter-alia approved the following amendments in SEBI (Stock-Brokers and Sub-Brokers) Regulations, 1992 to –

a) Include debt segment in addition to derivatives segment and currency derivatives segment in the definition of clearing members, self-clearing members, trading members.
b) Introduce definition of “proprietary trading number” to permit specified institutions such as scheduled commercial banks, primary dealers, pension funds, provident funds, insurance companies, mutual funds and any other investors as may be specified by sectorial regulators from time to time.

PERFORMANCE OF CORPORATE DEBT MARKET

Majority of trades in the corporate bond markets happen Over the Counter. While FIMMDA is the largest reporting platform for the OTC deals in Corporate Bond Market, BSE and NSE serve as both trading and reporting platform. The number of trades reported at FIMMDA had risen in the year 2012-13 to 36,603 and the value of trades reported also rose by 26.9% to Rupees 4,44,904 crore over the previous financial year. During the Year 2012-13, the total value of corporate bond trades at BSE rose by 3.6% to Rupees 51,622 crore from Rupees 49,842 crore in the year 2011-12. In NSE, the value of trades for the year 2012-13 rose by 25.2% to Rupees 2,42,105 crore from Rupees 1,93,435 crore in the year 2011-12 as shown in Table 1.

TABLE 1: SECONDARY MARKETS-CORPORATE BOND TRADES

Month / Year	BSE		NSE		FIMMDA		Total	
	No. of Trades	Amount (₹ crore)	No. of Trades	Amount (₹ crore)	No. of Trades	Amount (₹ crore)	No. of Trades	Amount (₹ crore)
1	2	3	4	5	6	7	8	9
2008-09	**8,327**	**37,320**	**4,902**	**49,505**	**9,501**	**61,535**	**22,730**	**1,48,361**
2009-10	**7,408**	**53,323**	**12,522**	**1,51,920**	**18,300**	**1,95,955**	**38,230**	**4,01,198**
2010-11	**4,465**	**39,581**	**8,006**	**1,55,951**	**31,589**	**4,09,742**	**44,060**	**6,05,274**
2011-12	**6,424**	**49,842**	**11,973**	**1,93,435**	**33,136**	**3,50,506**	**51,533**	**5,93,783**
2012-13	**8,639**	**51,622**	**21,141**	**2,42,105**	**36,603**	**4,44,904**	**66,383**	**7,38,632**
Apr-12	472	2,664	1,232	12,155	1,977	21,219	3,681	36,038
May-12	632	1,904	1,342	14,220	2,140	22,389	4,114	38,512
Jun-12	880	5,036	1,624	18,918	3,092	38,002	5,596	61,956
Jul-12	824	4,829	1,968	19,499	3,391	37,740	6,183	62,068
Aug-12	697	4,147	1,891	18,374	3,034	35,814	5,622	58,335
Sep-12	720	4,802	2,051	23,373	3,244	41,029	6,015	69,205
Oct-12	966	4,792	1,850	25,659	3,853	47,424	6,669	77,875
Nov-12	680	2,317	1,455	18,090	2,454	27,774	4,589	48,182
Dec-12	599	2,900	1,686	19,319	2,715	33,313	5,000	55,532
Jan-13	838	6,533	2,702	31,349	4,517	56,873	8,057	94,755
Feb-13	562	2,829	1,407	19,240	2,511	32,120	4,480	54,190
Mar-13	769	8,869	1,933	21,908	3,675	51,208	6,377	81,985

Source: SEBI annual reports 2012-13

With effect from December 01, 2009, it has been made mandatory for all trades in corporate bonds between mutual funds, FIIs/ Sub-Accounts, Venture Capital funds, foreign venture capital investors, portfolio managers, and RBI regulated entities as specified by RBI to be cleared and settled through the exchange clearing corporations, NSCCL or ICCL. IRDA has also issued similar directions. The value of Corporate Bond trades settled through the clearing corporations has increased by 19% to Rupees 4,78,090 crore in the year 2012-13 from Rupees 4,01,810 crore in the year 2011-12 as shown in Table 2.

TABLE 2: SETTLEMENT OF CORPORATE BONDS

Month	NSE		BSE		Total	
	No. of Trades Settled	Settled Value (₹ crore)	No. of Trades Settled	Settled Value (₹ crore)	No. of Trades Settled	Settled Value (₹ crore)
1	2	3	4	5	6	7
2009-10$	**8,922**	**1,20,006**	**464**	**5,482**	**9,386**	**1,25,488**
2010-11	**30,948**	**4,32,632**	**1,714**	**17,492**	**32,662**	**4,50,123**
2011-12	**34,697**	**3,91,120**	**2,916**	**10,680**	**37,613**	**4,01,800**
2012-13	**36,902**	**4,35,114**	**7,415**	**42,977**	**44,317**	**4,78,090**
Apr-12	2,156	21,800	351	1,036	2,507	22,836
May-12	2,292	22,818	458	1,018	2,750	23,837
Jun-12	3,315	39,800	452	1,087	3,767	40,888
Jul-12	3,676	38,140	432	2,053	4,108	40,194
Aug-12	2,972	34,463	554	3,081	3,526	37,544
Sep-12	3,124	38,090	709	4,431	3,833	42,521
Oct-12	3,708	47,144	891	4,250	4,599	51,394
Nov-12	2,468	26,349	656	2,845	3,124	29,195
Dec-12	2,638	32,163	696	4,050	3,334	36,213
Jan-13	4,387	54,807	826	5,971	5,213	60,778
Feb-13	2,558	31,783	536	3,634	3,094	35,418
Mar-13	3,608	47,755	854	9,518	4,462	57,273

Source: SEBI annual reports 2012-13

TABLE 3: PRIVATE PLACEMENT OF CORPORATE BONDS REPORTED AT BSE AND NSE

Year/ Month	NSE		BSE		Common		Total	
	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)
1	2	3	4	5	6	7	8	9
2008-09	699	1,24,810	285	17,045	57	31,426	1,041	1,73,281
2009-10	647	1,43,286	597	49,739	34	19,610	1,278	2,12,635
2010-11	774	1,53,370	591	52,591	39	12,825	1,404	2,18,785
2011-12	1,152	1,89,803	783	56,974	18	14,505	1,953	2,61,283
2012-13	1,295	2,06,187	1,094	72,474	100	82,801	2,489	3,61,462
Apr-12	79	17,050	61	3,875	5	2,590	145	23,515
May-12	94	13,528	58	6,865	6	3,600	158	23,993
Jun-12	241	18,258	26	1,882	6	6,110	273	26,250
Jul-12	137	28,873	55	10,188	10	18,685	202	57,745
Aug-12	94	18,558	81	6,967	11	9,367	186	34,892
Sep-12	50	7,965	66	3,414	6	3,040	122	14,420
Oct-12	100	18,357	90	4,556	12	7,580	202	30,493
Nov-12	113	13,666	207	8,441	5	3,989	325	26,096
Dec-12	54	11,477	113	8,700	9	6,062	176	26,239
Jan-13	111	23,339	143	8,478	5	7,207	259	39,025
Feb-13	132	11,763	100	3,711	8	4,150	240	19,624
Mar-13	90	23,353	94	5,395	17	10,422	201	39,170

Source: SEBI annual reports 2012-13

The Private Placement of Corporate Bonds has grown as the preferred route for raising debt money by the corporate entities. About 2,489 issues were made and a total of Rupees 3,61,462 crore was raised through private placement during 2012-13 which is 38.3% higher compared to Rupees 2,61,283 crore in 2011-12 as shown in Table 3. The substantial amount raised as well as the growth in the amount raised through private placement shows the preference for private placement as the mode of fund raising mechanism.

REGULATORY CHANGES IN THE INDIAN CORPORATE DEBT MARKET

In contrast to the rapid pace of change in the equity market, the debt market both for government debt and corporate debt have seen less change and a result have suffered from weakness of market design. In 1996- 97, the SEBI (FII) Regulations, 1995 were amended to permit FIIs who obtain specific approval from the SEBI to invest 100% of their portfolio's in debt securities. Such investment may be in listed or to be listed corporate debt securities or in dated government securities, and is treated as a part of overall limit on external commercial borrowing for the Economy. These measures were taken to encourage investment in rupee denominated debt instruments by FIIs and to further develop the domestic debt markets. Then in the year 1999-2000 SEBI abolished negotiated deals for Corporate Debt Securities to encourage secondary debt trading. The notification by the government on the regulatory jurisdiction of the RBI and SEBI would help the development of debt market. The Government has also abolished stamp duty on dematerialized debt instruments. Then some big changes come in the Year 2007-08 and 2008-09, after which the pace of development in Indian Corporate Debt Market picked up the speed.

REGULATIONS IN THE YEAR 2003-04

With a view to provide greater transparency and protecting the interests of investors' in debt securities, SEBI has prescribed new guidelines for regulating private placement of debt securities issued by the corporates, like:

- The company should made full disclosures as per the Companies Act, 1956, SEBI (Disclosure and Investment Protection) Guidelines 2000, and the listing agreement with the stock exchanges.
- The debt securities should have credit rating from a recognized credit rating agency. Each company shall appoint a debenture trustee registered with SEBI.

REGULATIONS IN THE YEAR 2004-05

A cumulative sub-ceiling of USD 500 million for FIIs investment in corporate debt was announced over and above the sub-ceiling of USD 1.75 billion. Both the sub-ceilings are separate and not fungible. Along with this to further develop the corporate debt market, SEBI prescribed a model debenture listing agreement for all debentures securities issued by an issuer irrespective of the mode of issuance. The model has 3 parts namely:

- Part I, contains clauses which shall be complied by all issuers irrespective of the mode of issuance.
- Part II, Contains clauses which shall be complied only if the debentures are issued either through public issue or rights issue or part.
- Part III, contains clauses which were required to be complied only, if the debentures are issued on private placement basis. In case of issuers whose equity shares were listed and which had already entered into a listing agreement for its equity shares, clauses of equity listing agreement should have an overriding effect over the debenture listing agreement, in case of inconsistency, if any.

REGULATIONS IN THE YEAR 2005- 06

A high level expert committee was constituted under the chairmanship of Dr. R.H.Patil (Chairman of Clearing Corporation of India Limited) to suggest appropriate measures for the development of corporate debt market in India. The recommendations of the committee have been accepted by the Government. SEBI had set up an internal committee for the implementation of Patil Committee Recommendations. The roadmap for developing a vibrant corporate debt market is being drawn up. Corporate Bond Market was at its early stage of development. Although the public issue of bonds were conspicuous by their absence in the year 2005- 06, and corporate sector mobilized large amount of resources by way of private placement.

The cumulative debt investment limit for FIIs investment in debt securities has been revised upward by the government within the overall limit of External Commercial Borrowings, the corporate debt limit was increased from USD 0.5 billion to USD 1.5 billion. The sub- ceilings continued to remain separate and not fungible.

REGULATIONS IN THE YEAR 2006- 07

In April 2006, cumulative debt investment limit of USD 2 billion and USD 1.5 billion for FIIs/ Sub-Accounts in government securities and in corporate debt respectively were allocated as USD 1.75 billion in Government securities/ Treasury bills and USD 1.35 billion for 100% debt. For general 70:30 FIIs/ Sub-Accounts the allocation to be USD 0.25 billion in Government securities/ Treasury bills and USD 0.15 billion in corporate debt. In December 2006, SEBI decided to create a unified platform for trading of corporate bonds in 3 phases. BSE directed to set up and maintain a corporate bond reporting platform. In March 2007, NSE was directed to set up and maintain a corporate bond reporting platform.

REGULATIONS IN THE YEAR 2007- 08

In order to facilitate development of a vibrant primary market for corporate bonds in India, SEBI amended SEBI (DIP) Guidelines concerning issuance of debt securities. The amendments were related to the requirement of credit rating, below investment grade debt instruments and removal of structural restrictions. In order to develop a sound corporate Debt market in India, SEBI took a number of policy initiatives with respect to the following areas:

a) **REPORTING PLATFORM FOR CORPORATE BONDS:** Now along with BSE and NSE reporting platform for corporate bonds to capture all information related to trading in corporate bonds, SEBI granted approval to FIMMDA for starting a similar corporate bond trade reporting platform. The platform subsequently becomes operational in September 2007, and from August 2007, SEBI started placing this information on secondary market trades (both exchanges and OTC trades) on its website.

b) **TRADING PLATFORM FOR CORPORATE BONDS:** SEBI permitted BSE and NSE to put in place corporate bonds trading platforms with effect from July 2007, to enable efficient price discovery and clearing and settlement in a gradual manner. Initially, the trade matching platform would be order driven with essential features of OTC market and once stabilized of the trade matching system, exchange may move towards anonymous order matching for trading of bonds within an appropriate period of time.

c) **ISSUES IN TRADING IN CORPORATE BONDS ADDRESSED:** Dr. Patil committee suggested that the day count convention be introduced on a 30/360 basis and eventually moved towards actual/actual basis, they also recommended the minimum market lot criteria of Rupees 10 lakhs for trading corporate bonds at the stock exchanges should be reduced to Rupees one lakh to enable better access to small investors.

d) **AMENDMENT TO THE LISTING AGREEMENT FOR DEBENTURES:** In April 2007, in line with the recommendations made by the Patil committee to improve transparency SEBI made amendments to the listing agreement for debentures to ensure that services of Electronic clearing service, Direct Credit, Real time gross settlement, or National electronic funds transfers are used for payment of interest and redemption amount as per applicable norms of RBI along with other existing facilities, even no material modification can be made to the structure of debentures issued in terms of Coupon, Conversion, redemption or otherwise without prior approval of the stock exchanges where they were listed.

e) **SECURITIZED DEBT INSTRUMENTS:** In June 2007, SEBI drafted regulations for 'Public offer and Listing of Securitized Debt Instruments'. It provides for a system of special purpose distinct entities which could offer securitized debt instruments to the public or could seek listing of such instruments, it also includes structures for the purpose of special purpose entity, conditions for assignment of debt or receivables, procedure for launching of schemes, obligation to redeem, credit enhancement, conditions for appointing servicers, procedure for public offer and listing, rights of investors, inspection and disciplinary proceedings and action in case of default.

f) **POLICY ON DEBENTURE TRUSTEES:** In lieu of Patil Committee recommendations, In August 2007, SEBI made mandatory that companies issuing debentures and the respective debenture trustees/ stock exchanges shall disseminate all information regarding the debentures to the investors and the general public by issuing a press release and also displaying the details on their respective websites in event of: a) Default by issuer company to interest or redemption amount; b) Failure to create a charge on the assets; and c) Revision of rating assigned to the debentures. Along with this, SEBI also made it mandatory to make public, information/ reports on debentures issued including compliance reports filed by companies and debenture trustees by placing them on websites of company's and the debenture trustees. The same should also be submitted to stock exchanges for dissemination through their websites.

g) **ROAD TOWARDS REPOS:** SEBI had initiates necessary steps for early introduction of Repos in corporate bond market and involved closely with RBI, Exchanges and Clearing Corporations in this regard.

h) **QUOTE DISSEMINATION PLATFORMS:** SEBI issued "NO OBJECTION" letters to I-CAP, Bloomberg and Reuters in November 2007 and to Derivium Capital in February 2008 to establish electronic systems to facilitate OTC trades. This system would also help in displaying of buy-sell quotes of counter parties.

i) **SIMPLIFYING ISSUANCE NORMS:** SEBI amended the provisions pertaining to issuance of corporate bonds under the SEBI (DIP) Guidelines, 2000. The changes to the guidelines were as follows:

- For Public/ rights issues of bonds, issuers now need to obtain rating from only one credit rating agency instead of two credit rating agencies, so as to reduce the cost of issuance.
- In order to facilitate issuance of below investment grade bonds to suit the risk/return appetite of investors, the stipulation that debt instruments issued through public/rights issues would be of atleast investment grade was removed.; along with this some structured restrictions were also removed.

j) **DRAFT ISSUE AND LISTING REGULATIONS:** In January 2008, draft regulations on Issue and Listing of Debt Securities were framed like rationalization of disclosure requirement, and enhanced responsibilities of merchant bankers for exercising due diligence and mandatory listing of private placement of debt by companies which were earlier not listed.

For FIIs/ Sub- Accounts, investment in debt oriented MF units (including units of Money Market and Liquid Market) would be considered as Corporate Debt investment and reckoned within the stipulated limit of USD 1.5 billion, earmarked for FIIs/ Sub- Accounts investments in corporate debt. The following would be applicable in this regard:

- There should be no demarcation between 100% debt and normal 70:30 FIIs/ Sub-Accounts for the purposes of allocation of debt investment limits. The individual limits allocated to the 100% debt FIIs/ Sub- Accounts stood cancelled.
- The allocation of unutilized or unallocated limits for investment in government securities Treasury Bills

REGULATIONS IN THE YEAR 2008-09

A. **SECURITIZED DEBT INSTRUMENTS REGULATIONS:** SEBI notified the Public Offer and Listing of Securitized Debt Instruments Regulations on May 26, 2008. These regulations provide a system for SPECIAL PURPOSE DISTINCT ENTITIES which could offer securitized debt instruments to the public or could seek listing of such instruments on stock exchanges. The Regulations also provide structure for the special purpose entity, conditions for assignment of debt or receivables, procedure for launching of schemes, obligation to redeem, credit enhancement, conditions for appointing servicers, procedure for public offer and listing, rights of investors, inspection and disciplinary proceedings and action in case of default.

B. **ISSUE AND LISTING OF DEBT SECURITIES REGULATIONS:** SEBI notified the Issue and Listing of Debt Securities Regulations on June 06, 2008. These regulations allow issuers to list their debt securities issued by way of a private placement. However, debt securities that are issued to the public shall necessarily be listed and offer document for public issues shall contain information as per Schedule II of the Companies Act, 1956 and brief Term sheet stipulated under Schedule I of the Debt Regulations, whereas, for Private placements, disclosure as per Schedule I are adequate. Where the draft security would be listed, the draft document is made open to the public comments for a period of 7 days along with this the merchant banker submits a due diligence certificate to SEBI that all public comments have been addressed.

C. **For FIIs** , the investment limit was increased from USD 1.5 billion to USD 15 billion for Corporate Debt on First-Come-First-Serves basis in three faces as under :

(USD Billion)

SR.NO.	MONTH	FROM	TO
1	June 2008	1.5	3.0
2	October 2008	3.0	6.0
3	January 2009	6.0	15.0
Limit at the end of FY 2008- 09			**15.0**

Source: SEBI Annual Report 2008-09

D. **RETAIL PARTICIPATION IN 'F' GROUP CATEGORY**: It is a trading platform where corporate bonds and debentures are dealt in anonymous manner by investors through members and settlement is through clearing house mechanism. Due to this the number of trades has gone up from 27,697 to 4,17,376.

REGULATIONS IN THE YEAR 2009-10

A. **SIMPLIFIED LISTING AGREEMENT FOR DEBT SECURITIES:** In May 2009, SEBI issued a simplified listing agreement for debt securities. The Agreement has 2 parts; Part A for issuers with listed equity and Part B for issuers who have no listed equity.

B. **APPLICABILITY OF DEBT SECURITIES REGULATIONS:** In June 2009, SEBI clarified that the issue of debt securities, convertible, either partially or fully or optionally into listed or unlisted equity, are guided by the disclosure norms in terms of the SEBI (Issue of Capital and Disclosure Requirements) Regulations 2009. It was also clarified that the issue and listing of non-convertible debt securities, whether issued to the public or privately placed shall be in accordance with the provisions of the SEBI (Issue and Listing of Debt Securities) Regulations, 2008.

C. **CLEARING AND SETTLEMENT OF CORPORATE BONDS SETTLEMENT:** Earlier the settlement of bond trades was being done only on bilateral basis between the counterparties. With a view to remove counterparty risks from the settlement process, SEBI has evolved a clearing and settlement mechanism for corporate bond trades through the clearing corporations which are subsidiaries of NSE and BSE. To facilitate clearing and settlement through the two clearing corporations, real time gross settlement system connectivity was given to the two clearing corporations, that is, National Securities Clearing Corporations Limited (NSCCL) and Indian Clearing Corporation Limited (ICCL) by RBI in June and October 2009 respectively.

In October 2009, SEBI made it mandatory for all trades in corporate bonds between MF, FIIs/ Sub-Accounts, Venture Capital Funds, Foreign Venture Capital Investors, Portfolio managers and RBI regulated entities as specified by RBI to be cleared and settled through NSCCL or ICCL, effective from December 2009. RBI issued a similar circular to all its regulated entities. IRDA also issued similar circular to IRDA regulated entities. Now, clearing and settlement takes place on DvP-1 basis usually on T+1 day and in case of failure by one party to pay, the funds/ securities are returned to the counterparty.

D. **FOR FIIS,** Earlier a combination of two methods, that is, Open Bidding and First-Come-First-Served was used for allocation of debt limits. However during 2009-10, it was decided that all the allocation would be through First-Come-First-Served basis only in Corporate Debt Category. In July 2009, it was decided that , the MFs while reporting their trades in corporate bonds should also report their inter-scheme transfers on the BSE/NSE/FIMMDA reporting platforms.

REGULATIONS IN THE YEAR 2010-11

A. **LISTING AGREEMENT FOR SECURITIZED DEBT INSTRUMENTS:** In March 2011, SEBI put in place the Listing Agreement for Securitized Debt instruments (SDI) issued by the Special Purpose Distinct Entities. Listing of SDI on stock exchanged would help improve Secondary markets for such instruments. Also, the listing agreement provides for continuous disclosure requirements that include pool level, tranche level, and select loan level information that are aimed at enhancing information available in the public domain on performance of assets pools on which the SDI are issued. The enabling framework for listing of such instruments along with the initial disclosure requirements is provided for in the SEBI (Public offer and Listing of Securitized Debt Instruments) Regulations, 2008 notified on May 2008.

B. **REPORTING OF COMMERCIAL PAPERS (CPs) AND CERTIFICATE OF DEPOSITS (CDs):** On July 30' 2010, SEBI directed all its regulated entities to report their OTC transactions in CPs and CDs on the FIMMDA reporting platform within 15 minutes of the trade. This was pursuant to an RBI decision to introduce a reporting platform for all secondary market transactions in CPs and CDs. This circular has been effective since August 16, 2010.

C. Vide Circular dated November 26, 2010, a new category in corporate debt, that is, Long-Term Infra with residual maturity of over 5 years issued by companies in the infrastructure sector was introduced with a limit of USD five billion. In March 2011, SEBI increased the limit of corporate debt Long-Term infrastructure by an additional amount of USD twenty billion, thereby taking the overall limit to USD twenty-five billion for Offshore Derivatives Instruments and Participatory Notes.

D. FIIs were permitted to invest in corporate debt Long-Term infra as per the definition of infrastructure as governed by External Commercial Borrowings policy.

E. The OTC trades in Corporate Bonds for transactions of the value of Rupees one lakhs or above is required to be reported to the Corporate Bond platform either at BSE, NSE, or FIMMDA within thirty minutes of closing the deal.

F. On April 09' 2011, It had been decided to allocate the unutilized limits for investments in corporate debt should also be allocated in similar manner as specified in the SEBI circular IMD/FII & C/37/2009 dated February 06' 2009 providing the modalities for the allocation methodology through the bidding process :

- In partial amendment to clause 3(h) of the aforesaid circular IMD/FII & C/37/2009, no single entity should be allocated more than Rupees Two-Hundred crore of the corporate debt limits.
- In partial amendment to clause 3(c) of the aforesaid circular IMD/FII & C/37/2009, the minimum amount which can be bid for shall be Rupees Two-Thousand crore and the minimum ticket size shall be Rupees Two-hundred Crore.

REGULATIONS IN THE YEAR 2011-12

A. **SHUT PERIOD**: In June 2011, SEBI directed exchanges to do away with shut period for interest payments or for part-redemptions. Further, SEBI directed exchanges to ensure that issuers have a record date not more than 15 days prior to book closure for all perspective privately placed issues of corporate bonds.

B. **STRUCTURES PRODUCTS**: In September 2011, SEBI put in place framework for issue of structured products (In India, these products are issued as debt instruments with returns linked to equity or other underlying assets), like :

- Only issuers that have a minimum net0worth of Rupees 100 crore are eligible to issue such instruments.
- Minimum ticket size for subscribing to such securities is Rupees 10 lakhs.
- Other norms include additional disclosure pertaining to riskiness of such instruments, Scenario analysis showing its value under various market conditions, commission structure embedded therein and requirement for primary issuance and sale of securities to retail investors. Third party valuation of such securities by a credit rating agency has been made mandatory and the same shall be disclosed to public

C. **BAN ON INCENTIVES IN PUBLIC ISSUE OF DEBT:** To prevent the practice of some brokers/distributors who pass on part of their brokerage to the final investor for subscription of public issue of debt which leads to increase in the cost of issuance for the company and the unfair advantage to a certain set of investor. In December 2011, SEBI advised in respect of public issues of debt securities, no person connected with the issue shall offer any incentive , whether direct or indirect, in any manner, whether in cash or kind or services or otherwise to any person making an application for allotment of such securities.

D. **PARTICIPATION OF MFS IN REPO IN CORPORATE DEBT SECURITIES:** To widen the avenues of investment assets in debt markets, guidelines were issued to enable participation of MFs in Repo of corporate debt securities with the following conditions:

- Only 'AAA' rated corporate debt securities can participate.
- Tenor of the transactions shall not exceed six months.
- Gross expenses shall not be more than 10% of assets of the concerned scheme.
- Details related to such Repos shall be disclosed on half-yearly basis.
- Framework regarding counterparty, its credit rating, tenor of collateral and applicable haircuts in context of transactions would be designed by the Trustees and the Assets Management Company's.

E. **For QFIs investment** in corporate bonds and MF debt securities, GOI has announced a separate sub-limit of USD one billion.

REGULATIONS IN THE YEAR 2012-13

1. **STANDARDISATION OF APPLICATION FORM AND ARBITRAGED PROSPECTUS FOR PUBLIC ISSUE OF DEBT SECURITIES:** In July 2012, SEBI prescribed the structure, design, format, contents and organization of information in the Application Form and Abridged Prospectus so as to provide investors' friendly standardized format and to make it uniform for public issue on debt securities.
2. **ONLINE SYSTEM FOR MAKING APPLICATION TO PUBLIC ISSUE OF DEBT SECURITIES:** In order to reduce the timeliness of the issue process for public issue of debt securities and also to reduce issuer cost while enabling listing of securities in a faster and time bound manner., In July 2012, SEBI issued guidelines in order to facilitate a system for making online applications.
3. To increase the tradability and secondary market liquidity Standardized format for offer Document/Memorandum in Public issue and listing of Non-Convertible debt as well as privately placed debt securities which are listed or proposed to be listed was put in place to facilitate the better understanding and preparation of such documents by issuers as well as to ease investors decision making process.
4. **PROPOSED NOTIFICATION OF REGULATIONS FOR ISSUANCE AND LISTING OF REDEEMABLE NON-CONVERTIBLE PREFERENCE SHARE:** SEBI Board approved the SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013. As in case of SEBI (Issue and Listing of Debt securities) Regulations, 2008, the proposed Regulations provide framework for public issuance of non-convertible redeemable preference shares and also listing of privately placed redeemable preference shares. To reduce risk certain requirements were made mandatory like:

- Minimum tenure of the instrument is 3 years.
- Minimum 'AA' rating or equivalent is required.
- Minimum application size for each investor is fixed at Rupees ten lakhs for listing of privately placed non-convertible redeemable preference shares.
- As per Basel III norms, Banks can issue non-equity instruments such as Perpetual Non-Cumulative Preference Shares and Innovative Perpetual Debt Instruments, which are in compliance with the specified criteria for inclusion in Additional Tier I capital.

The proposed Regulations would also be applicable to aforesaid instruments issued by banks, subject to compliance with the provisions of Compliance Act, 1956 or/and any other applicable laws and such other conditions that may be specified by SEBI and subject to making adequate disclosures and relevant risk factors in the offer document.

5. **INTRODUCTION TO AUCTION CALENDAR:** Vide Circular dated April 27' 2012, it was decided that the auction of debt limits would be conducted on 20th of every month (if 20th is holiday, auction shall be done on the next working day), based on availability of free limits at the end of respective previous month. The auction shall be conducted if the free limit in any category (Government Debt Long-term, Corporate Debt Long-Term Infra) is more than Rupees 1,ooo crore, in the manner summarized below:

Particulars	Details
Duration of bidding:	2 hours (15:30 to 17:30)
Access to platform	Trading members or Custodians
Minimum bid	Rupees one crore
Maximum bid	Rupee 250 crore or one-tenth of free limit whichever is higher
Tick Size	Rupees one crore
Allocation methodology	Price time Priority
Pricing of bid	Minimum flat fees of Rupees 1,000 or bid price whichever is higher
Bidding date	20th of every month (if 20th is holiday, auction shall be done on the next working day)
Time period for utilization of the limits	90 days for corporate debt old and corporate debt long term infra category and 45 days for Government debt old and Government debt long term category
Auction platform	Alternatively on BSE & NSE

Source: SEBI Annual Reports 2012-13

6. **FOR FIIS INVESTMENT**

- The corporate Debt Long-Term Infra Category the lock-in period for investment was uniformly reduced to one year while the residual maturity requirements at the time of first purchase were set to 15 months.
- The additional limit for FIIs investment in corporate debt long term Infra category (with one year lock-in and 15 months residual maturity), were allocated through a special auction in July, 2012.
- The time period for utilization of the Corporate Debt limits (for both old and Long-term Infra limits) allocated through bidding process shall be 60 days.
- FIIs/ Sub-Accounts may avail limits in the corporate debt long-term infra category without obtaining SEBI approval till the overall FII investments reaches 90%, after which the auction mechanism shall be initiated for allocation of remaining limits. SEBI will put in place a mechanism to monitor the utilization of the limit.
- An additional limit of USD five billion each was made available under the Government Long-Term category and corporate bond – old (non-infra) category respectively.
- The requirement of 3 years residual maturity under the Government-Long term category was done away with. However, FIIs cannot invest in short-term papers such as treasury bills under this category.

In recent years, multiple committees and reports have looked into the issue of the development of a robust corporate bond market in India, principally:

- Government of India, Ministry of Finance, Dr R.H. Patil Committee 2005. *Report of the High Level Expert Committee on Corporate Bonds and Securitisation.*
- Government of India, Ministry of Finance, Investment Commission 2006.*Report on unified exchange traded corporate bond market.*
- Government of India, Ministry of Finance 2007. *The Report of the High Powered Expert Committee (HPEC) on Making Mumbai an International Financial Centre.*
- City of London report 2008. *The Development of India's Corporate Debt Market.*
- Government of India, Ministry of Finance, Rajan Committee 2008. *The Report of the Committee on Financial Sector Reform.*
- Government of India, Ministry of Finance and Reserve Bank of India, *The Report of the Committee on Financial Sector Assessment*, March 2009.

CONCLUSION

Recommendations of various committees have been implemented by the respective regulators to promote debt market in India. The growth of corporate bond market in India has been aided by existence of a well-developed Government Security market which provides a benchmark yield curve for bond pricing, a well-functioning depository system, credible system of rating agencies and adequate legal framework. Measures, such as, rationalising the listing norms, standardisation of market conventions, reduction in the shut period, setting up of reporting platforms, and implementation of DvP settlement of corporate bond trades have had an encouraging impact on the market resulting in considerable increase in issuance as well as secondary market trading of corporate bonds. Total value of trades (total of BSE, NSE, and FIMMDA trades) has increased from Rupees 1,48,361 crore in the year 2008-09 to Rupees 7,38,632 crore in the year 2012-13. Similarly Number of trades has increased from 22,730 in the year 2008-09 to 66,383 in the year 2012-13.

Government, SEBI and other stakeholders have initiated several measures to develop the corporate debt market. Reserve Bank of India has also taken various initiatives in this regard like Clearing houses of the exchanges have been permitted to have a pooling fund account with RBI to facilitate DvP-I based settlement of trades in corporate bonds, Repo in corporate bonds was permitted under a comprehensive regulatory framework, to promote transparency in corporate debt market, a reporting platform was developed by FIMMDA and it was mandated that all RBI-regulated entities should report the OTC trades in corporate bonds on this platform. Other regulators have also prescribed such reporting requirement in respect of their regulated entities. This has resulted in building a credible database of all the trades in corporate bond market providing useful information for regulators and market participants, etc., but still the corporate bond market in India is nascent. India needs to develop its corporate debt market rapidly to meet the funding needs of its infrastructural development and ensure the momentum of growth of the corporate sector. Debt Market has gained the interest of corporates as well as researchers. SEBI has taken various steps in order to boost the Indian Corporate Debt Market. Corporate Debt Market is very important tool for the growth and development of an Economy. It helps to boost saving and investment of a country and thus it also leads to capital formation in a country, which is very crucial for the growth of an economy. In this article I have studied the various regulatory steps taken by SEBI every year according to the changing needs and requirement of the Corporates, debt market, FIIs, QIP. These changes have resulted in more transparency and disclosure by the corporates and this has resulted into more confidence in Corporate Debt Market. Thus it can be said that the regulatory body SEBI. RBI, and GOI plays very important role in the growth of Corporate Debt Market in India.

REFERENCES

1. Government of India, Ministry of Finance. (2006). Report on unified exchange traded corporate bond market. Retrieved from http://www.sebi.gov.in/sebiweb/home/list/4/38/36/0/Committee-Reports
2. Khan. H. R. (2012). Corporate Debt Market: Developments, Issues & Challenges. Retrieved from http://www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=13744
3. Mohan, R. (2006). Recent Trends in the Indian Debt Market and Current Initiatives. Retrieved from http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=274
4. Patil, Dr. R. H. (2005). The Report of the High Level Expert Committee on Corporate Bonds and Securitization. Retrieved from http://www.sebi.gov.in/sebiweb/home/list/4/38/36/0/Committee-Reports.
5. SEBI. (1993 to 2012). SEBI Annual Reports.

WEBSITES

6. RBI website, www.rbi.org.in
7. SEBI website, www.sebi.gov.in

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce & 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**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

DISCLAIMER

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