INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

A Monthly Double-Blind Peer Reviewed Refereed 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.
as well as in Open J-Gage, India [link of the same is duly available at Inflibnet of University Grants Commission (U.G.C.)]
Registered & Listed at: Index Copernicus Publishers Panel, Poland
Circulated all over the world & Google has verified that scholars of more than 1388 Cities in 138 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
www.ijrcm.org.in

CONTENTS

CALL FOR MANUSCRIPTS

Weinvite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the area of Computer, Business, Finance, Marketing, Human Resource Management, General Management, Banking, Insurance, Corporate Governance and emerging paradigms in allied subjects like Accounting Education; 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; Monetary Policy; Portfolio & Security Analysis; Public Policy Economics; Real Estate; Regional Economics; Tax Accounting; Advertising & Promotion Management; Business Education; Management Information Systems (MIS); Business Law, Public Responsibility & Ethics; Communication; Direct Marketing; E-Commerce; Global Business; Health Care Administration; Labor 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; Public Administration; Purchasing/Materials Management; Retailing; Sales/Selling; Services; Small Business Entrepreneurship; Strategic Management Policy; Technology/Innovation; Tourism, Hospitality & Leisure; Transportation/Physical Distribution; Algorithms; Artificial Intelligence; Compilers & Translation; Computer Aided Design (CAD); Computer Aided Manufacturing; Computer Graphics; Computer Organization & Architecture; Database Structures & Systems; Digital Logic; Discrete Structures; Internet; Management Information Systems; Modeling & Simulation; Multimedia; Neural Systems/Neural Networks; Numerical Analysis/Scientific Computing; Object Oriented Programming; Operating Systems; Programming Languages; Robotics; Symbolic & Formal Logic and Web Design. The above mentioned tracks are only indicative, and not exhaustive.

Anybody can submit the soft copy of his/her manuscript **anytime** in M.S. Word format after preparing the same as per our submission guidelines duly available on our website under the heading guidelines for submission, at the email addresses: infoijrcm@gmail.comorinfo@ijrcm.org.in.

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 mention the 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.

WEBSITE

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

INTANGIBLE VALUE ACCUMULATION IN CULTURAL AND CREATIVE INDUSTRIES

DR. SHULIEN CHANG
ASST. PROFESSOR
DEPARTMENT OF FINANCE
MING CHUAN UNIVERSITY
TAIPEI, TAIWAN

ABSTRACT

This research describes the process of intangible value accumulation in cultural and creative industries (CCIs) using the theory of intellectual capital, which consists of human, structural, and social capitals, and the concepts of knowledge management. This study emphasizes understanding the economic value of both cultural and creative goods/services in the flow chart of value creation in CCIs and highlights the notion of valuation. However, very little detail is given on how to price CCI goods and services. To clarify the potential value of goods and services created from artist/creator endeavors, this study connects three major participants engaged in CCI markets, including cultural/creative entrepreneurs, intermediates, and the policy maker – local government, to analyze interactions among those parties. The results of this study are not only pertinent to a further understanding of the process of intangible value accumulation within CCIs, but also help to construct a practicable appraisal framework to evaluate those intangibles.

KEYWORDS

cultural and creative industries (CCIs), intellectual capital, intermediate, intangible value accumulation, knowledge management.

INTRODUCTION AND BACKGROUND TO THE RESEARCH

Cultural and creative industries (CCIs) continue to grow in economic significance throughout the world. These industries represent a driving force for regional development; however, abundant literature focuses on macroeconomic and socio-political issues. Extant research that assumes a micro view largely emphasizes the development of skills for employment and very few of them consider value generation in cultural and creative industries. In the case of Taiwan, the Cultural and Creative Industries Development Act highlights the notion of appraisal. However, very little detail is given on development of the appraisal system.

To explore the subject, understanding the nature of cultural products and the process of "cultural/creative ideas" to realize how to create value in cultural/creative goods may be helpful. The idea of cultural creative industries covers a wide variety of sectors, however, researchers still believe these sectors share some economic properties that distinguish them from other sectors (Cave, 2000; Hölzl, 2005). Cultural/creative products are typically experience goods for which tastes are acquired through consumption. Cultural/creative products are not only experience goods, which refer to the individual level, but are often symbolic goods, whose value derives from cultural values, constructed by imitating others or distinguishing oneself from others. The elements of products often differ unpredictably in the level of quality consumers see in them. Therefore, a first concern is whether a tool or procedure can be used to evaluate cultural products and the organizations that produce them.

In terms of the value of cultural products, brokers (intermediates) may play a major role in manipulating price and therefore, become the greatest drawbacks to the original creators/artists (Hutton, 2004; Jones *et al*, 2004). However, brokers are important bridges connecting creators/artists to consumers and the dynamic of price determination is such a complex system. Not only is this type of agent involved in the value creation process of cultural/creative products, but also needs to understand the implied meaning behind those products.

Policy makers, who consider the trade of cultural/creative commodities and evaluate their direct or indirect effects on the economy, may promote or channel investments perceived to produce benefits (for either the cultural sector or those that it benefits). To tackle these issues, the researcher should focus on the functions of three major arenas – the social network, intermediates, and policy makers in the process of value accumulation of cultural/ creative products. To attempt potential use of an appraisal system, the current study adopted the perspectives of intellectual capital and knowledge management into this research. The result is applicable to constructing a practicable framework to develop an appraisal instrument.

CULTURAL AND CREATIVE INDUSTRIES (CCIs)

A new term, creative industries, has emerged …that exploits the fuzziness of the boundaries between "creative arts" and "cultural industries," freedom and comfort, public and private, state-owned and commercial, citizen and consumer, the political and the personal … The core of culture [is] still creativity, but creativity [is] produced, deployed, consumed and enjoyed quite differently in post-industrial societies from the way it used to be ... (Hartley, 2006)

DEFINITION AND DIFFERENCE OF CULTURAL AND CREATIVE INDUSTRIES (CCIs)

Cultural creative industries (CCIs) encompass a myriad of sectors from fine arts and pop culture and are very difficult to confine within a sector. The concept of cultural industries comprises all enterprises and self-employed persons whose economic activities focus on the production, dissemination, and intermediation of artistic and cultural products or services, which are intangible and cultural in nature. All subsectors and market segments related to "a wide sense of culture," e.g. the music industry, the publishing industry, arts, the film industry, etc. Culture industries include all market-oriented economic enterprises such as music ensembles, sound studios, record labels, publishing houses and the production of sound storage media, book and music dealers, art dealers and galleries, concert agencies, film actors, film producers and cinemas, architectural offices and design studios, artist studios, offices of authors and journalists, agencies for cultural services, etc.

The idea of creative industries is an emerging concept and is difficult to confine within a sector. Given the various definitions, creative industries go beyond a broader range of activities and portray a myriad of sectors engaging in the production and mass-distribution of culturally rich items. In the broadened concept of creative industries, the creativity aspect becomes the most important point of reference for sector specific products and services, in which artistic/cultural ideas and popular products combine with technological, innovative, and scientific creativity.

Therefore, the creative industries term encompasses a broader range of activities that includes cultural industries, plus all cultural or artistic productions. The emergence of creative industries is related to the rise of cultural industries and the significance of knowing all aspects of economic production, distribution, and consumption, and the growing importance of the service sector (Flew, 2002). The idea has benefited from previous conceptualizations of the creative arts and cultural industries and a broadening concept of consumer and technology changes (Cunningham, 2005). The literature provides various statements to describe creative and cultural industries (Table 1).

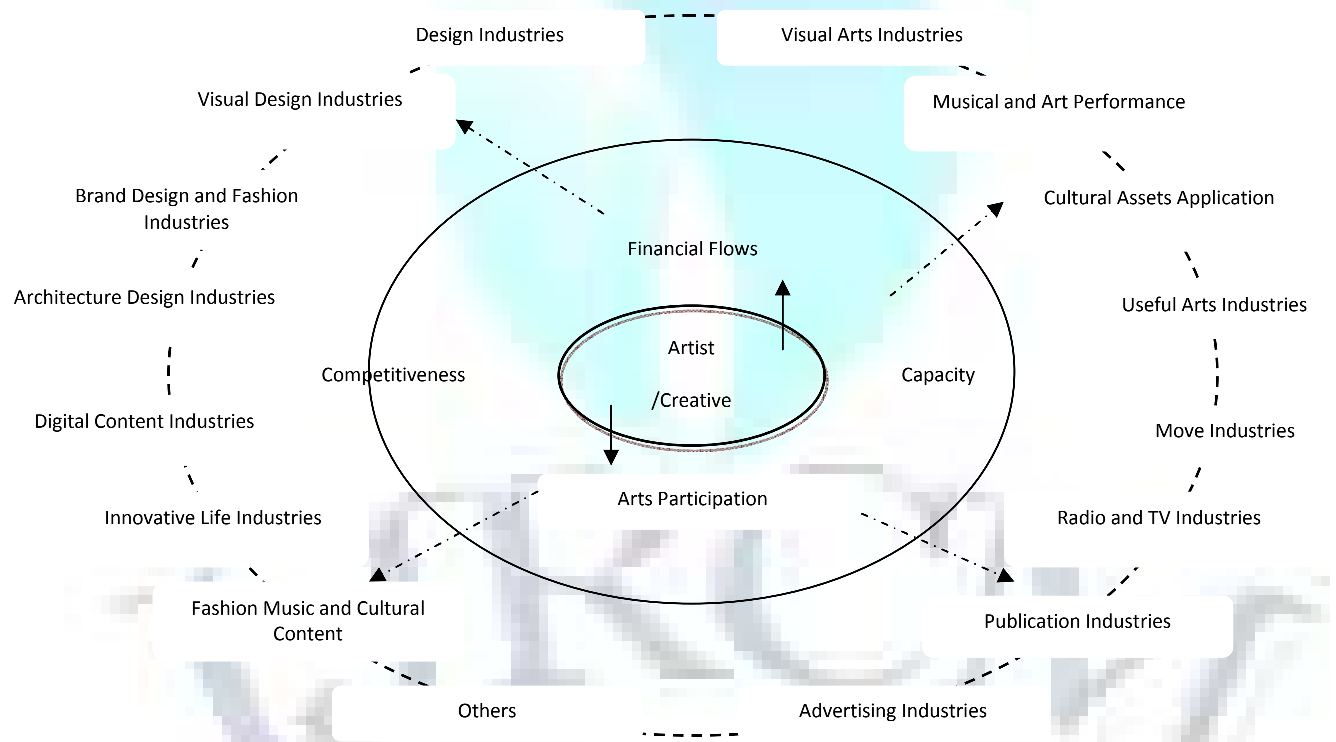
TABLE 1: SELECTED DEFINITIONAL TREATMENTS FOR CULTURAL AND CREATIVE INDUSTRY

Sources	Term used	Description
Horkheimer and Adorno (1944)	Cultural industry	Commodification of culture
Hirsch (1972; 2000)	Cultural industry	A network of organizations engaged in the production and mass distribution of "cultural" items
Howkins (2002)	Creative economy	An economy where the major inputs and outputs are ideas, which are turned into products for buying and selling (Transactions of creative products)
Lawrence and Philips (2002)	Cultural industries	Commercial production of culture
Hesmondhalgh (2002)	Cultural industries	Two set of cultural industries: core and peripheral. The former deals with industrial production and circulation of texts and the later with reproduction
Cave (2000)	Creative industries	Sectors of the economy producing artistic, cultural, and entertainment goods and services
Siwek (2004)	Copyright industries	Industries engaged primarily in the generation, production, and dissemination of new copyrighted material; industries whose products are copyrighted materials, that distribute copyrighted materials to businesses and consumers, and those that produce and distribute products are used wholly or principally in conjunction with copyrighted materials Four groups: Core, partial, distribution, and copyright related
Scott (2000; 2004), Power & Scott(2004)	Cultural economy	Cultural-product industries (sectors)
Hartley (2005)	Creative industries	The conceptual and practical convergence of the creative arts (individual talent) with cultural industries (mass scale), in the context of new media technologies within a new knowledge economy, for the use of newly interactive citizen-consumers

To encapsulate the various definitional treatments, in this paper, the term "cultural creative industries" refers to industries that combine the creation, production, and commercialization of creative contents, which are intangible and cultural in nature with those that are typically protected by intellectual property rights (IPRs). These industries are based on individuals with creative arts skills, in alliance with managers and technologists, to produce marketable products and whose economic value lies in their cultural (or 'intellectual') properties.

In Taiwan, the recently approved Cultural and Creative Industries Development Act is relevant for sixteen sub-industries, which encompass visual arts, music and performing arts, cultural assets regeneration, and exhibit facilities, crafts, film, broadcasting and television, publishing, product design, visual communication and design, brand design and fashion, architectural design, digital contents, creative life, pop music and cultural content, and others (Figure 1).

FIGURE 1: SIXTEEN FIELDS IN TAIWAN CULTURAL CREATIVE INDUSTRIES



DEFINITION OF CCI ECONOMIC VALUE

The current valuation approach is a critical issue in creative cultural industries. Most academic researches focus on three major areas: the meaning of the word "culture" and "creative," the tensions over making value judgments about the cultural and creative sector, and the difficulties of measuring cultural and creative sectors. This research only addresses the subject of value judgment within CCIs.

Skepticism accompanies the measures of cultural creative industries that Hewison (2002) captures on a comment of Missel (1983), "The concept of the arts itself is indefinable, and any attempt to measure it cannot begin to represent its essential quality."

However, since the 1980s, measurements in cultural creative sectors have been based on the contributions that CCIs can make to social and economic goals.

Not surprisingly, no consensus occurs on how to generate CCI value within existing literatures because of a range of perspectives on "cultural and creative value," some of which complement each other and some which are seemingly contradictory (Bennett and Belfiore, 2008). A review of contemporary studies reveals two uses of the concepts representing the most common definitions of "cultural value." The first comes from the work of John Holden concerning displaying the intrinsic, instrumental, and institutional values of culture. The second is from the work of the Australian economist David Throsby, who seeks to separate cultural values from economic values.

For Holden (2006), cultural value is an instrumental value, institutional value, and intrinsic value. The three forms of value are interdependent and rely on each other to form an overall picture of cultural value. Instrumental value is generated by the social and economic policy of culture; institutional value refers to the value discussed by the work of Mark Moore (1996) on public value, where organizations generate trust or esteem by the way they engage their users, and intrinsic value is value that is unique to the cultural sector and is not found anywhere else. Throsby (2001) deconstructs cultural value into aesthetic, spiritual, social, historic, symbolic, and authentic value, each of which contribute to a difference facet of the overall value subsisting in a cultural object, institution, or experience. Throsby (2001) maintains that cultural value is (and can be) separate from economic value, understood as personal preferences expressed by price or willingness to pay, and sharing the belief of Holden that there are intrinsic qualities in an object that cannot be understood using the economic valuation framework. Synthesizing the above discussion, the value of cultural/ creative products includes both tangible and intangible assets generated from consumer experiences and explained by the theory of intellectual capital.

In Taiwan, the definition of cultural and creative industries includes "CCIs are original industries formed by individual creativity and local culture, and protected by intellectual property to create opportunities for generating potential wealth and enhance the overall environment" (Council for Cultural Affairs, 2010).The Cultural and Creative Industries Development Act (CCIDA), approved by the Legislative Yuan of Taiwan in January 2010, is not only concerned about the scope of CCIs, but is also interested in the future development of CCIs. The output value of CCIs is considered the major contributor to the economic growth of the country. (Table 2)

TABLE 2: ECONOMIC VALUE IN CCIS OF SUB-INDUSTRIES IN TAIWAN

	2002	2003 (% change)	2004 (% change)	2005 (% change)	2006 (% change)	2007 (% change)
Visual Arts Industry	4,969,428	5,500,031 10.68%	5,281,089 -3.98%	5,287,954 0.13%	4,817,745 -8.89%	4,851,841 0.71%
Music and Art Performance	4,556,772	3,988,699 -12.47%	5,608,674 40.61%	6,616,260 17.96%	6,700,779 1.28%	8,218,430 22.65%
Useful Art Industries	58,115,280	63,535,574 9.33%	66,780,112 5.11%	67,468,353 1.03%	67,537,566 0.10%	71,734,582 6.21%
Cultural Assets Application	894,834	756,810 -15.42%	2,069,086 173.40%	2,696,308 30.31%	2,031,408 -24.66%	1,892,515 -6.84%
Movie Industry	14,184,503	12,408,469 -12.52%	13,122,719 5.76%	13,078,510 -0.34%	14,050,863 7.43%	13,828,939 -1.58%
Radio and TV Industries	88,295,432	96,664,999 9.48%	97,044,745 0.39%	100,931,894 4.01%	101,339,363 0.40%	130,772,462 29.04%
Publication Industries	61,688,700	66,813,666 8.31%	72,916,451 9.13%	71,583,504 -1.83%	65,551,874 -8.43%	68,160,631 3.98%
Architecture Design Industries	57,517,525	65,621,034 14.09%	73,720,545 12.34%	81,237,538 10.20%	82,883,103 2.03%	83,393,710 0.62%
Advertising Industry	107,235,681	122,657,074 14.38%	140,404,031 14.47%	141,125,342 0.51%	141,612,222 0.34%	130,393,221 -7.92%
Design Industries	22,030,460	36,310,240 64.82%	48,236,087 32.84%	50,257,096 4.19%	55,694,472 10.82%	77,091,247 38.42%
Digital Content Industries	15,770,980	18,799,493 19.20%	19,975,013 6.25%	21,764,800 8.96%	24,808,838 13.99%	19,701,971 -20.58%
Brand Design and Fashion Industries	--	--	--	--	--	--
Innovative Life Industries	--	10,104,000	11,391,000 12.74%	19,019,690 66.97%	19,209,124 1.00%	22,900,000 19.21%
Total	435,259,595	503,160,089 15.60%	556,549,552 10.61%	581,067,249 4.41%	586,237,357 0.89%	632,939,549 7.97%

Source: 2008 cultural and creative industries report

PERSPECTIVES OF INTELLECTUAL CAPTIAL AND KNOWLEDGE MANAGEMENT IN CCIs

INTELLECTUAL CAPITAL AND KNOWLEDGE MANAGEMENT

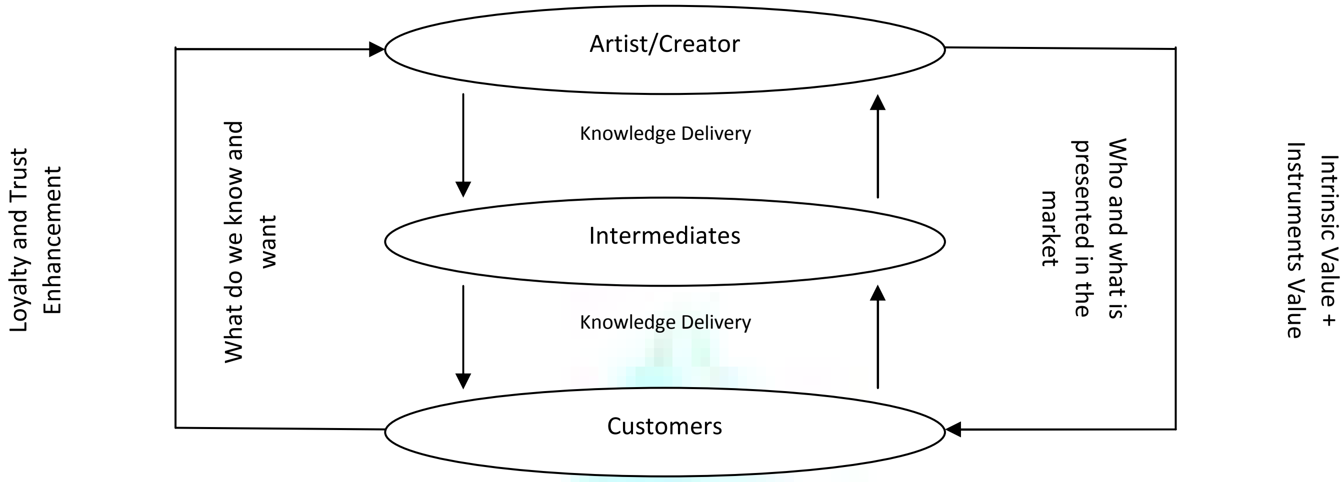
Intellectual capital (IC) theories that this study applies derive mainly from the series of articles by Stewart in *Fortune* published in 1991. IC means more than just "intellect as pure intellect" but also a degree of "intellectual action" (Bontis, 1998; Feiwal, 1975). In this sense, intellectual capital is not only a static intangible asset, but also an ideological process, which moves from "having" knowledge and skills to "using" knowledge and skills. The better case of adopting IC theory in CCIs may arise from a better understanding of cultural creative activities that build relationships between information/experience delivery, knowledge transfer, and innovative creativity, and the ways in which social, cultural, and institutional innovation accompanies sustained technological and economic innovation and the existence of cultural formations.

The dynamics of awareness derive from the process of delivering artist/creator knowledge or experience. The successful knowledge process, which is an interaction between tacit and explicit knowledge (Polanyi, 1958), creates sustainable value through creating and using knowledge and know-how. Nonaka and Takeuchi (1995) expressed the interaction between tacit and explicit knowledge by the SECI model that consists of socialization, externalization, combination, and internalization of four different modes of knowledge conversion.

Applying the above prevalent theories enables the current study to extract knowledge creation (KC) within cultural creative industries (CCIs) and show intellectual capital (IC) (for example, human capital) to constitute the potential value of artistic productions for a creator/artist and thereby constitute the means for a KC and IC tracking model in CCIs (Figure 2). In the tracking model, intermediates play a key role between artists and customers. If the intermediate has the ability to leverage intellectual resource, he/she will gain the confidence and self-esteem necessary to present convincing communicative actions in the business arena, leading to customer loyalty and trust.

The result of managing intellectual resources should be that they are accepted, acted upon, and trusted by others in various settings. The following introduces the concepts used when analyzing intellectual resources in cultural creative industries.

FIGURE 2: KC AND IC TRACKING MODEL OF CULTURAL CREATIVE INDUSTRIES



COMPONENTS OF INTELLECTUAL CAPITAL: HUMAN CAPITAL, SOCIAL CAPITAL, AND CUSTOMER CAPITAL

Intellectual capital generally has no accepted taxonomy. The extant literature provides three interrelated constructs, including human capital, structural capital, and customer capital (Bontis, 1998; Edvinsson and Sullivan, 1996; Ross and Ross, 1997; Stewart, 1997).

Human capital (HC) refers to individual knowledge, skills, abilities, and experience (Bontis, 1998; Brooking, 1996; Edvinsson and Malone, 1997; Ross et al., 1997; Stewart, 1997, Sullivan, 2001; Nelson and Winter, 1982).. Human capital is a basic source of innovation and strategic renewal, depending on how an organization effectively uses it in a company. Applying HC to CCIs, such knowledge-based assets would for example, consist of original design, character roles, and competition forms created by artists. The HC of a creator/artist in CCIs is the knowledge and skills of its professionals, used to produce artistries.

Therefore, in CCIs, this study highlights the centrality of knowledge and skill sets to the core competence of a creator/artist. Research emphasizes value transformation from intangibles (creator know-how) to tangibles (an artistic production), by packaging the asset into a legal construction and claiming ownership as vital. The value of HC is important when considering it in professional service firms, especially in CCIs. Here, a client (or intermediates) provides services involving a high degree of personal judgment, which are customized based on individual needs. In this context, an intermediate serves as a critical link that allows measuring IC either at the organizational level or at the individual level, that contracts with a creator/artist to gain direct access to valuable HC. Thus, value creation should not only judge the relationship of central knowledge and skills to individual competitive advantage, but whether it is fundamental to client core competence.

Nicolini (1993) described structural capital (SC) as a supportive infrastructure and information system. Bontis (1998) advocates that SC deals with the organizational mechanisms and structures that support individuals (for example, an artist/creator) in their quest for optimum intellectual performance. In other words, SC resembles individual know-how, which is focused on converting HC into value generation. The view that SC is situated within tacit organizational routines focuses on the informal aspects of organizational life. This view includes the cultural dimension of an organization, which is often expressed as “the way we do things around here” (Purcell et al., 2004).

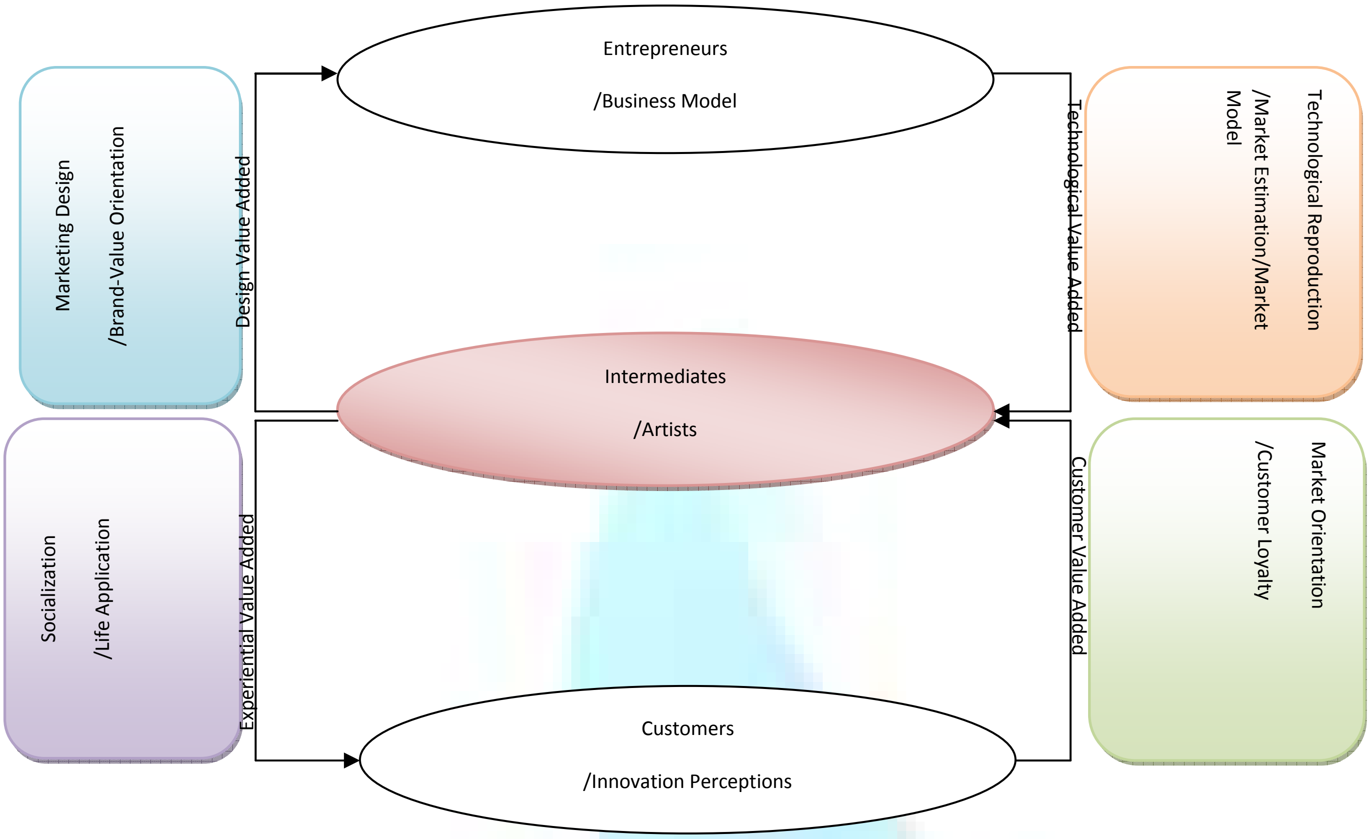
Keenan (2000) highlights the importance of cultural capital as an influence of the content and process of communication, the views of space and time, shared objectives, and the concepts of organizational membership. Here “SC” is the backbone of the organization (Burr and Girardi, 2002), which includes not only intellectual property (Stewart, 1997; Sveiby, 1997), but also the infrastructure consisting of organizational strategies, processes and policies (Dzinkowski, 2000).

Structural capital enables a firm to develop relationships within networks that are external to the firm. Particularly in CCIs, the way in which work is organized together with intermediate/customer relationship strategies within the organization will determine how permeable the boundaries are between the creators/artists and their clients (Swart and Kinnie, 2003). This structural capital not only enables relationships to develop, but also influences relationship characteristics developed between the creators/artists and other participants in the wider network.

Customer capital (CC) mainly comprises knowledge of marketing channels and customer relationships. Bontis (1998) introduced that the value of relationships including those of customers, suppliers, and competitors plays a major role in the future growth opportunities of firms. Customer capital refers to issues of customer trust, understanding, and loyalty of relationships between a firm and a customer. Hence, the purpose of building either individual or organizational capability is to build customer capital that will allow individuals/companies to enhance financial capital on a sustainable basis (St. Onge, 1996, Wright, 2000).

In CCIs, CC represents the potential an individual/organization has from ex-firm intangibles (knowledge embedded in customers, suppliers, or related industry association) that provides creators/artists/companies a better understanding of what customers want in a product or a service than competitors. The CCIs, in turn, refer to market contexts that are much closer to the extreme of dominant network effects. CCIs are also a crucible of new or emergent markets that typically arise from non-market dynamics that often persist and develop at the complex borderland between customer networks and established markets. White (1981) made this point in the context of producer markets, in which monopolistic competition arises from a selection process of producers following producers. Customer network markets are this same dynamic extended to all economic agents.

FIGURE 3: RELATIONSHIPS AMONG CCI MARKET PARTICIPANTS



THE ROLE OF INTERMEDIATES IN THE VALUE CREATION PROCESS

In CCIs, intermediates (or agents/brokers) often engage in various stages of the value creation process. Intermediates generally employ a very high percentage of highly educated people and are extremely dependent on their ability to attract, mobilize, develop, and transform the knowledge of these employees to create value for their clients. Many intermediates also shape thoughts and actions through their advice to client firms. Some small entrepreneurs even see intermediates as role models because these small businesses were among the first to develop knowledge management systems and promote these vis-à-vis their clients. Hence, it is important to understand the characteristics of value creation to access the applicability of their knowledge management principles beyond intermediates.

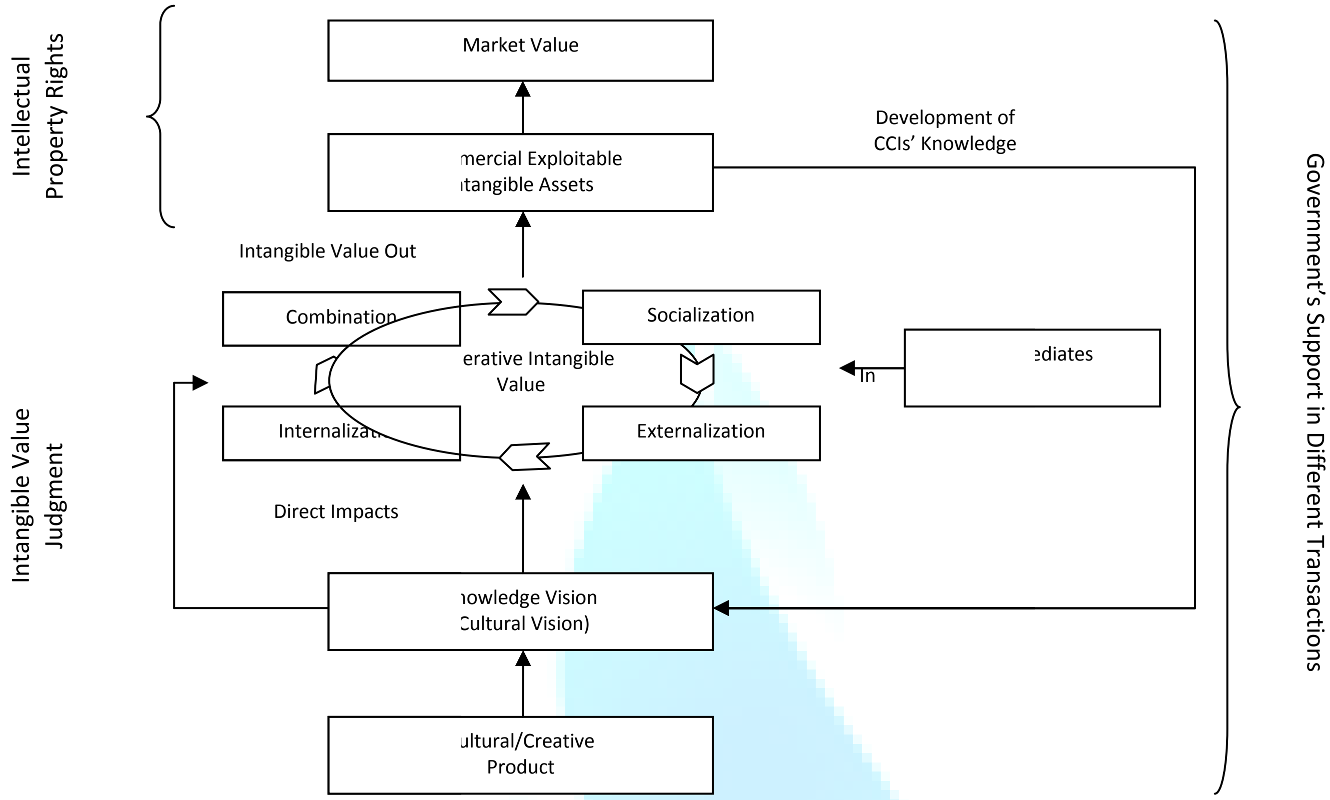
A common pattern in CCIs is that intermediates exploit economies of scale and scope that apply in particular to capital intensive, humdrum aspects of production and promotion rather than to the labor- and knowledge-intensive process of potential value creation. Intermediates also finance and organize production, mass reproduction, and dissemination of cultural products and coordinate various inputs. These are what are economically real at the level of transformations or transactions by an intermediate.

The knowledge transfer of artistic products is important in sustaining knowledge-based outputs and allowing people to share in artist/creator expressions. Therefore, CCIs differ from most traditional industry sectors in information about artistic production delivered as the spiral of knowledge in the SECI model (Nonaka and Takeuchi, 1995) from artists to intermediates and the customer who may work as an information encoder, decoder, or both. Perhaps this important encoding and decoding transaction causes value creation, either between an artist and an intermediate or between an intermediate and the customer, in processing knowledge creation. However, unless artists are purely creative in their own studios with no intention of exhibiting or selling their work, they cannot avoid the fact that they play at the core of information delivery within an industry network.

Artistic production, like any other product, enters a process of value creation to transmit original ideas to a consumer. However, the evaluation in CCIs is more complicated due to more variations and a complex social network. CCIs involve diverse dimensions of value creation with their own important variations, especially related to intangibles (for example, HC, IPRs), and the previous mentioned “encoding” and “decoding” dimensions.

Several key sections introduce the uniqueness of the value creation process. First, artistic production may need professional judgments as to suitability of the product for exhibition and once the production is exhibited, intermediates play a critical role in influencing the consumer. Second, artistic productions require a larger and more complex industry to translate and present an original creative idea. By considering the trade of cultural/creative commodities and evaluating their direct or indirect effects on the economy, policy makers may promote or channel investments perceived to produce benefits (for either the cultural sector or those that it benefits). Finally, value may be added into productions at each transaction (Figure 4).

FIGURE 4: VALUE CHAIN PROCESS OF CCIs



CONCLUSION
This study describes the process of intangible value accumulation of artistic goods/services in cultural and creative industries. This research also examines intermediate steps in the value creation process and considerations to take in each step, and links the value creation process to actions in three IC arenas, including human capital, structural capital, and customer capital. These steps are combined into a conceptual framework demonstrating how value is created through knowledge transformations/transactions from the individual level to customers. The conceptual framework can also be applied to various settings that both intermediates and customers face in the value accumulation process.

Cultural creative products are often experience goods or services. Aside from a few exceptions, such as fine arts, appraisal is a rare practice in cultural and creative industries. Therefore, this research contributes to several areas. Policy makers and academic researchers are focusing increased attention on valuation of cultural creative industries; however, very little research is available. The current research helps to not only shed light on the value creation process in cultural and creative industries, but also provides an important viewpoint for management.

ACKNOWLEDGMENT
This paper is sponsored by NSC 99-2410-H-130-022-

REFERENCES
1. Belfiore E, Bennett O (2008). The Social Impact of the Arts: An Intellectual History, Palgrave/Macmillan, Basingstoke.
2. Bontis N (1998). Intellectual capital: an exploratory study that develops measures and models. Manage. Decision. 36(2): 63-76.
3. Brooking A (1996). Intellectual Capital: Core Assets for the Third Millennium Enterprise. Thompson Business Press, London.
4. Burr R, Girardi A (2002). Intellectual capital: more than the interaction of competence x commitment. Australian Journal Management, 27: 77-87.
5. Caves R (2000). Creative industries: Contracts between art and commerce. Harvard University Press, Cambridge, MA.
6. Cunningham S (2005). Creative enterprises. In: Hartley, John (Ed) Creative Industries. Blackwell Publishing, United States of America, Massachusetts, Malden, pp. 282-298.
7. Dzinkowski R (2000). The measurement and management of intellectual capital: an introduction. Manage. Accounting. 32-35.
8. Edvinsson L, Malone M (1997). Intellectual Capital, Harper Collins Publishers, New York, NY, pp.225.
9. Edvinsson L, Malone M (1997). Intellectual Capital: Realizing Your Company's True Value by Finding Its Hidden Brainpower. Harper Business, New York, NY.
10. Edvinsson L, Sullivan P (1996). Developing model for managing intellectual capital. European Management Journal, 14(4): 356-364.
11. Feiwal G (1975). The Intellectual Capital of Michal Kalecki: A Study in Economic Theory and Policy. University of Tennesee: Knoxville, TN.
12. Flew T (2002). New Media: An Introduction. Oxford University Press, Oxford.
13. Hartley J (2005) Creative industries. Blackwell: Oxford.
14. Hartley J (2006). Creative industries. In: J. Hartley, Creative industries. Londres: Blackwell, 2005, pp. 1-40.
15. Hesmondhalgh D (2002). The Cultural Industries. Sage, London
16. Hewison R (2002). Commentary 1: Looking in the wrong place. Cultural Trends. 12: 47-89.
17. Holden J (2006). Creating Cultural Value: How Culture Has Become a Tool of Government Policy. DEMOS, London.
18. Holden J (2006). Local authorities: A change in the cultural climate? DEMOS, London.
19. Hölzl W (2005). Entry and Exit in the creative Industries: An Exploratory Survey. Working Paper Working Papers Series: Creative Industries in Vienna: Development, Dynamics and Potentials, Vienna University of Economics and Business Administration.
20. Horkheimer M, Adorno W (1994). Dialéctica de la Ilustración (Madrid, Trotta), trad. de J. J. Sánche.
21. Howkins J (2002). Speech to the Inception Session, The Mayor's Commission on the Creative Industries, London, 12 December [online], available at: http://www.creativelondon.org.uk/upload/pdf/JohnHowkinstalk.pdf (accessed 22 January 2007).
22. Hutton TA (2004). The new economy in the inner cities. Cities, 21(2), pp89-108.

23. Jones P, Comfort D, Eastwood I, Hillier D (2004). Creative industries: economic contributions, management challenges and support initiatives. Management Research News, 27 (11/12), pp.134 – 145
24. Keenan J (2000). Intellectual capital perspectives for information systems, in Bradley. G. (Ed.), Information Systems, McGraw Hill, London.
25. Lawrence TB, Phillips N (2002). Understanding cultural-products industries. Journal of Management Inquiry, 11: 430-441.
26. Moore M (1996) Creating Public Value: Strategic Management in Government Cambridge, MA: Harvard University Press.
27. Nelson RR, Winter SG (1982). An Evolutionary Theory of Economic Change, Belknap Press, Cambridge, MA.
28. Nicolini D (1993). Apprendimento Organizzativo e Pubblica Amministrazione Locale", Autonomie Locali e Servizi Sociali, 16, 2.
29. Nonake I. Takeuchi H (1995). The knowledge-Creating Company. How Japanese Companies Create the Dynamics of Innovation, Oxford University Press, New York, NY.
30. Polanyi M (1958). Personal Knowledge; Toward knowledge a post-Critical Philosophy, Routledge, London.
31. Power D, Scott A (2004). A prelude to cultural industries and the production of culture. In Power, D. and Scott, A., editors, The cultural industries and the production of culture. London and New York: Routledge, 3–15.
32. Purcell J, Kinnie N, Hurchinson S, Rayton B, Swart J (2004). Vision and Values: The Big Idea, Executive brief, CIPD, London.
33. Roos J, Roos G, Dragonetti NC, Edvinsson L (1997). Intellectual Capital: Navigating the New Business Landscape, Macmillian, London.
34. Ross G, Ross J (1997). Measuring your company's intellectual performance. Long Range Planning. 30(3): 413-426.
35. Saint-Onge H (1996). Tacit knowledge: the key to the strategic alignment of intellectual capital. Strategy & Leadership. 24(2): 10-16.
36. Scott AJ (2000). The Cultural Economy of Cities; Essays on the Geography of Image -Producing Industries. London/Thousand Oaks/New Delhi: Sage.
37. Scott AJ (2004). Cultural-Products Industries and Urban Economic Development: Prospects for Growth and Market Contestation in Global Context. Urban Affairs Rev. 39: 461-490.
38. Siwek SE (2004). The measurement of "Copyright" industry: The US experience. Review of Economic Research on Copyright Iss. 1(1): 17-25.
39. Stewart TA (1997). Intellectual Capital: The New Wealth of Organizations. Doubleday, New York, NY.
40. Sullivan PH (2001). Profiting from Intellectual Capital: Extracting Value from Innovation. John Wiley & Sons, New York, NY.
41. Sveiby KE (1997). The New Organizational Wealth: Managing and Measuring Knowledge-based Assets. Berrett-Koehler, New York, NY.
42. Swart J, Kinnie N (2003). Knowledge-intensive firms: the influence of the client on HR systems. Human Resource Management Journal. 13(3): 37-55.
43. Throsby D (2001). Economics and Culture. Cambridge University Press, Cambridge.
44. White H (1981). Where do markets come from?. American Journal Sociology. 87(3): 517–547.
45. Wright P (2000). A strategic approach to generating customer capital. Knowledge Management Review. 2: 8-9.

STRATEGIES IN MANAGING BARRIERS TO CUSTOMER SATISFACTION

DR. ANTHONY .A. IJEWERE
ASSOCIATE PROFESSOR
DEPARTMENT OF BUSINESS ADMINISTRATION
UNIVERSITY OF BENIN
BENIN CITY, EDO STATE

EDITH .O.ODIA
LECTURER
DEPARTMENT OF BUSINESS ADMINISTRATION
UNIVERSITY OF BENIN
BENIN CITY, EDO STATE

ABSTRACT

Customer satisfaction is an essential marketing construct in modern literatures. The concept relevance and acceptability in developing economies are still very much in doubts. The study focused on barriers to customer satisfaction in developing countries, from the Nigerian perspective. Factors relating to product, promotion, price, distribution, salesmen, social and psychological were identified as barriers to customer satisfaction. Strategies such as: enhancing product/service quality, building trust, efficient service recovering, internal marketing, timeliness in service delivery and fair-pricing were espoused as management measures for overcoming barriers and guaranteeing customer satisfaction.

KEYWORDS

Barriers, Trust, Internal Marketing, Service Recovery and Customer Satisfaction.

INTRODUCTION

The goal of every business organization is to make profit and survive. History has shown that many business organizations seek to achieve these goals through different means. During the industrial revolution emphasis was on how to achieve mass production at reduced cost without due consideration being given to customer satisfaction. At that time, manufacturers as the kings, produced products that they had the resources to produce. By so doing, they dominated the market without any breathing space for the customers. The production orientation stage gave the producers a strong edge to grow at the devastating expense of the consumers. During this era, the customers were denied the right to quality products, satisfaction and opportunity of maximizing choices (Adetayo, 2004). In the second half of the 1950s, modern marketing concept emerged and this philosophy was the first to espouse the fundamental importance of the consumer. It suggests that the best way to make profit, and to stay in business in the short and long term, is to define properly what customers require, and then to deliver it rather than persuading customers to buy what firms can make (Gordon, 1980).

The enthralling business philosophy drew inspiration from Adams Smith's eighteenth century doctrine of consumer sovereignty. Customer satisfaction is the means to the corporate ends of profits and survival (Buzzell and Gale, 1987). The implication of this is that, no firm can survive without customers' loyalty (Richheld, 2003). Customer satisfaction is a concept that cannot be swept under the carpet because the survival of any organization hinges on it (Adetayo, 2004). Consumerism as the sole ingredient of customer satisfaction should be embraced by all resourceful managers rather than brood over its restraints (Bloom and Greyer, 1981).

The contemporary business world has brought more pressure to bear on business as today's customers are harder and smarter to please. Striving to satisfy customer is not enough; the challenge is to produce loyal customer (Gitomer, 1998). Unfortunately, much of the business efforts especially in developing countries, are centred on the art of attracting new customers rather than on retaining existing ones. The emphasis traditionally has been on making sales rather than building relationships and caring for the customer afterward.

The acceptance of consumer orientation spurred great change in the outlook of companies especially in the developed economies. But the relevance and/or applicability of the marketing concept in the developing world is still very much in doubts. Studies conducted in Egypt and Nigeria, revealed that although managers in these countries understood the tenets of marketing concept and indeed accepted its logic; but were yet to implemented it (Agbonifoh, 1982). For example, Baker and El-Haddad (1982) measuring the customer orientation of Egyptian firms found that only 11 out of 30 firms surveyed had marketing research departments. A further investigation on the usage of marketing research to determine the appropriate marketing mix revealed that only 7 out of 30 firms reported using marketing research to identify consumer needs prior to new product development; 14 out of 30 firms reported using the strategy; 6 out of 30 firms applied marketing research in selection of appropriate promotion strategy and 12 out of 30 firm used marketing research in determining their distribution strategy.

In a similar study, Ogwo (1986) found that many Nigerian Business Executives acknowledged acute awareness of the theoretical underpinnings of the marketing concept but asserted that their companies were yet to be faithful to the tenets of the concept. Yet, in another study, Mitchell and Agenmonmen (1984) examined the attitudes of 65 Nigerian firms toward marketing concept in terms of its impact on consumer benefits and consumerism among others factors. Research results showed that Nigerian marketers believe in the application and relevance of the concept but reported problems in its implementation. Recent studies in the area of customer satisfaction indicated that most organisations in Enugu and Onitsha do not have a department designated to handle consumers' complaints or measure the level of consumer satisfaction except few Telecommunication operators (Idoko and Nkamnebe, 2007). According to them, the poor adoption of marketing orientation in Nigeria appears to have accounted for the high incidence of customer dissatisfaction in Nigeria. In another recent survey conducted by Abdullahi (2007), 87% of the respondents opined that profit was more important to top level business managers than product safety and other societal cherished values.

Adebayo (2008) noted poor complaint resolution in the Nigerian telecommunication industry, and that the only reason consumers even consider making a change was when they had repeatedly had bad customer service experience. He observes that this accounts in part for why many Nigerians carry multiple handsets for different network. According to Adebayo (2008), operators solely focused on the bottom line of revenues beyond customer satisfaction and not doing the right investment in empowering contact centre agents with the authority to make on-the-spot customer complaint resolution will continue to see an erosion of their client base.

As rightly observed by Kotler (2000), today's companies are facing their toughest competition ever. Only companies who have transcended beyond the product and sales philosophies to adopt marketing philosophy can out-performed the competition. Kotler (2000), posited that consumer-centered companies are adept at building customers; not just products; they are skilled in market engineering, not just product engineering. With the emergence of globalization, the world has been reduced to one market. The area of customer satisfaction has become a big intellectual, moral and philosophical challenge both in the developing and developed economies. Companies' survival in the global market is predicated mainly on their abilities to determine consumer needs effectively and efficiently and eliminate barriers to consumer satisfaction. The studies of Idoko and Nkamnebe (2007) and Odia (2009) shed some lights on the increasing level of dissatisfaction among Nigerian consumers as the cases of unethical business practices continue to escalate. This dreadful situation is inimical to the survival of a nation. The burning question is, are the business firms aware of the gulf between their brand value and customer value? For a problem well diagnosed is half solved. Secondly, how can barriers to customer satisfaction be reduced or eliminated? The focus of this paper is to proffer solutions to the above pertinent questions in a systematic approach.

THE CONCEPT OF CUSTOMER SATISFACTION

The definition of consumer satisfaction has been widely debated as it is a highly personal assessment that is greatly affected by individual customer expectations. The state of satisfaction which depends both on psychological and physical variables correlates with satisfaction behaviours such as repeat purchase and word-of-mouth. In the view of Kotler (2000), satisfaction is a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations. Satisfaction is based on the customer's experience of both contacts with the organisation and personal outcomes. Satisfaction is a function of perceived performance and expectations. If the performance matches the expectations, the customer is satisfied. But if the performance exceeds expectations, the customer is highly satisfied or delighted (Kotler, 2000; Jobber, 2007).

National Business Research Institute (NBRI) defined customer satisfaction as the state of mind that customers have about a company when their expectations have been met or exceeded over the lifetime of the product or service. A satisfied customer is "one who receives significant added value" to his or her bottom line (Hanan and Karp, 1989). Customer satisfaction differs depending on the situation and the product or service. A customer may be satisfied with a product or service, an experience, a purchase decision, a sales person, store, service provider, or an attribute or any of these (Wreden, 2004). Because customer satisfaction is a highly variable assessment that every individual make based on his/her own information, expectations, direct contact and interaction and impact, it is therefore imperative to involve and consult consumers when designing customer satisfaction programmes. The level of customer satisfaction depends on the company's ability to manage its value delivery system. Too many companies create a value gap by failing to align brand value with customer value (Kotler, 2000).

A barrier is a problem, rule or situation that prevents somebody from doing something or that makes something impossible (Oxford Advanced Learner's Dictionary). Barriers to customer satisfaction can be likened to the perceived risk involved in buying situations. The objective in this paper is to find ways of raising customer satisfaction by elimination barriers.

SIGNIFICANCE OF CUSTOMER SATISFACTION

There are enormous business pay-offs that ensures that customers are not only satisfied but delighted. The tendency of satisfied and loyal customers to bring in new customers at no charge to the company is particularly beneficial as a company grows. Studies by National Business Research Institute (NBRI) indicated that it is at least 5 (five) times more profitable to sell to an existing customer than to find a new customer. It is also acknowledged that it costs five to eight times as much to secure new customers than to hold on to old ones. Kotler (2000) argued that a highly satisfied customer:

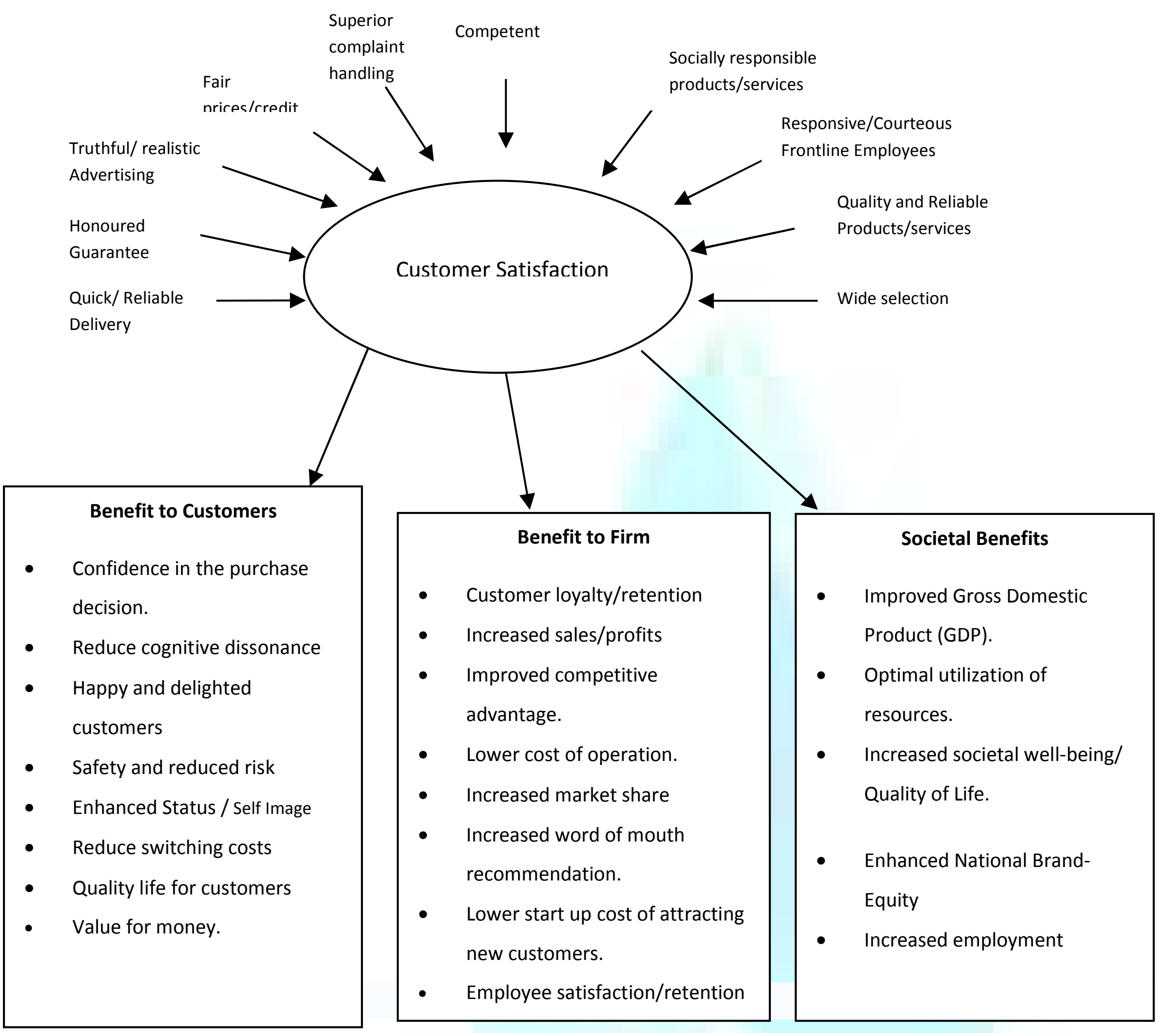
- Stays loyal longer.
- Buys more as the company introduces new products and upgrades existing products.
- Promotes the company and its products.
- Pays less attention to competing brands and advertising and is less sensitive to price.
- Offers product or service ideas to the company.
- Cost less to serve than new customers because transactions follow routine.

In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy. Clearly defining and understanding customer satisfaction can help any company to identify opportunities for product and service innovation and serve as the basis for performance appraisal and reward systems. According to National Business Research Institute (NBRI), companies that are prospering in this new era recognize that measuring customer satisfaction is the key to:

- Understanding the expectations and requirements of all your customers.
- Determining how well your company and its competitors are satisfying these expectations and requirements.
- Developing service and/or product standards based on your findings.
- Identifying trends overtime in order to ensure prompt service recovery.
- Establishing priorities and standards to judge how well you have met the set goals.

Companies who will be able to play at the global game recognize that customer satisfaction is a critical, strategic weapon that can bring about increased market share and profits. Figure 1 examines critically the elements that guarantee customer satisfaction and the benefits thereof.

FIGURE 1: ELEMENTS OF CUSTOMER SATISFACTION



Source: Author's construction

Effective customer satisfaction survey is significant not only in terms of its potential positive effects on the individual company, but also in terms of its possible implications on the welfare of the consumer and the society. A growing percentage of unsatisfied customers impacts negatively on the company's profits, survival and its competitive ability. Enhancing customer satisfaction is the hallmark of every economy that is surviving in the global market. A country whose domestic industries are unable to compete globally will definitely suffer a loss in aggregate demand for her products. This in essence will calumniate in an increase in the rate of labour unemployment.

CHARACTERISTICS OF CUSTOMER FOCUSED ORGANISATIONS

Many researchers have identified a number of characteristics associated with customer-focused companies who are committed to hearing the voice of the customer (Cacioppo, 2000; National Business Research Institute (NBRI)). According to them, these companies are characterized by the following features: marketing and sales employees are primarily responsible for designing (with customer input) customer satisfaction surveying programs, questionnaires, and focus groups; top management and marketing divisions often champion the programs; corporate evaluations include not only their own customer satisfaction ratings but also those of their competitors; satisfaction results are made available to all employees; customers are informed about changes brought about as the direct result of listening to their needs; internal and external quality measures are often tied together; customer satisfaction is incorporated into the strategic focus of the company via the mission statement; stakeholder compensation is tied directly to the customer satisfaction surveying program; a concerted effort is made to relate the customer satisfaction measurement results to internal process metrics; organisation charts are designed in the form of inverted pyramid where customers are placed at the top; competitive advantage is seen as a customer advantage; and people are carefully hired, trained extensively to achieve the service standards, and then empowered to work on behalf of customers, whether inside or outside the organization.

In market-oriented companies, success requires "a multi-dimensional program, including management consulting, customer satisfaction measurements, employee feedback, motivation programs, training and ongoing reinforcement" (http://www.tdmktg.com). These firms establish concrete standards of service quality and regularly measure themselves against those standards. They guard against the common mindset that some margin of error is acceptable by establishing as their goal 100 percent performance. The following two cases are examples of how organisations use different approaches to identify customer service standards and they vary in detail. Emanuel Medical Center uses "CARING" as an acronym for its six customer service standards, which are printed on the back of ID badges, flashed across computers as screen savers, printed on T-shirts, and posted prominently throughout the hospital (Truax and Rorex, 2001):

- **C**ustomers first
- **A**ccept responsibility
- **R**each out and help
- **I**nitiate contact
- **N**urture others
- **G**ive attention to detail.

Another good example of market-oriented company is, Exxon Mobil Company, it grew to become an industry leader through the use of a tool called "GUEST". The GUEST program though a potent tool, became more effective after a training exercise was organized for all the company employees. The full meaning of "GUEST" is given below:

- **G - G**REET customers with a hello and offer to help.
- **U - U**NDERSTAND if customers voice a concern or need
- **E - E**YE CONTACT when listening or speaking to customers
- **S - S**MILE whenever customers see you
- **T- T**HANK customers for their business

BARRIERS TO CUSTOMER SATISFACTION

Though it has been widely acknowledged that customer satisfaction relates to market share growth/profitability, yet, for many companies, high standards products/service qualities still remain elusive. Seven barriers to customer satisfaction will be examined here.

Product-Related Barriers: Lack of effective marketing research may lead to product/service attributes misconception. Sometimes, managers may understand customer expectations but lack or unwilling to provide the resources necessary to meet them. This sort of behaviour may arise due to a cost-reduction or productivity-focus policies of the management.

According to Majaro (1986), the rising capacity utilization by local manufacturers has resulted into many fake and substandard products in the Nigerian markets. The problem of product proliferations, fake and substandard product delivery permeate all the sectors of the Nigerian economy with services delivery inclusive (Monye, 2003). The heightened presence of fake and substandard products in the market has been ascribed to the fact that most consumers find difficulty in distinguishing between the original and fake products (Idoko and Nkamnebe, 2007). In the same study, Idoko and Nkamnebe (2007) noted that 155 percent of 93 respondents from Enugu and Onitsha would stop buying a particular brand of products when found to be fake or adulterated. Product deficiency is the major barrier why many customers are often dissatisfied. Poor quality products will definitely not attract a repeat-purchase. In a study, Aire (1974:17) found that "58.3 percent of the 226 consumers surveyed felt that made-in-Nigeria goods which they had purchased in the preceding fifteen months were of lower quality they expected".

The practice of planned obsolescence by some manufacturers reduces consumers' right to choose as many products are not designed to last long. Another source of dissatisfaction is packaging which may occur in the form of sin of omission or commission. In Nigeria, for example, it has been noted that producers purportedly deceive buyers with foreign labels on made-in-Nigeria products (Agbonifoh, 1986). Additionally, deceptive packaging (slack packaging) has the potential to deceive when the packaging is opaque (Smith, 1995). For example, products such as soap powders and breakfast cereals have the potential to suffer from 'slack' packaging.

Promotion-Related Barriers: Some customer's expectations are formed through suppliers' marketing activities. Companies need to guide against the mistake of setting customers' expectations too high through exaggerated promotional claims or concealed facts, as it can lead to dissatisfaction if performance falls short of expectations (Jobber, 2007). For example, it would be deceptive and unethical to claim that a car achieved 50 miles to the gallon when in reality it was only 30 miles. A case in point in Nigeria, is that of Dangote Floor Factory, Kano, which was shut up in May 2007 by the National Agency for Foods and Drugs Administration and Control (NAFDAC) for unethical practice of promoting its product by inscribing vitamin A and eye logo on the product's (Danvita) pack whereas it lacked the critical food elements (Isibor, 2007).

Price-Related Barriers: Many customers use price as an indicator of perceived quality. This is particularly the case for products where objective measurement of quality is not possible. A study of price and quality perceptions of cars, for example, revealed that higher priced cars were perceived to possess (unjustified) high quality (Erickson and Johansson, 1985). Also sales of a branded agricultural fertilizer rose after the price was raised above that of its generic competitors despite the fact that it was made of the same compound (Jobber, 2007). Capitalizing on the notion that price influence consumer quality perception, some suppliers tend to over-price their products to confuse the customer of the perceived quality. Some create artificial scarcity in order to unduly reap off customers. This sort of practice is very predominant in Nigeria with regards to essential commodity like fuel. For example, the aggrieved consumer of MTN Telecommunication service adopted the mass messaging strategy to send text messages to all MTN subscribers to switch off their handsets on the 31st August, 2003 to protest the exploitative billing method of N50 per minute irrespective of drop calls adopted by MTN. Shortly, after this demonstration, MTN allowed all interested subscribers to convert to per second billing (Idoko and Nkamnebe, 2007).

Distribution-Related Barriers: The creation of artificial scarcity through hoarding by middlemen is a major source of customer satisfaction (Odia, 2009). In Nigeria, essential commodities like fuel, kerosene, and gas are deliberately hoarded to inflate prices and to make unlawful gains. Siollun (2007) observed that many petrol station proprietors often take advantage of workers' strike in the petroleum industry to deliberately amplify shortages and drive prices higher to exploit and accentuate the misery of the fuel consumer. Corroborating this, chief Sylvernus Okoli, the president of the Depot and Petroleum Marketers Association of Nigeria (DAPPMA) said that recent survey by the association showed that kerosene was being sold for N100 at most retail outlets except Techno Oil and NIPCO depots who sold at N60 and N56 per litre respectively (The Tide, August 27, 2008).

Customer dissatisfaction can also result depending on the type of distribution channel adopted. For example, exclusive distribution channel can reduce competition in ways that may be considered contrary to consumers' interests. Purchaser's power to negotiate prices for the same model between competitors is reduced.

Sales Force-Related Barriers: Managers may understand customer expectations and supply adequate resources but fail to select, train and reward staff adequately, resulting in poor or in consistent service. This type of barrier may manifest itself in poor communication skills, inappropriate dresses and insensitivity and unwillingness on the part of salesmen to solve customers' problems. Some disgruntled salesmen can inflate prices of products without the knowledge of their company to make quick profits for themselves. Disloyal middlemen sometimes stock both fake and unadulterated products with the genuine products to confuse the unwary customers. The heightened presence of fake and substandard products in the market has been ascribed to the fact that most consumers find difficulty in distinguishing between the original and fake products with particular reference to pharmaceutical products (Idoko and Nkamnebe, 2007). The role of the salesperson acting as a problem-solver for the customer rather than simply pushing the highest profit-margin product can help create customer satisfaction, and thereby reduce cognitive dissonance.

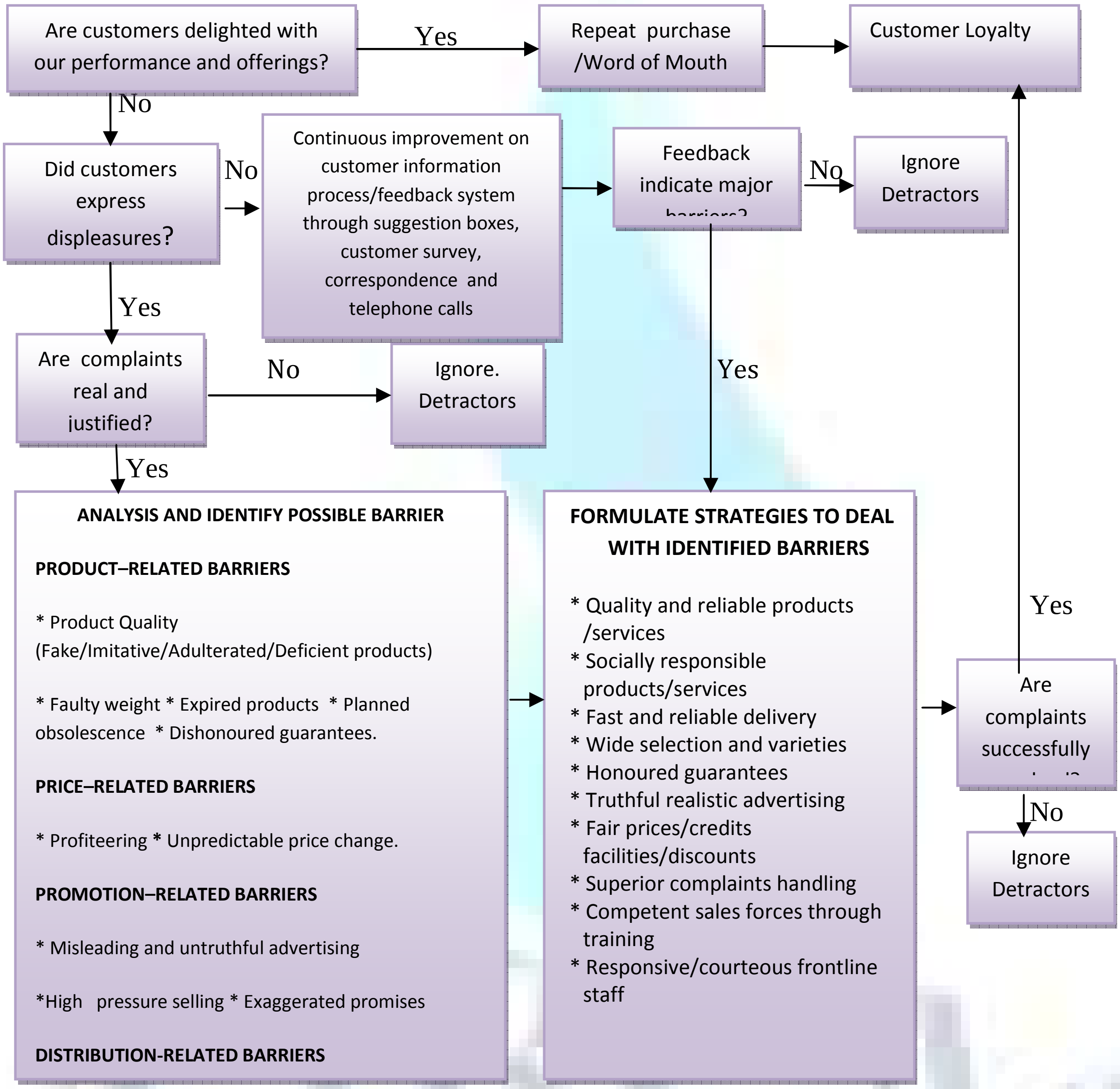
Adetayo (2008) in his paper quoted a reliable survey carried out recently on the industry as saying that almost 25 per cent of all customer callers complained having abandoned services of a company solely based on their experience with the company's customer care representatives. Further information from the survey indicated that 76 per cent of customers who had bad service experiences shared it with others. "In today's information-driven society, these unhappy customers can use mass messaging to broadcast their opinions to millions of potential customers in just a few seconds. On the other hand, 94 per cent of callers who had positive customer service interactions said they would retain their service business with the company.

Psychological-Related Barriers: The early marketers failed to take adequate cognizance of the psychological views and behaviours of customers as strong barriers to successful marketing. Some people naturally have negative attitudes and perceptions about various products and marketing techniques designed by companies. These attitudes and reactions are independent of the marketing situations, they preceded any contact and only come to fore when a prospect is confronted with the possibility of making a final purchase decisions (Adetayo, 2004).

In his study, Adetayo (2004) identified fear, anxiety, confusion, perception, culture, and attitudes of Nigerian customers as constituting obstacles to the growth of service marketing. He observed that these negative attitudes to services and service providers had become a 'cancer' that is being passed from generation to generation. Majority of the consumers in the developing countries are known to resent new products or services because of these psychological barriers such as confusion, not knowing the significant differences between the old and new services. Fear and beliefs are other common hindrances to successful marketing of new products. For example, the fear that wearing of contact lenses could lead to blindness and the perception that oral contraceptive pills could lead to a permanent sterility often reduce customer's level of trust. The following observation by Adetayo (2004) reflects the degree to which these negative feelings are buried in the minds of the consumers. Furthermore, many consumers also feel that the service provider will discharge his service unscrupulously and dubiously by changing good 'parts' and replacing them with defective ones from his 'Junk shop' to deceive and make money at customer's expense. According to Adetayo (2004), the fundamental factor in the aforementioned examples, is the fact that, prospective buyers are put off even before they actually evaluate the product or encounter the service provider. To guarantee customer satisfaction and minimize possible latent negative forces, communication with high credibility, reputation for impartial, unbiased and honesty with augmented services should be put in place.

Social Barriers: The choice to buy a product and the amount of satisfaction derived from that decision are often subject to the approval of the significant-others. A customer who relies mainly on outside influences of the important-others is most likely to be dissatisfied with a purchase decision when the product performance is short of the expectations of these important others. Social choice criteria concern the impact that the person's perceived relationship with other people and influence of social norms have on the person purchase decision (Jobber, 2007). For example, the purchase of BMW car may be due to status and social belonging considerations; dissatisfaction can result when the perceived social needs are not met. If a customer's purchase decision align or correspond to a reference group's (family members, a group of friends, work colleagues) expectations then the customer is most likely to be satisfied. Non-membership of a group in a collectivist culture would be seen as a deviant and anti-social behaviour. The work of Iriah (2011) indicated that only 20 percent of the Nigerian respondents used said they never consult others before making purchase decisions. In the same study, about 60 percent acknowledged that they belong to at least one social club or the other. This result of study exemplifies the degree to which non-approval of the significant others can influence customer satisfaction.

FIGURE 2: A MODEL FOR HANDLING BARRIERS TO CUSTOMER SATISFACTION



Source: Authors' Construction.

In today's competitive business climate, there is need to know why customers are satisfied or dissatisfied. The above model is an attempt to conceptualise factors leading to customer satisfaction or dissatisfaction with a view to enhancing customer satisfaction. For companies to continue to meet the needs of their customers, they must continue to evaluate their marketing activities to ensure customer satisfaction and profitability. To effectively monitor customers' feelings and attitudes toward their product/service, companies must start by asking the following question: Are customers delighted with our performance and offerings? If response is 'No', then a further analysis would be required to ascertain if there are overt expressions of displeasure. Again, if the answer is yes, are customers' complaints real or justified? The outcome of this stage will determine if the management will ignore detractors for their flimsy and artificial complaints. But if complaints are real, a systematic diagnosis to detect possible barriers or root causes of the problem will be made as a matter of urgency with a view to formulating strategies for managing the identified barriers. If complaints are successfully resolved, this will result in repeat purchase and customer loyalty. Otherwise, ignore and monitor the activities of the detractors.

Previous researches have shown that some dissatisfied customers do not complain instead seek alternative service provider. If customers are passive about poor service, management should embark on a continuous information and feedback system through suggestion boxes, customer survey, correspondence (email and SMS) and telephone calls to elicit vital information from customers. If the feedback process indicates major barriers, specify measures such as (quality and reliable products/ services, socially responsible products/services, fast and reliable delivery, wide selection and varieties, honoured guarantees, truthful realistic advertising, fair prices/credits facilities/discounts, superior complaints handling, competent sales forces through training, and responsive/courteous frontline staff) to appropriately manage the problem. Otherwise, ignore detractors. Detractors in this model, are defined as habitual brand switchers who are not worthy of relationship.

TECHNIQUES FOR ENHANCING CUSTOMER SATISFACTION

The following may be taken as measures to enhance customer satisfaction.

Enhancing Product/Service Quality: Total quality is the key to value creation and customer satisfaction. Research findings showed that, around the world, consumers expect better service quality and that, consumers are more likely to leave a provider because of poor service than for any other reason. Additionally, it has been proven that service quality outweighs price by 20 percent as a reason for brand switching. Service quality has been acclaimed as the most powerful factor—more influential than price—in choosing providers (www.accenture.com). Satisfying a customer is not one department's affairs but organization-wide approach to continuously improve the quality of all the organization's process, products and services. Berry and Parasuraman (1991) has identified ten 'Quality Values' which influence satisfaction behaviour. These ten domains of satisfaction include: Quality, Value, Timeliness, Efficiency, Ease of Access, Environment, Inter-departmental Teamwork, Frontline Service Behaviours, Commitment to the Customer and Innovation. These factors should be emphasized for continuous improvement and organizational change measurement.

To assuage the problem of innate fear of product/service quality, 'offer on trial basis or money-back guarantee' can be helpful but the most effective strategy is the interactive marketing which can help to play a vital role in rekindling the lost image in the minds of customers. In the advice of Idoko and Nkamnebe (2007), manufacturers should endeavour to identify sources of fake brand of their products through the sellers of the products and appropriate action taken. In addition, the incidence of fake products can also be reduced through the adoption of tamper proof devices.

Building Trust and confidence: Customer satisfaction and retention rely heavily on established trust. This is essentially so for service firms since the intangibility of services creates difficulty in pre-purchase evaluation. If an organisation is credible, then it can enhance customer's trust and subsequent satisfaction. Psychological factors such as fear, confusion, negative attitudes, wrong beliefs, stereotyping etc exhibited by consumers play vital roles in the success of any marketing intentions. Since people generally develop negative attitudes about different products and marketing techniques, it is then imperative for marketers to understand the ranges and depth of these negative attitudes before designing and implementing marketing campaigns (Leon, 1997). Adetayo (2004) again in his work, pointed out that honesty on the part of the servicemen can help correct the bad impressions or negative feelings already created in the mind of would-be customer. He further suggests that there should be an agreement before the commencement of any repair and that the defective parts be returned to the owners.

Care should be taken not to exaggerate promises in promotional materials since this may build up unachievable expectations. Successful companies who aim for Total Customer Satisfaction (TCS) are known to be raising expectations and delivering values to match (Kotler, 2000). Companies who wish to be known for trustworthiness should be in touch with their customers through a regular, two-way communication to develop feelings of closeness, openness, provide guarantees to symbolize the confidence, reduce customer's perceived risk of purchase and to operate a policy of fairness and high standards of conduct with their customers (Berry, 1995). On the issue of the significant-others, producers and marketers alike should continuously analyse product/service values or attributes that appeal to these groups to enable them tailor their promotional campaigns effectively.

Service Recovery: Studies of customer satisfaction show that customers are dissatisfied with their purchases about 25 percent of the time. Generally, only five percent of dissatisfied customers formally complain to a company about an unsatisfactory product, service or experience. The other 95 percent either feel that complaining is not worth the effort, or that they do not know how or to whom to complaint. Of the 5 percent who complain, only about 50 percent report a satisfactory problem resolution. On average a satisfied customer tells three people about a good product experience, but the average dissatisfied customer gripes to 11 people if each of them tells still other people, the number of people exposed to bad word of mouth may grow exponentially (Kotler, 2004).

Nonetheless, customers whose complaints are satisfactorily resolved often become more company-loyal than customers who were never dissatisfied. About 34 percent of customers who register major complaints will buy again from the company if their complaint is resolved, and this number rises to 52 percent for minor complaints. If the complaints is resolved quickly, between 52 percent (major complaints) and 95 percent (minor complaints) will buy again from the company (TARP, 1986).

Service recovery strategies should be designed to solve problems and restore the customers' trust in the firm and to improve the entire service system so that the problem does not recur in the future. This strategy is essentially important because inability to recover service failures and mistakes can lead to loss of customers both directly and through their tendency to tell other actual and potential customers about their negative experiences (Jobber, 2007). A tracking system is required to identify system failures, to monitor complaints, follow up on service experiences by telephone calling or use suggestion boxes for both service staff and customers.

Frontline staff should be trained and empowered to respond to service complaints. In addition, service staff should be motivated to report problems and solutions so that recurrent failures are identified and fixed. In this way, an effective service recovery system can lead to improved customer service, satisfaction and higher customer retention levels.

Internal Marketing: Internal marketing concerns training, communicating to and motivating employees especially the frontline staff. Service staff needs to be technically competent at their job as well as to be able to handle service encounters with customers. Service staff is sometimes referred to as 'part-time marketers' since their actions can directly affect customer satisfaction and retention. Research has consistently shown that the way employees are treated by management has a direct impact on the way the employees treat the company's customers (Rosenbuth and Peters, 1992). Training is crucial in assisting employees in understanding appropriate behaviours. The frontline staff needs to be trained to adopt warm and caring attitudes to customers. This has been shown to be linked to customers' perceptions of likeability and service perception as well as loyalty to the service provider (Remmink and Mattsson, 1998).

Timeliness: Waiting for service provision especially in the service industry is a common experience for customers and is a strong determinant of overall satisfaction with the service and customer loyalty. Research has shown that an attractive waiting environment can prevent customers becoming irritated or bored very quickly (Jobber, 2007). Providing a more effective service (shorter queues) is an opportunity to create a differential advantage which would help in enhancing customer satisfaction. For the manufacturing industry, on-time delivery and adherence to specifications are typically desired. Products need to be made available in adequate quantities, at convenient locations and at the right times when customers want them. Consistence in delivery time in some cases might be valued over speed. By examining ways of improving product availability and order cycle time, and raising information levels and flexibility, considerable goodwill, customer loyalty and satisfaction can be achieved. The problem of hoarding and artificial scarcity should be properly managed among the middlemen. Reduction in the used of exclusive distribution, intensive or selective distribution can be emphasized depending on the nature of the product to be distributed. Additionally, firms can set up private outlets where consumers can go to buy at controlled price.

Fair Pricing: Pricing is a major determinant of customer satisfaction. Hence marketers should be able to balance price-performance ratio. Dissatisfaction usually occur when a customer realize that the product quality or performance does not match or exceed price. Agbonifoh, Ogwo and Nnolin (2007) in their work, observed that profiteering is the major grievance which Nigerian consumers have against manufacturers and middlemen. Prices are unpredictable as every bottleneck in the production or distribution system becomes an excuse for hoarding and price-hikes. Marketers must employ new technology to provide better services at lower cost.

CONCLUSION AND RECOMMENDATIONS

We have attempted to discuss the barriers to customer satisfaction in this paper. These barriers are: product/service, price, promotion, distribution, salesmen, psychological and social related barriers. A model for handling barriers to customer satisfaction was developed to handle and manage common barriers. The techniques for enhancing customer satisfaction identified in the model are: Product/service quality, building trust, efficient service recovering, internal marketing, timeliness in service delivery and fair-pricing. This research suggests that customer satisfaction research should be a standard practice for all organizations that provide goods or services. Customers themselves should be involved in identifying performance standards in business organizations. Government monitoring agencies should ensure that established performance standards are maintained by firms. It is our candid belief that organizations that can build these recommended strategies into their marketing operations are most likely to have competitive edge over their competitors in the market place in terms of customer retention and satisfaction.

REFERENCES

1. Abdullahi, S. A. (2008) "An Emperical Assessment of the Role of Ethics in National Development" Nigerian Academy of Management Journal, 2 (2) June, pp 96-113.
2. Adebayo, G. (2008) "Customer Satisfaction: A key to Post Telecom Boom Success" A paper delivered at the recently concluded Stakeholders Forum in Lagos, organised by the Nigerian Communications Commission (NCC) in conjunction with IT & Telecom Digest Magazine (www.allAfrica.com).
3. Adetayo, J. O. (2004). The Effect of Psychological Barriers on the Delivery of Service Marketing in Nigeria, Kamla-Raj Anthropologist 6(1) pp 25 – 28.
4. Agbonifoh, B. A. (1982). Operationalizing the Societal Marketing Concept in Developing Economies: A Rationale and a Guide" AMAN – Journal of Society, Culture and Environment, 2(1) December pp 95 – 107.
5. Agbonifoh, B. A. (1986). Consumer Preference for Foreign Products. Journal of Management Education and Training, 2 (1) p 41.
6. Agbonifoh, B. A., Ogwo O. E. and Nnolim D. A. (2007). Marketing in Nigeria: Concepts, Principles and Decisions, Aba, Nigeria:Afritowers Limited Publishers
7. Aire, J. U. (1974). Consumer Attitudes to 'Made in Nigeria' Goods and the Implications for Marketing. Management in Nigeria in Agbonifoh, B. A. (1986). Consumer Preference for Foreign Products. Journal of Management Education and Training, 2 (1) p 41.
8. Anonymous (2007) Customer Satisfaction in the Changing Global Economy, Accenture, Global Customer Satisfaction Survey, www.accenture.com
9. Anonymous (2007) Customer Satisfaction: Improving Quality and Access to Services and Supports in Vulnerable Neighborhoods, by Center for the Study of Social Policy, http://www.cssp.org, February
10. Anonymous (2008) Customer Satisfaction, Wikimedia Foundation Inc., October, http://en.wikipedia.org
11. Baker J. M. and El-Haddad B. A. (1982). Analysis of the Current Status of Marketing in developing Countries – The Egyptian Situation. Unpublished Research Report, University of Strathclyde, Glasgow, Scotland.
12. Berry, L. L. (1995). Relationship Marketing in Payne A. M, Christopher M, Clark and Peck, H. (eds) Relationship Marketing for Competitive Advantage, Oxford Butter Worth Heinemann, pp65-74.
13. Berry L. L. and Parasuraman A. (1991). Marketing Services Competing Through Quality, New York: Free Press p 16.
14. Bloom, P.N. and Grayer (N.D). Business Review Nov –Dec pp 130-9.
15. Buzzell, R. O. and Gale B. T. (1987). The PIMS Principles Linking Strategy to Performance, New York, Free Press, pp 103-134.
16. Context-Based Research Group, "Research Methods and Deliverables: Methods," www.contextresearch.com
17. Demmink, J and Mattsson. J. (1998). Warmth During Non-Productive Retail Encounters: The Hidden Side of Productivity, International Journal of Research in Marketing, 15, pp 505 – 517.
18. Erickson, G.M. and Johnson J.K (1985) "The Role of Price in Multi. Attribute Role –Evaluation" Journal of Consumer Research, Sept. 195 -199.
19. Gordon, O. (1980) Marketing Today, Prentice Hall International.
20. Gummesson, E (1987) The New Marketing –Developing Long-term Interactive Relationship; Long Range Planning 20, pp10 – 20.
21. Hanan, M. and Karp P. (1989), Customer Satisfaction: How to Maximize, Measure, and Market Your Company's "Ultimate Product" (New York: American Management Association), xii.
22. Idoko, E. and Nkamnebe A. N. (2007) Attitude of Consumers to Consumerism and Consumer Protection in Nigeria: Implications for Public Policy, National Institute of Marketing of Nigeria, Vol 1, No 1, September, pp 62-82.
23. Iriah, V. M. (2011). The Influence of the Reference Groups on Consumer Behaviour, An Unpublished B.Sc Research Project, Benson Idahosa University, July, pp 38-40.
24. Isibor, O. (2007). Dangote is a Lair: NAFDAC. National Mirror, 4 (54), Thursday, May 5th June.
25. Jobber, D. (2007). Principles & Practice of Marketing. 5th Edition UK: The Mc-Graw-Hill Companies Inc.
26. Kotler, P. (2000). Marketing Management 10th ed. N. 3, New Jersey USA: Prentice-Hall Inc. pp 34-51
27. Leon, Fastener (1997). Alleny of Cognitive Dissonance. New York: Hopper T. Row, p.250.
28. Majaro, S. (1986). International Marketing: A Strategic Approach to World Markets. London: George Allen and Unwin Ltd, pp 159-65
29. Mitchell, I. S. and Agenmonmen I. A.(1984). Marketing Attitudes toward the Marketing Concept in Nigerian Business and non-Business Operations. The Columbia Journal of World Business, 19 (3), Fall.
30. Monye, F. N. (2003) Law of Consumer of Protection. Ibadan: Spectrum Books, p 12.
31. Morrow, G. J. (1986). Technical Assistance Research Program (TARP), US Office of Consumer Affairs Study on Complaint Handling in America.
32. National Business Research Institute (NBRI), Customer Satisfaction, http://www.nbrii.com
33. Odia, E. O. (2009). Trade Malpractices in Nigeria, Nigeria Journal of Business Adminstration, 10 (1 & 2) pp 89 - 108.
34. Ogwo, E. O. (1986). The Status of Marketing in Nigerian Small Businesses. A paper presented at the Annual General Meeting of the Nigeria Marketing Association held at Owerri, March 14 – 16.
35. Oxford Advanced Learner's Dictionary (2000). the 6th edition, edited by Sally Wehmeier, Oxford University Press
36. Parasuraman. A., Zeithanl V.A. and Berry L.L. (1985). A Conceptual Model of Service Quality and its Implications for Future Research, Journal of Marketing, Fall 41-50.
37. Rosenbluth, I. E. and Pters M. D. (1992). The Customer Comes Second! New York: William
38. Rust, R. T., Subramamai B. and Wells M. (1992). Making Complaints a Management Tool. Marketing Management 1(3) pp 41-45.
39. Smith, N. C. (1995). Marketing Strategies for the Ethics Era. Sloan Management Review Summer pp 85-97
40. Tax, S. S, Brown S. W. and Chandrashekaran M. (1998). Customer Evaluation of Service Complaint Experiences: Implications for Relationship Marketing. Journal of Marketing April pp. 60 -76.
41. TD Marketing Research, Inc., "The Voice of the Customer" Improving Customer Service and Satisfaction Newsletter, no. 8, http://www.tdmktg.com/newsletter.html
42. The Tide Online (2008). Stakeholders want Government's Intervention in Kerosene Scarcity, Wednesday, August 27, Rivers State Newspaper Corporation, 4 Ikwerre Rd, P. Harcourt.
43. Truax, T. C. and Rorex, P. (2001). Surprises, Humility and Rising Rankings. The SatisfactionMonitor (March/April), http://www.pressganey.com
44. West, K. Ph.D (N.D). Organizational Psychologist, National Business Research Institute, Inc., (www.nbrii.com)
45. Wreden, N. (2004). What's Better Than Customer Satisfaction? Viewpoint (May 24), Destination CRM.com (Customer Relationship Management), www.destinationcrm.com
46. Zemke, R. and Schaaf D. (1989) The Service Edge: 101Companies that Profit from Customer Care (New York: New American Library), 31.

A STUDY ON CONSUMER ATTITUDE TOWARDS DEPARTMENTAL STORES IN COIMBATORE CITY, TAMILNADU

DR. J. GOPU
ASST. PROFESSOR
COLLEGE OF APPLIED SCIENCE
SALALAH

T. GIRIJA
RESEARCH SCHOLAR & ASST. PROFESSOR
VELS UNIVERSITY
CHENNAI

ABSTRACT

The purpose of this paper is to find out consumer attitude towards Departmental stores a form of organized retail outlet in Coimbatore city. A total of 200 consumers of departmental stores were personally surveyed with a structured questionnaire. These consumers are spread out throughout Coimbatore city. Statistical analysis such as descriptive analysis, Chi square and average percentage score were carried out. The preferences of the consumers clearly indicate their importance of advertisement in influencing their purchase, the additional facilities expected, improvement expected in handling defective goods and many. This paper analyses the attitude of the consumer towards departmental stores. The study was restricted only to Coimbatore city. So the results cannot be generalized. The results may help the management of departmental stores to understand about the factors that influence the attitude of consumers towards departmental stores, so that they can implement the requirement of the consumers and be successful in the emerging retailing environment. The topic is relatively less researched in emerging markets especially where organized retail is still in its early stages.

KEYWORDS
Consumer attitude, factors influencing retailing, formats of Retailing.

INTRODUCTION
Retailing as an occupation came into existence when farmers started producing more food than they required. Trading was an important part of daily life in ancient world. The new retail formats that are now seen in India have their genesis in Europe. Departmental stores started gaining prominence after 1850. As a next phase, the time between 1950- 1970 witnessed the emergence of major players and formats. In the next decade (1970- 1980) the retail Industry witness the emergence of category killers and wholesale club. The 1990's can be termed as times of the Internet. This period also witnessed major internationalization efforts by large retailers. The current decade is witnessing a lot of turbulence in the American retail Industry. The focus has shifted to the emerging economies and retailers are searching for a different business model to succeed in these markets ruled by small retailers.
Retailing is one of the fastest growing fields today in India with 40% contribution to GDP. After the IT, India is growing in the field of Retail. According to India Retail Report 2007, organized retail in India has the potential to generate some 2.5 million direct jobs through retail operation. Consumerism is increasing in India moving it to fourth largest economy in respect to the purchasing power with USA, Japan and China leading in order. As per KSA tecnopak's Consumer Outlook 2004 report estimates that the average Indian spend 40% of his monthly salary on food and grocery one of the highest in the world. Food retails sales accounts for close to 63% of total retail sales.

FACTORS FUELING THE GROWTH OF RETAILING IN INDIA ARE
1. Rapid economic growth and urbanization
2. Rising per capita income
3. Younger age group demographics
4. Intensifying demand both in volume as well as variety in urban centers
5. Consumerism on the rise, proliferation of electronic and other means of communication
6. Liberalized trade regimes allowing- free inflow of agro products amongst other consumer goods, besides easier norms for FDI ingress into domestic markets
7. Long history of exploitative practices on part of intermediaries in the agro food supply chain
8. Producers becoming increasingly aware of their importance in the supply chain and getting organized

FORMATS OF RETAILING
1. On the basis of location
The various formats are Chain store format, High-street format, Destination format and Convenience store format.
2. On the basis of ownership
The formats are franchise format, Independent store format, Family store, specialty store, Department store, Supermarket and Emporium.
3. On the basis of size
Superstore, Shopping mall, Shopping centre and Hypermarket
4. On the basis of Price
Discount format, every – day – low price format, Category killer format, Factory outlet format, Warehouse format and Single-price denomination format
5. On the basis of concession
Stop over store format and Kiosk

CONSUMER ATTITUDE
Consumers are individuals with likes and dislikes. When the preponderance of people in a particular group feel one way or another about a product, service, entity, person, place or thing, it is said to be a generalized consumer attitude that could affect the marketing of that person, product or entity in positive or negative ways. Marketers strive to influence consumer attitudes, and understanding the prevailing attitude is the first step to changing it if needed. Attitudes are "mental states used by individuals to structure the way they perceive their environment and guide the way they respond to it" (Aaker, Kumar and Day, 1995; p. 254).

In the present study we are concerned with consumer attitude towards departmental store in Coimbatore city. As attitude is one of the bases for consumer satisfaction the present study is conducted.

REVIEW OF LITERATURE

Noor Firdoos Jahan[1] et al., discusses responsible trends namely changing consumer groups, changing retail formats, technology and developments, FDI trends, private brands trends and e- tailing trends favorable to the emergence of food and grocery retailing. They have identified large geographic area, real estate infrastructure constraint, supply chain, manpower availability, technology, foreign direct investment, traditional formats as important challenges to be accepted by operators in this sector. They have suggested that the initiative needed to improve food and grocery retailing in India are encouraging FDI, wide range of customer service, new technology adoption and developing skilled staff.

Dabholkar et al[2] developed Retail Service Quality Model (RSQS). Based on SERVPERF, RSQS included 28-item scale, of which 17 items are from SERPERF and 11 items are developed by qualitative research. It composes of 5 dimensions, namely(1) Physical Aspects- Retail store appearance and store layout; (2) Reliability- Retailers keep their promises and do the right things; (3) Personal interaction- Retail store personnel are courteous, helpful and inspire confidence in customers;(4)Problem Solving- Retail store personnel are capable to handle returns and exchanges, customers' problems and complaints and (5) Policy- Retail store's policy on merchandise quality, parking, operation hours and credit cards.

Manju Rani Malik[3] aimed to explore the components of retail customer satisfaction and also investigate the relationship between each of the retail customer satisfaction components and customers satisfaction level. Product characteristics, Price factor, Physical Aspects, Promotional Schemes and Personal interaction of retail customer satisfaction were studied. The study have identified that location, variety of products and reasonable price are the major motivating factors that influence the customers to visit the retail outlets and emphasis on facilities such as parking, physical aspects, availability of variety of branded and non branded products at reasonable price by the retailer will increase the revenue.

There were numerous studies in the area of consumer satisfaction, Consumer expectations on services, comparative study on consumer satisfaction towards organized retailing and many. So this study analysis the consumer attitude that is the basis for consumer satisfaction, towards one of the existing and growing format among the organized retailing that is departmental stores in Coimbatore city.

Binta Abubakar Val Clullow[4] investigates the customer rating of importance of several attributes associated with supermarket shopping. The results suggested that since retail format had become very standardized, corporate reputation was rated high and might be a source of sustainable competitive advantage. Accessibility was considered important, as was quality of service, especially the friendliness and efficiency of checkout personnel.

Subhashini Kaul[5] concluded that consumers satisfied with the store's service quality are most likely to remain loyal. Service quality is being increasingly perceived as a tool to increase value for the consumer; as a means of positioning in a competitive environment to ensure consumer satisfaction, retention and patronage. Despite its strategic importance, Indian retailers did not have an appropriate instrument to measure service quality. This study strategic importance, Indian retailers did not have an appropriate instrument to measure service quality. This study examined the Retail Service Quality Scale (RSQS) developed in the U.S. for applicability to Indian retail. This scale had been found appropriate in a variety of settings across different countries such as South Africa and Singapore and across a variety of store types such as supermarkets, department stores and hyper stores.

NEED FOR THE STUDY

Organized retailing is having its growth phase and FDI might be relaxed in future days. In such a scenario to obtaining maximum market share in this huge competition is possible only by providing product and service according to consumer's expectations. Consumer expectations are based on the attitude he has towards the product or service. Departmental stores are the format of food and groceries organized retail outlet that are existing in Coimbatore from the past till present. So at this point of time to grow further it becomes important to study the consumer attitude towards departmental stores in Coimbatore city.

OBJECTIVES OF THE STUDY

1. To study the awareness of consumers about departmental stores.
2. To study Consumer attitude in terms of ideas, opinion and preference towards departmental stores.
3. To study the Consumer satisfaction towards making purchase at departmental stores.
4. To offer suggestions to the management based on the results of the study.

RESEARCH METHODOLOGY

The study is descriptive in nature. Total population is consumers of departmental stores in Coimbatore city. Sample size is 200 consumers. Individual respondents, the consumers of kannan departmental stores, selvasing departmental store, Malligai Departmental stores and Kamala stores were the sampling element. These are the four top departmental stores of similar size in Coimbatore city. Simple random sampling technique was used. Since the study includes the primary data, a self designed questionnaire was used for collecting the responses of consumers. In order to find out validity and reliability of the questionnaire, a pilot study was undertaken before proceeding with the actual survey. Appropriate modifications in content and format of the questionnaire were then incorporated and the questionnaire was finalized. The questionnaire contained questions on the related aspects regarding their demographic and socio- economic background, influencing factors and other related aspects. The questionnaire used is of closed ended type.

TOOLS USED FOR DATA ANALYSIS

a. **Descriptive analysis** is made for all 43 questions to find out the majority of the favorable response.

b. **Chi Square** :10 personal factors age, gender, education level, occupational status marital status, monthly income size of the family, frequency of purchase, experience and proximity influence on source of awareness, reason for selection of departmental stores, requirement in changes in the system and attractiveness of sales promotion were studied.

HYPOTHESIS

1. Hypothesis 1: Personal factors have no significant influence on source of awareness of departmental store
2. Hypothesis 2: Personal factors have no significant influence on reason for selection of departmental store
3. Hypothesis 3: Personal factors have no significant influence on requirement of changes in the system.
4. Hypothesis 4: Personal factors have no significant influence on attractiveness of sales promotion used in departmental stores.

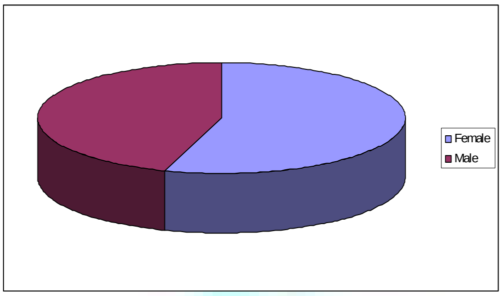
c. Average percentage score analysis was applied to determine the level of opinion or satisfaction or agreeability of different categories of respondents on 15 factors advertisement, extent to influence, level of satisfaction regarding responsiveness of sales calls. Opinion about meeting the expectation, opinion about Consumer care, opinion about responding enquiries, arrangement of products, delivery of products, level of satisfaction about availability of variety, feeling about the shopping environment, satisfaction with sales promotion, level of satisfaction on overall performance, opinion about door delivery, opinion about price and level of satisfaction of service about departmental stores.

FINDINGS OF THE STUDY

FINDINGS FROM DESCRIPTIVE ANALYSIS

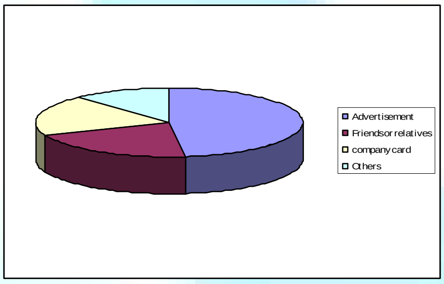
- 55% of the respondent are female and 45% of them are male

FIG. 1: EXHIBIT SHOWING THE GENDER OF RESPONDENT



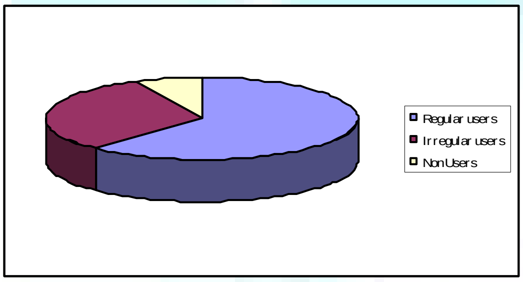
- 45% of the respondents have professional qualification, 31% college level, 22% school level and 2% of them have no formal education
- 44% of the respondent belong to Salaried, 21% are independent professionals, 20% Agriculturist and 15% business people.
- 73% of respondent are married and 27% are unmarried.
- 30% of respondents have income in the range of Rs25,001 to Rs 30,000, 28% are in the income group Rs 15,001 to Rs 25,000, 27% of respondents are of income less than Rs 15000, 13 % are of the income group Rs. 30,001 to Rs 35, 000 and 2% are of the income group above Rs 35,001.
- 48% of the respondents came to know about the departmental stores through advertisements, 21% are aware through friends and relatives, 19% are aware through other source like company cards, 12 % are aware through others

FIG. 2: EXHIBIT SHOWING SOURCE OF AWARENESS OF RESPONDENTS ABOUT THE DEPARTMENTAL STORES



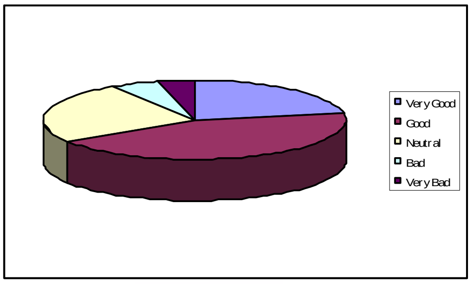
- 47% of respondents family size is 4, 27% of respondents family size is 3, 20% of them are of family size above 4 and 6% up to 2 members.
- 62% of respondents are regular users of e-mails ,31% are irregular users of emails and 7% are non users of emails.

FIG. 3: EXHIBIT SHOWING RESPONDENTS USAGE RATE TO EMAIL FACILITIES



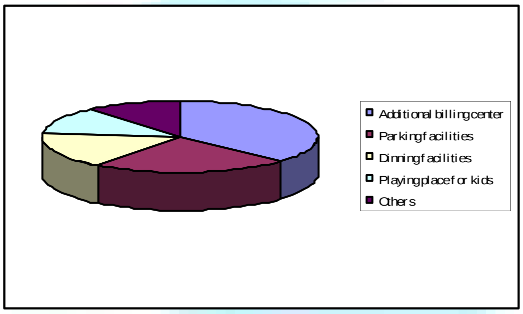
- 64% of them purchase goods on monthly basis, 18% on weekly basis, 12% on fortnightly basis, 5% belong to other category like festival time and 1% purchase on daily basis.
- Out of various selection criteria namely shopping convenience, availability advantage, varieties and gift coupon, majority of respondent's i.e 45% of respondents elected departmental stores on the basis of varieties of product available.
- 89% of respondents feel that advertisements of departmental stores influence the Consumer, while 11% of them feel that the advertisement does not influence the Consumers.
- Majority of respondents are fairly satisfied regarding the responsiveness of departmental stores to their sales calls.
- 80% of the respondents feel that the departmental store meets their expectations, 7% of them feel that the departmental stores do better than their expectation, 7% of them feel that the departmental store are not up to the expectation and 6% of them feel that departmental stores are less than their expectation
- Majority of the respondents feel that the Consumer care of departmental stores is good among the four point scale of very good, good, normal and bad.
- Majority of respondents feel that the sales man response is good among the four point scale of very good, good, normal and bad.
- Majority of the respondents feel that the advertisement of departmental store is good.

FIG. 4: EXHIBIT SHOWING RESPONDENTS' OPINION ABOUT ADVERTISEMENTS OF DEPARTMENTAL STORES



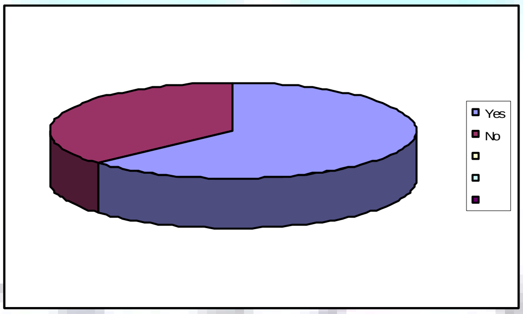
- Majority of respondents feel that the arrangements of goods in departmental store are convenient among the four point scale of very convenient, convenient, inconvenient and not at all convenient.
- 48% of the respondents feel that the delivery of products in departmental store is prompt, 43% feel that the delivery is normal, 6% of them feel that the delivery is very prompt and 3% of respondent feel that the delivery aspect is poor.
- Majority of respondents feel that there is a need for change in existing system
- Majority of respondents expect extra billing facilities during peak days and hours out of the other factors like parking facilities, playing place for kids and dinning facilities.

FIG. 5: EXHIBIT SHOWING CHANGES REQUIRED BY RESPONDENTS



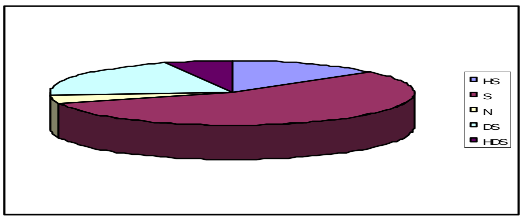
- Majority of respondents feel that the shopping environment in departmental stores is convenient.
- Majority of respondents are satisfied with the packaging of products.
- 52% of respondents are satisfied with sales promotion schemes of departmental stores, 31% are dis-satisfied,, 9% of the respondents are highly satisfied and 8% of them are highly dis-satisfied.
- Majority of respondents are attracted towards price offers given by departmental stores
- 63% of respondents have the experience of purchasing defective goods from departmental stores.

FIG. 6: EXHIBIT SHOWING RESPONDENTS' EXPERIENCE OF BUYING DEFECTIVE GOODS FROM DEPARTMENTAL STORES



- Majority of respondents are dissatisfied with the procedure of handling defective goods.
- Majority of respondents have used suggestion box for providing their suggestions.
- Majority of respondents are satisfied towards overall performance of departmental stores among the four point scale of Highly satisfied, Satisfied, Dissatisfied and highly Dissatisfied
- Majority of respondents feel that the door delivery system is Satisfactory.
- 36% of respondents are staying at a distance of more than 10Kms from departmental stores, 35% of them are staying at distance of 5 to 10Kms and 29% of them are staying at a distance less than 5Kms.
- Majority of respondents feels the price to be very high out of the four options very high, high, low and very low.
- 56% of the respondents are satisfied, 20% of respondents are dissatisfied, 14% are highly satisfied and 6% are highly dissatisfied and 4% are Neutral with overall performance of departmental stores.

FIG. 7: EXHIBIT SHOWING RESPONDENTS' LEVEL OF SATISFACTION REGARDING THE OVER ALL PERFORMANCE OF DEPARTMENTAL STORES



FINDINGS FROM CHI- SQUARE ANALYSIS

- Out of 10 personal factors considered for study age, gender, education level, monthly income, size of the family, frequency of purchase, experience and proximity alone has significant influence on the source of awareness of departmental store
- Out of 10 personal factors considered for study gender, education level, occupational status, monthly income, frequency of purchase and experience have significant influence on reason for selection of departmental store
- Out of 10 personal factors considered for study age, gender, occupational status, marital status, monthly income, size of the family, frequency of purchase, experience and proximity alone have significant influence on requirement of changes in the system.
- Out of 10 personal factors considered for study age, gender, education level, occupational status, marital status, size of the family experience and proximity alone has significant influence on attractiveness of sales promotion used in departmental stores.

FINDINGS FROM AVERAGE PERCENTAGE SCORE

- Both the young and old age group people have given importance to price first and middle aged respondents have given importance to door delivery system among the fifteen study factors
- Both the male and female respondents have given importance to opinion about price first among the 15 study factors
- Both the just literate and professional educated respondents have given importance to opinion about price firs, college level educated people have given importance to opinion about advertisement first among the fifteen study factors
- Both business and professional have given first importance to feeling about shopping environment, agriculturists have given first importance to opinion about door delivery and employed people have given importance first to opinion about respondents enquiry among the fifteen study factors.

CONCLUSION AND RECOMMENDATIONS

Organized retailing is India is surely on the edge for a take off and will provide many opportunities both for existing players as well as new entrants. Major spending on food and increasing usage of out of home food consumption represent a significant opportunity for food retailers and food service companies. To be successful, retail managements must be well informed about the extent to which shop's activities contribute towards the overall as well as different dimensions of service quality and attributes. This requires continual measurement and identification of areas that acts as cues for consumer expectation and satisfaction. For departmental stores a format of organized retailing to succeed there are certain suggestions provided out of the study.

- **ADVERTISEMENT:** The management of departmental stores should select appropriate media for advertisement. If planned e-mail, SMS, social networking sites, Blue tooth technology can be utilized for advertisement. According to the study advertisement influence consumer to great extent so effective advertisement should be designed, developed and implemented in such a way that it is more attractive and also informative.
- **ADDITIONAL FACILITIES:** During peak hours and season time many consumers make their purchase kirana shops due to the inconvenience caused in waiting in cue for billing. So, Additional billing counters need to be provided at week end, season time and peak time. Separate billing counters can be provide for consumers purchasing less than 5 products during the peak time so that it will reduce the length of the cue in the billing centre and also save consumers time.
- **HANDLING COMPLAINTS REGARDING DEFECTIVE GOODS:** Consumer need to be provided with zero defective goods. In exceptional cases the product need to be replaced or cost of the product should be returned as per the request of the consumer. There should be clear procedure for handling defective goods and it must be transparent to the consumers. This will give a positive enforcement on consumer by reducing the risk of defective goods.
- **DATA BANK OF CONSUMERS:** Internet has become a part of many consumers so data bank of consumer can be maintained by collecting the email address. Consumer mobile numbers also can be obtained and group SMS service can be utilized to inform them about the offers. This data bank can be used for getting feedbacks and for inducing CRM activities. If e-mail applications are well planned it will be an effective tool of promotion.

Due to certain limitation the study was conducted to Coimbatore city with sample size of 200 consumers. The study can be conducted for different parts of the state or country with larger sample size will give a larger perspective.

REFERENCES

1. Beri, G.C., Marketing Research, 3rd Edition, Tata McGraw Hill Publication.
2. Binta Abubakar, Val Clulow. "Customer satisfaction with Supermarket Retail Shopping". Journal of Marketing Research (2002) (www.smib.vuw.ac.nz. Accessed on 11April2009)
3. Dabholkar.P., Thorpe,D.and Rentz,J. "A measure of Service Quality for Retail Stores: Scale development and Validation" journal of the academy of marketing Science , 24(Winter), 3-16, (1996).
4. http://www.dnb.co.in/IndianRetail Industry/overview.asp
5. IndiaRetailBiz.com
6. Kothari (2001); Research Methodology, Vikas Publishing House Pvt. Ltd, New Delhi.
7. Kotler, Philip (1999); Marketing Management, Prentice Hall of India Pvt. Ltd, New Delhi.
8. Manju Rani Malik, "Determinants of retail customer satisfaction- A study of Organized retail outlet in Kurukshetra ", Indian Journal of Marketing ,April 2011 PP 56.-63
9. Noor Firdoos Jahan and Dr.Lalitha Ramakrishnan, "Food & Grocery Retailing in India: Trends & Challenges", BVIMR Management Edge, Vol.3, No.1(2010) PP 69.-77
10. Subhashini Kaul. " Measuring retail service quality: Examining applicability of international research perspective in India , IIMA W.P. No. 2005-10-02, (2005), http://www.iimahd.ernet.in/publications/data/2005-10-02skaul.pdf(Accessed on 15Dec 2011)

FACTORS DETERMINING CONSUMER PREFERENCES FOR BRAND EXTENSIONS

DR. NANJUNDARAJ PREM ANAND
ASST. PROFESSOR
DEPARTMENT OF MARKETING
COLLEGE OF BUSINESS ADMINISTRATION
KING SAUD UNIVERSITY
RIYADH, KINGDOM OF SAUDI ARABIA

ABSTRACT

This study has identified the factors that determine consumer preferences for brand extensions in the Indian market. Hypotheses are developed and tested through a survey. Though a set of ten factors were studied we find that only a set of four factors have significant influence on consumers' preferences. However it was found that users of brand extensions and non users of brand extensions were influenced by different set of factors while evaluating brand extensions.The study shows (from the MANOVA) that, there is significant difference between users and non users of brand extensions on the following four factors namely, (i) cognitive mechanism, (ii) quality of the parent brand, (iii) price of the extended brand and (iv) parent brand associations. For the remaining six factors there is no significant difference between them. The findings have interesting marketing implications for marketers who are proposing to launch brand extensions in the Indian market.

KEYWORDS

Brand, Brand extensions, Consumer evaluation. Consumer preferences.

INTRODUCTION

In the fast changing business environment that we are in today, the traditional approaches of wealth creation are fast changing. The parity in products, resources and processes has created a situation where a good product alone, though necessary, is not sufficient to gain entry into markets. Brands have become the bridges between the factories, where products are made, and the consumer, who seeks value, thus making brands the real wealth generators. The value of business is now determined by the brands it holds rather than the conventional assets it possesses. Brands have become the most valued assets of a company and also determine the market value of a business.

The enormous cost of establishing new brands, both in national and international markets and the relatively low success rate of new brands make the proposition of brand extensions very attractive

As pressure from competitors increase, brand marketers need to find ways of achieving growth at lower costs. One method of doing it is by launching new products at the same time reducing risks of new product failure. "Brand Extension" (using an established brand name on a new product) is assumed to be a "safe" method, where the established brand name could attract consumers without much marketing effort.

While some authors say it is good to leverage brand names through extensions, others condemn it vehemently by saying that a brand name should associate with only one product. While the argument keeps going what is perhaps important is to find out the reasons as to why some extensions succeed and others fail.

The success of brand extensions is dependent, to a great extent on how customers evaluate the extension. In order to improve the success rate of brand extensions it is important to measure the significance and relative importance of factors affecting consumer evaluations of brand extensions. Several studies have analysed empirically the impact of certain factors (such as perceived fit between the parent and extension categories or quality of the parent brand etc,) on customer evaluations of brand extensions

The objectives of this study are to (i) Identify whether there are any significant differences between users and non-users of brand extensions on the selected dimensions of consumer preference, (ii) Establish a relationship between the selected dimensions and consumer preferences for brand extensions; (iii) Find out which group of factors forms the "core" in influencing consumer preferences for brand extensions.

This study has analysed the factors that influence consumer evaluations of brand extensions in the Indian setting. There were ten factors being analysed for their effect on consumer evaluations, whereas the earlier studies had considered only one or few of these factors. This research made a comprehensive study of ten factors of which some have already been researched in various studies independently.

BACKGROUND

In this section we take a look at the factors chosen for the study.

(I) COGNITIVE MECHANISM

Cognition refers to the mental processes (thinking) and knowledge structures involved in peoples' responses to the environment, (Peter and Olson, 1996). Consumers learn about products and brands from a variety of sources. They evaluate some of the products within their levels of cognition in terms of meeting their needs.

The most important aspect of consumer behaviour for marketers is to understand how consumers use information to make buying decisions.

From a consumer perspective, brand equity involves a strong positive brand attitude (favourable evaluation of the brand) based on favourable meanings and beliefs that are accessible in memory (Farquhar, 1989). Marketers can borrow brand equity by extending a positive brand name to other products. Some research shows that the success of brand extensions depends on the key meanings consumers associate with a brand name and whether those meanings are consistent or appropriate for the other product, (Park, Milberg, and Lawson, 1991). Since cognitive mechanism seemed to have a strong effect on consumers' preference towards brand extensions, it is taken as a variable for this study.

(II) QUALITY OF THE PARENT BRAND

High quality brands are often seen as more credible, expert and trustworthy at what they do. When a brand is seen as more average in quality, consumers may be more likely to question the ability or motives of the company involved (Keller and Aaker 1992). They iterate that high quality brands lead to more favourable attitudes towards the brand extensions. Thus, one important benefit of building a strong brand is that it can be extended more easily into more diverse categories (Rangaswamy, Burke, and Oliva, 1993).

(III) PRICE OF THE EXTENSION

It has been found that consumers' price expectations on the extended brand are affected by the parent brand price and also the evaluations are moderated by the distribution of prices in the extension category. (Jun, MacInnis, and Park, 2005). Moreover consumers develop reference price or expected price for a product and then use this price to evaluate the same product at a later point of time or another product at the same point of time, (Breisch, Krishnamurthi, Mazumdar and Raj, 1997).

Past studies have identified the cost and revenue benefits of brand extensions primarily from the perspective of building and communicating a strong brand positioning (Park, Jaworski and MacInnis, 1986, Aaker, 1991). Interestingly, however, few studies have focused on the significance of pricing as it relates to brand extension strategies. Pricing issues should have substantial impact on a brand extensions actual market place performance given the critical role of price in consumers' estimations of a brand extensions value (e.g. Thaler, 1985).

Taylor and Bearden (2002) found that the price of the brand extension had a larger positive impact on the perceived quality of dissimilar extensions than similar extensions.

The impact of price on inferences about brand extensions may be more complex than the inferences for other attributes of the parent brand, especially when the attributes of the parent brand directly affect consumers influences about brand extensions (Jun, MacInnis, and Park, 2005).

A well known finding in pricing literature is that consumers judge the price of the product as favourable or unfavourable in comparison with the reference price (Thaler, 1985, Kahneman and Tversky, 1979).

(IV) NUMBER OF PRODUCTS ASSOCIATED WITH THE PARENT BRAND

Many brands now encompass a portfolio of products. Several authors have opined that extending to loosely related areas may weaken a brand by diminishing the favourable attribute beliefs consumers have learned to associate with the family brand name (Loken and Roedder John, 1993, Tauber 1981).

It could also be said that the number of products that a brand can embrace is also influenced by the type of brand i.e. whether it is a functional brand or a prestige brand.

How many different product categories can carry the same name? Some argue that a brand will lose its identity and strength as the number of products associated with it increases, (e.g. Aaker1991, Farquhar et al 1992, Tauber, 1981).

Given the number of successful extensions of brands into multiple categories the effect of the sheer number of different categories and number or products is not clear. Dacin and Smith, (1994), say that the number of products affiliated with a brand does not automatically harm the brand and may even strengthen it.

The reason for this contradiction may be due to the fact that earlier researches have tended to focus on responses to initial extensions of single product brands. The effects of fit may be less for multi-product brands. The effects of fit may likely to diminish once a brand has been successfully extended into multiple product categories.

(V) FAMILIARITY OF THE BRAND

The factors affecting new product acceptance and for predicting initial trial of a new product is the extent to which a known brand was involved (Claycamp and Liddy, 1969).

Although corporate brands may lack specific product associations, their reputation for introducing quality products may be an important factor to reduce the risk perceived by consumers (Keller and Aaker, 1992). It is easier to add a link from a brand already existing in the memory of consumers (Aaker and Carman, 1982). Advertising expenses were less for successful brand extensions than for comparable new brands (Sullivan, 1992). Since familiarity of a brand seemed to have a strong effect on preference towards brand extensions it is considered as one of the dimensions for this study.

(VI) FIT BETWEEN PARENT BRAND AND EXTENDED BRAND

One of the key factors underlying brand extension success is the fit between parent brand and extensions. Aaker and Keller (1990) suggest that complement and substitute measures of fit interact with perceived quality of the original brand to predict brand extensions evaluation.

Aaker and Keller (1990) collected consumers' reaction and found that a perception of fit between the original and extension product categories and a perception of high quality for the parent brand led to more favourable extension evaluations. A number of subsequent studies, which explored the generalizability of these findings to markets outside the U.S., have shown that this model could be clearly generalized although cross cultural differences influenced the relative importance of the components of the model. (Bottlmley, and Holden, 2001).

In general, brand extensions could be favourably evaluated by consumers if they see some bases of fit or similarity between the proposed extension and parent brand (Boush, et al, 1987). A lack of fit may doom a potentially successful brand extension (Meyers, Louie and Curren, 1994). The more common and fewer distinctive associations that exist, the greater will be the perception of similarity (McInnis and Nakamoto, 1990).

Park, Milberg and Lawson, (1991), demonstrated that fit does not have to be on product related associations alone and can arise from a combination of attributes, benefits and marketing efforts. A perceived lack of fit between parent brand product category and the proposed extension category could be overcome if the parent brand associations were salient and relevant (Broniarczyk and Alba, 1994). Perceptions of fit may be based on technical or manufacturing commonalities or more surface considerations like substitutability and complementarity in product use (Aaker and Keller, 1990).

(VII) ADVERTISING IMPACT

The impact of advertising is difficult to assess when it is for brand extensions. It is generally believed that brand extensions improve advertising efficiency (Aaker, 1990, 1991; Tauber, 1988), This is endorsed by Smith, (1992), who finds that in general, advertising efficiency is greater for brand extensions than for new brands.

It has been argued that systematic extensions of a brand can strengthen its meaning in the minds of consumers (Park, Jaworski and McInnis, 1986), while Smith, (1992), finds that advertising efficiency is not affected by the number of extensions associated with the parent brand.

Lane, (2000), found that repetition of an advertisement that evoked primarily benefit brand associations could overcome negative perceptions of a highly incongruent brand extension.

(VIII) PARENT BRAND ASSOCIATIONS

Consumers form associations with brands, and an understanding of these associations is imperative for managers, when extending brands into other products. For emerging brands consumers may not have formed many associations, but for mature brands they may have formed a multitude of associations.

Past research suggests that there is a definite relationship between parent brand image and extension image. Further, experiences with the parent brand may have induced positive or negative associations and these may be transferred while evaluating extensions (Fiske, Pavelchak, 1986 and Sujan, 1985). Over a period of time consumers form a number of associations with the brand. Broniarczyk and Alba, (1994), find that brand specific associations dominate brand affect while consumers' knowledge about product category is high. It has been argued that consumers see brands as categories that over time have become to be associated with a number of specific attributes based on the attributes associated with the different products under the brand (Roedder John and Loken, 1993). Any association held in memory by consumers about the parent brand may serve as the potential basis of fit between the parent brand and the brand extension, specifically the fewer the associations that exist, the greater the perception of overall similarity (Meyers-Levy, Louie, and Curren, 1994).

(IX) PRODUCT FEATURE SIMILARITY

Product features are attributes that belong to a product. These can vary from concrete ones to abstract ones.

Referent product-extension product similarity is the degree to which consumers perceive the extensions as similar to other products affiliated with the brand (Smith and Park, 1992).

One of the most frequently considered antecedent of brand extensions is the level of perceived similarity between the original and extended brand. It has been found that feature similarity does affect the consumers' evaluation process (Park, Milberg and Lawson, 1991). It is believed that consumers make judgements of 'fit' between parent and brand extensions using product similarity as a criterion. Certain aspects of the existing set of products are compared with those of the extended brand. It is imperative to know which aspects of the parent brand and extended brand will be compared. However the presence or absence of identifiable relationships between existing brands and extensions may not be the only basis on which consumers form preferences for extensions.

Several studies reported that, greater the similarity between the original and extended brand, greater will be the transfer of positive or negative affect to the extended brand (Aaker and Keller, 1990; Park, Milberg and Lawson 1991; Boush and Loken, 1991; Dacin and Smith, 1994; Herr, Farquhar and Fazio, 1996). This finding is based on the assumption that consumers will develop more favorable attitudes towards extensions if they perceive high congruence between the original brand and the extensions.

(X) BRAND CONCEPT CONSISTENCY

Brand concepts are brand unique abstract meanings (e.g. high status) that typically originate from a particular configuration of product features (e.g. high price, expensive looking design, etc) and a firm's effort to create meanings from these arrangements.

Brand concept consistency is defined in terms of how well the brand accommodates the extension product.

Brand concepts help in positioning products in the minds of consumers and differentiate given products from other brands in the same product category (Park, Jaworski, and McInnis, 1986).

Broniaczyrk and Alba, (1994), show that a brand which may not be as favourably evaluated as a competing brand in its category may be more successful in being extended into certain categories depending on the particular parent brand associations involved.

The consistency of an extended brand with the brand concept depends on how readily it can accommodate a brand name concept. This readiness, in turn, depends on consumers' perception of whether the brand concept associations are potentially relevant and desirable for a particular product.

METHODOLOGY

The theoretical perspectives discussed and objectives form the basis for the formulation of a research methodology that has been adopted in this investigation.

For the purpose of achieving the objectives and testing the hypotheses a questionnaire was used as an instrument to collect data. The questionnaire had three parts; the first part was to collect personal details of the respondents, the second part measuring the dimensions and the third part measuring consumers' preference.

The variables chosen for the study are as follows.

Independent variables – cognitive mechanism, quality of the parent brand, price of the extended brand, number of products associated with the parent brand, familiarity of the brand, fit between parent brand and extended brand, advertising impact, parent brand associations, product feature similarity and brand concept consistency.

Dependent variable – consumer preferences for brand extensions.

The items capturing each factor were developed by the researcher. However, they were subjected to validity and reliability tests.

Accordingly, the first part of the instrument consisting of the background information of the respondents included age, qualification, occupation, family income per month (in Indian Rupees), and use of a product with an extended brand name. The second part of the instrument comprised of the independent variables. The third part consisted of items covering preferences for brand extensions.

VALIDITY TEST

The questionnaire was subjected to face and content validity whose determination is judgmental. To conduct face and content validity, a total of eight experts from academics and industry, scrutinized the items, according to the definition generated against the constructs of the independent variables.

The experts offered their feedback on each of the items. Based on their feedback few items were slightly reworded and repositioned. The experts also suggested a 5-point rating scale for all the items. Then content validity ratio (CVR) was applied to each item using the formula developed by Lawsche, (1975). Based on this, a few redundant statements were removed.

Based on the face validity and content validity ratio, the final number of items in each of the dimensions used in this study was decided. After finalizing the number of items in the research instrument using face and content validity tests, a pilot study was undertaken for the following reasons:

a) To assess the reliability of the research instrument constructed.
b) To ascertain the time taken to complete the questionnaire by the respondents and.

The pilot study process with a sample of 40 respondents ensured the practicality of the instrument. Hence it was concluded that the instrument used in the study would elicit the necessary data required from the respondents.

The data collected from the pilot study was subjected to reliability test using Cronbach Alpha. It has been found that the reliability coefficients for the variables chosen for this study were more than 0.60, which was an acceptable value (Malhotra, 2004). So it was established that the items constituting each variable studied had reasonable internal consistency. It was found that respondents took between 30 – 40 minutes to completely fill the questionnaire.

SAMPLE SIZE DETERMINATION BASED ON PILOT STUDY

The nature of the research topic, the conceptual nature of the factors researched and the use of English as the language in the questionnaire laid the grounds to define and determine the type of respondents as (a) those above 18 years of age; (b) hold an undergraduate degree; and (c) belonging to economically stable families. Though the population of the geographic area taken for the study i.e. Coimbatore district, was identified from the voters list for the district, it was difficult to ascertain the number of people holding an undergraduate degree. Snowball sampling technique has been used to select the respondents. The initial list included friends, relatives and peers of the researcher. These members on the list were contacted first and were asked to identify people who satisfy the conditions to be respondents. Accordingly 500 persons had been identified. The questionnaire was administered to 500 persons identified. Yet some questionnaires were not returned and some were unusable and incomplete, yielding a response rate of 74.8% (374 usable questionnaires).

RESULTS

The data collected from the survey were tabulated and analysed using appropriate statistical techniques.

The results indicate low to high correlations. However, there is no evidence of multicollinearity.

The first objective of the study is verified by applying the MANOVA test to check if there are any significant differences between users and non-users of brand extensions on the selected dimensions. If differences are found to exist, it will help in analyzing the relationship between the selected dimensions and preferences for brand extensions, first among the users, second among the non-users and third among all collectively.

OBJECTIVE 1

To study whether there are any significant differences between users and non-users of brand extensions on the selected dimensions of consumer preference.

This objective is examined by testing the hypotheses using the MANOVA technique. To test the differences between users and non-users, this technique is selected over Independent Samples T - Test or ANOVA because the multivariate formula for 'F – statistic' was based not only on the sum of squares between and within groups as in ANOVA but also on the sum of cross products. That is, it takes covariance into account as well as group means among the dependent measures.

Testing H1, H1a, H1b, H1c, H1d, H1e, H1f, H1g, H1h, H1i, and H1j

H1 : There is a significant difference between the users and non-users of brand extensions on the selected dimensions.
H1a : There is a significant difference between the users and non-users of brand extensions on cognitive mechanism.
H1b : There is a significant difference between the users and non-users of brand extensions on quality of the parent brand.
H1c : There is a significant difference between the users and non-users of brand extensions on the price of the parent brand.
H1d : There is a significant difference between the users and non-users of brand extensions on the number of products associated with the parent brand.
H1e : There is a significant difference between the users and non-users of brand extensions on familiarity of the brand.
H1f : There is a significant difference between the users and non-users of brand extensions on fit between parent brand and extended brand.
H1g : There is a significant difference between the users and non-users of brand extensions on advertising impact.
H1h : There is a significant difference between the users and non-users of brand extensions on parent brand association.
H1i : There is a significant difference between the users and non-users of brand extensions on product feature similarity.
H2j : There is a significant difference between the users and non-users of brand extensions on brand concept consistency.

As mentioned earlier, these hypotheses are studied using MANOVA. The variables that entered into the MANOVA model are the selected ten dimensions namely, (i) cognitive mechanism, (ii) quality of the parent brand, (iii) price of the extended brand, (iv) number of products associated with the parent brand, (v) familiarity of the brand, (vi) fit between the parent brand and extended brand, (vii) advertising impact, (viii) parent brand association, (ix) product feature similarity, (x) brand concept consistency and usage (users & non-users). The variable user & non-user entered into the model as a fixed factor and the remaining variables entered as dependent variables.

TABLE I: MULTIVARIATE ANALYSIS OF VARIANCE (MANOVA) BETWEEN USAGE AND THE SELECTED DIMENSIONS

Effect		Value	F	df	Error df	Sig.
	Pillai's Trace	.159	6.208	11.00	362.00	.000*
Used	Wilks' Lambda	.841	6.208	11.00	362.00	.000*
	Hotelling's Trace	.189	6.208	11.00	362.00	.000*
	Roy's Largest Root	.189	6.208	11.00	362.00	.000*

** Significant at 0.05 level*

However, a significant feature of this design is that all the four gave identical F values, and for symbolically representing the test statistics, □□is used.

On examination of Table I, we observe that there is a significant difference between the user and non-user types being identified. This means that there is a significant difference between users and non-users across the ten dimensions that determine brand extension preference; (Hotelling's trace = 0.189; F (10, 362) = 6.208; p = 0.000 (< 0.05))

Since the results of the MANOVA are significant, the 'Test of Between Subjects Effects' (univariate results) is examined to determine whether the independent variable is significant for each of the selected ten dimensions and consumer preferences for brand extensions.

TABLE II: TESTS OF BETWEEN SUBJECTS EFFECTS

Source	Dependent Variable	Sum of Squares	df	Mean Square	F	Sig.
Have you Used Brand Extensions	Cognitive Mechanism	7.45	1	7.45	20.28	.000*
	Quality of the Parent Brand	5.56	1	5.56	16.50	.000*
	Price of the Brand Extension	2.01	1	2.01	6.54	.011*
	Number of Products Associated with the brand	0.51	1	0.51	1.03	.309
	Familiarity of the Brand	0.89	1	0.89	1.79	.181
	Fit between parent brand and extended brand	0.16	1	0.16	0.51	.472
	Advertising Impact	0.59	1	0.59	1.58	.209
	Parent Brand Association	1.65	1	1.65	4.74	.030*
	Product feature similarity	0.51	1	0.51	1.84	.175
	Brand Concept consistency	0.75	1	0.75	2.06	.150

** Significant at 0.05 level*

Table II, shows the results of the test of between subject effects. On examination of the table, it is found that there is significant difference in Cognitive Mechanism F = 20.28, p = 0.000 (< 0.05); Quality of the Parent Brand F = 16.50, p = 0.00 (< 0.05), Price of the Extended Brand, F = 6.54, p = 0.01 (< 0.05), and Parent Brand Association, F= 4.74, p =0.03 (< 0.05). As the independent variable has only two groups, multiple comparisons using Post-Hoc are not conducted.

TABLE III: COMPARISON OF MEANS BETWEEN USERS AND NON USERS OF BRAND EXTENSIONS

Variables	Usage	Mean	Std.Deviation
Cognitive Mechanism*	Yes	3.97	.55
	No	3.67	.68
	Total	3.86	.62
Quality of the Parent Brand*	Yes	4.44	.53
	No	4.18	.64
	Total	4.34	.59
Price of the Extended Brand*	Yes	3.36	.53
	No	3.20	.59
	Total	3.30	.55
Number of Products Associated with the brand	Yes	3.43	.69
	No	3.36	.72
	Total	3.41	.70
Familiarity of the Brand	Yes	4.08	.70
	No	4.18	.71
	Total	4.11	.70
Fit between parent brand and extended brand	Yes	3.49	.56
	No	3.45	.56
	Total	3.48	.56
Advertising Impact	Yes	3.93	.56
	No	4.01	.67
	Total	3.96	.61
Parent Brand Association*	Yes	3.77	.56
	No	3.63	.63
	Total	3.72	.59
Product feature similarity	Yes	4.13	.55
	No	4.05	.47
	Total	4.10	.52
Brand Concept consistency	Yes	3.83	.55
	No	3.74	.66
	Total	3.80	.60
Preference towards Brand Extensions	Yes	3.81	.75
	No	3.20	.75
	Total	3.30	.76

N = 374: Number of users = 238 Number of non-users = 136

**Significant at 0.05 level*

The MANOVA results show that H2, H2a, H2b, H2c, and H2h, have been supported while H2d, H2e, H2f, H2g, H2i, and H2j, have not been supported. Further, on examination of the univariate descriptive results shown in table 3, it has been found that for users, cognitive mechanism (mean=3.67 versus 3.97), quality of the parent brand (mean=4.44 versus 4.18), price of the extended brand (mean=3.36 versus 3.20), and parent brand association (mean=3.77 versus 3.63) influence their preference more than they do for non- users. For the other factors the difference between users and non-users is insignificant.

OBJECTIVE 2

To establish a relationship between the selected dimensions and consumer preferences for brand extensions.

This objective was examined by testing the hypotheses H1, H1a, H1b, H1c, H1d, H1e, H1f, H1g, H1h, H1i, and H1j, using Multiple Regression. The researcher decided to conduct multiple regression analysis for users and non users separately in addition to the overall respondents. This was done because, it was found (using MANOVA) that usage has significant main effects on the study variables. The selected dimensions entered the regression model as independent variables and consumers' preferences for brand extensions entered as the dependent variable respectively.

Testing hypotheses H2, H2a, H2b, H2c, H2d, H2e, H2f, H2g, H2h, H2i, and H2j.

H2: There is a positive relationship between the selected dimensions and consumer preferences for brand extensions.
H2a: There is a positive relationship between cognitive mechanism and consumer preferences for brand extensions.
H2b: There is a positive relationship between quality of the parent brand and consumer preferences for brand extensions.
H2c: There is a positive relationship between price of the extended brand and consumer preferences for brand extensions.
H2d: There is a positive relationship between number of products associated with the parent brand and consumer preferences for brand extensions.
H2e: There is a positive relationship between familiarity of the brand and consumer preferences for brand extensions.
H2f: There is a positive relationship between fit between parent brand and extended brand and consumer preferences for brand extensions.
H2g: There is a positive relationship between advertising impact and consumer preferences for brand extensions.
H2h: There is a positive relationship between parent brand association and consumer preferences for brand extensions.
H2i: There is a positive relationship between product feature similarity and consumer preferences for brand extensions.
H2j: There is a positive relationship between brand concept consistency and consumer preferences for brand extensions.

The above entered as the dependent variable. As mentioned earlier, multiple regression is conducted separately for users, non users and the overall respondents. The Enter method is used to establish the relationship.

The Table 4 represents the user, non-user and overall regression results for consumer preferences.

TABLE IV: REGRESSION RESULTS PREDICTING RELATIONSHIP BETWEEN VARIABLES

Independent variables	Standardised Beta Coefficients for independent variables		
	Users	Non-Users	Overall
Cognitive Mechanism	-0.16*	0.02	-0.07
Quality of the Parent Brand	0.12	0.09	0.12*
Price of the Brand Extension	0.15*	0.11	0.13*
Number of Products Associated with the brand	0.21*	0.17*	0.21*
Familiarity of the Brand	-0.05	-0.09	-0.09
Fit between parent brand and extended brand	0.12	0.11	0.95
Advertising Impact	0.05	0.11	0.95
Parent Brand Association	0.22*	0.35*	0.28*
Product feature similarity	-0.79	0.05	-0.02
Brand Concept consistency	-0.13	0.36*	0.12*
R^2	0.248	0.639	0.350
Adjusted R^2	0.214	22.08	0.332
F	7.469	22.08	19.55

** Significant at 0.05 level*

The R^2 for the users of brand extensions is found to be 0.25 indicating that, for users of brand extensions 25% of the variation in the dependent variable (preference for brand extensions) is explained by the selected 10 dimensions, while for the non-users 64% of the variation in the dependent variable is explained by the selected dimensions and for the overall respondents., the variation is 35%. It also shows that adjusted R^2 = 0.21 for users
0.639 for non-users and 0.332 for the overall, which means that any time another independent variable is added to this model, the R^2 will increase (even if marginally), for users and overall respondents, but for non-users there is no change.

This regression model results in the ANOVA, which is reported by F – ratio = 7.469 *($p < 0.05$),* for users, 22.08 ($p < 0.05$), for non-users and 19.55 ($p < 0.05$), for overall. This indicates that the regression model for users, non-users and overall respondents is significant. On examination of the standardized beta coefficients, it is found that:

a) Cognitive mechanism (β = 0.169; p = 0.012); price of the extended brand (β = 0.158; p = 0.027); number of products associated with the brand (β = 0.213; p = 0.001); and parent brand association (β = 0.223; p = 0.006); influence consumer preferences for brand extensions among users,

b) Number of products associated with the parent brand (β = 0.17; p = 0.006); parent brand association (β = 0.359; p = 0.000); and brand concept consistency (β = 0.36; p = 0.000); influence consumer preferences among the non-users, and

c) Quality of the parent brand (β = 0.123; p = 0.009); price of the extended brand (β = 0.130; p = 0.008); number of products associated with the parent brand (β = 0.217; p = 0.000); parent brand association (β = 0.282; p = 0.000); and brand concept consistency (β = 0.127; p = 0.024); influence consumer preferences for brand extensions for the overall respondents.

The statistical significance is found to be in the directions hyothesised. The results support the hypotheses H1, H1a, H1c, H1d, and H1h for users, H1, H1d, H1h, and H1j, for non-users and H1, H1b, H1c, H1d, H1h, and H1j for overall respondents.

This indicates that the regression model for users, non-users and overall respondents is significant.

DISCUSSION

The study reveals (based on the MANOVA) that, there is significant difference between users and non users of brand extensions on the following four factors namely, (i) cognitive mechanism, (ii) quality of the parent brand, (iii) price of the extended brand and (iv) parent brand associations. For the remaining six factors, there is no significant difference between them. A higher mean value for the four factors suggests that users lay more emphasis on these factors. The findings suggest that the difference among users and non- users in cognitive mechanism may be due to the modes of learning and sources of learning. Since users have the advantage of having used and thereby experienced the product, their learning could vary from what non users learn.

An examination of the mean value of quality of the parent brand, in terms of reliability, durability, serviceability, etc, shows that it is the strongest of all the variables being studied. It points to the importance given to quality and indicates that if the quality of the parent brand is high then the chances of acceptance of the brand extension are good. Both users and non-users differ in their opinion towards price. Again, since users may have purchased the extended brands themselves they tend to have a better idea about the price, though both may expect the price to be moderate.

The higher mean value for parent brand associations for users indicates that users are more influenced by these associations than do non-users. This could be the result of users having higher number of associations than non-users by virtue of the higher cognition arising from using the extensions. For non-users these associations could be fewer in number and hence, the purchase influences could be lower.

Users may subject newer products with the same brand name to a rigorous scrutiny than do non-users, which leads to suggest that the level of involvement with brand extensions is higher for users than for non-users.

The study reveals (based on the regression analysis) that users and non-users are found to be influenced by different sets of factors for their preferences towards brand extensions. Users are influenced by (i) Cognitive mechanism, (ii) Price of the extended brand, (iii) Number of products associated with the parent brand and (iv) Parent brand associations. Users may have learnt more about brand extensions than non-users because, they already may have got enough information before purchasing brand extensions and also through the experience of using extensions.

An interesting result derived from the study is the negative influence between cognitive mechanism and preference towards brand extensions. This leads us to conclude that the more users learn about brand extensions, they may probably be receiving differing opinions from various sources, which could lead to the user being confused. This could also be a sample specific result where the users could have shifted to other brands.

The next factor that users consider important is the price of the extended brand. Since the Beta value is significant, users seem to judge a brand by using price as an indicator and, thus, the price of the brand extensions is an influencing factor in consumer preference towards brand extensions. This is in line with earlier researches of Jun, MacInnis and Park, (2005), and Taylor and Bearden, (2002). This may be due to the fact that consumers may have a reference price as a result of their knowledge arising out of using the parent brand and other sources of information. It could be an indicator that the Indian consumer is price conscious when it comes to buying products, in general, and brand extensions, in particular.

Another factor that influences both users and non-users of brand extensions is the number of products that are associated with the brand. Consumers are likely to generalize the benefits associated with the narrow brand than with the broad brand. If the parent brand's benefits are desirable in the extension category then consumers will prefer brands with more products associated with the brand. Many brands have acquired a variety of different associations through continuous extensions, promotional activity and consumer experience.

As additional products are added to a brand consumers acquire knowledge of the brand in multiple contexts and hence greater will be the amount of data consumers have on the brand. This leads to greater confidence in their brand associations**.** Consumers may likely to have a positive feeling towards an object when they are exposed more frequently.

The high value of the Beta coefficient for Parent brand associations supports the point that a) more the number of associations towards the parent brand the probability is that preference towards brand extensions will be more and positive; and b) the more positive the associations the better is the preference towards the brand extensions.

The results demonstrate that whenever an extended brand is presented for evaluation non users appear to take into account brand concept consistency. Prior findings concerning extensions suggest that consumers react less favourably to brand extensions that lack fit with the brand concept than to those that possess the fit. An extension product is seen as consistent with the brand concept depending on how readily it can accommodate a brand name concept. Non-users prefer brand extensions which have a consistent brand concept with the parent brand. A strong beta coefficient for brand concept consistency indicates that non-users are very particular about associations and expect brand extensions also to have the same associations.

In general the study has found that a clear pattern of behaviour is emerging among Indian consumers. Indian consumers are highly concerned about the associations with the parent brand being consistent across more number of products under the parent brand. This is evidenced by the overall effects of the ten dimensions on preference towards brand extensions. However, they also seem to judge the brand extensions with due consideration given to the quality of the parent brand and price of the extended brand. The study also reveals that two factors i.e. number of products associated with the parent brand and parent brand associations are common influencing factors for both users and non-users and, thus, is also present for the overall respondents.

This study has some limitations and hence future research could refine the relationships and variables that moderate them. First this study is limited to one district. Considering the vast cultural and sub-cultural differences in India, future studies could consider samples across the country to get a better representation of the population. Second future research could consider more dimensions as variables and use structured equation modeling to get a better understanding of the complex nature of consumer preferences.

REFERENCES

1. Aaker, D. A., and. Carman, J.M. (1982) Are you overadvertising?, Journal of Advertising Research, 22, 57-70.
2. Aaker,D.A. & .Keller,K.L. (1990) Consumer evaluation of brand extensions, Journal of Marketing, 54, 27-41.
3. Aaker,D.A.(1991) Managing Brand Equity, New York: The Free Press.
4. Bottomley,P.A. &..Doyle, J.R. (1996) The Formation of attitudes towards brand extensions: testing and generalising Aaker and Keller's model, International Journal of Research in Marketing, 13, 365-377.
5. Bottomley, P.A. & Holden,S.J.S. (2001) Do we really know how consumers evaluate brand extentions? Empirical generalizations based on secondary analysis of eight studies, Journal of Marketing Research, 38, 494-500
6. Boush, D. M., Shipp, S., Loken, B., Gencturk, E., Crockett, S., Kennedy, E., Minshall, B., Misurell, D., Rochford, L., Strobel, J., 1987. Affect generalization to similar and dissimilar brand extensions. Psychology and Marketing. 4, 225-237.
7. Boush,D.M. & Loken, B. (1991) A process tracing study of brand extension evaluations, Journal of Marketing Research, 28, 16-28.
8. Briesch, R. A., Krishnamurthi, L., Mazumdar, T. & Raj, S. P. (1997) A comparative analysis of reference price models, Journal of Consumer Research, 24, 202-214.
9. Broniarczyk, S.M. & Alba, J.W. (1994) The importance of the brand in the brand extension, Journal of Marketing Research, 31, 214-228.
10. Claycamp, H.J. & .Liddy, L.E. (1969) Prediction of new product performance: An analytical approach, Journal of Marketing Research: 414-420.
11. Dacin,P.A & Smith,D.C. (1994) The effect of brand portfolio characteristics on consumer evaluations of Brand Extensions, Journal of Marketing Research, 31, 229-242.
12. Farquhar, P. H. (1989) Managing Brand Equity, Marketing Research, 1, 24-33.
13. Farquhar,P.H., Hah, J.Y., Herr, P.M., & Ijiri, Y. (1992) Strategies for leveraging master brands, Marketing Research, 4(3), 32-43.
14. Fiske, S. T. &. Pavelchak, M.A. (1986) Category-based versus piecemeal-based affective responses: developments in schema-triggered affect, in Handbook of Motivation and Cognition, Sorrentino, R.M & Higgins, T.E. (eds.), New York: The Guilford, 167-203.
15. Herr,P.M., Farquhar, P.H. & Fazio,R.H.(1996) Impact of dominance and relatedness on brand extensions, Journal of Consumer Psychology, 5, 135-159.
16. Jun, S.Y., MacInnis,D.J. & Park,C.W. (2005) Formation of price expectation in brand extensions and impact on brand extension evaluation, Advances in Consumer Research, 32, 137-142.
17. Kahneman,D. & Tversky,A. (1979) Prospect Theory: An Analysis of Decision Under Risk, Econometrica, 47, 263-291
18. Keller, K.L. & Aaker, D.A. (1992) The effects of sequential introduction of brand extensions, Journal of Marketing Research, 29, 35-50.
19. Lane,V.R (2000), The impact of ad repetition and ad content on consumer perceptions of incongruent extensions, Journal of Marketing, 64, (80-91.
20. Lawshe (1975) A quantitative approach to content validity. Personnel Psychology, 28, 563-575.
21. Loken, B. & John, D.R. (1993) Diluting brand beliefs: When do brand extensions have a negative impact, Journal of Marketing, 57, 71-84.
22. MacInnis, D.J. and Nakamoto, K. (1990) Examining factors that influence the perceived goodness of brand extensions, Working Paper, Karl Eller School of Management, University of Arizona.
23. Malhotra, N.K. (2004) Marketing Research: An Applied Orientation (4th edn) Pearson Education, Inc: New Jersey.
24. Meyers-Levy, J., Louie, T.A. &. Curren, M, T. (1994) How does the congruity of brand names affect evaluations of brand name extensions? Journal of Applied Psychology, 79, 46-53.
25. Park,C.W., Jaworski, B J., & Maclnnis, D. J. (1986) Strategic brand concept-image management, Journal of Marketing, 50(4) 135-145.
26. Park,C.W., Milberg,S, & Lawson, R. (1991) Evaluation of brand extensions: the role of product feature similarity and brand concept consistency, Journal of Consumer Research, 18, 185-193.
27. Peter,J.P. & Olson, J.C. (1996) Consumer Behaviour and Marketing Strategy, New York, McGraw Hill Inc, 53.
28. Rangaswamy, A., Burke, R.R. &. Olivia, T.A. (1993) Brand equity and the extendibility of brand names, International Journal of Research in Marketing, 10, 61-75.

29. Smith, D.C. (1992) Brand extensions and advertising efficiency: What can and cannot be expected, Journal of Advertising Research, 32, 11-20.
30. Smith,D.C. & Park, C.W. (1992), The effects of brand extensions on market share and advertising efficiency, Journal of Marketing Research, 29, 296-313.
31. Sujan, M. (1985) Consumer knowledge: effects on evaluation strategies mediating consumer judgments, Journal of Consumer Research, 14, 372-378.
32. Sullivan, M. (1992) Brand extensions: When to use them, Management Science, 38, 793-806.
33. Tauber,E.M.(1981) Brand franchise extensions: New product benefits from existing brand names, Business Horizons, 24, 36-41.
34. Tauber,E.M. (1988), Brand leverage: Strategy for growth in a cost-control world, Journal of Advertising Research, 28, 26-30.
35. Taylor,V.A. & Bearden,W.O. (2002) The effects of price on brand extension evaluations: The moderating role of extension similarity, Journal of the Academy of Marketing Science, 30, 131-140.
36. Thaler, R. (1985) Mental accounting and consumer choice, Marketing Science, 4, 199 – 214.

ENFORCING THE INTERNATIONAL FINANCIAL REPORTING STANDARDS WORLDWIDE

ENAHORO, JOHN
SR. LECTURER
DEPARTMENT OF ACCOUNTING
BABCOCK UNIVERSITY
NIGERIA

NDAYIZEYE GERVAIS
RESEARCH SCHOLAR
ADVENTIST UNIVERSITY OF CENTRAL AFRICA
KIGALI-RWANDA

ABSTRACT

This study aims at examining the consequences of the lack of uniformity in financial reporting and ways of putting them under control for improvement across the globe. With evidences from Europe, Africa, Asia, USA, and other countries in the global community, the study shows that although different countries are making efforts to apply the International Financial Reporting Standards (IFRS), the absence of complete harmonization is considered to hinder the success of the convergence to the IFRS. Consequently, financial reporting has remained a problematic endeavour across the globe thereby making the understanding of the various reports from the countries difficult for stakeholders. The fact that the application of IFRS for all countries has great advantages for investors, governments, citizens, financial institutions, and for everyone who is interested in how firms function or fare, this study concludes that while countries are encouraged to totally embrace IFRS further and total enforcement of IFRS across the globe is absolutely necessary.

KEYWORDS

Financial Reporting Standards' classifications, International Financial Reporting Standards, Enforcement.

INTRODUCTION

Differences occur in the application of financial reporting worldwide at the moment.These differences in financial reporting have often lagged behind the evolution of application of accounting because financial reporting has long been guided by the dictates of national standards. The accounting community of every country has been in agreement with officially set standards of nations to ensure the reliability and relevance of financial information provided at any given time. In addition to each country's national standards, accounting officials and educators have often sought the development of international standards so as to make international financial communication an easy and worthwhile possibility. Nobes and Parker (2008), observes that the efforts, which have taken about 20 years in its development process is yet to reach its zenith in the financial world. Only in the past ten years have international financial accounting standards reached prominence with some countries adopting the international standards in place of their own standards. The United States has been most reluctant and has maintained its own generally accepted accounting principles (GAAP). However, according to Security Exchange Commission (SEC) Release (2008), the SEC has started using International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) in recent time.

Mukhtar (2009) observes that in Africa and Asia, all organizations of accounting have commenced a convergence and to adopt their financial reports according to IFRS. African countries like Kenya started the practice long time ago; others are gradually adopting the practice in exchange for their own national traditional methods. It is important to state that the growing adoption of the international financial accounting standards has been partly resultant from the United Nations (UN) contribution to the promotion of a uniform accounting framework that will ensure comparability and reliability of corporate reports in the world. Due to the foregoing UN contribution to the issue of enforcement of international financial reporting standard, the adoption has been increasingly manifested in many countries of the world.

BACKGROUND OF IFRS

The International Accounting Standards Board (IASB) was established on July 1, 2000 to replace the International Accounting Standards Committee (IASC), established in London in June, 1973 and was saddled with the responsibility of setting International Accounting Standards.The IASB is an independent, standard-setting, body whose trustees are accountable for the promotion of public interests in Accounting. It receives support from an external Standards Advisory Council (SAC) which advises the IASB on various technical and strategic issues such as the selection of topics for future development into standards. In addition the IASB is supported by the International Financial Reporting Interpretations Committee (IFRIC) which is mandated to interpret the standards and produce binding guidance when divergences occur in the application of the standards. In the interests of the international public, the IASB has developed a set of high quality, understandable, and enforceable international financial reporting standards for general purpose financial statements. The standards developed by the IASB follow a rigorous due process involving various stakeholders that include accountants, users of financial statements and regulators. The due process ensures through public debate and exposure of the views of the various stakeholders is incorporated in the requirements mandated by the IASB in the formation of the final standards.

The aim of the IASB is to issue principles based standards that can be applied across the globe. International Accounting Standards (IASs) and International Financial Reporting Standards (collectively referred to as IFRSs), issued by the IASB, have gained momentum in recent years all over the world. As the capital markets become increasingly global in nature, more and more investors see the need for a common set of International Accounting Standards. About 109 countries presently require or permit use of IFRS in preparation of financial statements in their countries and the number was expected to reach 150 by 2011 (Kannah, 2009).

THE ISSUES

The issues are that not all companies or firms have complied with the rules which are based on IFRSs. Also, not all Stock Exchanges across the world have accepted the international financial accounting standards and to present their financial statements in that format. Failure to do this makes such financial reports unacceptable to the community of international Stock Exchanges as the reports will not be in uniformity with those of other counterparts of the community. Moreover, such defiance will usually make the use of such a report more difficult than the generally accepted accounting practices of the IFRS. To eliminate the differences in financial reporting, reduce accountancy fees, and enable faster access to all major capital markets, the IFRSs have to be globally applied. But some countries and their Stock Exchanges are yet to adopt the method. This has made comparability difficult in the international financial market deals. The need to make international financial business an easier burden is the problem that this paper tries to resolve. Also, the objective of this study is to ascertain the progress of implementation of International Financial Reporting Standards in selected countries in order to deduce the areas where more efforts need to be applied in order to achieve the expected goals of IFRS.

LITERATURE REVIEW

In countries where the quality of governance institutions is high, IFRS adoption is likely to be less attractive as high qualityinstitutions represent high opportunity and switching costs to adopting international accounting standards is less likely. However, in many developing countries, the quality of local governance institutions are low and thus are important determinants ofthe decision to adopt IFRS (Ball, Kothari and Robin, 2000; Leuz, Nnada and Nysocki, 2003; Ball, 2006). Developing countries are often liable to suffering from corruption, slow-moving or ineffectual governments when they are resistant to change. La porta, Lopez de Silanes, Shelifer and Vishmy, (1999). In these countries, the opportunity and switching costs are lower and the chance to adopt an externally developed body of accounting standards presents an advantage. The decision to adopt IFRS is therefore likely to be driven by lower opportunity and switching costs in developing countries. Developing countries however have their peculiar challenges in such costs switching.

Before undertaking an assessment of country by country convergence and enforcement effort on the IFRS, prior international classifications or groupings of international accounting systems are reviewed. A difference in financial reporting has been mainly differences in accounting systems. For instance, formerly colonized countries often present their financial reports in similitude to those of their former colonial master countries. For instance, the UK-influenced countries are often former British colonies. These include Hong Kong, Malaysia, Nigeria, Philippines, South Africa, Singapore, Taiwan, Sri Lanka, Zambia, Botswana, Namibia, and Zimbabwe (Nobles, 1998).

Nobes and Robert (2008) further observed that, the 'US GAAP'is a well-defined set of practices required by US regulators to be used by certain US companies. Users of this system are U.S SEC-registered companies, and certain large Japanese companies for their group accounts. US GAAP bears a resemblance to UK and IFRS rules. These classes are divided into two which are the Strong Equity Class (UK, Irish, Dutch individual and US SEC-registered companies) and the Weak Equity Class (Belgian, French, German, Italian and Japanese enterprises.

Although, these classifications were based on classes of large share markets, Radebaugh and Gray (1997) presented the cultural classification of international accounting systems as Anglo-American culture area compose of the United Stated of America, United Kingdom and British colonials; Nordic countries which comprise of Netherlands, Sweden, Finland, Denmark; Germanic accounting comprising Germany, Austria, Israel, Switzerland, and former European colonies in Africa. The Latin American group comprise France, Italy, Brazil, Argentina, Belgium, Portugal, Spain, Chile, Columbia, Mexico, Peru,and Uruguay; and Asia accounting group comprise of China, Japan, India, Pakistan, Hong Kong, Singapore, Malaysia, and Philippines.

Knowing that Financial Statements are prepared for external users by corporate entities around the world, such financial statements may appear similar from country to country. There are differences which have probably been caused by a variety of social economic, legal circumstances and by different countries to meet the needs of different users of financial statements when setting national requirement. It is imperative that all countries have to apply the IFRS, for the harmonization of financial statements reporting (IFRS, 2011).

To harmonize all financial reporting, it will require that all countries enforce the recommended International Financial Reporting Standards on all companies which are registered with their Stock Exchange. Enforcement of the International Financial Reporting Standards and rules can be carried out by several agencies and regulatory bodies such as the Stock Exchanges; Regulators of Stock Exchanges; Government departments and agencies; and Private-sector bodies.

ENFORCEMENT OF FINANCIAL REPORTING STANDARDS IN UNITED KINGDOM

The enforcement of IFRS is under European Enforcement Coordination sessions (EECS) and Committee of European Securities Regulations (CESR). In the UK the body responsible for enforcement of the IFRS is the Financial Reporting Review Panel. Rolf (2010) suggests in through the CESR Annual Reports in 2010 that harmonization and the enforcement of the IFRS in Europe facilitate an efficient single capital market in Europe within the context of evolving EU legislation.

UK's Department of Trade and Industry (DTI) has since pronounced that publicly traded companies in UK should apply the International Accounting Standard in their individual financial reporting and that all EU listed companies were required to prepare their consolidated Financial Statements under IFRS effective from January, 2005 (ICAEW, 2006' AECA, 2010 and Rolf, 2010). PricewaterhouseCoopers (2009) has confirmed that the U.K has since complied to the requirement; also small companies (SMEs) were required to report under IFRS effective from January 1, 2012.

TURKEY

Sigma, (1995) and Sigma and Hosal, 2005) observed that in 1980, a series of economic decisions following the International Monetary Fund's (IMF) recommendations were taken to reduce the inflation rate, increase production, and support importing activities. In the reconstruction period starting in the early 1980s, Act No. 2499 was put into effect in 1981 by the Parliament to prepare the grounds for establishing the Capital Markets Board (CMB). There are some major issues that are covered in IFRS/IAS but not in the old CMB rules. Specifically, these include impairment of assets (IAS 36); the de-recognition of financial assets (IAS 39), provision for employee benefits other than lump-sum termination indemnities (IAS 19), segment reporting (IAS 14), provisions, contingent liabilities and contingent assets (IAS 37), Deferred taxes (IAS 12); Treasury shares (IAS 32); and Hedge accounting (IAS 39). Furthermore, there are certain differences between the old CMB rules and IFRS/IAS that could lead to reporting of different financial results and financial position. Major differences include: measurement issues and disclosure issues (Sigma, 1995 and Sigma and Hosal, 2005).

BRAZIL

Brazil is converging its accounting standards with the IFRS. According to UNCTAD (2008), the main institutions leading the convergence process are the Brazilian SecuritiesCommission (CVM), the Brazilian Institute of Independent Auditors (IBRACON), and the Central Bank of Brazil. A number of developments have recently advanced the country's progress towards IFRS. The Central Bank of Brazil announced that as from 2010 all financial institutions under its supervision will be required to prepare their consolidated financial statements inaccordance with IFRS. UNCTAD (2008) also reports that the Brazilian Securities and Exchange Commission has promoted effortsby companies listed in capital markets in Brazil to gradually adopt IFRS. For example, the CVMhas been working more closely with IBRACON to accelerate convergence with IFRS and regulatory members. Companies listed on Sao Paulo Stock Exchange's New Market are required toprovide financial statements prepared in accordance with IFRS or to the US-GAAP, in addition to those that are prepared under Brazilian accounting standards. The Committee of Accounting Pronouncements was set up in Brazil, whose objective will be to achieve full adoption of IFRS in the country.

INDIA

Ravindra and Shrikhadi (2010) observed that there is a growing international consensus on the International Financial Reporting Standards as acceptable standards for assessment of the financial health of a company across the globe." Based on the recommendations of the core group set up to facilitate IFRS convergence in India, its Ministry of Corporate Affairs (MCA) announced the approach and timelines for achieving convergence with IFRS. Also the Institute of Chartered Accountants of India (ICAI) commenced the process of issuing IFRS equivalent accounting standards. ICAI stated that for companies with exposure in European markets through equity or debt, transparency on IFRS is essential to cheap capital and hence, the proactive approach. ICAI set a time line of 2011 for compulsory switch over to the new standards.

SOUTH AFRICA

The South African Institute of Chartered Accountants (SAICA), the Johannesburg Stock Exchange (JSE) and the Accounting Practices Board (APB) of South Africa has recognized the need to be part of a global economy with respect to financial reporting. Local accounting standards in South Africa have been harmonized with international accounting standards since 1993. In February 2004, a decision was taken by the APB to issue the text of IFRS as South African statements of GAAP without any amendments (SIACA, 2006). The reasons for the ongoing harmonizing and the issuing of the text of IFRS as South African statements of GAAP were: for South African companies to attract foreign investment, to provide credibility to the financial statements of South African companies in the global market, and to do away with the need for dual listed entities to prepare financial statements in accordance with more than one set of accounting standards (Deloitte, 2006).

ZIMBABWE

Zimbabwe faces a challenge of high inflation that is affecting the wholesome application of the IFRS. The Institution of Chartered Accountants Zimbabwe (ICAZ, 2010) recommends that the IFRS should be in full application by end of 2010. Although Zimbabwe has economic challenges, the Zimbabwe Stock Exchange it has said that IFRS compliance is mandatory to all listed companies in its Stock Exchange (Tom, 2010). Currently, a ZSE panel of experts is responsible for checking IFRS compliance. It encourages accurate and correct presentation of companies' financial accounts including historical data and internationally comparable balance sheets and disclosure. This makes it easier for investors, including external investors. The ZSE (ZSE, 2010) added that IFRS for SME is compulsory which was expected to commence by January, 2011, also the local GAAP which was based on the 1998 version was expected to translate into IFRS. The local tax authority has yet to adopt or convergence plans of tax reporting to the IFRS.

NIGERIA

There are a number of institutions and agencies in Nigeria which provide guidelines that determine what information, and in what format such information, should be included in financial reports. Such institutions are the Institute of Chartered Accountants of Nigeria (ICAN), the Association of National Accountants of Nigeria (ANAN), the Central Bank of Nigeria (CBN), Nigerian Accounting Standards Boards (NASB). Now the Financial Reporting Commercial (FRC), National Insurance Commission (NAICOM), Security and Exchange Commission (SEC), and Corporate Affairs Commission (CAC). These institutions are ready to give up on Nigeria's GAAP and adopt IFRS from 2012 (Hassab, Epps and Said, 2001; Iyoha and Jimoh, 2011).

Mukthar, (2009) asserts that, there is no better time than now to contribute to the debate for the need and feasibility of adopting the IFRS as a financial reporting framework in Nigeria. This is due to the pronouncements by the banker's committee (a committee of Managing Directors of banks and the Nigerian Stock Exchange (NSE) to the effect that banks and all listed companies should prepare financial statements in accordance with the IFRS.

Such pronouncements were made considering that complying with IFRS will facilitate transparency and lead to more disclosure in financial statements which will be useful to stakeholders, especially foreign stakeholders. IFRS-based financial statements stand to have added advantage in their business relationships with their correspondent banks, multilateral institutions and international investors. Companies that prepare IFRS-based financial statements are also expected to get some boost in their rating. Adoption of the IFRS in Nigeria commenced in January, 2012.

KENYA

Kenya is one of the earliest countries to adopt the use of the IAS and IFRS in 1999. UNCTAD (2008) confirms that over the years, Kenya has developed a wealth of experience in the use of IFRS, which provide useful insights in the development of strategies by International Standards of Accounting and Reporting (ISAR) to aid other countries in the implementation of IFRS. There a lone stock market in Kenya, the Nairobi Stock Exchange, in which the shares of about 50 companies are traded. In addition to these listed companies, there is also a sizeable number of companies which are either multinationals or companies owned privately by the nationals, as well as a large number of small and medium-sized enterprises (SMEs). In terms of financial reporting, all the companies are required to prepare financial statements based on IFRS. In most cases, however, SMEs would prepare financial statements for use by the tax authorities or by the banks for purposes of accessing credit. Other public interest companies such as banks, insurance companies, cooperative societies and non-governmental organizations also prepare accounts in accordance with IFRS (Caroline, 2010).

UGANDA

The Institute of Certified Public Accountants of Uganda (ICPAU, 2009) stipulates that Uganda has adopted IASs, SIC IFRSs and IFRIC without amendment since 1998. All openly accountable bodies are obliged to present their financial statements in compliance with full IFRS. In additional, Uganda has instructed on the application of IFRS for SMEs at the beginning of 2010. Uganda Security Exchange (USE, 2010) directed that all foreign or national companies listed on the stock exchange to comply with IFRS when the time of reporting was due.

TANZANIA

According to Tanzania's National Board of Accountants and Auditors (NBAA, 2009), Tanzania shifted to IFRSs, IPSASs, and ISAs with effect from July, 2004. In that effect, compliance required all preparations of financial statements to be in accordance with the IFRSs no matter the size of the firm. Pacter (2010), observed that publicly accountable entities were required to use full IFRS including the entities that offer shares to the public, financial institutions such as banks, insurance, pension funds, mutual funds, security brokers or dealers. Also, entities that have essential public service such as utilities; and non-publicly accountable entities are permitted to use the IFRS for SMEs. In that case, all bodies using IFRS for SMEs should apply those pronouncements as issued by the IASB in full and without modification.

CANADA

In January 2006, the Accounting Standards Board (AcSB) adopted a strategic plan for embracing IFRSs across the whole country for all public companies and other profit-oriented enterprises that are responsible to large or diverse groups of shareholders in Canada. From that time, AcSB proposed on its section 1506 to house the approval of IFRSs (Peter, Michael, and Ken, 2008, Deloitte, 2011). Peter (2008) recommended that:

"The AcSB has recently confirmed January 1, 2011 as the changeover date to which IFRSs was supposed to replace current Canadian Standards and interpretations as GAAP" (p.2).

UNITED STATES OF AMERICA

AICPA (2011) asserts that asfar as the USA is concerned; the enforcement of IFRS has taken the following forms. From 2001 to 2004 USA has made effort to implement IFRS. In 2005;The Securities and Exchange Commission (SEC) released a roadmap allowing IFRSfilings without GAAP reconciliation for foreign firms by 2009. In 2006;The IASB and the FASB agree to work on a number of major projects.In 2007;The SEC announced that it will accept from foreign filers in the U.S. financial statements prepared inaccordance with IFRS, as issued by the IASB, without reconciliation with U.S. GAAP. Also, the SEC issued a ConceptRelease asking if U.S. public companies should be given an option to follow IFRS instead of U.S. GAAP. In2008;The SEC was expected to vote on a proposal creating a timeline for moving U.S. public companies to IFRS, also, the FASB and the IASB updated the Norwalk Agreementwith the goal of accelerating convergence. In 2009;the IASB ended its moratorium, set in 2005, on the required application of new accounting standards andmajor amendments to existing standards. The board had frozen its rules while more countries adopted IFRS.

In 2011; Canadian and Indian companies are slated to begin using the global standards, and Japan was slated to haveeliminated all major differences between Japanese GAAP and IFRS. In the United States, questions concerningIFRS are expected to be included in the Uniform CPA examination.Year 2013 is the earliest year projected by accounting firms for mandating that large U.S. public companies convert theirfinancials to IFRS, year that the updated Norwalk Agreement expects all major capital markets to operate fromone set of accounting standards (AICPA, 2011). The year 2015 is earliest year the SEC would allow public companies to convert their financials to IFRS(AICPA, 2011).

JAPAN

Japan financial reporting is guided by both international and domestic factors which fall under the Accounting Standards Board of Japan (ASBJ). From 2004 to 2010, the Japanese Institute of Certified Public Accounts (JICPA) along with ASBJ has made a tremendous move towards the harmonization between Japanese GAAP and IFRS. Some problems remained unsolved as they have to be worked on by 30 June, 2011 (Afaanz, 2011).

According to (Global Glimpses, 2009) and (Smart, 2012), Japan allowed a number of international companies the use of IFRS and some local companies to use them on their own choice for the year ending March 31, 2010. In 2012, the decision about the mandatory adoption of IFRS by 2016 is expected by the year 2013.

HONG KONG

Starting in 2005, Hong Kong Financial Reporting Standards (HKFRS) were made identical to the IFRS. While Hong Kong had adopted many of the earlier IAS as Hong Kong standards, some had not been adopted, including IAS 38 and IAS 39. All of the December, 2003 improvements and new and revised IFRS issued in 2004 and 2005 started takingeffect in Hong Kong beginning from 2010. In 2005, implementing Hong Kong Financial Reporting Standards, the challenge sets out a summary of each standard and interpretation. The key changes it makes to accounting in Hong Kong, the most significant implications of its adoption, and related anticipated future developments. There are some Hong Kong standards and several Hong Kong interpretations that do not have counterparts in IFRS. Also there were several minor wording differences between HKFRS and IFRS (Deloitte, 2008,Tyrone, 2010).

CHINA

Chinese government had conducted series of accounting standard reforms in 1992, 2001 and 2006 in which each replaced the previous. According to Gingham and Haitao (2010) the Chinese accounting standards were considered to be in great conformity with IFRS. This developments confirm response to the emerging stock market and the increasing demand of foreign investors in China. Karthik, Donavan and Nancy (2005) and Romanna (2010) have however remarked that although in 2005 China converged with IFRS, but not in full compliance with IFRS requirements.

The Chinese Accounting Standards Committee (CASC) is the body charged with developing accounting standards in collaboration with the Ministry of Finance (Elmer, 2011). CASC had issued new standards regarding cash flow statement, lease and other standards in conformity with the IFRS. In February 2006, the Chinese Ministry of Finance promulgated the introduction of Chinese Accounting standards based on IFRS. In January, 2007, China was obliged to adopt the IFRS so as to get placed into the global capital market (Zhang, Andrew and Collier, 2007). China is considered being the fourth world economy with far reaching economic effect regarding the application of IFRS. Afaanz (2011) argues that although China is adopting the IFRS there are challenges converging domestic standards with the IFRS expected to have been concluded by December 2011, and the application of IFRS to all companies big, small and medium effective January 2012.

ENFORCEMENT OF FINANCIAL REPORTING STANDARDS (FRS) TOWARDS SMES

The application of IFRS, will affect SMEs. In July 2009 the IASB issued IAS for Small and Medium Enterprises. At the European Union level, the body responsible for adopting IFRS and IASproposed the application of the IFRS for SMEs on a representative group of States, effective in August, 2009. The mission of the SME Implementation Group is to support the international adoption of the IFRS for SMEs and monitor its implementation. This representative group of 21 members was selected based on their knowledge and experience on SMEs reporting. The selection pursued the criteria of fairness, related to geographical location (Ana-Maria and Andrea, 2011).

On the other hand all of them agreed on the necessity of a cost/benefit analysis of implementing the standards, before any decision is taken. Also mentioned is the comparability between full EU IFRS and IFRS for SMEs. Using IFRS for SMEs as the regulatory legal framework for financial reporting has its own benefits.(European Commission, 2010; Grosu and Bostan, 2010).It is known that IFRS for SMEs are characterized by greater flexibility on the implementation of the professional reasoning, so it is possible that applying the same standard will not prevent the same transaction from being recognized and reported differently in financial statements (Grosu&Bostan, 2010).

CONCERNS FOR THE GAAP AND IFRS LINGERING DIFFERENCES

It is often considered that U.S. GAAP is the gold standard, especially since it has been in existence for many decades and has remained most influential in the world (Nobes& Parker, 2008; AICPA, 2011). To test how America has influence in accounting worldwide and if it applies IFRS, the obligation to apply IFRS does not apply unless to traded companies. Listed companies from the United States of America are required to apply us Financial Accounting Standards (FASs). Harmonization of international accounting has been a process with two speeds, fast for large publicly traded companies, but much slower for others (Ana-Marie, and Andrea, 2011).

Another concern is that many countries that claim to be converging to internationalstandards all over the world may never get to 100 percent compliance. Most reserve the right to carve out selectively or modify standards they do not consider in their national interest, an action that could lead to incomparability thevery issue that IFRS seek to address.

Great strides have been made by the FASB and the IASB to converge the content of IFRS and U.S. GAAP.The goal is that by the time the SEC allows or mandates the use of IFRS for U.S. publicly traded companies,all or most of the key differences would have been resolved.Because of these ongoing convergence projects, the extent of the specific differences between IFRS andU.S. GAAP is shrinking (Sawami, 2011).

CONCLUSION

Based on the foregoing literature review, it is clear that from the selected countries, effortsare ongoing to ensure the enforcement of Financial Reporting Standard in them. It is foreseeable that from the first year of IFRS reporting, the various management unitsto take many decisions due to the IFRS, aiming at finding explanations on how the targeted transition will be effectively achieved from previous national GAAPs to national regulations of IAS/IFRS.

One can deduce that there are many areas that need to be converged with IFRS to achieve the stated goals. These include the: (1) Legal environment; (2) tax, cultural and Education issues; (3) Financial instruments and hedging; (4) Adoption of inventories based on LIFO; (5) Recognition of financial Assets and Liabilities; (6) Contingencies regarding Assets and Liabilities; (7) Business combinations; (8) Leasing, and (9) Property, plant and equipment.

A most fundamental change that has affected many countries in recent times is the introduction of international Financial Reporting Standards.Most countries have undertaken a number of steps to improve its financial reporting and auditing systems. Huge amount of money have been invested for training and education for financial-statement preparersand auditors of small local companies. This is to understand that high quality financial reporting depends on enforcement. Merely adoptinginternationally accepted accounting and auditing standards cannot ensure improvementsin corporate financial reporting. There are three important links in the enforcementchain, and each must be strengthened.

Firstly, company directors, who have legalresponsibility for preparing and presenting financial statements, must ensure that accounting staff properly applies the IFRS accounting standards. Secondly, auditors mustact independently to provide assurance that financial statements comply with theestablished standards and portray a true and fair view of an enterprise's financialconditions and results of operations.Thirdly, both self-regulatory organizations andstatutory regulatory bodies must implement arrangements for efficient monitoring ofregulatory compliance and consistently take action against violators.

REFERENCES

1. AECA, (2010): *Enforcement of IFRS in the European Union. A comparative Survey: Spain and the UK*, Viewed on March14, 2012 http://www.uv.es/catedra-aeca/workshop/files/sp2_Hers.pds.
2. Afaanz, (2011): *IFRS Harmonization Australia , Japan, and China: An historical Perspective*, Viewed on March 1, 2012 http://www.afaanz.org/openconf/2011/...request.php?module
3. AICPA, (2011): *.International Financial Reporting Standards (IFRS)*. New York: AICPA. Viewed on October 25, 2011 http://www.aicpa.org/www.ifrs.com.
4. Ana-Marie, P., and Andrea, V. (2011): *.International Financial Reporting Standard for Small and Medium-Sized Entities. A New Challenge for the European Union*, CES Working Paper III. Viewed on October 26, 2011 http:// www.ifrs.org/eur.
5. Ball R. (2006): "International Financial Reporting Standard (IFRS): Pros and Cons for Investors". In *Accounting Business Research*, 36.
6. Ball R., Kothari, S. P. and Robin, A. (2000): *The Effect of International Institutional Factors on Properties of Accounting Earnings*.In Journal of Accounting and Economic, 29.
7. Caroline J. (2010): "*Interpretation of IFRS*". Journal of Institute of Certified Accountants of Kenya – UNCTAD.
8. CESR, (2010): Activity Report on IFRS Enforcement 2009. Ref: CESR/10-917. Viewed on March 14, 2012 http:// wwwcers.eu
9. Deloitte, (2011):*Mapping the Impacts of IFRS,* Viewed on March 1, 20011 htt://www.deloitte.com/view/en_CA/ca/insights/insights-and-issues/4d01f75d99efd11OVgnVCM/00000ba42f00Arcrd,
10. Deloitte,(2008): *Hong Kong Financial Reporting Standards: HKFRSs-IFRS-HKAS*. Viewed on October 26, 2011 http://www.deloitte.com/dtt/research.
11. Elmer, M,T. (2011): Accounting Regulation Enforcement in China. Viewed on March 14,2012 http://ezinearticles.com/?Accounting-Regulation-And-Enforcement-in-china-pdf=6764632
12. European Commission (2010): *Summary Report on the Responses Received from the Consultation on IFRS for SMEs, Internal Market and Services DG.* Viewed on October 26, 2011 http://ec.europa.eu/internal-Market/accounting/review-directives.en.htm.
13. Global Glimpses,(2009): *Japan Publishes Draft*. Viewed on March 1, http://www.complianeweek.com/japan-gives-green-light-to-ifrs-accounting (arlicle/188500).
14. Grosu, V. and Boastan, I. (2010: *IAS/IFRS Standards for SMEs and Impact on the Romanian Accounting System*. In International Journal of Academic Research, 2 (4). Viewed on October 26, 2011 http://www.ijar.lit.az/pdf6/2010.204-41/29pdf
15. Hassab, H. R., Epps, R. W. and Said, A. A. (2001): "*The impact of Environment Factors on Accounting Development: An Egyptian Longitudinal Study"*. Paper presented at the American Accounting Association Conference, U.S.A.

16. ICAEW. (2006): *Knowledge Guide to International Accounting Standards*. Viewed on March 15, 2012 http://www.icaew.com/en/library/subject-gateways/accounting-standards/knowledge-guide-to-international-accounting-standards
17. ICAZ, (2010). *The Status of IFRS in Zimbabwe*. Viewed on February 25, 2012 .
18. ICPAU, 2009: *IFRS for SMEs*. View on November 28, 2011 http://www.icpau.co.ug/downloads/implementation%20Guidelines%20-%20IFRS%20SMEs.pdf.
19. Iyoha, F. O., Jimoh, J. (2011: "*Institutional Infrastructure and the Adoption of International Financial Reporting Standards (IFRS) in Nigeria.School of Doctoral Studies"* .In *European Union Journal*. Published by the IIU Press and Research Centre, A.C. Viewed on November 28, 2011 http://iiuedu.eu/press/journals/sds/SDS_2011/BME_article2.pdf.
20. Jinghan, J. and Haitao, Z. (2010), "*The Impact of Regulatory Enforcement and Audit up IFRS Compliance-Evidence from China"*. In European Accounting Review Vol.19,No.4, 665-692,201
21. Kannah, R., (2009), *Report of the committee on IFRS compliance in Indian Insurance Industry*. India: Hyderabad.
22. Karthik .R, Donovan, G, A. and Nancy, H.D. (2009): *IFRS in China*. From Havard Business School 16 pages. Publication date Nov 09, 2009. Prod.#:1100037-PDF-ENG. Viewed on March 15, 2012 http://hbr.org/product/ifrs-in-china/an/1100037-PDF-ENG.
23. La Porta, R., Lopez-de Silanes, F., Shelifer, A, and Vishmy, R. (1999), "*The Quality of Government"*. In Journal of law, economics and organization*,* 15.
24. Leuz, C., Nnda, D. and Nysocki, P. (2003), *Earnings Management and Institutional Factors: an International Comparison*. In Journal of Financial Economics, 29.
25. Mukhtar, A. (2009), "*Nigerian Banks: the Challenges of Adopting International Financial Reporting Standards"*. In Zenith Economy Quarterly, April.2009
26. NBAA, (2009): "*Scope of the Applicability of IFRS, IPSAS, and IFRS for SMEs in Tanzania"*, Viewed on February 25, 2012 http://www.nbaa-tz.org,
27. Nobes, C. and Robert, P,.(2008), *Comparative International Accounting*, *tenth edition*. New York: Prentice Hall.
28. Nobes, C. W., (1998), *Towards a General Model of the Reasons for International Differences in Financial Reporting*. New York: Abans.
29. Pecter, P; Michael, W and Ken.C. (2010): *IFRS for SMEs*, Viewed on February 25, 2012 http://www.go.iasb.org/smeig.
30. Peter, M. (2008): *Adopting IFRSs in Canada*, Viewed on March 1, 2012 http://www.acsbcanada.org/documents-for-current.
31. PricewaterhouseCoopers,(2009): *IFRS for SMEs*. Viewed on March 13, 2012 http://www.pwc.com/us/en/issues/ifrs-reporting.assets/ifrs_for_smes_us.pdf
32. Ramanna, K. and Sletten, E. (2010): " *Network Effects in Countries Adoption of IFRS"*, Havards Business School, working paper , 10-092
33. Ravindra, T. and Shikhali, C., (2010), "*International Financial Reporting Standards: A Way for Global Consistency"*. In Australian Journal of Business and Management Research. Viewed on November 2, 2011 http://www.gaop-ifrs.com/diary/.
34. Rolf ,R. (2010): *Enforcement of IFRS in Europe – Why is Sweden Criticized*?, Viewed on March 14, 2012 http:// snec.org/filer/papers/658.pdf
35. SAICA.,(2006), "*Preference to Statement of Generally Accepted Accounting Practice"*. South Africa: SAICA. August.2006
36. Sawami, A., (2011), "*The Changing Accounting Environment: International Accounting Standard and US Implementation"*. In Journal of Finance and Accountancy.
37. SEC Release, (2008): *Roadmap for the Potential Use of Financial Statement Prepared in Accordance with the International Financial Standards by U.S Issues*. Viewed on October 7, 2011 http:// www.sec.gov/rules/proposed/2008.
38. Sigma, M, C., (1995), *"Accounting in Turkey*". The European Accounting Review.Vol.4, No 2: 351 -371
39. Sigma, M, C and Hosal, A, N., (2005), "*Convergence to International Financial reporting standards: The Case of Turkey"*. International Journal of Accounting, Auditing and Performance.Vol.2, N.1/2:12-139.
40. Smart, V. (2012): *Standard Procedure: IFRS Harmonization*, Viewed on March 1, 2012 http://gfinance.com/accountancy-viewpoints/standards-procedure-ifrs-harmonization?page=4
41. Tom, M. (2010): *African Capital Market*, Viewed on February 26, 2012 http://www.africancapitalmarketnew.com/250/zimbabwe-se-seeks-to-restore-ifrs-compliance-by-limited-companies/.
42. Tyrone, M, C. (2010): *IFRS Compliance in the Year of the Pig: Hong Kong Impairment Testing.* Viewed on March 1, 2012 http://www.usyd.edu.au
43. UNCTAD. (2008).: "*United Nation Publication Sales",* No:E:08.N.O25 ISBN N.978-92-T-127571-1
44. USE, (2012): *Uganda IFRS Adoption Date*, Viewed on February 27, 2012 http://www.pwc.com/us/en/issues/ifrs-reporting/country-adoption/africa.jlitml.
45. Zhang, Y, Andrew.J, and Collier, H.W. (2007): *The Convergences of IFRS in China: A view on Influence of Political ideology on Chinese Accounting Profession*, Viewed on March 15, 2012 http://ro.uow.edu.au/cgi/viewcontent.cgi?article=1387.
46. ZSE, (2010): *Zimbabwe IFRS Adoption*, Viewed on February 28, 2012 http://www.pwc.com/us/en/issues/ifrs-reporting/country-adoption/africa.jhtml.

ASSESSING THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON AFRICAN MICROFINANCE INSTITUTION PERFORMANCE: EMPIRICAL EVIDENCE FROM EAST AFRICA

TILAHUN AEMIRO TEHULU
LECTURER
DEPARTMENT OF ACCOUNTING & FINANCE
BAHIR DAR UNIVERSITY
BAHIR DAR, ETHIOPIA

ABSTRACT

Using an econometric approach on unbalanced panel data collected from 23 microfinance institutions (MFIs) in East Africa from the period 2004 to 2009, this study has identified the determinants of operational self sufficiency of MFIs. The random effects GLS regression results show that MFIs' operational sustainability (OSS) is positively and significantly driven by the ratio of gross loan portfolio to total asset and breadth of outreach. Management efficiency measured by operating expenses /asset ratio and credit risk measured by PAR > 30 days have a negative and significant impact on operational sustainability of MFIs. Another interesting result is that MFIs in East Africa have performed even better, in terms of OSS, during the global financial crisis though the result is not statistically significant. Finally, GDP growth has a positive and significant impact on OSS at 95% confidence interval. Thus, management efficiency, loans intensity, portfolio at risk, breadth of outreach and GDP growth are important determinants of MFIs' operational sustainability in East Africa.

KEYWORDS
East Africa, Financial performance, Global financial crisis, Microfinance institutions.

INTRODUCTION

Poverty eradication is at the forefront of Africa's development strategy. Inadequate access to credit by the poor has been identified as one of the contributing factors to poverty. Microfinance institutions help in reducing poverty by providing the poor with sustainable credit facility to start a small business. Empirical evidence establishes that less than 15 percent of the population in developing countries has access to the mainstream financial services (Aryeetey, 1995). The microfinance sector, apart from being a critical component of the financial system, is also regarded as a poverty reduction strategy for developing countries (kyereboah-coleman, 2007).It is in this regard that microfinance is very crucial. As many people in East Africa are living below poverty line, the health of MFIs is very critical to the health of the general economy at large.

The global financial crisis is spreading quickly in emerging markets, but little is known about its impact on the microfinance sector (CGAP, 2009). In March 2009, CGAP surveyed over 400 MFI managers from all regions to identify present impacts of crisis. MFIs (65%) have reported that their gross loan portfolios were either flat or had decreased and 69% of the respondents reported deterioration of loan portfolio quality.The CGAP survey also indicated that MFIs in Latin America and the Caribbean faced a decrease in repayment rate and portfolio quality. The location of MFIs is also an important factor because of economic, regulatory and country specific conditions influencing development of MFIs. Evidently, the impact of the crisis on microfinance sector would differ by geographical location of MFIs (Dokulilova et al, 2009).

East Africa is the least developed region. Interventions through the delivery of microfinance services are considered as one of the policy instruments of their government to eradicate poverty. For sustainable poverty alleviation, the MFIs themselves should be sustainable. Given the relation between the well being of the microfinance sector and the goal of poverty eradication, knowledge of the underlying factors (including the impact of the global financial crisis) that influence the sectors performance is therefore essential not only for the managers of the MFIs, but for numerous stakeholders such as the central bank, governments, and other financial authorities.

Studies, however, on the determinants of operational sustainability of microfinance institutions are very limited and in most cases been carried out on a single country and before the global financial crisis. Empirical evidence regarding the determinants of East African MFIs' sustainability is also missing. Therefore, by using random effects panel data regression model, this study examined the determinants of East African microfinance institutions operational sustainability during the period 2004-2009.

The remaining part of the paper is organized as follows: Section II provides a brief review of the literature on the determinants of MFIs' performance. Section III discusses the dependent and explanatory variables used for examining MFIs' performance determinants. Section IV describes the data and methodology and section V presents empirical results. Finally, section VI concludes.

LITERATURE REVIEW

Studies on the impact of the global financial crisis on performance of MFIs are limited or non-existent. Typically the studies have focused on theoretical issues and empirical work has relied on the analysis of descriptive statistics rather than rigorous statistical estimation. Studies on determinants of performance of African MFIs are also virtually non- existent. Recently, Tilahun and Derege (2011) assessed the financial performance of Amhara Credit and Saving Institution during the global financial crisis and found that there was a negative shift in the performance indicators particularly in the year 2009. Their findings show that gross loan portfolio, number of active borrowers, return on asset and return on equity have declined and a deterioration in portfolio quality revealed.Nawaz (2010) attempts to identify the determinants of MFIs profitability and sustainability using a panel data set of 179 MFIs worldwide. The evidence does not support the trade off between outreach and sustainability, however, the trade off between costs and sustainability of MFIs is well supported. The productivity and efficiency of MFIs contributes towards sustainability.

Bogan (2009) examined the relationship between capital structure and sustainability of MFIs and found that increased use of grants by large MFIs decreases operational self sufficiency. Asset size is significantly and positively related to sustainability. The country level macroeconomic indicator variables (GDP and inflation) are not significant determinants of operational sustainability.

Using an econometric approach on panel data collected from 53 MFIs in Uganda over a period of six years, Okumu (2007) has identified the determinants of sustainability and outreach of MFIs. The study indicates that sustainability is positively and significantly driven by real effective lending rates and age of MFIs and negatively by the ratio of gross outstanding loan portfolio to total assets, the ratio of average loan size to the national per capita income and the unit cost of loan disbursed.

Kyereboah-Coleman (2007) examined the impact of capital structure on the performance of microfinance institutions. This study revealed that leverage, as expected, impacts positively on outreach. This could mean that with microfinance institutions, the higher the leverage, the greater the outreach level, and the higher the premium that is extractable from the credit advanced. This premium then translates into the firm's income flow and profitability which could be used to service the debt. Again greater outreach enables MFIs to enjoy economies of scale essentially as a result of reduction in average cost of operation. Thus, according to this study, when outreach increases, the profitability outlook of the firm will be enhanced.

Ejigu (2009) made performance analysis of a sample MFIs of Ethiopia. The study indicated that profitability and sustainability of the MFI depend on their size with large MFIs having high ROA, ROE and OSS. Using a simple correlation analysis, this study found that there is a trade off between serving the poor and being operationally self sufficient. MFIs age correlates positively with efficiency, productivity, the use of debt financing (commercialization) and OSS.

PERFORMANCE MEASURES AND DETERMINANTS

PERFORMANCE MEASURE

In the microfinance sector, return on asset (ROA), return on equity (ROE), operational self sufficiency (OSS), impact and outreach can be used as a measure of MFIs' performance. In this study operational self sufficiency (OSS) is used as dependent variable since the study seeks to identify determinants of sustainability of MFIs. Given that the MFI data are obtained from MIX market, I utilize the MIX market definitions of operational self sufficiency (OSS). OSS is defined as total financial revenue/ (Financial expense + Operating expense + Loan loss provision expense). Table1 provides a brief description of the dependent and independent variables along with their hypothesized relationship. **[Insert Table1 here]**

INTERNAL FACTORS

The nine measures used as internal determinants of performance are: Operating expense/ Asset ratio(OETA) as an indicator of management efficiency; Debt to Equity ratio (DE) which represents financial leverage ; loan size / GNI per capita (LSGNI) to represent client poverty level; loan to asset ratio (LTA) to measure loans intensity ;age (AGE) which indicates the years since MFI has started operation; portfolio at risk (PAR) to indicate portfolio quality or credit risk; natural logarithm of number of borrowers (LNNB) which represents breadth of outreach; deposit to Asset ratio (DTA) to measure deposit mobilization; and Natural log of total asset (LNTA) which represents size of MFIs.

Operating expense to total asset is used as an indicator of management's ability to control costs. Higher ratios imply a less efficient management and for the most part, the literature argues that reduced expenses improve the efficiency and hence raise the profitability of a financial institution, implying a negative relationship between operating expense ratio and profitability (Bourke, 1989). However, Molyneux and Thornton (1992) observed a positive relationship, suggesting that high profits earned by banks may be appropriated in the form of higher payroll expenditures paid to more productive human capital.

Debt to equity ratio measures the extent to which a firm uses debt relative to equity. The higher the debt/ equity ratio, the higher the financial risk and the higher the cost of funds. This normally means lower profit. A number of studies provide empirical evidence supporting this negative relationship between debt level and firm's performance or profitability (Rajan and Zingales, 1995; Wald, 1999; Booth et al, 2001; Fama and French, 2002). However since debt is the cheapest source of finance and also provides tax shields due to interest expense tax deductibility, this variable can have a positive impact on sustainability.

Average loan size divided by the GNI per capita is used as a proxy for measuring the depth of outreach (client poverty level). The smaller the loan size the deeper is the outreach or the poorer the clients. Since small size loans increase the transaction costs of MFIs, the smaller the loan size, the higher the costs or the lower the profit. Thus, LSGNI is expected to affect performance positively. However, Okumu (2007) found negative impact on sustainability.

The gross loan portfolio is the main source of income to a MFI and thus, LTA is expected to have a positive impact on performance. Other things constant, the higher the loan, the higher the interest revenue and profits. However, if a MFIs' risk increase when its loan to asset ratio increase, then profits may decrease. In a study by Okumu (2007) LTA is negatively related with OSS.

The age of MFIs affects sustainability through accumulated experience from learning by doing. Okumu, 2007 and Cull et al, 2007 found positive relation between financial performance and age of MFIs. However, Mersland and Storm (2007) found negative relationship between age of MFI and ROA. Kyereboah-coleman (2007) argued that the age variable could have either effect depending on other factors and measures put in place by the firm to deal with repayment. Hence if a firm is unable to ensure repayment as it grows and reaches out to more clients, default rates are likely to increase and thus lower profitability.

Portfolio at risk (PAR) is an indicator of credit risk or portfolio quality. The higher the PAR, the higher the credit risk or lower profitability. Hence, PAR is expected to have negative impact on performance. Breath of outreach (LNNB) is measured by number of active borrowers. The larger the outreach, the higher the gross loan portfolio and the higher the income that is extractable. However, when the outreach increases if average loan size per borrower decreases, this could have a negative impact on sustainability.

The variable DTA is included in the regression model as a proxy variable for deposit mobilization. It would be reasonable to assume that MFIs with higher DTA are able to attract more deposits, which is a cheaper source of funds. The LNTA variable is incorporated as an independent variable in the regression analysis as a proxy of size to capture the possible cost advantages associated with size (economies of scale). A positive relationship between size and MFIs' sustainability is expected. The study by Bogan (2008), Mersland and Storm (2007) and Cull et al (2008) shows that size is positively and significantly related to financial performance.

EXTERNAL FACTORS

Turning to the external determinants, three variables are considered. These variables include GDP growth (GDPG), Inflation (INF) and Global financial crisis dummy (GFC). Generally, higher economic growth encourages MFIs to lend more and permits them to charge higher margins as well as improve the quality of their assets. Thus, GDP growth is expected to have a positive impact on sustainability. Inflation affects the real value of costs and revenues although it may have a positive or negative effect on profitability depending on whether it is anticipated or unanticipated **(Perry, 1992).**

Finally in order to examine for the impact of the global financial crisis on the sustainability of East African MFIs, GFC (a dummy variable that takes a value of 1 for the crisis period and O for pre-crisis) is included in the regression analysis.

DATA AND METHODOLOGY

DATA

To investigate the determinants of operational sustainability of MFIs, I utilize panel data on MFIs in East Africa for the years 2004 through 2009. The MFIs data is collected from individual institutions as reported to MIX market.[1] since the study seeks to examine the impact of the global financial crisis, all MFIs that have reported the required data to MIX market for at least the period 2006 through 2009 are included in the study. This yielded unbalanced panel data for 23 MFIs, consisting of 121 observations. Additional data on country macroeconomic variable (GDP growth and Inflation) is collected from the World Bank Key development data and statistics web site.[2]

A test for multicollinearity has been made using variance inflation factor (VIF). The VIF value of LNTA (size) is 33.59. **(Insert Table 2 here)**. Therefore, size is dropped from the regression analysis since its VIF is greater than 10. As a rule of thumb, if the VIF for a variable exceeds 10, that variable is said to be highly collinear (Gujarati and Sangeetha, 2008). When size is dropped from the regression model, the new VIF value for each explanatory variable becomes less than 3 indicating that multicollinearity problems are not severe or non-existent. **(Insert Table 3 here)**.

METHODOLOGY

To test the relationship between MFIs operational sustainability and internal and external determinants described earlier, I estimate a linear regression model in the following form:

$$P_{it} = \beta_0 + \sum_{j=1}^{9} \beta_j X_{jit} + \sum_{e=10}^{12} \beta_e Y_{eit} + \varepsilon_{it} \qquad (1)$$

Where $_i$ refers to an individual MFI; $_t$ refers to year; P refers to performance measures (operational sustainability), X_j represents internal factors (determinants) of sustainability for MFIs; Y_e represents the external factors (determinants) of sustainability for MFIs; β_0 is the constant; $\beta 1, \beta_2, ---, \beta 12$ represent the coefficient for the independent variables and ε_{it} is error term($=\eta_i + \mu_{it}$).

To examine the determinants of operational sustainability of MFIs I apply random effects GLS regression model. The choice between fixed effects model and a random effects model is based on the use of the Hausman test. The Hausman specification test shows that the difference in coefficients estimated using fixed and random effects regression is not systematic (Chi2 (11) = 2.36, Prob> Chi2 = 0.9968). Thus, random effects GLS regression is favored. Breusch and Pagan

Lagrangian multiplier test for random effects (chi2(1) = 78.72, Prob > chi2 = 0.0000) also shows that data is fit for the random effects GLS regression than pooled OLS.Extending equation (1) to reflect all the explanatory variables used as described in Table1, the baseline model is formulated as follows.

$$S_{it} = \alpha + \beta_1 OETA + \beta_2 DE + \beta_3 LSGNI + \beta_4 LTA + \beta_5 AGE + \beta_6 PAR$$
$$+ \beta_7 LNNB + \beta_8 DTA + \beta_9 LNTA + \beta_{10} GDPG + \beta_{11} INF + \beta_{12} GFC + \varepsilon_{it} \quad (2)$$

Where S represents operational self sufficiency (OSS) and others as described in Table1.
Autocorrelation and heteroskedasticity is controlled by using clustered robust standard errors in the random effects model. The normality of the error term is tested by using Shapiro-Wilk test for normal data and is found normal since P-value is 0.63916 (See **Table 4**).

EMPIRICAL RESULTS

In this section, I will discuss the determinants of operational sustainability of East African MFIs measured by using random-effects GLS regression. The regression results focusing on the relationship between MFIs sustainability and the explanatory variables are presented in Table 5. **(Insert Table 5 here)**.
A model fitness test is checked by the Wald test (Wald chi2 (11) = 187.37, prob> chi2 = 0.0000). This shows that the explanatory power of the model is reasonably high.

INTERNAL FACTORS

As expected the coefficient of operating expense /asset ratio (OETA) is negative indicating a negative relationship with MFIs' sustainability. The result is statistically significant at the 1% level and imply that an increase(decrease) in these expenses reduces(increases) the sustainability of MFIs operating in East Africa. Consistent to this finding, Pasiouras and Kosmidou (2007) and Kosmidou(2008) have also found that poor expenses management to be among the main contributors to poor bank profitability.
The coefficient of debt/equity ratio (DE) is positive though not statistically significant. Debt financing is the cheapest source of finance and hence MFIs earn a higher spread which normally means higher operational sustainability. A number of studies provide empirical evidence supporting this positive relationship between debt level and firm's performance or profitability (Roden and Lewellen,1995; Champion,1999; Berger and Bonaccorsi di patti,2006).
As expected average loan size divided by the GNI per capital (LSGNI) is found to have a positive impact on operational sustainability. Since small size loans increase the transaction costs of MFIs, the larger the loan size, the lower the costs and the higher the profit. However, the result is not statistically significant.
The coefficient of loan to asset ratio (LTA) is positive and statistically significant at the 1% level. This shows that operational sustainability is positively and significantly driven by the ratio of gross loan portfolio to total asset. This result contradicts with findings of previous literature which document a negative impact of LTA on MFIs' sustainability(Okumu,2007).
The coefficient of portfolio at risk (PAR) is negative which is consistent with the hypothesis. The result is statistically significant at 1% level. This result may be explained by considering the fact that the more MFIs are exposed to credit risk, the higher is the accumulation of unpaid loans and lost interest income which reduces operational sustainability of MFIs. Age of MFIs is also found to have a negative impact on operational sustainability but not significant. As expected the deposit /asset ratio is positively related to operational sustainability. However, the result is not statistically significant since p-value is greater than 10%.
Finally it is found that breadth of outreach (LNNB) is positively and significantly related to operational sustainability. This could mean that the larger the outreach, the higher the gross loan portfolio and the higher the financial revenue, which is the numerator in determining OSS. Again greater outreach helps MFIs to enjoy economies of scale due to reduction in average cost of operation.

[1]www.mixmarket .org.
[2]http://web.worldbank.org.

EXTERNAL FACTORS

When we look at the impact of external factors on operational sustainability (OSS), inflation and global financial crisis have no significant effect on OSS since the p-value is greater than 10%. However, GDP growth is found to have a positive and significant impact at 95% confidence interval since P-value is less than 5%. This provides support to the argument of positive association between economic growth and MFI performance.
The coefficient of inflation (INF) is negative indicating that the inflation was not anticipated and MFIs did not get the opportunity to adjust interest rates accordingly. The result, however, is not statistically significant. Finally it is found that MFIs in East Africa have performed even better during the global financial crisis (the coefficient for GFC is positive but not significant).

CONCLUSIONS

This study examined the impact of internal and external factors on East African MFIs' operational sustainability. Unbalanced panel data for 23 MFIs consisting of 121 observations, covering the period 2004 – 2009, provided the basis for the econometric analysis.
The results indicate that MFIs' operational sustainability is positively and significantly driven by the ratio of gross loan portfolio to total asset and breadth of outreach. Management efficiency measured by operating expenses /asset ratio and credit risk measured by PAR > 30 days are found to have a negative and significant impact on operational sustainability of MFIs. Therefore, by influencing these internal factors, a MFI could be able to improve its sustainability.
When we consider external factors, inflation has no significant impact on OSS. Another interesting result is that MFIs in East Africa have performed even better, in terms of OSS, during the global financial crisis though the result is not statistically significant. Finally, GDP growth is found to have a positive and significant impact on OSS at 95% confidence interval.
Thus, management efficiency, loans intensity, portfolio at risk, breadth of outreach and GDP growth are important determinants of MFIs' operational sustainability in East Africa. Finally, further research could examine the determinants of credit risk and outreach since these variables are the main determinants of sustainability but studies aimed at assessing the same is missing.

REFERENCES

1. ------------ (2009) "Capital Structure and Sustainability: An Empirical Study of Microfinance Institutions", Cornell University
2. Aryeetey, E.(1995) "Credit for Enterprise Development" in Aryeetey, E.(Ed.), Small Enterprise credit in West Africa, a joint British Council/ISSER publication, British Council/ISSER,Accra.
3. Berger, A. and Bonaccorsi di Patti, E. (2006) "Capital Structure and Firm Performance: a new approach to testing agency Theory and an application to the banking industry". Journal of Banking and Finance, Vol.30:1065-102
4. Bogan V. (2008) "Microfinance Institutions: Does Capital Structure Matter", Cornell University
5. Booth, L., Aivazian, V., Hunt, A., Maksimovic, D. (2001) "Capital Structure in Developing Countries". Journal of Finance, Vol.56:87-130
6. Bourke, P. (1989) "Concentration and other Determinants of Bank profitability in Europe, North America and Australia". Journal of Banking and Finance, 13:65-79
7. CGAP (2009) "The Impact of the Financial Crisis on Microfinance Institution and Their Clients." Consultancy Group to Assist the Poor, Washington, DC: USA.
8. Champion, D. (1999) "Finance: the joy of leverage" Harvard Business Review, Vol.77:19-22
9. Cull R. Demirgüç-Kunt A. and Morduch J. (2008) "Does Microfinance regulation curtail profitability and outreach?" NYU Robert Wagner Graduate School of public service paper.

10. Cull, R., Demirgüç-Kunt, A. and Morduch, J. (2007) "Financial Performance and Outreach: A Global Analysis Of Leading Micro Banks." Economic Journal, 117(517), PP: 107-133.
11. Dokulilova L., Janda K., Zetek P. (2009) "Sustainability of Microfinance Institutions in Financial Crisis." MPRA paper No.17696. Charles University in Prague.
12. Ejigu, L. (2009) "Performance Analysis of Sample Microfinance Institutions of Ethiopia." International NGO Journal, 4(5), PP.287-298.
13. Fama, E.and French, K. (2002) "Testing Tradeoff and Pecking Order Predictions about Dividends and Debt". Review of Financial studies, Vol.15:1-33
14. Gujarati, D.N and Sangeetha (2008) "Basic Econometrics." The Tata McGraw-Hill Companies, 4th Ed. (India)
15. Kosmidou, K.(2008) "The Determinants of Banks' profits in Greece during the Period of EU Financial Integration". Managerial Finance 34,no.3:146-59
16. Kyereboah-coleman, A. (2007) "The Impact of Capital Structure on the Performance of Microfinance Institutions" The journal of Risk Finance, Vol.8 No.1, PP: 56-71.
17. Mersland R. and StrØm R. Ø. (2007) "Performance and Corporate Governance in Microfinance Institutions" Agder University, Norway
18. Molyneux, P. and Thornton J.(1992) "Determinants of European Bank Profitability: A note". Journal of Banking and Finance,16:1173-1178
19. Nawaz A. (2010) "Issues in Subsidies and Sustainability of Microfinance: An Empirical Investigation" Pakistan Institute of Development Economics, CEB Working paper No. 10/010
20. Okumu L.J (2007) "The Microfinance Industry in Uganda: Sustainability, Outreach and Regulation" unpublished PhD Dissertation, University of Stellenbosch.
21. Pasiouras, F and Kosmidou (2007) "Factors Influencing the Profitability of Domestic and Foreign Commercial Banks in the Europian Union". Research in International Business and Finance 21, no.2:222-37
22. Perry, P. (1992) "Do Banks Gain or Lose From Inflation", Journal of Retail Banking 14(2), PP: 25-40
23. Rajan, R. and Zingales, L. (1995) "What Do We Know about Capital Structure? Some Evidence from International Data". Journal of Finance, Vol.50:1421-60
24. Roden, D. and Lewellen, W. (1995) "Corporate Capital Structure Decissions: Evidence from leveraged buyouts". Financial Management, Vol.24:76-87
25. Wald, J. (1999) "How Firm characteristics Affect Capital Structure: an international comparison". Journal of Financial Research, Vol.22:161-87

TABLES

TABLE 1: DESCRIPTION OF VARIABLES AND HYPOTHESIZED RELATIONSHIP

Variables	Description	Operational sustainability
OETA	Operating expense divided by total asset	-
DE	Debt/equity ratio	+/-
LSGNI	Average loan size divided by GNI per capita	+
LTA	GLP divided by total asset	+/-
AGE	The number of years since date of establishment	+/-
PAR	Portfolio at risk greater than 30 days	-
LNNB	Natural logarithm of number of active borrowers	+/-
DTA	Total deposit scaled by total asset	+
LNTA	Natural logarithm of total assets	+
GDPG	GDP Growth rate	+
INF	Annual inflation rate	+/-
GFC	Global financial crisis dummy	-

TABLE 2: MULTICOLLINEARITY DIAGNOSTICS

Variable	VIF	1/VIF
LNTA	33.59	0.02977
LNNB	23.77	0.042065
LSGNI	4.84	0.206654
AGE	2.89	0.346404
DTA	2.41	0.414396
GDPG	1.93	0.517884
OETA	1.72	0.581715
LTA	1.72	0.581795
GFC	1.47	0.681575
PAR	1.32	0.759453
INF	1.31	0.761112
DE	1.24	0.807173
Mean VIF	6.52	

TABLE 3: MULTICOLLINEARITY DIAGNOSTICS (VARIABLE- SIZE DROPPED)

Variable	VIF	1/VIF
LNNB	2.7	0.370979
DTA	2.35	0.426306
AGE	2.09	0.47886
LSGNI	1.9	0.525791
OETA	1.65	0.606653
GDPG	1.49	0.669174
INF	1.31	0.761358
GFC	1.3	0.766832
PAR	1.26	0.793467
DE	1.22	0.819128
LTA	1.18	0.847643
Mean VIF	1.68	

TABLE 4: NORMALITY TEST OF THE ERROR TERM

Variable	Obs	z	Prob>z
e	121	-0.356	0.63916

TABLE 5: RANDOM EFFECTS GLS REGRESSION RESULTS

Independent Variables	**Dependent Variable:OSS**	
	Coef.	**P>z**
DE	0.1891421	0.517
DTA	0.0623227	0.709
LTA	0.7514775	0.000*
LSGNI	0.0485953	0.216
OETA	-1.067297	0.000*
PAR	-0.5807452	0.000*
GDPG	1.41822	0.048**
INF	-0.1026546	0.585
GFC	0.1781568	0.959
AGE	-0.0031529	0.996
LNNB	9.538053	0.001*
_cons	-24.93397	0.371
Number of observations	121	
Model Fitness Test	Wald Chi2(11)=187.37	
	Prob> Chi2=0.0000	
Hausman Test	Chi2(11)=2.36, Prob>Chi2=0.9968	
corr(u_i, X)	0	

Notes: 23 MFIs, period 2004-2009, No. of observations=121, Observations in each group or MFI is: min=4, avg=5.3 and max=6, * 99% level of confidence. **95% level of confidence.

SOME HIDDEN TRUTHS ABOUT MANAGEMENT OF WORKPLACE ENVIRONMENT

MUHAMMAD RIZWAN
LECTURER
DEPARTMENT OF MANAGEMENT SCIENCES
THE ISLAMIA UNIVERSITY OF BAHAWALPUR
BAHAWALPUR, PAKISTAN

SYED USMAN ALI GILLANI
LECTURER
DEPARTMENT OF MANAGEMENT SCIENCES
THE ISLAMIA UNIVERSITY OF BAHAWALPUR
BAHAWALPUR, PAKISTAN

DIL JAN KHAN
MS SCHOLAR
DEPARTMENT OF MANAGEMENT SCIENCES
IQRA UNIVERSITY
ISLAMABAD, PAKISTAN

FAWAD SABOOR
MS SCHOLAR
DEPARTMENT OF MANAGEMENT SCIENCES
IQRA UNIVERSITY
ISLAMABAD, PAKISTAN

MUHAMMAD USMAN
STUDENT
DEPARTMENT OF MANAGEMENT SCIENCES
THE ISLAMIA UNIVERSITY OF BAHAWALPUR
BAHAWALPUR, PAKISTAN

ABSTRACT
The purpose of this paper is to present an empirical analysis of the managerial perspective and benefits of workplace environment. A primary rationale for workplace environment is the impact on employee performance and satisfaction. A questionnaire was employed to collect data from 600 employees working in public and private sector. Simple and hierarchical regression analysis was done to determine the relationships. The results of this paper elaborate the advantage of using gap approach for evaluating the workplace environment. The findings also support the hypothesized relationships between Locus of control and workplace environment. Finally, the current study also confirms the moderator role of workplace environment between job length and job satisfaction. With respect to the avenue of future research, empirical studies from other countries are required to comprehend the dynamic attributes of workplace environment with relation to employee satisfaction. The results suggest the usage of gap approach in developing more favorable workplace environment instead of only evaluating it. The workplace also plays an important role in the relation of locus of control with employee performance and job length with employee satisfaction. The concept presented in this paper tries to move towards forward stage i.e. prescription for the modification of workplace environment.

KEYWORDS
Workplace, Employee Satisfaction, Locus of control, Job length, Gap approach.

INTRODUCTION
At the workplace, a common understanding is that the employee satisfaction with the physical environment increases the likelihood of better work outcomes and the employees that are satisfied with the environment produce better results. Employee satisfaction is categorized as a vital aspect for the progress of an organization and very critical for the organizational performance. The basis for this preposition is on the fact that the satisfaction reduces the voluntary turnover and improves the morale of the employees (Dole and Schroeder, 2001). This means that if the organization ensures the favorable conditions for the employees, the employee's productivity, absenteeism and turnover can be controlled in the organization. These favorable conditions make the employees more relax and comfortable with the physical conditions and they can concentrate on their works. Evaluating employee's perception and demands of the physical working environment can provide an understanding to the management about the importance of critical aspects, objective properties and resultant outcomes. It was argued by (Stallworth and Kleiner, 1996) that the physical layout should be designed according to the employee needs so that can be effective for productivity maximization and employee satisfaction. They further argue that for sharing of information and networking across the departmental groups which allow networking and spontaneous communication, innovative workplace should be developed. So it is worthwhile to explore the perception of the employee about the characteristics of physical environment and their expectation about the workplace. In this way by asking the employees about the workplace and making improvements in the workplace design would increase the benefits and this should be done according to an employee perspective (Van der Voordt and Maarleveld, 2006; Preiser and Vischer, 2005). Sometimes the management goals to achieve high labor productivity and reducing cost affect the employee satisfaction. The process of redesigning workplace should be carried out according to the demand of employees. The application of the previous results to a specific environment is not always straightforward. Considering the nature of the employees for whom you are doing all

these efforts are also very important and always similar work setting does not relate to employee satisfaction in every context (Young and Cooper, 1995; Rees, 1995).

The primary purpose of this paper is to develop an understanding of improving the workplace environment instead of only evaluating it. The impact of workplace on employee performance and satisfaction was confirmed by many previous researches but there is still a question that what management can do for improving the workplace environment. This paper suggests the use of gap approach to accomplish the respective task. Additionally, this paper also tries to theorize the impact of workplace in the relationship of locus of control and job length.

LITERATURE REVIEW

WORKPLACE ENVIRONMENT

To date, studies on the relationship between workplace environment and its impacts on employee's needs, behavior and satisfaction has been limited (Lee, 2006). The results of different studies on employee satisfaction with workplace environment are very complex and difficult to generalize. Previous researchers have argued that employee perception, attitude, performance and satisfaction are affected by the working conditions of the organization (Lee and Brand, 2005; Leather et al., 2003; Sundstrom et al., 1994; Ferguson and Weisman, 1986; Zalesny et al., 1985). Some researches highly support the association between the stress, job satisfaction and physical environment of the organization (Sullivan and Bhagat, 1992). These studies taken the workplace environment as a general and did not mention the major attributes which cause the given consequences. The perception and priority of the employees are different on the basis of their different characteristics. In this connection, it is very hard to develop a universal hierarchy of these physical attributes rather we have to study more deeply to explore further. Similarly, Brown (1996) claimed that the relationship between employees and the characteristics of workplace settings is not well understood. The same attributes of workplace are not constantly associated to stress and job satisfaction in every workplaces (Rees, 1995; Young and Cooper, 1995). The difference in the previous findings could be due to studies trying to develop general relationships instead of finding relationships in specific context. Similarly attitudes, cultural values and employee socio-demographic attributes manipulate perceived hierarchies of environmental dimensions, so influencing the association between the employee satisfaction and physical conditions (Varady and Carrossa, 2000; Bonnes and Secchiaroli, 1995). These changing relationship of employee satisfaction with their workplace environment specify that a common model of workplace environment is not useful in identification of employee satisfaction. We have to identify salient workplace attributes instead of using a broad brush approach while seeking employee satisfaction with the workplace.

EVALUATING WORKPLACE ENVIRONMENT

Most of the working conditions satisfaction researches try to explore the significance of different attributes according to the employee's perception of environmental satisfaction or dissatisfaction. Some other studies specify more compound association between the employees and workplace environment. According to Lee (2006), the satisfaction can be best measured by comparing the gap between the perception of the employee and the actual situation of the workplace attributes. In most of the studies, they simply ask questions about the aspects of the work environment and measure the level of satisfaction with the particular aspect without knowing the importance of that aspect for the employee (Spreckelmeyer, 1993; Lantrip, 1993; Sundstrom et al., 1994). In perception base studies, it is difficult to give managerial direction from the results until or unless the workers show low satisfaction levels. Mostly these satisfaction results can be discussed according to the perspective of researcher instead of the original employee's viewpoint. Argued by (Vardy and Carrozza, 2000) that these controlled questions may restrict the results and create diverse interpretations. They also stressed that these straightforward results of satisfaction surveys are useless until or unless data would be compared to the results of other locations, subgroups and time.

h1. Gap approach is superior to perception approach due to its managerial implication

LOCUS OF CONTROL AND WORKPLACE ENVIRONMENT

Different studies attempt to check the relationship of Locus of control with different aspects of work for example job satisfaction, job stress and job performance. Chen and Silverthrone (2008) revealed that in a Taiwan accounting firm employees having high internal locus of control shows relatively low stress as compare to externals and high level of satisfaction and performance as well. On the contrary, Gibbons (2007) reported in his study that locus of control was not predicting the level of satisfaction and stress. Locus of control is one facet of personality that defines "the degree of one's expectancies for either the need for external or internal control of reinforcement" (Rotter, 1966). People can be internal of external according to the extent they believe that the consequences of their lives are dependent on their own efforts or some external factors such as luck and chance control their life. People with a low score on LOC have an internal LOC (internals) and they perceive that their own attributes, capacities and behaviors determine the outcomes or results they attain. While people with high score on LOC have an external LOC (externals) and they perceive that these things are normally external to their control. A number of studies have been attempt to examine the LOC and its relationship with different job aspects such as job satisfaction, stress, job performance and organizational commitment (Chen, 2008 and Patten, 2005). Moreover, studies have acknowledged the linkage between LOC and job stress (Daniels and Guppy, 1994; Rahim, 1996), job satisfaction, and job performance (Judge et al., 2003). Thus, an employee's behaviors related to different job aspects as job stress, job satisfaction and job performance are associated with different personality attributes especially locus of control (Martin et al., 2005). This is not the universal case there are studies that unable to find straightforward relationship between these work outcomes and employee degree of locus of control. In a study by Reed et al., (1994) examining the impact of LOC on job satisfaction mentioned that the significance of explaining the relationship of employee locus of control with job satisfaction are critically gender related. Hyatt and Prawitt (2001) checked the relationship between auditor LOC and their job performance from four accounting firms. In two firms they find significant association between the auditor LOC and their performance but this was not the case in the remaining two firms, where they did not find any association between LOC and job performance.

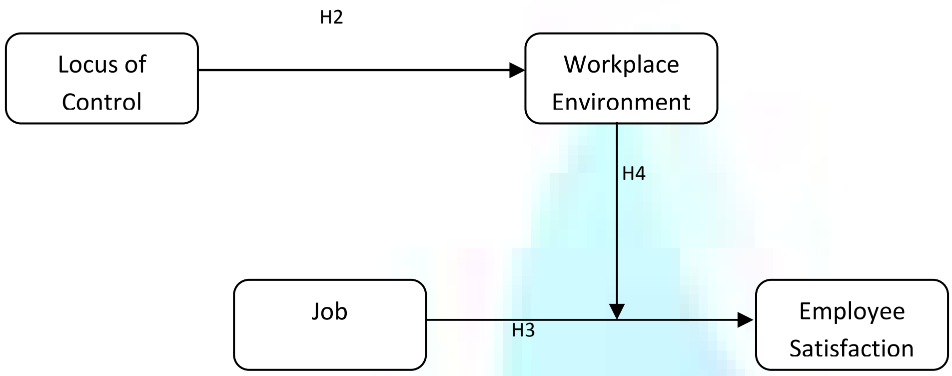
H2: There is a relationship between employee's LOC and perception about workplace environment.

JOB LENGTH AND WORKPLACE ENVIRONMENT

Regarding job length, the fundamental assumption appears to be that the employees who are satisfied with the job will stay with the organization and dissatisfied workers leaves or resign (Hom and Griffeth, 1995; Oshagbemi, 2000). Kuo and Ho (2010) found in his study that length of employment and experience significantly affects different outcomes of job performance. In a study, Oshagbemi (2000a) report job length is positively associated with the over all job satisfaction of university teachers. One of the possible explanation is that employees tend to adjust themselves according to the physical environment, which results in job satisfaction (Mottaz, 1987; Baldamus, 1961), or the workers who were not able to adjust themselves in the working environment were likely to experience dissatisfaction and leave the organization (Savery, 1996). Workers with longer job length may be satisfied because the job matches their need (Clark et al., 1996) or may be the employee find opportunities for promotion in the organization that increases the job satisfaction (Kalleberg and Mastekaasa, 2001). All these are the possible explanation for the relationship of job length with job satisfaction. But there are many studies that present the situation in quite different manner. Longer tenure may results in boredom and reduces satisfaction of the employee (Clark et al., 1996) and the phenomenon can be exacerbated by external labor market conditions and low job mobility (Trevor, 2001; Hom and Kinicki, 2001). Gibson and Klein (1970) found evidence for a linear negative relationship between tenure and satisfaction up to 12 years' tenure and after that it leveled out. A non linear relationship was reported by Bamundo and Kopelman (1980), Luthans and Thosman (1989) reported a curvilinear relationship of job length with job satisfaction and similar results was demonstrated by Snyder and Deitrich (1992). The results of the previous studies are very complex and make it very difficult to develop generalization. Researchers found extremely different or even opposite findings in their studies. Some studies argued a positive relationship where other observes negative relationship and even curvilinear or U shaped relationship was reported by these studies. These results create a paradox in the understanding of the association between job length and employee satisfaction. A possible explanation for this paradox is the impact of workplace environment. If the employees are satisfied with the workplace environment, we will observe a positive relationship between tenure and job satisfaction. Wickramasinghe (2009) argued a negative relationship between the tenure and job satisfaction in the employees of outsourced IT firms. The work environment in these firms is highly controlled and performance is closely monitored against targets. The employees worked during unconventional working hours to provide real-time services to western world. These irritating working conditions make socialization difficult and increase the level of stress and decrease job satisfaction. In these outsourcing firms employees face tough working time and issues related to work life balance (LIRNEasia, 2006). In a different study by Hwang (2008) to study the determinants of job satisfaction in police officers of South Korea reported that job length is negatively associated with job satisfaction. When the sample was divided into two categories i.e. in metropolitan cities

and rural area, it was found that the negative relationship was not observed in rural areas. The tenure was not important in rural areas and smaller cities in regards to job satisfaction. Sarkar (2003) conducted a research on the employees of Thailand hotel industry and found a positive relationship between tenure and job satisfaction. When we look at the working environment, it is quite favorable for the employees. In hotel industry, the best employee is often the one who efficiently facilitate the customer needs and creates a memorable and satisfying moment of truth. For the same reason the hotel employees are treated well and the environment for hotel employees are relatively better.
Therefore, we develop the following hypotheses.
H3: job length has a positive impact on employee satisfaction, such that employees with longer duration have more job satisfaction.
H4: Employees perception about workplace environment moderates the relationship between tenure and job satisfaction, such that employees who perceive favorable workplace report high level of job satisfaction with longer tenure compared to employees who perceive unfavorable environment with longer tenure.

PROPOSED MODEL FOR THE RESEARCH



METHOD

PILOT STUDY

To develop the questionnaire to judge the workplace and its impact on employee satisfaction a focus group of 35 employees were selected. By conducting face to face interviews, 16 items were finalized to include in the questionnaire.
For the reasons of correctness of measurement scale items, validity and clearing ambiguity 50 questionnaires were distributed among the employees of 5 different firms. The results show reliability and consistency when the extracted data was analyze in SPSS. The alpha value of 0.85 is more than the value of 0.60, recommended by Agarwal (2004).

LOCUS OF CONTROL

The second scale for locus of control is taken from the study of Rotter (1966). This scale was commonly used in previous researches and according to this the LOC score can be between 0-23. The low score is showing “Internal” qualities and high score showing “External” qualities.

JOB SATISFACTION

The scale for job satisfaction was taken from the work of Stringer (2006). The mean score of the 20 items was taken to analyze the level of job satisfaction of the employee with the job contents.

DATA COLLECTION

The population of employees used in this research consists of workers and managers from public and private sector of Pakistan. Three cities were selected Islamabad, Lahore and Bahawalpur. The pre tested questionnaire was distributed personally among the employees and 517 completed questionnaires were usable out of 600. The distribution of the employees according to their nature of job is given at table 1.

TABLE 1: DISTRIBUTION OF EMPLOYEES

Type	Manager	Non Manager	Professional	Other	Total
Private	212	105	25	14	356
Public	84	32	11	34	161
Total	296	137	36	48	**517**

The questionnaire consists of different item related to physical workplace environment. Each item was asked under two sections. One for knowing the expectation of the employee and the second is for knowing the perception of the employee, similarly the method used by parasuraman et al. (1998). The items in the questionnaire include openness, flexible, privacy, temperature control, lighting control, personalization, decision control, meeting facility, working method autonomy, control over social contacts, flexible furniture, quality of equipments, openness, quiet environment, access to other workstations, undisturbed environment and appearance. These items were measured with a pair of statements like “My work environment should be quiet” to measure their expectation about the item and “My work environment is quiet” to measure their perception. These employees were asked to rate these statements on a five-point likert scale ranging from “1: Strongly Disagree” to “5: Strongly Agree” for each item. The gap was measured by the difference in the expectation score and perception score of the employees about each aspect of the workplace.

RESULTS

The present research tries to investigate two major things. First, finding the items of workplace, that is highly needed to improve for employee satisfaction. Second, the importance of gap approach while determining the satisfaction level of employees. Mean score of each item according to expectation and perception is presented at table 2. Standard deviation of these items is also presented in parenthesis.

TABLE 2: EXPECTATION, PERCEPTION AND GAP SCORES OF WORKPLACE ENVIRONMENT

Items	Expectation Mean (SD)	Perception Mean (SD)	GAP
Flexible	2.58 (1.17)	2.27 (1.32)	0.31
Privacy	3.54 (1.08)	2.48 (0.83)	1.06
Temperature Control	3.93 (1.14)	2.54 (1.37)	1.39
Lighting Control	2.69 (0.68)	2.63 (1.04)	0.06
Personalization	2.77 (1.35)	2.74 (1.12)	0.02
Decision control	3.82 (0.76)	2.78 (0.69)	1.04
Meeting facility	2.47 (0.32)	2.31 (0.77)	0.16
Working method autonomy	3.87 (1.14)	2.81 (0.86)	1.06
Control over social contacts	2.68 (0.97)	2.55 (0.91)	0.13
Flexible Furniture	2.47 (0.65)	2.45 (1.21)	0.02
Quality of Equipments	3.79 (0.93)	3.08 (0.85)	0.71
Openness	2.58 (1.30)	2.62 (0.89)	0.04
Quiet Environment	3.92 (1.26)	3.19 (1.32)	0.73
Access to other workstations	3.35 (1.35)	3.28 (0.68)	0.07
Undisturbed Environment	3.81 (1.36)	3.45 (1.10)	0.36
Appearance	3.81 (0.96)	3.62 (0.79)	0.19

In a simple approach, when we only asked the perception of employees about the workplace environment the results indicate that Quiet Environment, Access to other workstations, Undisturbed Environment and appearance are the most satisfactory factors for the employees. The mean score are 3.62, 3.45, 3.28 and 3.19 respectively. The mean score of Flexible (2.27), Privacy (2.48), temperature control (2.54) and lighting control (2.63) are low. Apparently, we think that these items are more important to improve in creating the satisfaction. On the other hand, by gap approach the results are not the same. The difference between the expectation and perception is showing some different picture. The highest differences are in Temperature Control (1.39), Privacy (1.06), Working method autonomy (1.06) and Decision Control (1.04). Gap approach suggests that these items are more important to improve according to the expectation and perception of the employees.

The second hypothesis attempts to determine whether the gap scores vary across LOC scores. The simple assumption behind this analysis is that the gap score of internal would be low as compare to externals because the gap score represent the difference between expectation and perception of the employees towards workplace. As we know the Internals are more dependent on their skills and competencies so their expectation for a more favorable workplace environment would be low as compare to externals. On the other side the perception score of Internals would be high due to their less dependency on external factors and low demand for more favorable working conditions. The actual scores of the participants ranged from 3 to 20 with a mean of 9.86. The classification of the employees as Internal or External is based on their scores relative to the mean score of the overall sample (Dennis, 2005). Employees with LOC score below 9.86 are classified "Internals" and employees having LOC scores above 9.86 are classified "Externals". Results of the study (table 3) show that gap score for the internal employees is lower than that for the external employees and the difference is statistically significant (at p=0.040; one-tailed).

TABLE 3: MEAN GAP SCORE FOR EMPLOYEES ACROSS LOC CLASSIFICATION

	Mean	t-stat	sig.[a]
"Internal" Employees having LOC score below 9.86			
Employee with Internal LOC (n=273)	0.367		
Employee with External LOC (n=244)	0.561		
		5.729	**0.040**

Note: [a]Significance level is one-tailed

To test the third hypothesis, the tenure was regressed onto job satisfaction. Consistent with H3, statistically significant relationship was found ($r = 0.48$, $p < 0.01$) between job tenure and job satisfaction such that as job tenure increase the job satisfaction also increases. To check the moderating effects of workplace environment on the relationship between job tenure and job satisfaction, we conduct hierarchical regression analysis in this research as described by Baron and Kenny (1986). In first step we entered the control variables (age and gender); in the second step, the independent variable (Job Tenure) was added; and moderating variable (workplace environment) was entered in third step. The interacting term (Job tenure x Workplace environment) was entered in the lat step. The results of moderated regression analyses were presented in Table 4.

The results of Table 4 show that job tenure ($r = 0.48$, $p < 0.01$) has a positive effect on job satisfaction (step 2), confirming that the employees with longer tenure have higher job satisfaction. Thus, the results support H3. The relationship between workplace environment and job satisfaction, the results show that workplace environment ($r = 0.54$, $p < 0.01$) has positive impact on job satisfaction (step 3). That means, higher the perception about workplace environment, the higher the employee's job satisfaction. According to moderator hypothesis (step 4), results confirm that the interaction term for job tenure and workplace environment is significant ($r = 0.68$, $p < 0.01$).

By combining the results, we can interpret that job tenure has a significant positive impact on job satisfaction. Increase in job tenure impact positively on job satisfaction and this relationship is contingent on workplace environment.

TABLE 4: HIERARCHICAL REGRESSION ANALYSIS RESULTS FOR MODERATOR HYPOTHESIS

	DV = Job satisfaction			
	Model 1	Model 2	Model 3	Model 4
Control Variables				
Age	0.24**	0.15**	0.14*	0.15*
Gender	-0.1	-0.1	-0.06	-0.05
Independent variable				
Job tenure		0.48**	0.46*	0.37*
Moderating variable				
Workplace environment			0.54**	0.63*
Interaction term				
Job tenure x workplace environment			0.68**	
R-squared	0.09	0.49	0.51	0.53
Adj. *R*-squared	0.08	0.47	0.5	0.52
Change *R*-squared	0.09**	0.39**	0.03*	0.01*
F	9.4**	151.4**	29.63*	32.89*

Notes: * p < 0.05 ; ** p < 0.01 (Standardized beta coefficients)

DISCUSSION AND CONCLUSION

A limited interest was observed in last decade on the topic of workplace environment and employee satisfaction. One of the reason may be the previous research was limited only to check the level of satisfaction of the employees with their workplace environment. These researches do not answer the question of how the satisfaction can be increased or more specifically which dimensions of the workplace environment need to be improved. We have two different methods by which we can measure the satisfaction of the employees with their workplace or physical environment. First is the simple one by which we simply measure the satisfaction and second, measure the gap between the expectation and actual situation according to the perception of the employee. In this paper, we try to explain that although the both approaches give the similar results but the gap approach is better due to its managerial implication. Perception base approach is simple and less time consuming but it did not give managerial direction. For example if we get the mean score for employee satisfaction with Quality of equipments and lighting control is 3.28 and 3.95 respectively (using 5 point likert scale). Apparently it seems that the employees are less satisfied with quality of equipments and it needs to be improved. If we are using gap approach and the mean score of expectation of the employees with quality of equipments and lighting control is 3.15 and 4.25 respectively. That clearly shows that the previous recommendations was leading to wrong judgment and still the item of lighting control need improvement. By performing the similar function i.e. developing the expectation of the employee and current performance of these items we can get the guide lines about what to do with these items to increase the satisfaction of the employees. In this way the purpose of research will change from "Measuring Level of Employee satisfaction with the workplace" to "How to enhance the level of employee satisfaction with the workplace". This method is superior in the term that it gives the practical guidelines to improve the workplace rather than only measuring the satisfaction level of the employees.

The second aspect of this paper is to highlight the importance of workplace environment for locus of control. Historically it was supposed that the internals are more productive as compare to externals. Many studies prove this philosophy and describe that the performance and satisfaction level of internals are high with respect to their counterpart. One of the possible reasons is the dependency of internals on their skills rather than the other factors. In this way they feel low stress with the adverse factors and likely to be more satisfied which in turn increase their productivity. Some studies did not support this argument and they found no significant difference in the satisfaction and performance among the externals and internals. As internals believes more on their own skills they are having the aptitude of defining the way the work will carried out. Externals need a structured type of environment and the work should be done in a patterned style. By accepting this argument, it is clear that the workplace environment is an important factor for the working of externals or internals. However, they need entirely different kind of working environment. In this study we find that the importance of workplace environment is different for Internal and Externals. Externals are more demanding for a favorable workplace conditions as compare to Internals.

With regard to the relationship between job length and employee satisfaction, workplace proved to be important in the current study. Results clearly indicate that the workplace environment is very important for employee satisfaction. Employees tend to adjust themselves in the firm during the early period of their job but with the passage of time they become unsatisfied with the job if the working environment is not so good. Workplace environment found to be a strong moderator between the relationship of job length and employee satisfaction.

MANAGERIAL IMPLICATIONS

The main objective of this paper is to provide a managerial direction for the organization to evaluate and redesign the aspects of workplace environment. In this process, the organization should use gap approach instead of simple perception approach. This would help them to analyze the physical environment and do necessary modification to increase the satisfaction level of the employees with the workplace. This would be more helpful when a company decides to alter their physical environment and want to bring some changes. Considering the results of gap approach, an effective program can be devised to attain the objective of employee satisfaction with the workplace and make it more favorable and enjoyable for the workers. Without such steps the organization would fail to provide a favorable working environment for the employees. Secondly, the organization should evaluate the current working environment and its degree of structuredness. In this way they can be decide that whether they need internals or externals. That could be helpful for the organization when they are recruiting new employees. They will select the right kind of people who best match with their environment. Next, every organization tries to lower the rate of turnover due to the cost of hiring and training new employees that can replace the older ones. If they provide the environment according to the requirements of the employees, the employees not only satisfied with the working environment but also the job satisfaction will increase with the passage of time. The efforts and energy of recruiting new people can be used for the improvement of workplace environment.

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

The present study has some limitations that should be addressed in the future. First, the study was conducted in three cities of Pakistan. Consequently, the results are difficult to apply on other countries. In future more studies should be conducted in other countries to verify the results. Second, the current research was conducted in short time period; some longitudinal studies can examine the workplace environment in more depth. Third, as we see the moderator role of workplace environment between the relationship of job length and employee satisfaction, future studies can explore some more variables that are important in the relationship of job length and employee satisfaction.

REFERENCES

1. Baldamus, W. (1961), Efficiency and Effort, Tavistock Publications Ltd, London.
2. Bamundo, P.J. and Kopelman, R.E. (1980), "The moderating effects of occupation, age and urbanization on the relationship between job satisfaction and life satisfaction", Journal of Vocational Behavior, Vol. 17, pp. 106-23.
3. Bonnes, M. and Secchiaroli, G. (1995), Environmental Psychology, a Psycho-Social Introduction, Sage, London.
4. Brackertz, N. and Kenley, R. (2003), "Moving towards an integrated facilities management tool to evaluate facilities for service performance in local government", Proceedings of the 2002 Global Symposium, Applying and Extending the Global Knowledge Base, CIB W70: Facilities management and maintenance, pp. 168-82.
5. Brill, M. (1992). How design affects productivity in settings where office-like work is done. Journal of Health Care Design, 4, 11–16.
6. Brown, J., Cooper, C. and Kirkcaldy, B. (1996), "Occupational stress among senior police officers", The British Journal of Psychology, Vol. 87 Pt 1, pp. 31-41.
7. Carlopio, J.R. and Gardner, D. (1992), "Direct and interactive effects of the physical work environment on attitudes", Environment & Behavior, Vol. 24 No. 5, pp. 579-601.
8. Chen, J.C. and C. Silverthorne, 2008. The impact of locus of control on job stress, job performance and job satisfaction in Taiwan. Leadership Org. Develop. J., 29: 572-582.
9. Cronin, J.J. and Taylor, S.A. (1992), "Measuring service quality: a reexamination and extension", Journal of Marketing, Vol. 56, pp. 55-68.
10. Daniels, K. and Guppy, A. (1994), "Occupational stress, social support, job control and psychological well-being", Human Relations, Vol. 47 No. 12, pp. 1523-44.
11. Dennis M. Patten, (2005) "An analysis of the impact of locus-of-control on internal auditor job performance and satisfaction", Managerial Auditing Journal, Vol. 20 Iss: 9, pp.1016 – 1029
12. Dole, C. and Schroeder, R.G. (2001). The impact of various factors on the personality, job satisfaction and turnover intentions of professional accountants. *Managerial Auditing Journal*, *16*(4), 234-245.
13. Ferguson, G.S. and Weisman, G.D. (1986), "Alternative approaches to the assessment of employee satisfaction with the office environment", in Wineman, J.D. (Ed.), Behavioral Issues in Office Design, Van Nostrand Reinhold, New York, NY, pp. 85-108.
14. Gibson, J.L. and Klein, S.M. (1970), "Employee attitudes as a function of age and length of service: a reconcepualization", Academy of Management Journal, Vol. 12, pp. 411-425.

15. Hom, P. and Kinicki, A.J. (2001), "Toward a greater understanding of how dissatisfaction drives employee turnover", Academy of Management Journal, Vol. 44, pp. 975-987.
16. Hom PW, Griffeth RW (1995). Employee turnover, South Western college publishing, Cincinnati, OH pp. 200-340
17. Hwang, E., (2008), "Determinants of Job satisfaction among South Korean police officers", Policing: An International Journal of Police Strategies & Management, Vol. 31, pp. 694-714
18. Hyatt, T.A. and Prawitt, D.F. (2001), "Does congruence between audit structure and auditors locus-of-control affect job performance?", The Accounting Review, Vol. 76 No. 2, pp. 263-275
19. Judge, T.A., Erez, A., Bono, J.E. and Thoresen, C.J. (2003), "The core self-evaluations scale: development of a measure", Personnel Psychology, Vol. 56 No. 2, pp. 303-313.
20. Kalleberg, A.L. and Mastekaasa, A. (2001), "Satisfied movers, committed stayers: the impact of job mobility on work attitudes in Norway", Work and Occupations, Vol. 28, pp. 183-209.
21. Lantrip, D.B. (1993), "Predicting satisfaction with the office environment by measuring constraints to worker activities", Proceedings of the Human Factor and Ergonomics Society 37th Annual Meeting, pp. 489-493.
22. Leather, P., Beale, D. and Sullivan, L. (2003), "Noise, psychosocial stress and their interaction in the workplace", Journal of Environmental Psychology, Vol. 23 No. 2, pp. 213-222.
23. Lee, S.Y. and Brand, J.L. (2005) Effects of control over workspace on perceptions of the work environment and work outcomes. Journal of Environmental Psychology, 25(3), 323–333.
24. Lee, S, Y. (2006), "Expectations of employees toward the workplace and environmental satisfaction", Facilities, Vol. 24, pp. 343-353
25. LIRNEasia (2006), A Baseline Sector Analysis of the BPO Industry of Sri Lanka, Sri Lanka ICT Association, Colombo.
26. Luthans, F. and Thomas, L.T. (1989), "The relationship between age and job satisfaction: curvilinear results from an empirical study – a research note", Personnel Review, Vol. 18, pp. 23-36.
27. Martin, R., Thomas, G., Charles, K., Epitropaki, O. and McNamara, R. (2005), "The role of leader-member exchanges in mediating the relationship between locus of control and work reactions", Journal of Occupation and Organizational Psychology, Vol. 78 No. 1, pp. 141-157.
28. Mottaz, C. (1987), "Gender differences in work satisfaction, work-related rewards and values, and the determinants of work satisfaction", Human Relations, Vol. 39, pp. 359-378.
29. Oshagbemi, T. (2000a), "Is length of service related to the level of job satisfaction?", International Journal of Social Economics, Vol. 27, pp. 213-226.
30. Oshagbemi, T. (2000b), "Satisfaction with co-workers' behaviour", Employee Relations, Vol. 20, pp. 88-106.
31. Preiser, W., and Vischer, J. (Eds.) (2005). Assessing building performance. Oxford: Butterworth-Heinemann.
32. Rahim, A. (1996), "Stress, strain, and their moderators: an empirical comparison of entrepreneurs and managers", Journal of Small Business Management, Vol. 34 No. 1, pp. 46-58.
33. Rees, D.W. (1995), "Work-related stress in health service employees", Journal of Managerial Psychology, Vol. 10 No. 3, pp. 4-11
34. Rotter, J.B. (1966), "Generalised expectancies for internal versus external control of reinforcement", Psychological Monographs, Vol. 80 No. 1, pp. 169-214.
35. Sarker S. J., (2003), "The relationship of age and length of service with job satisfaction: an examination of hotel employees in Thailand", Journal of Managerial Psychology, Vol. 18, pp. 745-758
36. Savery, L.K. (1996), "The congruence between the importance of job satisfaction and the perceived level of achievement", Journal of Management Development, Vol. 15, pp. 18-27.
37. Snyder, R.A. and Deitrich, F.H. (1992), "Age/job satisfaction: assessment of the shape of relationship from a systems perspective", Personnel Review, Vol. 21, pp. 39-45.
38. Spreckelmeyer, K. (1993), "Office relocation and environmental change, a case study", Environment & Behavior, Vol. 25 No. 2, pp. 181-204.
39. Stallworth, O.E. and Kleiner, B.H. (1996), "Recent developments in office design", Facilities, Vol. 14 Nos 1/2, pp. 34-42.
40. Sullivan, S.E. and Bhagat, R.S. (1992), "Organizational stress, job satisfaction and job performance: where do we go from here?", Journal of Management, Vol. 18 No. 2, pp. 353-374.
41. Sundstrom, E., Town, J. P., Rice, R. W., Osborn. D. P., and Brill, M. (1994). Office noise, satisfaction, and performance. Environment and Behavior, 26, 195-222.
42. Trevor, C.O. (2001), "Interactions among actual ease-of-movement determinants and job satisfaction in the prediction of voluntary turnover", Academy of Management Journal, Vol. 24, pp. 621-638.
43. Van der Voordt, D.J.M. and Maarleveld, M. (2006a), Performance of Office Buildings from a User's Perspective, Ambiente Construído, Porto Alegre, 6 (3), 7-20 (Associação Nacional de Tecnologia do Ambiente Construído; Electronic Journal).
44. Varady, D.P. and Carrozza, M.A. (2000), "Toward a better way to measure customer satisfaction levels in public housing: a report from Cincinnati", Housing Studies, Vol. 15 No. 6, pp. 797-825.
45. Wickramasinghe, V., (2008), "Predictor of job satisfaction among the IT graduates in offshore outsourced IT firms", Personnel Review, Vol. 38, pp. 413-431
46. Young, K.M. and Cooper, C.L. (1995), "Occupational stress in the ambulance service: a diagnostic study", Journal of Managerial Psychology, Vol. 10 No. 3, pp. 29-36.
47. Zalesny, M.D., Farace, R.V. and Kurchner-Hawkins, R. (1985), "Determinants of employee work perceptions and attitudes, perceived work environment an organizational level", Environment & Behavior, Vol. 17 No. 5, pp. 567-592.

INVESTORS' PERCEPTION IN MUTUAL FUND INVESTMENTS (A STUDY IN SELECTED MUTUAL FUND ORGANIZATIONS IN VISAKHAPATNAM)

B. MURALI KRISHNA
DIRECTOR
SAMATA DEGREE & P.G. COLLEGE
M.V.P. COLONY
VISAKHAPATNAM

K. RAKESH
ASST. PROFESSOR
SCHOOL OF MANAGEMENT STUDIES
MVGR COLLEGE OF ENGINEERING
VIZIANAGARAM

P.V.S. SIVA KUMAR
ASST. PROFESSOR
SCHOOL OF MANAGEMENT STUDIES
MVGR COLLEGE OF ENGINEERING
VIZIANAGARAM

ABSTRACT

In the last two decades, there has been a sea change in the financial services industry. To acclimatize this change, these financial institutions are turning to new technologies and new delivery channels to identify, attract and retain profitable investors, while reducing costs. No longer can these firms continue to act as independent entities regardless of the interest of the investors. As companies evolve from product-or campaign-centric marketing to investor-centric marketing, a set of best practices are emerging, which focuses on measuring and increasing the value of the investor base. We call these practices investors service. Knowing the perception levels of investors' will help the organizations to act better and provide them better knowledge on mutual funds. This paper highlights the role of perception levels on attributes in the Mutual fund industry and an attempt has been made to identify and explore live events and experiences that influence the customer to choose a particular company as a business partner.

KEYWORDS

Financial Services, Investor-Centric Marketing, Perception, Mutual Funds, Attributes.

INTRODUCTION

In the four decades of its subsistence in India, the mutual fund industry has moved out through numerous structural changes. The mutual fund industry in India has been on a roll as the assets under management maintain to see a strong squirt in growth. Apart in view of the fact that this, the industry in addition seen a spurt in the number of schemes catering to diverse needs of investors. A booming economy and a conductive regulatory environment and others factors have added to the growth of an industry. A mutual fund is alternative investment avenue for investors, especially in a scenario where the interest rates are falling. The only thing is that an investor ought to bear in mind that asset in mutual fund is not risk-free, unlike a bank deposit. It carries a convinced amount of risk and one has to consequently to weigh those risks and returns, and the investment objectives.

Though there are around 30 companies in service in the industry, the competition is limited. There is nothing like competition between the public and private sector, as all players operate in the same environment. Mutual fund players formulate their strategies to have the shares of their growing market. They develop their products for both the mass and niche markets, considering clients' financial goals, risk taking ability and time duration. They meticulously segment and target their customers and position their products according to their needs. There is remarkable change in promotional activities taken up by mutual fund players. AMCs now opt for the services of the large distributors to sell their products by leveraging their value chain, which compromises of broker, sub-brokers and agents. The AMCs also use banks and non-banking financial AMCs as distribution channels to leverage their reach and huge client base. Mutual fund players also make use the internet to distribute products because of the cost advantages and increased communications. Even as the number of funds operating in India is high, the penetration of the industry is significantly low. So there is a huge market available in the country for channelizing the savings of the people into mutual funds. Currently, mutual funds are concentrating on the urban market and it is incumbent capability before penetration the rural market.

KEY CHALLENGES

While the industry faced several challenges during its evolution, its key challenge in the current phase is to mobilize a large pool of investments available in the country. In the equity segment there is a huge amount of volatility. Another important challenge for the industry is to increase awareness levels and take the industry to the masses. Mutual funds are generally perceived as investments in equity markets and hence, investors expect a return which is much superior to the normal return that other comparable instruments yield. It is the industry's responsibility to educate the investors and remove any pre-convinced notions about investing in mutual funds. This has to be done through a broad-based campaign either by the mutual funds themselves or by AMFI or both.

OBJECTIVES

The specific objectives of the present study are

- To assess urban & rural household investment preferences of different financial asset like bank deposits, provident funds, LIC policies, Shares & products of MF.
- To measure the degree of awareness of savers towards mutual fund organizations and their products in urban and rural areas.
- To assess the perception and preferences of small investors among various MF products such as regular income scheme, tax saving scheme, equity linked saving scheme etc.,
- To find out investors' preferences among various MF organizations
- To measure investors' satisfaction regarding after sale service by MF organizations.

METHODOLOGY

The study is based on a survey of 150 respondents through a questionnaire covering different groups of investors but we could collect 123 complete questionnaire from investors out of which 100 were taken as an effective sample.

The data obtained from the study were summarized and analyzed for identification of the key features preferred by the respondents in a mutual fund product.

The primary data was collected through personal interview with the help of questionnaire, the questionnaire consists of two parts, Part – I go to their personal profile, Part – II go to measure the perception about MF investment and the organizations after sale service.

The secondary data was collected with the help of broachers, text books, websites etc,

REVIEW OF LITERATURE

Mutual funds have already attracted the attention of global practitioners and academicians but most of the existing research available is on either accelerating the return on funds or comparing it with benchmark fund schemes. Few studies are available that focus on investor's objective and considering risk orientation of investors that has been categorized as:

Studies pertaining to Investor's Rationality: Risk –Return trade off

Investors are generally more careful while making investment decision and presence of rationality in every investor demands higher return at minimum risk but when markets are efficient it is not possible to gain abnormal returns. Risk is generally, associated with various applications differently but in common it means negative connotation such as harm or loss or some undesirable action. Risk expressed by Kaplan and Garrick (1981) demonstrates that risk involves a factor of uncertainty and potential loss that might be incurred. Elmiger and Kim (2003) elucidate risk as .the trade-off that every investor has to make between the higher rewards that potentially come with the opportunity and the higher risk that has to be borne as a consequence of the danger. Although different literature available on risk define it variedly but in common the word risk refers to situations in which a decision is made whose consequences depend on the outcomes of future events having known probabilities(Lopes,1987). Risk from a strategic management perspective has been defined as one that is often taken as manager's subjective judgment of the personal or organizational consequences and it may result from a specific decision or action. Beta has been accepted as most appropriate measure of risk that describe the slope of any regression line .i.e. it reveals the volatility of a stock relative to a market benchmark (Sharpe 1966). Uncertainty in investment decision prevails when Mutual fund AMCs skills and knowledge fail to have proper access of decision relevant information due to complexity of financial markets. This incapacity forces decision makers to adopt a simplified approach where risk is considered to be exogenous variable. Extensive literature available has proved that since Markowitz (1952) attempts have been made to resolve the conflicts of how decision makers should choose among composite alternatives that combine stochastic outcome as he was strongly in favor that choice for portfolio of securities is entirely different from securities that an individual investor holds (Bernstein 1996). Risk adverse behavior of investors reflects the choice of investors to avoid risk or take negligible risk that means whenever an individual investor is given option to go for guaranteed return with probability one which are comparatively less than gambling return with probability less than one, chances are that he may go for guaranteed return.

Studies relating to investment expectations

Huge literature available on predicting stock market returns has proved that generally investors think high past stock market return predict high future return (De Bondt, 1993) even though there is no support for such belief in the data (Fama 1988). Further, evidence by Fisher and Statman (2000) have shown that individual investor's stock market return expectations are positively correlated with past returns. An attempt to relate stock expected returns and interrelated attributes can be well traced from Asset pricing Model that explains an assets expected return is positively related to its systematic market risk (Black 1972). The crux of these models is that risky portfolio yields higher return. Although majority of investors who invest in mutual fund themselves are not clear with the objective and constraints of their investment but in addition to this most important critical gap that exist in this process is lack of awareness about presence of risk elements in mutual fund investment. The new marketing philosophy and strategies place special emphasis on recognition of customer needs in an effort to provide high level of quality services (Harrison, 2000). Study by Laukkanen (2006) explains that varied attributes present in a product or service facilitate customer's achievement of desired end-state and the indicative facts of study show that electronic services create value for customers in service consumption. Return ambiguity and changes in risk perception of individual investor affect action taken in risky financial market. In a more complex situation taking rational decision is undoubtedly difficult but certainly not impossible. Computational complexities are not only the reason why rationality assumption is challenged rather challenges also come from cognitive reasoning (Anderson 1991) where question is how optima human beings are. A more realistic notion of rationality is bounded rationality defined by Simon (Simon 1957) that property of an agent who behaves in a manner that is nearly as optimal with respect to its goals as resource will allow. Here resource includes processing power, algorithm and time available to the agent.

Studies relating to Financial Innovations in mutual funds

New financial product and market designs, improved computer and telecommunication technologies and advances in theory of finance during past quarter century have led to dramatic changes in structure of mutual fund industry. Financial innovation is fighter promoted when the financial authorities recognize the obsolescence of existing statutory framework and deregulate the essential part of it (Suzuki 1986). Financial system of any country comprises of regulatory bodies, financial institutions, financial products and financial markets and whenever the regulatory bodies try to interfee and restrict the actions of financial intermediaries, to sustain their position in the financial market, mutual funds (FMI) are required to come up with innovative and more lucrative solutions. Wide literature available on financial innovations has proved that regulatory restraints encourage innovations (Ben-Horim, 1977). Study by Kane (1978) has described the process of avoiding regulations, as "loophole mining" which suggests that when regulatory constraints are so burdensome that large profits can be made by avoiding them, financial innovations is more likely to occur. These financial innovations may look for searching either entirely new product or making some structural changes in already built financial products to focus on investor's requirement. Financial innovation in case of mutual funds is an ongoing process but innovation and success are not parallel to each other. A large size of enterprise implies that product supported by adequate innovation is more likely to yield greater return (Schumpeter 1950). Study contrast to this by Scherer (1984) has suggested that smaller firms with only modest level of market power are more likely to be rapid innovators. Mutual fund managers have to use various investment styles depending upon investor's requirement. Most of the empirical evidences have shown that mutual fund investor's purchase decision is influenced by past performance (Patel, 1992). Research study by (Jones et al, 2007) has proved that a negative correlation exists between advertisement and fund quality. A common investor may expect that mutual fund should opt strategies that have been documented to produce superior returns in the past instead they follow to select portfolios that don't deviate markedly from market benchmarks (Lokonishok, Shleifer and Vishny, 1997).

FUTURE GROWTH

The mutual fund industry has evolved in many aspects in the last decade or so, be it product innovation, distribution reach, investor education or leveraging technology. At present, only small portions of public savings reach the capital markets through the MF route. In future, the percentage of savings reaching capital markets through MF route will raise gradually. Innovations like arbitrage funds, exchange-traded funds are going to benefit investors in a very tangible way. However, again within the exchange traded funds category, products like real estate exchange –traded funds will take some time to be introduced in the Indian market. The industry is one of the most regulated and has so far seen a very small number of issues. This fact alone should illustrate the likely future development of the mutual funds industry. Although the competitive scenario is getting together by the day, it actually helps in the expansion of the market. Competition will also lead tom innovation in product development and a race for better returns. Going by India's demography, the purchasing power and the savings rate and the kind of money people earn will increase in the future. Obliviously, they need investment opportunities and mutual funds will be one of the best opportunities for the future, because of the kind of returns they yield, which no other class can give vis-à-vis the risks. Investors can map these risks and returns on the basis of investments in the mutual fund industry. With this background, the industry's future seems bright for the coming years. It has great potential to grow and is already on the path.

In India, mutual funds play a dominant role by mobilizing savings and investing them in the capital market, thus establishing a link between savings and capital market. The main objective of investing in mutual fund scheme is to diversify risk. Mutual funds made an opening in 1963 under the enactment of Unit Trust of India which launched its first scheme named US 1964, which is continuing even to-day. In1986, the Government amended the Banking Regulation Act and permitted public sector commercial banks like SBI, PNB, Canara bank and so forth to set up mutual funds. Government allowed insurance companies in the public sector- GIC in 1989 and LIC in 1991, to set up mutual funds. In 1993, under its New Economic policy of liberalization opened the gates to the private sector to set up mutual funds. In March 1991, the government entrusted the function of regulating mutual funds to Securities and Exchange Board of India (SEBI) which issued guidelines in October, 1991 for regulating the Indian capital market.

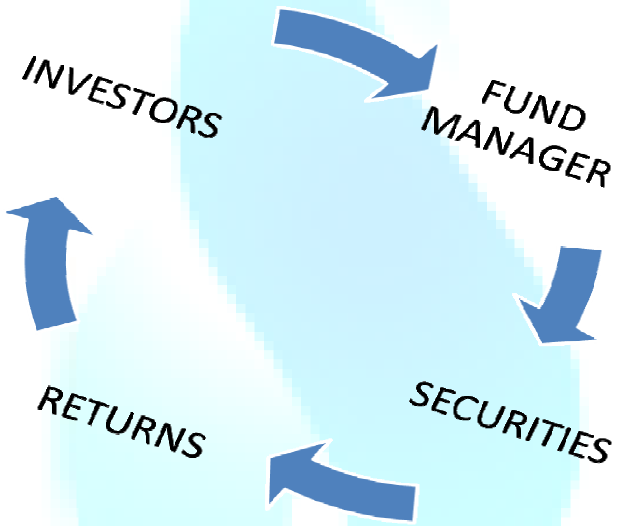
SECTOR WISE MOBILIZATION OF FUNDS BY MUTUAL FUNDS

Mutual funds have become an important segment of institutional investors. The total mobilization of funds by private sector MFs during 2007-2008 was Rs.37, 80,753 crores, followed by UTI MFs Rs.3, 46,126 crores, and public sector MFs Rs.3, 37,498 crores. As in the preceding years, the private sector MFs continued to dominate resource mobilization in 2007-2008 Now there is SIP (systematic investment plan) method of investing in the mutual fund. Before starting a SIP, an investor has to decide on which fund scheme he wants to invest in dividend or growth option? How much one wants to invest? How long one wants SIP to go on? and so forth. Interest rate future was launched in National Stock Exchange on 31st August, 2009. It is a contract to buy or sell a debt security (10 year government bond bearing interest rate of 7% payable half yearly) at a price decided in advance for delivery at a future date .The contract helps to eliminate the interest rate risk.

INVESTORS' PERCEPTION

Perception of investors regarding type of scheme, growth, risk, returns, taxability etc will play a crucial role in the growth of organization. The following block diagram will help to study how crucial investor was in mutual fund investments.

FIGURE 1



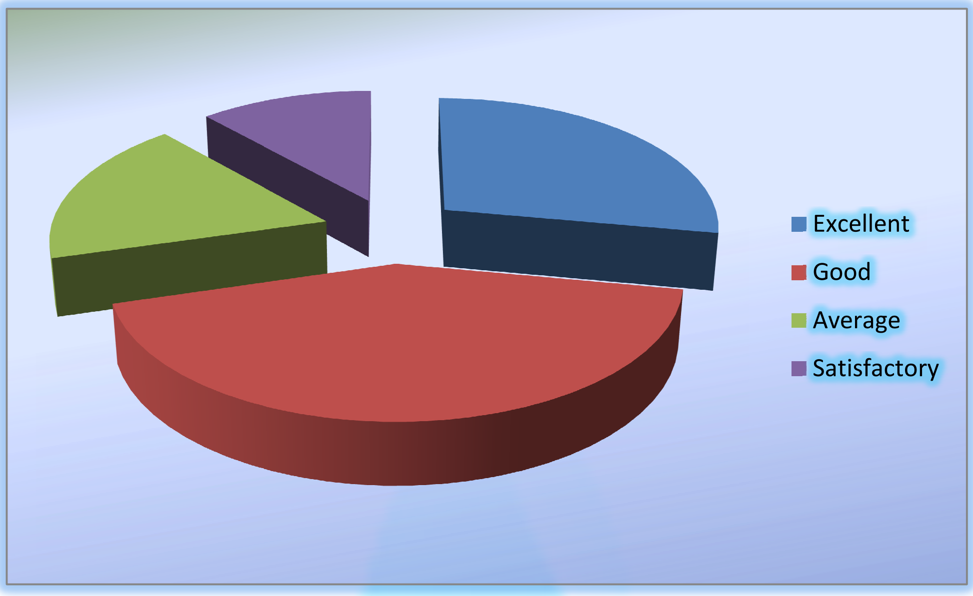
DATA ANALYSIS

Data was collected through questionnaire and tabulated and graph indicates that

TABLE 1

Particulars	Excellent	Good	Average	Satisfactory	Total
% Fund Allocation	23	49	17	11	100
Entry/Exit Load	34	42	14	10	100
Portfolio contents	24	56	14	6	100
Income	26	51	16	7	100
Growth	19	46	19	16	100
Maturity/Liquidity	14	27	40	19	100
Risk Disclosure	38	32	19	11	100
Returns	19	23	37	21	100
Taxability	31	46	14	9	100
Service	51	38	5	6	100
Total	**279**	**426**	**179**	**116**	**1000**

FIGURE 2



INTERPRETATION

The data collected through survey by executing a well structured questionnaire is analyzed and tabulated.

It is clearly indicated in the table that half of the respondents feel that the percentage of fund allocation is good. The table shows that nearly three-fourth of respondents opined positively regarding the Entry/Exit load of Mutual funds. The respondents' viewpoint towards the portfolio of funds can be understood clearly by watching the table. More than half of them feel that the portfolio content is good. The table even shows that it should be improved to certain extent so that it reaches to the level of excellence. Half of the respondents ventilated their opinion that some Income is generated from the mutual funds. To have a positive perception towards the mutual funds among the investors the income generated should be increased. Nearly half of the respondents feel that there is good growth in the funds. But to have great development in this area the growth should reach peaks as much as possible. More than one-third of respondents feel that the Maturity/Liquidity of funds is average. Most of them opined that the Risk Disclosure levels involved in the fund investment are more. But to be successful in the market and to reduce the negative perception among the investors the risk should be minimized. The table shows a clear view that most of are of negative opinion towards the returns. To attract more investors the returns from the funds should be more and reach the level of excellence. Nearly half of the respondents opined that the funds are taxable and they feel good towards it. Finally majority of respondents are of positive opinion and feel that the service provided by the funds are excellent and good.

CONCLUSION

Since the financial environment was been more educated, the investors' have a better opinion on the services and other terms of mutual funds. It is also clear that there are some unavoidable risk which cannot be overcome, but it was the advice for the investors to have a clear watch on market and other economic environmental factors which effect your investments. There should be a through check up with there fund managers throughout the investment process.

REFERENCES

1. Anand, S. & Murugaiah, V. (2007). Analysis of components of investment performance - An Empirical study of Mutual funds in India. [Online] Available: http://www.ssrn.com
2. Anderson, J. (1991). Cognitive Architecture in a rational Analysis. *Lawrence Erlbaum Associates, Hillsdale*, pp. 1 - 24.
3. Ben, Horim. , Moshe & William L. Silber. (1977). Financial Innovations: A Linear Programming Approach. *Journal of Banking and Finance*, November (1), pp. 447-465.
4. Bernstein, Peter L. (1996). Against the Gods: The Remarkable Story of Risk, New York. *NY: John Wiley and Sons Inc.*
5. Black, Fischer., Michael, Jensen. & Myron, Sholes. (1972). The Capital Asset Pricing Model: Some Empirical tests, in Jensen (ed.). *Studies in the theory of Capital Market. New York: Praege*
6. Brown, S.L. & Eisenhardt, K..M. (1998). *Competing on the Edge, Boston.* MA: Harvard Business School Press.
7. Cox, J. & Dale, B.G. (2004). Service Quality and E-commerce: An exploratory analysis. *Managing Service Quality,* Vol. 11, no. 2, pp. 121-131.
8. Dash, Manoj Kumar and Mahapatra, D.M. (2006). Measuring customer satisfaction in banking industry. [Online] Available: http://www.indianmba.com
9. De Bondt, Werner (1993). Betting on trends: Intuitive forecast of financial risk and return. *International Journal of forecasting*, 9 (3), pp. 355-371.
10. Deming, W.E. (1995). *The New Economics for Industry Government, and Education*, 2nd Edition, Cambridge, MA: MIT Press.
11. Elmiger, G., & Kim, S. (2003). *Risk Grade your investments: Measure your risk & create wealth*. John Wiley & Sons: Hoboken, NJ.
12. Fama, Eugene F., and Kenneth R. French. (1988). Permanent and Temporary components of stock prices. *Journal of Political Economy*, 96(2), pp. 246-273
13. Fisher, Kanneth, and Meier Statman. (2000). Investor sentiments and stock returns. *Financial Analyst Journal*, March/April, pp. 16-23.
14. Garvin D.A. (1984). What does product quality really mean?. *Sloan Management Review*, Fall 25-39.
15. Gelade, G.A., & Young, S. (2005). Test of a Service Profit Chain Model in the Retail Banking Sector. *Journal of Occupational and Organizational Psychology*, *78*, pp. 1-22.
16. Gronroos, C. (1990). *Service Management and Marketing*. Lexington Books, Lexington, MA.
17. Harrison, T. (2000). *Financial Services marketing.* Pearson Education Limited, Essex, England.
18. Ippolito, Richard. A. (1992). Consumer Reaction to Measures of poor Quality- Evidence from Mutual Fund industry. *Journal of Law and Economics*, 35, pp 45-70.
19. Johnston, B. (1995). The determinants of service quality: Satisfiers and dissatisfiers. *International Journal of Service Industry Management,* Vol.8, No. 5, pp. 53-71.
20. Jones, Michael. A. Lesseig, Vance. P & Taylor, Valerie. A. (2007). Mutual Fund Advertising: Should investor take Notice. *Journal of Financial Service Marketing,* Vol. 12, pp. 242-254.
21. Kane, Edward. (1978). Interaction of financial and regulatory innovation. *American Economic Review*, May issue, No. 2.
22. Kaplan, S. & Garrick, B. J. (1981). On the quantitative definition of risk. *Risk Analysis*, Vol.1, No.1, pp. 11- 27.
23. Laukkanen, Tommi. (2006).Customer perceived value of e-financial services: a means-end approach. *International journal of electronic finance,* Vol.1, No.1, pp 5-17.

24. Lokonishok, Josef, Andrei Shleifer and Robert W .Vishny. (1997).What do money managers do. *Working Paper, University of Illinois at Urbana Champaign.*
25. Lopes, L. L. (1987). *Between hope and fear: The psychology of risk.* In L. Berkowitz (ed). Advances in experimental social psychology, San Diego, CA, US: Academic Press, Inc. pp 255-295.
26. Markowitz, Harry M. (1952). Portfolio Selection. *Journal of Finance* 7 (1), pp 77-91.
27. Panda,K.Tapan. and Prava, Nalini.(2001). Customer Orientation in designing Mutual Fund products. *ICFAI journal of Applied Finance,*Vol 7, No.V.
28. Panda, Tapan Kumar. (2001). Service quality value alignment through internal customer orientation in financial Services- An exploratory study in Indian banks. (accessed online.)
29. Parasuraman, A., Zeithaml, V.A. and Berry, L.L. (1988). SERVQUAL: a multiple item scale for measuring customer perceptions of service quality. *Journal of Retailing,* Vol. 64, pp. 12-40.
30. Patel, J., Zeckhauser, R., Hendricks, D. (1992). Investment Flows and Performance: Evidence from Mutual Funds, *Cross Border Investments and New Issues.* Harvard University, Cambridge, MA.
31. Ranganathan, Kavitha.(2006). A study of fund selection behavior of individual investor towards MFs- with special reference to Mumbai. [Online] Available: http://www.ssrn.com
32. Rogers, E.M. (2003). *Diffusion of Innovations,* Free Press, New York.
33. Scherer, F.M. (1984). *Innovation and Growth: Schumpetarian Perspective.* Cambridge, Mass.: MIT Press.
34. Schumpeter, Joseph A. (1950). *Capitalism, Socialism and Democracy.*3rd Edition, New York: Harper and Brothers.
35. Sharpe, W. F. (1966). Security prices, risk and maximal gains from diversification: Reply. *Journal of Finance*, pp 743-744.
36. Simon, H. (1957). *Models of man: Social and Rational, Mathematical essay on rational behavior.* New York: Wiley, pp 1-35.
37. Suzuki. (1986). A comparative study of financial innovations, deregulation and reforms in Japan and US. Bank of Japan. *Monetary Economic Series*, 4(10).
38. Williams, C.A. and Heins, R. M. (1964). *Risk management and insurance.* New York, NY: McGraw-Hill Book Co.
39. Zeithaml, V., Berry, L., & Parasuraman, A. (1993). The nature and determinant of customer expectation of service quality. *Journal of the Academy of Marketing Science*, 21(1), pp. 1-12.
40. Zeithaml, V.A. (1987). *Defining and Relating Prices, Perceived Quality and Perceived Value.* Marketing Science Institute, Cambridge, MA.

GREEN FINANCIAL INITIATIVES – CURRENT TRENDS AND FUTUTURE OPPORTUNITIES

SWETA KUMARI
ASST. PROFESSOR
DEPARTMENT OF BUSINESS MANAGEMENT
PADMASHREE D.Y.PATIL UNIVERSITY
NAVI MUMBAI

GAGANDEEP NAGRA
ASST. PROFESSOR
DEPARTMENT OF BUSINESS MANAGEMENT
PADMASHREE D.Y.PATIL UNIVERSITY
NAVI MUMBAI

DR. R .GOPAL
DIRECTOR
DEPARTMENT OF BUSINESS MANAGEMENT
PADMASHREE D.Y.PATIL UNIVERSITY
NAVI MUMBAI

DR. RENU VERMA
ASSOCIATE DEAN
IBS
GURGAON

ABSTRACT

The impact of our daily activities on the environment and the desire to go green has expanded from just individuals to organizations .Green car loans, green finance, green home loans, alternative energy venture capital, eco-savings deposits, and "green" credit cards; these items represent merely a handful of initiatives taken by the Indian financial sector to promote environment friendly financial products and services .In an age where environmental risks are on a rise, options for reconciling environmental matters with lending and financing arrangements have a greater significance. The purpose of this paper is to examine the currently available "green" financial products and services, to identify awareness level and the customer's attitude towards such products and to understand the current and potential demand for "green" financial products and services with a focus on lesson learning opportunities. The research was carried out among users of green financial products in Mumbai using a structured questionnaire and an in depth interview with bank managers dealing with such products .Research findings gave an insight into major areas focused on existing and potential issues related to of "green" financial products and services .The paper has major implications in identifying the key opportunities for Indian financial institutions in terms of the development and marketing of "green" financial product and services.

KEYWORDS

environment friendly, green finance, eco saving deposits, green credit cards alternative energy venture capital.

INTRODUCTION

With the entire world becoming environment conscious, financial industry is not far behind in its contribution towards greener world. Financial institutions interact with the environment in a number of ways e.g. as investors, as innovators, as valuers, as powerful stakeholders and as polluters. This association of financial institutions and environment clearly demonstrates that these institutions have an enormous influence on the achievability of sustainable growth targets. This is true of a number of aspects of their business. On one hand, they can act within their own spheres of responsibility to ensure a direct and positive effect on the environment, for example with eco-efficient administrative buildings or waste reduction measures. On the other hand, the financial institutions can play a significant role by integrating environmental issues into their decision making process through financing the environmental business sector on relatively easy terms, developing 'Green' financial products exclusively for environmental businesses etc.

Financial markets will only use their influence for the benefit of the environment if they see that this is in their broad interest i.e. it will help them generate profits, either directly or indirectly. Thus if financial institutions are to integrate environmental considerations into their decision making they need to be convinced that, not only are they profitable in the narrow sense, but are sufficiently important to merit their attention.

Green financial products are introduced in the financial industry providing platform for ethical and eco-friendly investment. Many organizations have realized that there is direct correlation between competitiveness & profitability and environmental protection. Keeping this in mind financial institutions have developed "green" financial products with the aim of promotion of sustainable development. These green financial products must reduce negative environmental impacts or provide environmental benefitsThe banking sector influences the economic growth and development in terms of both quality and quantity, there by changing the nature of economic growth.

Banking sector is one of the major sources of financing investment for commercial projects which is one of the most important economic activities for economic growth. Therefore, banking sector can play a crucial role in promoting environmentally sustainable and socially responsible investment (SRI) Banking sector is generally considered as environmental friendly in terms of emissions and pollutions. Internal environmental impact of the banking sector such as use of energy, paper and water are relatively low and clean. Environmental impact of banks is not physically related to their banking activities but with the customer's activities. Therefore, environmental impact of bank's external activity is huge though difficult to estimate. Thus, encouraging environmentally responsible investments and prudent lending should be one of the responsibilities of the banking sector. Further, those industries which have already become green and those, which are making serious attempts to grow green, should be accorded priority to lending by the banks. This method of finance can be called as "*Green Banking*", an effort by the banks to make the industries grow green and in the process restore the natural environment. This concept of "Green Banking" will be mutually beneficial to the banks, industries and the economy. Not only "Green Banking" will ensure the greening of the industries but it will also facilitate in improving the asset quality of the banks in future.

Green Banking thus refers to the initiative by banks to encourage environment friendly investments, to give lending priority to those industries which have already turned green or are trying to grow green and thereby help to restore the natural environment. This initiative of green banking is mutually beneficial to the banks, industries and the economy. Moreover Green banking will ensure that the asset qualities of banks are improved in future. Contrary to the belief, environmental friendly technologies make economic sense for the industries and actually lessen their financial burden as well. The polluting industries face more resistance and often forced to close down or face massive resistance from the public. This adds to their cost enormously. So adopting environmentally sustainable technologies or modes of production is no more considered as a financial burden, rather it brings new business opportunities and higher profit. Green banking optimises costs, reduces the risk, enhance banks reputations and contribute to the common good of environmental sustainability. So it serves both the commercial objective of the bank as well as its social responsibility.

IMPORTANCE AND RELEVANCE OF GREEN FINANCE

Banks like any other business directly interact with the environment as consumers of natural resources. During their day to day business banks heavily contributes towards the carbon emission in terms of use of paper, electricity, stationary, lighting, air conditioning, electronic equipment etc. even though this is moderate compared to other carbon sensitive industries like steel, oil and gas etc. In the case of banks, the direct interface with the environment has considerably increased due to rapid growth of the banking industry.

Banks affect the environment indirectly by financing intermediaries that have an external impact on the environment. They are the major source of long term funding to various industries such as cement, fertilizers, nuclear power, steel, oil and gas, paper etc. which pollute the environment heavily.

Being a major source of fund provider, banks can play a crucial role in ensuring environmentally sustainable and socially responsible investments in the economy. Banks should try and reduce the increase in carbon footprint caused by them either directly and indirectly and should play a vital role in ensuring sustainable and environment friendly development.

In addition, if the lending decisions of the banks are not done prudently as per the environmental criteria, then it may lead to credit risk, legal risk and reputational risk. It is at the interest of the banks to practice green banking and thereby avoiding the aforesaid risks involved in the banking sector.

1. Credit Risk:

The credit risk can happen indirectly in the case when banks lend to companies whose businesses are adversely affected due to changes in environmental regulation. The costs of meeting new environmental requirements might be enough to put some companies out of business. Credit risk can also arise when a bank had given advances to a real estate firm whose property value fell because of environmental issues. Moreover small and medium enterprises (SMEs) engaged in manufacturing business do not have sufficient capital to shift to clean production methods. Hence there are chances of credit risk in these loan portfolios as well in case government comes out with stringent environment regulatory rules.

2. Legal Risk

Banks are at a legal risk if they themselves don't comply with the environmental regulations. But more than inadequate environmental practices followed by debtors may lead to legal risk. The banks will be at a legal risk when they take possession of a collateral property (under SARFAESI or due to loan default) which is contaminated or is a pollution causing asset. For example, A company which has taken loan may incur legal liability to clean up the contaminated site which may further lead to bankruptcy. In such a case the bank's ability to recover the loan is stalled and if the polluted site is part of the collateral security, the value of the property intended to set off default losses is also reduced. If a bank has a proactive environment management system put in place then it can reduce this risk to a great extent.

3. Reputational Risk:

Banks should watch out from financing environmentally objectionable projects. Banks are certain to lose their reputation if they are involved in some big projects which adversely affect the environment and causes pollution. In addition if loans are advanced to industries which pollute the environment, those industries will face restriction from public and are often forced to shut down their business, thereby creating over and above the reputational risk causing credit risk as well.

OBJECTIVES

- To build a conceptual framework of green finance
- To get an insight into "green" financial products and services that are currently being offered and the problems faced in developing such products
- To identify the level of awareness and demand for such green products among investors
- To identify the key opportunities for Indian financial institutions in terms of the development and marketing of "green" financial product and services

RESEARCH METHODOLOGY

The research is exploratory in nature .Primary data is collected through two sets of questionnaire one for individual green investors and other for green fund officials In this way a dual view of the market for green capital is revealed, both from the inside – understanding the current offer – and from the outside – to understand the needs and the awareness level of the investors. The research was carried out among 100 users of green financial products in Mumbai using a structured questionnaire and an in depth interview with bank managers dealing with such products. SPSS was used for data analysis. Primary research is supported by secondary data collected from newspaper ,magazines and various websites. The topic being new literature available is limited.

DATA ANALYSIS

An in-depth interview with the green fund officials of various branches of SBI banks gave an insight on the various kinds of green products being offered.

SOLAR POWERED ATM'S

How do you gain access to your money if your bank is many miles away? Well, ATMs. But how does a village have an ATM if it can't power the thing? Vortex Engineering has come up with a solar-powered solution for providing ATMs to people in rural areas

"The initial lot of 400 solar ATMs, aptly called Gramateller ('gram' means village), the world's largest order, placed by the State Bank of India (SBI), has been winning accolades for performance and substantial energy savings. The ATMs were installed in 2010-11 across several states, usually within 20-50 km of the district headquarters.

Following SBI's success with solar ATMs, the Catholic Syrian Bank also placed an order for 50 Gramatellers and Indian Bank for 20, while 10 more have been ordered by other banks

The Gramatellers are more hearty versions of traditional ATMs. They cost a bit more but pay for themselves with about two years thanks to the solar energy, whereas traditional ATMs are a constant expense as they eat up generator fuel. In fact, a solar-powered ATM saves over 90% of annual expenses spent on traditional ATMs.

Tthe Grammatellers have a 12-hour back-up battery and needs at least five hours of sunlight daily to keep it charged. And, thanks to this back-up battery, customers can use the ATMs even when power is cut of to the rest of the village. Because they're less expensive in the long run, other banks in countries in Africa and East Asia are also interested in purchasing units to provide to rural customers.

Solar power is literally putting money in the hands of banking customers, giving them more control over their own funds. And all for a cheaper cost to both banks and the environment.

GREEN HOME LOANS

Showing sensitivity to the environment, the State Bank of India (SBI) is offering various discounts for housing loans taken to buy or build "Green" home

It is doing this by offering various discounts for home loans taken for such buildings. This scheme is called SBI "Green Homes".

DETAILS OF THE DISCOUNTS OFFERED

Rate of interest

The interest rate charged for a “green” home loan would be 0.25% lower than the rate charged for loans for non-“green” homes.

BENEFITS TO THE CUSTOMER

- ***Equated Monthly Installments (EMIs) would be lower*** – resulting in less expenditure every month
- ***Pay less interest*** over the tenure of the home loan
- Lower EMI also means that you would be ***eligible for a higher loan amount***. Banks cap the EMI amount as a percentage of your monthly income – so lower the EMI, higher is your loan amount eligibility.

GREEN COUNTER

- On its 204th State Bank of India, the country’s largest Public Sector Bank has launched its 'Green Channel Counter' This facility would give customers ease and comfort in transacting their business at branches. The customers need not fill up any pay-in slips or draw cheques for depositing or withdrawing money from their accounts, saving paper, and thereby contributing to the concept of 'Green Banking'. This novel facility would be a game changing move in the industry by reducing process time, as duplication in writing/feeding account details and transaction details by the customer as well as the person behind the counter is avoided by simply capturing these details by swiping the SBI Shopping cum ATM Card on a device available at the Single Window Operator's (SWO) counter. At the Green Channel counter, there is a Point of Sale Machine (POS), on which the customer swipes his card. He is then asked by the machine to select the type of transaction, viz. (0) Cash Deposit, (1) Cash Withdrawal and (2) Funds Transfer. Once the customer selects the type of transaction by entering the option, the message ‘Enter the Amount’ is displayed. The customer is asked to confirm the input amount followed by a message “Please Enter the PIN’. When the PIN is entered by the customer, the transaction gets transferred to the terminal of SWO who after entering the denomination of the cash to be paid / received, pays / receives cash and the transaction gets completed.

DATA ANALYSIS OF THE QUESTIONNAIRE GAVE THE FOLLOWING RESULTS

MOTIVE BEHIND INTRODUCING A GREEN FINANCIAL PRODUCTS

Most of the green fund officials have introduced green financial product for maintaining a good reputation among public (67%),while 12% felt that it was there social responsibility 13% of the officials answered that there major objective was media coverage and publicity and the remaining 8% have opted for green product for complying with legal issues on environment

POPULAR GREEN FINANCIAL PRODUCTS

Majority of the officials agreed that green home loans(43%) are very popular among customers followed by green auto loans,(23%) green cards, 16% green counter (11%)and solar powered ATM’s (7%)

MAJOR PROBLEMS FACED IN INTRODUCING A GREEN FINANCIAL PRODUCT

Problems faced in developing an introducing a green product like solar powered ATM or green counter included non profitable environmental analysis business models(41%) ,customers lack of desired response ,(40%)company’s inability to choose and evaluate green technology(12%) and concern for continuation of green policy by the organization (7%)

STEPS THAT CAN BE TAKEN TO MINIMIZE THE CHALLENGES OF INTRODUCING A GREEN FINANCIAL PRODUCT

The following factors were identified on a five point likert scale to tackle the problems of developing a green financial product . (5= strongly agree 1= strongly disagree) their mean were as follows:

Ways to overcome challenges	Mean scores
Provide strong government assistance	3.13
Reflect environmental factors into credit ratings	3.45
Making environmental initiatives taken by an organization a part of mandatory disclosure	2.67
Giving tax incentives to the customers opting for green products	4.23
Hire trained professionals for development of green financial products	1.3

Most of the people agreed that giving tax incentives to the customers is the best way of promoting green financial product followed by reflecting environmental factors in credit rating

AWARENESS LEVEL OF THE CUSTOMER

Following table shows the % of awareness for different kinds of green financial products

Product	% of people knowing about it
Green home loans	67
Green auto loans	45
Green counter	33
Green cards	32
Green financing	21
Solar powered ATM	19
Green insurance	9

MOTIVES BEHIND PURCHASING A GREEN FINANCIAL PRODUCT

Most of the customers (72 %)said that they would opt for a green financial products only if it gives them some monetary benefits while 28% said they would opt for it even if it is little costly as they have concern for environmental issues

BENEFITS OF CHOOSING A GREEN FINANCIAL PRODUCT

Customers expect that benefits of choosing a green financial product may be in the form of lower interest rate,(65%)less paperwork and documentation (29%), flexible repayment plan(6%).

CONCLUSION

There are some issues which impede the growth of Green financial products. Green products have still not been able to position themselves as an economically viable option as many lower cost products exist in the market. Unlike of what is happening today in Europe, where the market of "green" financial products & services is growing substantially, globally, even though the market appears to grow, it is in an early stage, with indefinite boundaries and without having gained unified characteristics, differentiating it from the traditional industries. Financial institutions and banks in particular have an important role to play in this context by contributing to the creation of a strong and successful low carbon economy. They should expand the use of environmental information in the credit extension and investment decisions. The endeavour will help them proactively improve their environmental performance and creating long term value for their business.

In future, business with a higher carbon footprint would be seen as a riskier business and banks may keep themselves away from financing such business and would look for financing new technology solutions that capture or reduce carbon emissions.

The Green Banking is thus the order of the day and it will definitely benefit the banks, the industries and the environment as a whole.

REFERENCES

1. Babad, Elisha The Psychological Price of Media Bias.; Journal of experimental psychology. Applied Year: 2005 Volume: 11 Issue: 4 Pages: 245-255
2. Botha, M.E. , Theory Development in Perspective: The Role of Conceptual

3. Bryman, Alan Social research methods / Alan Bryman 2. ed. Oxford University Press, cop. Year: 2004
4. Chong Dennis; Druckman James N A Theory of Framing and Opinion Formation in Competitive Elite Environments. Journal of Communication , Year 2007 Volume 57:1 Pages 99–118 available at http://www.blackwellsynergy.
5. Cohen, M.A., Fenn, S.A. and Konar, S. 1997. Environmental and financial performance: Are they related?
6. DELPHI (Delphi International Ltd) 1997. The Role of Financial Institutions in Achieving Sustainable Development (Report to the European Commission) DELPHI International Ltd. in association with GMBH, November.).London, UK. 133 pages
7. Dow Jones Sustainability World Indexes Guide August 2006 available at http://www.sustainability-indexes.com/htmle/publications/guidebooks.html accessed on 12th of May
8. Druckman. James N On the Limits of Framing Effects: Who Can Frame? Journal of Politics Year: 2001 Volume: 63 Issue: 4 Pages: 1041-1066
9. Eurosif, European SRI Study,2006, available at www.eurosif.org/content/download/580/3548/version/1/file/Eurosif_SRIStudy_2006_complete.pdf Year:2006 accessed on 12th of May
10. Eurosif, Venture capital for sustainability 2007 http://www.eurosif.org/content/download/715/4214/version/1/file/VC4S_final_web_22022007.pdf%20- Year:2007 accessed on 12th of May
11. Fayers C, C. Cocklin and D. Holmes 2000. Environmental Considerations in the Decisions of Australian Investment Professionals. Journal of Environmental Assessment, Policy and Management 2 (2) 610- 643.
12. Frameworks and Models in Theory Development, Journal of Advanced Nursing Year: 198914(1), Pages: 49–55
13. Gilovich T, DW Griffin, D Kahneman Heuristics and Biases:: the Psychology of Intuitive Judgement Year 2002
14. Hartman-Hall, Heather M.; Haaga, David A. F. Content Analysis of Cognitive Bias: Development of a Standardized Measure, Journal of Rational-Emotive andCognitive-Behavior Therapy Year: 1999 Volume: 17 Issue: 2 Pages: 105-114
15. Jeucken, M and Bouma, J. 2001. The Changing Environment of Banks: Paper 1.-Sustainable Banking, Greens Leaf Publishing, UK

A STUDY ON EFFECT OF DEPRECIATION METHODS ON NET PROFIT OF BUSINESSES

DR. SURENDRA GOLE
VICE PRINCIPAL
JHULELAL INSTITUTE OF TECHNOLOGY
NAGPUR

ABHAY INGLE
ASST. PROFESSOR
JHULELAL INSTITUTE OF TECHNOLOGY
NAGPUR

ABSTRACT
The basis for depreciation expense is management's estimation of the useful life of the company's assets. Depreciation is a non-cash expense capitalized over the useful life of the company's plant and equipment. By lengthening or shortening its estimate of the useful life of its assets, the company can increase or decrease depreciation expense, thereby affecting its net profit margin. The method of accounting plays an important role in determining profitability of the business. Our study mainly focuses on three mostly used depreciation policies by corporate and their effect on their profitability.

KEYWORDS
depreciation accounting, asset management.

INTRODUCTION
Companies generally implement adequate asset management procedures to ensure that accounting statements are accurate and complete. An asset is an economic resource that an organization owns or on which it can claim ownership at a future date. Depreciation ensures that a company allocates costs associated with corporate assets in financial reports, particularly in the statement of profit and loss.

IDENTIFICATION
Depreciation is an accounting practice that enables organizations to spread the costs of long-term assets over several years. Long-term assets are also referred to as fixed or capital resources, and include real estate, plants and equipment. Straight-line and accelerated methods are the most common depreciation techniques. Both methods affect a company's net profit because depreciation is an operating expense. Net profit, or net income, equals corporate revenues minus expenses.

TYPES
i) **Straight-line**:- It first calculates the depreciable base (cost less salvage) before dividing it by number of years (life of machine) to arrive at annual rate of depreciation. The **straight-line method** is the most straightforward method of Asset Value Depreciation. But not all equipment deteriorates equally e.g. a car, over its useful life. Methods based on actual usage: total life is too cumbersome to be practicable

Cost of Machine + Installation + Directly Associated Costs = Total Cost

Total Cost - Salvage Value (At end of 10 yr. Period) = Depreciable base

ii) **Declining Balance Method**: - The declining balance depreciation method is an accelerated method since a large part of the cost of the fixed asset is expensed at the beginning of the life of that asset. To calculate declining balance depreciation the depreciable basis of the fixed asset is multiplied by a factor. The depreciable basis is the book value of the fixed asset -- cost less accumulated depreciation.

The factor is the percentage of the asset that would be depreciated each year under straight line depreciation times an accelerator. For example, an asset with a five year life would have 20% of the cost depreciated each year. If the accelerator is 200% then the factor would be 40% (20% x 200%). The 200% accelerator is referred to as double declining balance and is the most common.

iii) **WDV Method**: - written down value, applicable to machines that have high rates of depreciation in the initial year or two, and later taper it e.g. a car, is a usable method.

Under this method, depreciation is charged at a fixed rate every year, on the reducing balance. A certain percentage is applied to the previous year's book value, to arrive at the current year's depreciation/ book value, which shows a declining balance, weighted for earlier years, and lower and lower for later years, as the machine grows older. It accelerates depreciation taken in early years and reduces the amount taken in later years. It ignores salvage value and starts with depreciable base = asset cost.

These methods affect net profit in different ways. In a straight-line process, a corporate bookkeeper records the same depreciation amount evenly over the asset's useful life---that is, the period over which management believes the asset will serve in operating activities. If a company opts for an accelerated method, the bookkeeper records higher depreciation amounts in earlier years.

CALCULATIONS

Comparing Depreciation Methods

Method	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*
Straight Line	200000	200000	200000	200000	200000
WDV	200000	160000	128000	102400	81920
Declining Balance Methode	400000	240000	144000	86400	51840

SIGNIFICANCE

As a business practice, depreciation plays an important role in long-term decision-making processes. Corporate leadership pays attention to depreciation methods because they affect not only net profit but other key financial indicators such as operating income and working capital. Operating income equals gross revenues minus materials costs. Working capital gauges short-term cash availability and equals current assets minus current liabilities. A company's depreciation policies also affect its fiscal liability, as Internal Revenue Service depreciation guidelines generally differ from financial accounting rules.

IMPACT ON NET PROFIT

As an operating expense, depreciation affects net income. For example, a large car-seat manufacturer depreciates its fixed assets using a straight-line method. In total, the company's assets are worth Rs. 10,00,000/-, and their average useful life is 5 years. Accordingly, total annual depreciation equals Rs. 2,00,000 (Rs. 10,00,000 divided by 5), and the firm's annual net profit will decrease by the same amount. Assuming the controller selected a "50-30-20 accelerated method," total depreciation for the first year would be Rs. 5,00,000 (50 percent of 10,00,000/-). As a result, the company's net profit would decrease by Rs.5,00,000.

CONCLUSIONS

In addition to net profit, depreciation methods also affect other financial indicators and accounting reports. These financial statements include balance sheets or statements of financial position, statements of cash flows and statements of retained earnings. Although it impacts net income, depreciation is a noncash item, meaning a company does not pay for it. Many companies choose straight-line method for reporting depreciation to shareholders because net income is higher in early year. Because net income is lower in early years, some companies prefer the written down value method, especially for Income Tax purposes.

ACKNOWLEDGEMENT

The present paper is presented in Pinnacle 2012, National Research Conference on 'Innovative Paradigms in Contemporary Management' held at S. B. Jain Institute of Technology, Management & Research, Nagpur in collaboration of IJRCM.

REFERENCES

S. N Maheshwari, Himalaya Publication: Financial Accounting
Accounting Coach: What Are The Effects of Depreciation?

STRATEGIC HUMAN RESOURCE MANAGEMENT FOR HIGH PERFORMANCE ORGANIZATIONS

AJIT KUMAR KAR
DEPUTY LEAD (HRD)
WALKERS ORGANIZATION OF MANAGEMENT STRATEGISTS
BHUBANESWAR

ABSTRACT

The companies these days are on the edge of the cliff due to cut throat competition, technological changes & innovation. Faced with economic uncertainties, risky strategies, competing priorities, limited resources, and managerial complexities, organizations are often "hopeful skeptic" when it comes to strategically embracing the value of human resource management. Thus, the role of HR is changing fast to adopt and adapt to new organizational structure and culture. Previously considered a support function, HR is now becoming a strategic partner in helping a company achieve its objectives. Today, if an organization is to survive, it needs to adapt and continually seek to reduce costs, increase quality, create new products, and increase performance. Today's knowledge economy requires employees to contribute ideas and be engaged in executing the company's strategy. HR is thus becoming a strategic partner by identifying the skills that employees need and then providing employees with the training and structures needed to develop and deploy those competencies. This necessities not just HRM rather SHRM or Strategic Human Resources Management.

KEYWORDS
HRM, Strategy, performance, management, employees.

INTRODUCTION

Due to the impact of globalization, liberalization and privatization, sustaining and competing to survive have become a gigantic task for organizations today. The concept, process & structure etc of management of business enterprises have changed dramatically. The essence has been gradually shifting from traditional management style to modern management style that is total development of Human Resource in the organization. Talent management, competency mapping, identification of potential, employee retention tools, employee delight, leadership development, succession planning and optimum utilization of Human Resources can only meet the challenges of competitive environment.

Rapid technological changes have thrown challenges to Human Resources in the organization. Business today demands change and challenges. Each day we face new challenges in business, for which most experienced and able employee of an organisation even do not match with the business requirements and ultimately make himself off-balance. The old way of doing the business without creative thinking and change strategies, may pose threat to individual as well as organization. There was a time when value of the company was measured by the articles/goods produced and the service rendered. Now value is measured by Return on Investment (ROI), Economic Value Addition (EVA), respond to change and how quickly the organizations accept challenges to face the competition, so as to exist in the present day competitive market.

Managing change and respond to challenges is the need of the hour where the HR plays a vital role. Today everywhere we evidence work place crisis, stress and strain, because the trend of business has become wider and globally opened up. Thus, what is required is Strategic HR planning. This is possible if HR is able to participate in company's business strategy and is looked upon as valuable contributor to the organization. Hence, the HR team should understand business environment very well and make tactical and strategic planning for survival of an organisation in the competitive market. Strategic HRM is the process of linking human resources to clearly defined strategic goals and objectives for organizational success.

http://www.toonpool.com/cartoons/Strategy%20in%20a %20small%20goldfishBowl_41995
Fig.101

WHAT ARE STRATEGIES?

Strategy is a multi-dimensional concept going well beyond conventional competitive strategy concepts. Strategies are broad statements that set a roadmap. Strategies are a specific, measurable, obtainable set of plans carefully developed with involvement by an institution's stakeholders. These action statements are linked to an individual or individuals who are accountable and empowered to achieve the stated result in a specific desired timeframe. They are patterns of action, decisions, and policies that guide a group toward a vision or goals. It is that set of managerial decisions and actions that determine the long term performance of a corporation. It includes environmental scanning, strategy formulation, implementation, evaluation and control. The biggest benefit that strategic HRM offers is competitive advantage by building critical capabilities of HR in an organization. Strategic HRM facilitates in strategy formulation by making an organization's SWOT analysis, and also in policy implementation by providing competent human resources and competitive intelligence.

STRATEGIC HUMAN RESOURCE MANAGEMENT (SHRM)

We have witnessed since last few years the difficulties in the management of enterprise. The competition in the business arena has intensified that there is urgent need for introduction of innovative approaches in HRM policy, so as to enhance HR's capability and competency for achieving the goal of the organisation. Strategic human resource management is a complex process which is constantly evolving and being studied and discussed by academics and commentators. Strategic HRM can be regarded as a general approach to the strategic management of human resources in accordance with the intentions of the organisation on the future direction it wants to take. It is concerned with longer-term people issues and macro-concerns about structure, quality, culture, values, commitment and matching resources to future need. In nutshell "It is the integration of all processes, programs, and systems in an organization that ensure staff are acquired and used in an effective way".

1.1.1 STRATEGIC HRM

A school of thought in HRM, known as Michigan School of Thoughts highlights the following as a strategic tool to HRM.

★ Succession planning
★ Human resources planning
★ Performance management
★ Reward management
★ Training and re-training for skill development
★ Managing change
★ People centered organizational development interventions
★ Value creation through HR
★ Leveraging Human Potential
★ Competency Building

1.1.2 ESSENCE OF SHRM

We have witnessed since last few years the difficulties in the management of enterprise. The competition in the business arena has intensified that there is urgent need for introduction of innovative approaches in HRM policy, so as to enhance HR's capability and competency for achieving the goal of the organisation. The following agenda reflects the major aspects of HRM system:-

- The company's objectives are to be achieved through its most valued resource i.e. Human Resource.
- In order to enhance both individual and organizational performance, people are expected to commit themselves and contribute to the success of the organisation.
- A coherent set of personnel policy and practices geared towards effective organizational performance is necessary pre-requisites for the company to make the optimum use of resources when striving to meet business challenges.
- An integration of HRM policy and business objectives should be defined.
- HRM policy should support the corporate culture.
- Creation of an organizational climate which is conducive and supportive of individuals' creativity and to facilitate team work, innovation, Total Quality Management.
- Creation of a flexible organizational system that is responsive, adoptive and help the people to grow within.
- To balance both HR's capability – productivity.
- Introduction of productive work culture with potential development of HR.

1.1.3 STRATEGIC HRM ISSUES

Strategy essential means 'what' we want to do and 'how' we are going to do. These are also called Strategic Goals to be achieved. An organisation needs to comprehend the strategic issues so that an organisation can plan for present and future.

Identifying fundamental HR Plans, strategies & issues are to be focused today for organizational survival and success.

Some of the strategic HRM issues are:

1. Manpower Planning, Acquisition & Placement
2. Succession Planning
3. Skill availability and development
4. Motivation Issues
5. Compensation Design & Structure
6. Employee Grading, Alignment,
7. Pay & Remuneration System with low degree of disparities
8. Consistent & Stable Performance Management System
9. Career Development Framework (Skills development, job rotations, succession planning, trainings, etc.)
10. Competency Frameworks for assessment, evaluation, mapping and development of competencies

http://assignmenthelpexperts.blogspot.com/2011/06/emerging-issues-in-hrm-human-resource.html

Fig.102

HRM – EMERGING CHALLENGES

Due to explosive change in the business, global competition, high technological obsolescence, it is very difficult to achieve success in business. We have to seek for different ways of managing business. It is no longer possible to comply with the government directives, meet the production target or distribute the products only. Business growth is possible through value addition to the product and service. Hence, we have to re-look the market, customers, professionalism in management and ethics in business for survival in business.

Due to environmental changes in business, organizations are becoming increasingly dependent upon people working in the organisation. Effective HRM leads to effective management of the organisation in totality. At macro level, HRM plays a catalytic role as a change agent in the organisation. If the organisation fails to manage the human element, it will be very difficult to forecast the growth of the organisation; because organizations exist only for the people they serve. Whether it is Japanese miracle or American revival or German's survival strategies or Israel's sustainable economic strategies, everywhere through out the world, success is possible only **by the people** and **through the people**. HR Manager has to play a re-defining role to face the challenges and simultaneously has to develop sound strategies, so as to remain in the organisation in the competitive market. As observed there is a visible shift from traditional managerial function to modern managerial system/function. Various new techniques and concepts are being introduced in industrial organizations. The managerial style has been changed dramatically in the organizations due to stiff competition. The objective of HRM is to utilize the Human Resources in the optimum level, so as to get the end results.

CORPORATE STRATEGY AND STRATEGIC HRM

If we intend to improve organizational performance, we have to improve performance of the Human Resources. The contribution of effective Human Resource Management ultimately leads to organizational effectiveness. Today there has been growing realization that aligning the Human Resources Management with the corporate strategies is the major challenge before the companies. Industrial organizations, witnessed that Human Resource Management, is most crucial function, because it is management of sentiments, minds than the people. Strategic HRM involves a set of managerial decisions and actions that are intended to provide a competitively superior fit with the external environment and enhance the long run performance of the organisation. The emphasis has been on more fully integrating HRM with the strategic needs of the organisation.

http://hrmadvice.com/hrmadvice/hr-role/hr-strategic-partnership-implementation.html

Fig.103

STRATEGIC HR ROLE AND COMPETENCY MODULE

Since management of Human Resources are essential tool for any organizations, many organizations are developing new structures, organisation culture, re-designing the activities of HRM related functions in a integrated way for the growth of the organisation. Organizations have achieved the results by implementing decentralized decisions by delegation and empowerment, introduction of controlling system to enabling system and breaking down the organizational hierarchy to a limited level and shop floor collaborative decisions by the people. The strategic HR roles to be performed is tabulated and placed below in the table A1.

STRATEGIC HR ROLE

TABLE: A1

Role	Outcome	Metaphor	Activity
Management of strategic HR	Executive strategy	Strategic partner	Aligning HR and business strategy
Management of infrastructure	Building an efficient infrastructure	Administrative Expert	Reengineering organisation
Management of employee contribution	Increasing employee commitment	Employee champion	Responding to employees
Management of change	Creating learning organisation	Change Agent	Managing change

Source – HR Champions, 1997

1.1.1 HR COMPETENCY APPROACH PLAN

The developmental process of an individual in an organisation starts with the first day of his entry into the organisation till the last day of his exit from the organisation. With such a long chain of activity, the human resources managers are to play the role of hiring the personnels and make them utilized to the optimum level while on the job and make them happy before they leave from the organisation. In the developmental process, the entire gamut of the functions such as' the performance appraisal, potential development, career planning, plays a very pivotal role. The appraisal system should be designed in such a way where the competency level of an individual must focus so as to take care in the next process for potential development of an employee.

The competency module is given below, which is the important ingredient of an appraisal management system of an organisation.

1.1.2 SIX-STEPS STRATEGIC-HRM PLANNING MODEL FOR ORGANIZATIONAL PERFORMANCE

1. HR Direction & Strategic Outcomes Desired
2. Designing HRM System based on HR Direction & Outcomes set above
3. Manpower Planning
4. Acquiring & Building Up Human Resources
5. Human Resource Development & Performance Management
6. Assessment, Measurement & Evaluation

1.1.3 HR DIRECTION & STRATEGIC OUTCOMES DESIRED

http://www.writeforhr.com/six-steps-to-help-groom-your-next-ceo/

Fig.104

This can be done with two approaches in mind, 1. Focusing on Vision, Mission, Values of the organizations in which direction HR should move. 2. Plan HR outcomes so that the set goals, visions, missions are achieved.

HR must fully understand the direction in which the organization is moving and be able to support by using competent HR tools. Setting the direction is the first move to planning strategic HR. Further specific HR outcomes should be planned which are in line with organization's business goals. Certain HR outcomes can be discussed with reference to following points.

If organization is moving towards expansion of its business across wider geographical regions then there is a possibility of acquiring diverse manpower and exposure to global business and HR environment. Here specific HR outcomes can be creating an organization culture, which is capable to absorb diversified manpower with strong learning attitude.

If an organization is new and needs to stabilize in the competitive environment, then strategic HR direction would be more focused on effective manpower acquisition and placement objectives since; new organizations are highly driven by employee turnover both from recruitment and attrition point of view till the time it stabilizes. Here desired outcomes could be creating more informal environment that would help building up close nit teams with strong bonding between them would help address attrition issues. Because new organizations may not be able to pay high salaries or rewards to retain manpower, rather building manpower with strong interpersonal relationships can make them stay together for a longer period of time. Team building, Employee Welfare initiatives and creating knowledge sharing environment could be essential strategic HR goals.

In relatively stable and large sized organizations not very vulnerable to small competition threats can afford to spend more time on employee development, competency buildings and creating more efficient manpower in the organization. In such organizations strategic HR goals could be developing and implementing robust performance assessment framework, competency development and mapping mechanisms, strong training, development and learning systems and attractive reward mechanisms. The strategic HR outcomes desired could be utilizing and developing organizations core and distinctive competencies in comparison to its internal strengths vis-à-vis external threats and make an organization more capable to handle stiff competition with efficiency.

1.1.4. DESIGNING HRM SYSTEM FOCUSED ON HR DIRECTION/OUTCOMES SET ABOVE

HRM system essentially means designing HR policies, procedures and rules that are in line with HR direction or goals set. New and emerging HR policies in modern world can be Outsourcing, Flexible Work Practices and Automation. Other policies can be intelligent reward/awards policies, HR administrative policies, Code of Conduct & Employee Rule Book, Disciplinary policies etc. However the cost benefit analysis must be made before implementing advanced or modern HR practices.

It would be important to identify which policies suit the organization and HR strategic needs, plans and goals. It is be possible if there is a detailed survey done on best HR practices available in the industry, so that you can pick and choose the best and cost effective one.

MANPOWER PLANNING

http://www.hr.uwa.edu.au/hr/publications/workforceplanning

Fig.105

Two things to be kept in mind while planning your workforce, i.e. Organization Design or Structure and Job Design/Description

Forecasting business & manpower requirements, skills & competencies required, right mix of fresh and skilled or experienced manpower along with time gaps predefined i.e. when and how many and where they are required, sources to be used – internal or external, succession & career plans, quality of manpower that supports organization structure and Job Descriptions, Grouping and Organizing manpower with provisions of attritions, back up and buffer manpower etc.

1.1.1 ACQUIRING & BUILDING UP HUMAN RESOURCES WOULD REQUIRE THE FOLLOWINGS:

➔ Recruiting, Hiring, Classifying, Inducting & Training and Placement of employees as per Organization's Manpower Plan.

➔ Establish cost and time effective Recruitment & Selection Practices & Processes

➔ Design good Induction & Orientation Processes coupled with Technical, Functional & On-the-job, and Off-the-job training & skill development programs till the time an employee is ready to be productive.

➔ Introduce learning practices, knowledge sharing activities, create Knowledge Dashboards and promote sharing information between teams, departments and in the entire organization.

➔ Establish clear and transparent employee classifications & occupational levels so that roles and responsibilities are clearly defined. This is possible if you have a robust Grading & Designation system, which is not only as per current size of manpower but also futuristic and capable to take care of additional manpower expected to be recruited in near future.

HUMAN RESOURCE DEVELOPMENT & PERFORMANCE MANAGEMENT

Review and Re-align existing Performance Assessment, Job Definitions, Career Planning and Rewards Management with current organization goals and HR objectives. The Performance Management & Appraisal Framework should be able to produce performance required by the organizations in line with its business strategy.

http://www.hrutilities.com/2011/05/performance-appraisal/

Fig.106

Performance Management is Futuristic activity where future performance is planned and actions are devised to achieve it. For example, the organizational, divisional, team level and individual performance objectives should be made crystal clear so that employees can clearly visualize what they have to achieve.

Performance Appraisal is Historic activity where what ever happened in the past is evaluated, rated and remarked. But you cannot change the performance once it is already happened. The diagram here explains the process of performance appraisal that is one of the major functions of SHRM.

Hence focus on Performance Management rather than Appraisals and try your best to extract performance objectives of the organization. This should be primary goal of HR and if you do it, it's a great achievement.

A great performance management practice should be introduced with relevant Performance Rewards & Awards System. Do not devise glossy and glamorous rewards awards policy. The fundamental rule of Rewards Mechanism is you should know 'What kind of achievements, behaviors, milestones should be rewarded in line with Organizations Performance Goals and Business Strategy' and 'How to reward them, in what way, cash, non-cash, recognitions, promotions, job enrichments, job rotations, higher designations, high compensation, public rewards, individualistic rewards' etc. Please also remember every employee has his own distinctive need of getting rewarded, in cash or kind or appreciations etc; some people love to be praised in public, while some don't.

Human Resource Development essentially focuses on Trainings & Skill development (technical, functional, motor skills etc.) Competency Development (attitude, behavior, capabilities etc.) Career Planning & Succession Planning (promotions) etc.

Continuous assessment of organizations current skill levels of employees by way of maintaining skill matrix with reference to current and future skills required and gaps between the current and future skill needs; formulates the base for devising efficient training programs on various key skills required by the organization.

Competency Development is a Herculean task. Competencies essentially may or may not directly or indirectly contribute towards employee's performance; it just gives additional muscle power to help perform. It is the Job Skill that drives performance. But competencies are surely required to deliver strong performance along with key job skills. Also understand competencies are more to do with Behaviors and Attitudes, which cannot be altered easily. Hence either you have a certain competencies or you don't. Do not force competencies on employees, they should feel the need to develop certain competencies then only they will generate necessary positive attitude towards improving their competencies. Because competencies essentially consist of attitude, behavior, value systems which have shaped since childhood depending upon the social circles an individual has been brought up. Remember 'ICE BERG' model of competencies. Iceberg shows 20% tip above the water but 80% is below the water, which is hidden or not exposed easily. 20% portion represents employee's knowledge, skills and experience, which is clearly visible to the entire world and can be easily changed or improved. The rest 80% portion represents individual's behavior, attitude, value system etc., which cannot be altered or changed.

The best way to assess competencies is through Behavioral Interviews to be conducted by experts only, where employee's responses are recorded and noted down carefully, his attitude, thinking, values are understood and necessary remarks are noted. Further this information is classified according to performance ratings of employees and a classification may be made with reference to what kind of specific behaviors or attitudes or values displayed by Poor, Average, Good, Excellent or Outstanding rated employees. These classifications can be used as benchmarks both in Performance Evaluations and Selection / Hiring Processes. This is very helpful essentially while recruiting, since we already know what kind of behaviors or attitudes represent poor, good or excellent performers. Recruiting people with right behavioral attributes and positive attitudes will ensure that we hire people already possessing strong competencies and a strong potential of star performance. Half the battle is won there itself. Further we also get clear understanding about what are specific behaviors, attitudes required to create excellent and outstanding rated employees, these benchmarks can also be used to train, develop and groom good or average rated employees to elevate them to excellent or outstanding level. Customized training and development programs can be devised based on outstanding competencies displayed by other employees.

1.1.1 COMPETENCY DEVELOPMENT FOR HIGH PERFORMANCE

In order to improve the performance of employees and organization, management need to understand and explore human potentialities and competencies.

The Phases of competency development are:

Understand the key competencies required by the entire organization in order to achieve its performance objectives in line with business strategy and goals. Scale down these competencies from organization level to department and individual level. Group these key competencies and focus on them for development.

Assess the current level of proficiencies of organization, department and individual competencies. Please note that competency ratings or rankings can never be absolute, they always fall between certain ranges because competencies cannot be constant (since they are behaviors or attitudes) Hence competency ratings can only be stated as between 1.00 to 1.50 or between 2.50 to 3.25 etc. Not as absolute 1, 2 or 3 etc.

Benchmarks the competency levels you are targeting to achieve. For example if an individual or a department shows Customer Orientation competency rating of 1.50 to 2.00 then you can plan to elevate it at least to 1.75 to 2.25 level. Please remember, competency development is very slow and gradual process, it cannot be improved drastically in short period. It takes time to grow.

Conduct a detailed gap analysis between current competency levels and desired levels by the organization as per performance goals or business objectives.

1.1.2 KEY EMPLOYEE IDENTIFICATION

Fig.107

Then identify and prioritize key employees who need to be focused for competency development. Do not undertake competency development of entire manpower at one go. It is a slow and time consuming process hence focus on creating more star performance. For example, select Excellent Rating people and focus on them to reach to outstanding level. Select Good rated people and make them Excellent-rating performers. Average and Poor can be considered later unless they show attitude to reach to Good rating level and work hard for it.

Based on the Gap analysis and identified key employees, you can plan phased competencies development programs at organization level and execute them.

Further to promote or motivate employees to develop competencies and create right positive attitude with relevant behaviors, Competency based Reward mechanism can also be a good option. Like Performance Reward you can also have Competency Rewards where you can devise special rewards, awards, and incentives for certain employees who have displayed high level of proficiencies in certain key organization competencies. This way you can also motivate employees to take interest to develop their own competency levels.

1.1.3 ASSESSMENT OF COMPETENCE AND PERFORMANCE

It involves measurement of organizations progress towards achieving its desired outcomes and adjusting HR strategy and system accordingly.

Implementing clear quantifiable measures, identifying milestones in the achievement of specific organizational goals and using Balance Scorecards will articulate results of HR Strategic plan in measurable terms. Regular evaluation and review of strategic plan is also essential to fine-tune the strategic HR plan itself.

The SHRM has to ensure the four activities for better competence and performance of Organisation in general and employees in particular as shown in the figure -108.

Thus, HR professionals have to comprehend the external and internal environment for an organization to make the organization and business run well. Hence, today's Managers are focusing attention on the following

a) Policies- HR policies based on trust, openness, equity and consensus.

b) Motivation- Create conditions in which people are willing to work with zeal, initiative and enthusiasm; make people feel like winners.

c) Relations- Fair treatment of people and prompt redress of grievances would pave the way for healthy work-place relations.

d) Change agent- Prepare workers to accept technological changes by clarifying doubts.

e) Quality Consciousness- Commitment to quality in all aspects of personnel administration will ensure success.

Due to the new trends in HR, in a nutshell the HR manager should treat people as resources, reward them equitably, and integrate their aspirations with corporate goals through suitable HR policies.

Strategic HRM practices of high performance organizations

Based on the above studies and a growing stream of subsequent research, the following strategic HRM practices were identified in high performance organizations (HPO).

1. Engaging in Selective Hiring. It's all about selecting the right person for the right job at the right time.
2. Fostering Employment Security. Most managers react to the notion of employment security with disbelief in the face of economic uncertainty.
3. Building and Empowering Teams. One of the most striking characteristics of high performance organizations is not only the wide use of teams, but their consistent efforts to create and empower teams capable of making innovative decisions and driving strong results.
4. Providing Extensive Development & Training. A high performance organisation gives priority & proper emphasis to training & development activities.
5. Disclosing Essential Information. High performance organizations openly disclose key strategic and financial information to all of their employees; in short, they don't "keep them in the dark". Issues of strategic and intellectual property are clearly addressed.
6. Creating Supportive Cultures. High performance organizations are culturally sensitive to the social norms and practices which may facilitate or inhibit their results.
7. Reducing Status Differences. This consideration may surprise some managers and appear to have a narrow focus. Yet, it is clear that high performance organizations strive to reduce and eliminate social and political status differences. Such differences often interfere with individual performance and team functionality.
8. Linking Compensation Directly to Performance. High performance organizations design compensation systems which reward desired performance, allocating a significant portion of compensation to incentives.
9. Promoting Health and Safety. Work cultures are created in which the health and safety of its employees are a top priority. Paramount is the attitudinal climate in which employees are motivated to enhance their personal wellness and fitness, and to manage their own occupational safety in at-risk work environments.
10. Integrating HRM Strategy. High performance organizations value HRM because it views it as a strategic partner in contributing to desired results.

CONCLUSION

The future belongs to dynamic and vibrant organisation. The organizations will only survive those are in the right direction in managing the Human Resources and believe "People can do and change". There is no other go but to accept competition. So in the competition race, the growth is possible only when the Human Resources in the organisation are developed, so as to win the race.

The Human Resources Management is no longer considered an isolation function by the top management in the organisation. HRM is the routine job of every Line Managers today. Over the period of years, HRM has emerged as an important management function in the organisation. Its achievement has been visible everywhere irrespective of private, public, joint, cooperative sectors, MNC's.

If the HRM is to fulfill its aim of valuing the Human Assets, it is necessary to invest in them. Today organizations have knowledge-based workers. Managing and developing those workers needs strategic decisions and its implementation. Hence, Human Resources Management can be seen as an important function which demands strategic Human Resources Planning, strategic decision, effective implementations of the decisions and finally reviewing the implications in totality in periodical intervals in line with the organizations requirement, so as to achieve corporate excellence.

As global business competition shifts from efficiency to innovation and from enlargement of scale to creation of value, management needs to be oriented towards the strategic use of human resources. Strategic human resources management practices enhance employee productivity and the ability of agencies to achieve their mission. Integrating the use of personnel practices into the strategic planning process enables an organization to better achieve its goals and objectives. Combining human resource practices, all with a focus on the achievement of organizational goals and objectives, can have a substantial affect on the ultimate success of the organization. To manage future operations effectively, it is essential that companies produce "business leaders" and "innovators" through SHRM Approach.

REFERENCES

1. Armstrong, M and Baron, a. (2002) strategic HRM*:* the key to improved business performance*.* Developing practice. London: chartered institute of personnel and development.
2. Boxall, P. and Purcell, j. (2003) strategy and human resource management*.* Basingstoke: Palgrave Macmillan.
3. Dessler Gary, Human Resource Management 8 Th. Edition, Pearson education Asia
4. Greer Charles, Strategic Human Resource Management 3 rd. edition, Prentice Hall Inc.
5. K. Aswathappa, Human Resource & Personal Management (3rd edition) TMH (2002), 39-50.
6. Meffinson D, Banfield Paul, Mathews J J, Human Resource Management, Kogan Page
7. Purcell, J., Kinnie, N. and Hutchinson, S. (2003) understanding the people and performance link*:* unlocking the black box. London: chartered institute of personnel and development.
8. Schuler, R.S. (1992) strategic human resource management: linking people with the needs of the business. Organizational Dynamics. Vol. 21, no 1. PP.18-32.
9. Wright, P.M. and McMahan, G.C. (1992) theoretical perspectives for SHRM. Journal of management. March. pp215-247.

WEBSITES

10. http://en.wikipedia.org/wiki/Porter_generic_strategies
11. http://guest.btinternet.com/~alan.price/hrm/site.htm
12. http://home.att.net/~nickols/articles.htm
13. http://human-resources-mgt.bestmanagementarticles.com/
14. http://www.chforum.org
15. http://www.humanlinks.com
16. http://www.quickmba.com
17. http://www.shrm.org
18. http://www.shrmindia.org/
19. http://www.wisegeek.com/what-is-strategic-human-resource-management.htm
20. www.toonpool.com

THE MARKETING PROBLEMS OF CARDAMOM GROWERS IN TAMIL NADU AND KERALA - A COMPARATIVE STUDY

P. SELVAMANI
ASST. PROFESSOR OF BUSINESS ADMINISTRATION
MANAGEMENT WING, DDE
ANNAMALAI UNIVERSITY
ANNAMALAI NAGAR

DR. M. SYED ZAFAR
PROFESSOR & HEAD
MANAGEMENT WING
DDE
ANNAMALAI UNIVERSITY
ANNAMALAI NAGAR

ABSTRACT

Agriculture forms the backbone of the Indian economy and despite concentrated industrialisation in the last five decades; agriculture occupies a place of period. Being the largest industry in the country, agriculture provides employment to around 65 percent of the total work force in the country. This study is conducted on the marketing problems of cardamom growers in Kerala and Tamil Nadu. It employed both primary and secondary data using various data collection methods. The main objective of this study is, therefore, to assess problems faced by farmers in the marketing of cardamom and finally suggest possible remedial measures to better marketing of cardamom in Kerala and Tamil Nadu. The study concludes that The Government should provide the marketing facilities through the appropriate organizations to increase the rate of exports of cardamom especially for Theni and Idukki district cardamom growers and cultivators in the States of Tamilnadu and Kerala respectively.

KEYWORDS

Agricultural marketing, market intelligence, Marketable surplus, Risk bearing, Standardization.

INTRODUCTION

India is endowed with a rich diversity and excellent collection of spices having original quality. The center of origin of two major spices, viz., Black Pepper and Cardamom are the Western Ghats of India. The country has excellent infrastructure for research and development of spices like Indian Cardamom Research Institute (Spices Board), Indian Institute of Spices Research, Directorate of Arecanut and Spices Development, State Agricultural Universities etc. Value addition in spice industry is well developed in the country. The organic spices market is also showing desirable annual growth rate. There is an expanding global organic market for it. Alternative systems of medicine are gaining importance in the western world. India has a rich tradition of Ayurveda. Many of the spices are having medicinal properties. They are mainly used in Ayurvedic medicines. Researches efforts are being put into validate the medicinal, therapeutic and nutritional properties of Indian spices in the modern medicine.

REVIEW OF LITERATURE

"Problems and Prospects of India's Major Spices" has made an overall study about the problems and future possibilities of our major spices, pepper and cardamom. This study analyses the problems in the agricultural sector in general and about the problems in the spices sector in particular. He found that cardamom has considerable significance in the economy of the State of Kerala and the problems of the sector will affect the foreign exchange reserves of India (Jose, 1978).

"Cardamom Industry in India- A study of its problems of Production and Marketing", has studied the marketing, has studied the marketing practices of cardamom and suggested how to overcome the various marketing malpractices and the troubles encountered by the growers. It is suggested that pooled marketing may be adopted for cardamom. This system will certainly have many advantages for the growers but as of today there is resistance from various quarters for it. But it will be better for all concerned to adopt this system. Growers in general are in favour of pooled marketing (Murugesan 1981).

"A study of selected production oriented developmental programme of the Cardamom Board", pointed out that due to ignorance on the part of farmers, financial limitations and various other restraints, there had been no effect on input necessity for increasing the productivity of quality cardamom. There arose the need for educating the growers on the advantages of improved methods of cardamom cultivation based on sound scientific principles (Daisy 1983).

'Economics of Cardamom Plantation in Kerala', has made a detailed cost benefit analysis of cardamom cultivation, which throws much light into various cost components of cardamom production, processing and marketing. This study was primarily intended for analyzing the economics of cardamom plantation with special reference to high ranges in Idukki District. Various statistical tools have been applied to have a broader in depth view of the cost components and the impact of each such element in the net revenue of cardamom plantation. However this study is more or less silent about the marketing problems of cardamom (Suresh 1984).

"Problems and Prospects of Marketing of Indian Cardamom at Home and Abroad", has stated that cardamom is one of the most sought in the world next to pepper. It contributed to our foreign exchange significantly, until the middle of 1980s. High cost of production, low quality, non-competitive pricing, changing consumption pattern and the entry of Gautemala are the root causes of this trend. He also added that Indian spices especially cardamom, is facing increased competition and the product has no edge over its rival suppliers either in productivity or cost of production and thereby price (Gopalakrishnan Nair 1987).

'India's cardamom trade with Middle East' clearly points out the changing pattern of Indian's cardamom trade with the Gulf countries. With the support of statistical data, economics of cardamom cultivation and the future prospects of the sector were discussed in detail. According to him, price of Indian cardamom is the reason for declining export volume and competitive pricing strategy is the only solution to the problem (Muhammed, Saijad 1987).

The problems and prospects of exports of value added spices in general and spices oils and oleoresins in particular, in her project report named 'Problems and prospects of Exports of Spices Oils and Oleoresins from India' (Meena, Benjamin 1988).

'Volume of Trade and its Impacts on the Economic Development of Kerala', made a comprehensive study of the role of trade in Kerala's economy, including the structure and composition of Kerala's foreign trade and the interstate commodity flows. Spices are prominent export products and hence their trade significance has been discussed in detail. The study points out the scope and potentials of the Spices of Kerala. It also highlights the comparative advantages of spices over the other agricultural products of Kerala (Ramesh 1990).

'The Test Launch Study of Milma Cardamom Milk', discusses the effectiveness of test launching of cardamom milk by Milma. The report reveals that the project was a failure. Defective marketing system with inadequate dealer push, inadequate distribution network, advertisements are highlighted as the major reasons for the failure. Had the project been a success it would have been highly beneficial to the cardamom producers. The conclusion of the report indicates that eventhough the test launching was a failure the opportunity still prevails as untapped (Sreekumar 1990).

"Spice Industry – a Domestic and Global Overview" has mentioned that spices are largely the small holder's crop cultivated often in the homesteads or an intercrop produced in the tropic. Such tropic and temperate parts of the world and international trade in spice has gained momentum owing to their use in food, perfume, cosmetic and medicine industries. He feels that the use of encapsulated spices and spice drops in the developed world will perhaps encourage even greater production (George 1994).

"Role of Export Processing Zones in India's Exports" (EPZ) as an important export promotion measure in the light of severe pressure on the balance of payment situation and on export earnings. They suggested that the Government of India should modify the policy framework and streamline the procedures to stimulate the exports of the EPZs by improving the prevailing conditions in the existing ones as well as explore suitable places in coastal area to start new EPZs (Raju, Ravisankar and Reddy 1996).

'Marketing Management', describes the normal channels of distribution of agricultural as well as industrial goods. In their opinion, the specific peculiarities of agricultural commodities make their distribution more difficult and so the normal channels followed for industrial products cannot be fully resorted for agricultural commodities. Multiplicity of intermediaries, loss of weight and volume in transit, lack of organization, forced village sales, perishable nature of the produces, multiplicity of market charges, adulteration and market malpractices, inadequate storage, transportation and communication facilities etc are noted as the other major problems in agricultural marketing (Radha et.al., 1997).

'Cardamom Development Past and Present', describe cardamom development in India, considering past performance and future possibilities in the world market. They observed that the emergence of Guatemala as a major producing country is real threat to Indian cardamom. The major constraints in the Indian cardamom industry also have been investigated. They study also compares the area, yield, production and productivity in India with that of Guatemala and suggests various schemes and programmers required to renovate the sector (George et al 1998).

'A brief Review of Development of Spices in India during Post-Independent Era', have made an evaluation of development of spices in India during the post independent era. This study covers the historical background of Indian spices and achievements in the development of spices after the Independence. It further discusses about the emergence of Cardamom Board and subsequently the Spices Board. A comparative study of developmental programmers during different five-year plan periods also has been made. It gives some important observations, conclusions and recommendations for the revival of the Indian spices sector (Thomas et al 1998).

'Geographical Differences in Spice Use', describes the geographical differences in spice use giving clear indications for improving the export market of Indian spices. They argue that spice consumption is directly correlated to the temperature levels and cultural background of the country. Hot climate often produces large microbial population in foodstuffs. Since spices have anti-microbial properties, use of it is more in tropical climate. The spice use per recipe is ore in such countries. The paper also establishes that spices are powerful against all micro organisms causing toxic effect to foodstuffs and their use is indispensable in reducing food born illnesses and poisoning (Jose et al 2000).

STATEMENT OF THE PROBLEM

India is the major cultivator and exporter of cardamom. It is in the second place at the global level, even though there are a few places of cultivation of cardamom in India. Large cardamom (Big size) is widely cultivated in the state of Sikkim in North India and in South the states of Karnataka, Tamilnadu and Kerala are the major cultivators. However, huge cultivation of cardamom is in Kerala and in the border places of Tamilnadu. Though the cultivation area in India is very less, the quality and standard of the product cultivated is of global standard. This has kept the product to be in demand by global nations as for as marketing is concerned the state of Kerala has plenty of dealers to sell it in the local as it is in the global market.

Cardamom is not a common cultivable product in all localities like Paddy, Chilli, Coconut, Wheat etc., Thus there is a problem to the small cultivator group both in their cultivation and in their marketing and distribution. Hence an attempt is made in this research study to identify the cultivation and distribution problem of cardamom growers in Tamilnadu and Kerala states in order to arrive at meaningful findings that could help in strengthening the cultivation and marketing of cardamom in India.

OBJECTIVES OF THE STUDY

1. To identify the nature and level of cultivators of cardamom and to study their socio economic conditions, in Kerala and Tamil Nadu
2. To study the problems faced by farmers in the marketing of cardamom in Kerala and Tamil Nadu.
3. To offer suggestions for better marketing of cardamom in Kerala and Tamil Nadu.

HYPOTHESES

Ho: There is no significant association between the major type of crop cultivation and marketing.
H1: There is a significant association in between the major type of crop cultivation and marketing.
Ho: There is no significant association between the major type of crop cultivation and the monopolistic practices in the international cardamom market.
H1: There is a significant association between the major type of crop cultivation and the monopolistic practices in the international cardamom market.
Ho: There is no significant association between the major type of crop cultivation and the degree of competition in the international market
H1: There is a significant association between the major type of crop cultivation and the degree of competition in the international market.
Ho: There is no significant association between the major type of crop cultivation and the degree of competition among the exporters
H1: There is a significant association between the major type of crop cultivation and the degree of competition among the exporters.

RESEARCH METHODOLOGY

The research design adopted in this study is descriptive research. The researcher has used both the primary and secondary data. The primary data were collected from the cardamom growers in Kerala and Tamil Nadu using interview schedule method. The collected primary data were used to coined significantly in the questions and drawn the attention of the growers with answers. Secondary data were collected from the spices board, spices research stations at Kerala, Karnataka and Tamilnadu and the related articles and sites. The researcher has taken 10 per cent of the maximum as sample from each state and approached them for the data. These samples have been selected on random basis to have the data. Hence the researcher has adopted the random sampling method. The data were analyzed using Percentage analysis, Chi-square test, Anova – oneway and T-test.

ONE-SAMPLE STATISTICS

	N	Mean	Std. Deviation	Std. Error Mean
Type of family	150	1.24	.429	.035
Comparison	150	1.4933	.50163	.04096
marketing	150	1.2267	.42008	.03430
payment	150	1.4933	.50163	.04096

ONE-SAMPLE TEST

	Test Value = 1					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Type of family	6.859	149	.000	.240	.17	.31
Comparison	12.045	149	.000	.49333	.4124	.5743
marketing	6.609	149	.000	.22667	.1589	.2944
payment	12.045	149	.000	.49333	.4124	.5743

The above t-test reveals the type of family, comparison, marketing and payment of the cardamom exporters in Kerala. The mean of the variable sample respondents for this particular sample data is 1.24 which is statistically significant different from the test value of 1. Hence, it is to conclude that this sample has a significantly higher mean of the test than 1. Thus, it is concluded that the sample data tell that the type of family, comparison marketing and payment of the cardamom exports has a significant change.

MAJOR TYPE OF CROP CULTIVATION * PAYMENT

		payment		Total
		Low	High	
Major type of crop cultivation	Cardamom	65	58	123
	coffee	4	9	13
	Rubber	7	7	14
Total		76	74	150

Ho: There is no significant association between the major type of crop cultivation and payment
H1: There is a significant association between the major type of crop cultivation and payment.

CHI-SQUARE TESTS

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.295[a]	2	.317
Likelihood Ratio	2.345	2	.310
Linear-by-Linear Association	.275	1	.600
N of Valid Cases	150		

a. 0 cells (.0%) have expected count less than 5. The minimum expected count is 6.41.

The above results indicates that there is no statistically significant association between the major type of crop cultivation and the payment of expenses in the export activities (Chi square with two deg. Of freedom – 2.295, p=0.317)

MAJOR TYPE OF CROP CULTIVATION * MARKETING

		marketing		Total
		Low	High	
Major type of crop cultivation	Cardamom	94	29	123
	coffee	10	3	13
	Rubber	12	2	14
Total		116	34	150

Ho: There is no significant association between the major type of cultivation and the marketing
H1: There is a significant association between the major type of cultivation and the marketing

CHI-SQUARE TESTS

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.620[a]	2	.733
Likelihood Ratio	.682	2	.711
Linear-by-Linear Association	.573	1	.449
N of Valid Cases	150		

a. 2 cells (33.3%) have expected count less than 5. The minimum expected count is 2.95.

The above results indicate that there is a statistically significant association between the major type of crop cultivation and the marketing (Chi square with two deg. Of freedom – 0.620, p=0.733)

FINDINGS

The mean of the variable sample respondents for this particular sample data is 1.4933 and 1.4000 which is statistically significant different from the test value of 1. Hence it is to conclude that this sample has a significantly higher mean on test than 1. Thus, it is concluded that the sample data tell that the cardamom exports payment and comparisons are having a significant change.

The mean of the variable sample respondents for this particular sample data is 1.51 which is statistically significant different from the test value of 1. Hence it is to be concluded that this sample has a significantly higher mean on the test than 1. Thus, it is concluded that the sample data tell that the cardamom growers have been affected by their type of family.

The mean of the variable sample respondents for this particular sample data is 1.3533 which is statistically significant different from the test value of 1. Hence, it is to be concluded that this sample has a significantly higher mean on the test than 1. Thus it is concluded that the sample data tell that the cardamom export marketing are having a significant increase over the period.

The results indicates that there is no statistically significant relationship between the major type of crop cultivation and marketing (Chi-square with one def. of freedom = 4.187, p=0.041)

The results indicate that there is a statistically significant relationship between the major type of crop cultivation and payment systems (Chi square with one deg. Of freedom – 0.400, p=0.527)

The results indicate that there is no statistically significant association between the major type of cultivation and the monopolistic practices in the international market (Chi square with two deg. Of freedom – 1.329, p=0.515)

The results indicate that there is no statistically significant association between the major type of crop cultivation and the degree of competition in the international market (Chi square with two deg. Of freedom =0.905, p=0.636)

The results indicate that there is no statistically significant association between the major type of crop cultivation and the degree of competition among the exporters (Chi square with two deg. Of freedom – 5.812, p=0.055)

The null hypothesis is rejected since the significance value is 0.000 in all the cases, which is less than 0.05. Therefore, the age influences and relates to the religion, type of family, major occupation and the annual income. Hence, it is concluded that there is a significant association between the age and the religion, type of family, major occupation and the annual income.

The null hypothesis is rejected since the significance values are 0.000 in three variables and 0.038 in one variable, which are less than 0.05. Therefore, the age influences and relates to the religion, type of family, major occupation and the annual income. Hence it is concluded that there is a significant association between the age and the religion, type of family, annual income and the major occupation.

The t-test reveals the type of family, comparison, marketing and payment of the cardamom exporters in Kerala. The mean of the variable sample respondents for this particular sample data is 1.24 which is statistically significant different from the test value of 1. Hence, it is to conclude that this sample has a significantly higher mean of the test than 1. Thus, it is concluded that the sample data tell that the type of family, comparison marketing and payment of the cardamom exports has a significant change.

The results indicate that there is no statistically significant association between the major type of crop cultivation and the payment of expenses in the export activities (Chi square with two deg. Of freedom – 2.295, p=0.317)

The results indicate that there is a statistically significant association between the major type of crop cultivation and the marketing (Chi square with two deg. Of freedom – 0.620, p=0.733)

SUGGESTIONS

To ensure remunerative prices for the farmers it is recommended that the respective State Governments should take the initiative to establish adequate number of regulated market close to marketing centres and equip them with sophisticated facility for temporary or permanent storage.

An effective market promotion is a 'sine qua non' for the success of the processed products in the market, many of which may be new to the market. Finance should also be provided for sales promotion. A sound data base should be developed on the various aspects of cultivation and growth of cardamom marketing.

The quality of human resource is a vital pre-requisite for efficient functioning. Attention has to be given to train the growers and the labourers for management of the cultivation, including farm operators, finance utilization, marketing, expenses control and product marketing development.

Concerted effort is required for marketing products in the national international market areas. The market promotion strategy may include organization of fairs and exhibitions, provision of incentives in the form of low rates to processing units for advertising their products of small scale units by large companies.

There is a need for developing a sound strategy for export promotion. Market as well as product specification are essential. Delineation of thrust products and thrust markets would bring about a sharper focus in export activities.

In order to prevent distress sale, it is recommended that the co-operative Marketing Societies in the rural regions should have to play a more important role. Such societies should arrange regular procurement of different spices directly from the cultivators at remunerative prices at secondary market level and should have direct access to terminal market. The minimum target of the societies should be to procure 10% to 15% of farm producers. The Co-operative Marketing Societies thus can stabilize price and thereby ensure competitive price of the produce.

Most of the problems associated with marketing of spices produce, e.g. problem of marketing yard, infrastructure, grading, village market linkage, marketing cost and margin etc. may be solved once the spices markets are established there as market development agency. The Price of the cardamom may be determined either based on the cost of cultivation or based on market acceptance. Export Industries must adopt the credit system for the cost and marketing problems to be neglected.

It is observed that the proportionate usage of the agents for exporting their product in sole trading and partnership is comparatively less than private limited companies. It could be inferred that the private limited has maximized their sales by using agents.

The sales promotion technique adopted by the organizations may be different from one state to another state. The methods adopted must be uniform in all the states.

CONCLUSIONS

Considering the vast scope for the development of spices markets and the variety of benefits associated with them the Govt. of India has taken a number of steps. Strong support is needed for the processing industry from the Governments both Central and States in the form of policies suitable for accelerating their growth process. There is a need for integration of cultivation, processing and marketing. The analysis of the data and the information obtained from the Cardamom Growers from both the states, the farmers and the traders resulted significantly. Cardamom growers as well as the traders are in favour of the cardamom export market. The cardamom export market is useful as large to the cardamom cultivators of the Idukki and Theni Districts in both the States. The cardamom export market can give higher contribution towards the national economy. The Government should provide the marketing facilities through the appropriate organizations to increase the rate of exports of cardamom especially for Theni and Idukki district cardamom growers and cultivators in the States of Tamilnadu and Kerala respectively.

SCOPE OF FURTHER RESEARCH

- A Study On Cultivation Problems Of Cardamom Growers In Tamil Nadu
- A Study On Marketing Problems Of Cardamom Growers In Tamil Nadu
- A Study On Cultivation Problems Of Cardamom Growers In Kerala
- A Study On Marketing Problems Of Cardamom Growers In Kerala
- A Study On Distribution Problems Of Cardamom Growers In Kerala

REFERENCES

1. Arunachalam. P., 2005, Marketing of Small Cardamom in India, Facts for You- Marketing Survey, Spices Board Cochin: pp.23-25.
2. Ashokkumar. T., 2006, Adverse Conditions may Hit Cardamom Output, Business Daily from the Hindu Group of Publications, Cochi.
3. Daisy, A study of selected production oriented development programmes of the Cardamom Board, M.Phil thesis submitted to Cochin University, Cochi, p.34.
4. George, C.K. and Mathew P.G., "Cardamom development past and present", Spice India, Vol. IX., March 1998, pp.9-11.
5. George. C.K., Spice Industry – A Domestic and Global Overview, Indian Horticulture, Vol. XXIX No.3, pp.17-19.
6. Gopalakrishnan Nair., K. Problems and Prospects of Marketing of Indian Cardamom at Home and Abroad, Unpublished Ph.D thesis submitted to Cochin University, 1987, Cochin, p.28.
7. Indira, M., "Indian cardamom handicapped by poor productivity", Commodity India, Vol. VI., June, 2002, pp.4-5.
8. John K.C., "A study of the export trade of Kerala", Unpublished Ph.D., Thesis Thiruvananthapuram, University of Kerala, 2000.
9. Jose, K.P. and Roy, C.M., "Geographical differences in spice use", Spice India, Vol. VIII, August, 2000, pp. 16-18.
10. Jose, C.A., Problems and Prospects of India's Major Species, Unpublished Ph.D Thesis, Cochin: CUSAT, 1978.
11. Kannan. S., 2005, Marketing of Cardamom, Spice India – A Journal Devoted to the Promotion of Indian Spice Industry, Cochi, Vol. XVIII, pp.4-9.
12. Meena, Benjamin, Problems and Prospects of Exports of Spices Oils and Oleoresins From India, M.B.A. Project Report, Calicut, University of Calicut, 1988.
13. Muhammed, Saijad A., India's Cardamom Trade With Middle East Countries, M.B.A. Project Report, Calicut: University of Calicut, 1987.
14. Murugesan. B., Cardamom Industry in India, -A study of its problems of production and marketing, Unpublished Ph.D thesis, Annamalai University, 1981, p.110.
15. Radha, V., et.al., Marketing Management, Madras: Lions Publications, 1997, p. RM.5.
16. Raju, Ravisankar and Reddy, 1996, Role Export Processing Zones in India's Exports with Particular Preference to the Madras Export Processing Zone, Indian Journal of Marketing, Vol. XXXIV, No.1, pp.13-29.
17. Ramesh, B., Volume of trade and its impacts on the economic development of Kerala Unpublished Ph.D Thesis, Calicut: University of Calicut, 1990.
18. Sreekumar, S., The test launch study of Milma Cardamom Milk, M.B.A Project Report, Calicut: University of Calicut, 1990.
19. Suresh, K.A., Economics of Cardamom Plantation in Kerala, Unpublished Ph.d Thesis, Cochin: CUSAT, 1984.
20. Thomas, K.G., et al., "A brief review of development of spices in India during the post independence era", Spice India, Vol. X 1998, pp.12-16.

APPENDIX

INTERVIEW SCHEDULE

PERSONAL DETAILS

1. Name of the respondent	:		
2. Age	:	Below 30 years	( )
		31-40 years	( )
		41-50 years	( )
		Above 50 years	( )
3. Educational Qualification	:	Below SSLC	( )
		SSLC/+2	( )
		Graduate	( )
		Post-graduate	( )
		Professional	( )
		Agriculture degree	( )
		Others Please specify_______	
4. Religion	:	Hindu	( )
		Christian	( )
		Muslim	( )
		Jain	( )
		Buddhist	( )
		Others Please specify_______	
5. Caste	:	FC	( )
		BC	( )
		MBC	( )
		SC/ST	( )
		OC	( )
		Please specify_______	
6. Family size	:	Below 4 members	( )
		4-6 members	( )
		Above 6 members	( )
7. Type of family	:	Joint family	( )
		Nuclear family	( )
8. Major occupation	:	Agriculture	( )
		Business	( )
		Employment	( )
		Profession	( )
		Others Please specify_______	
9. Annual income	:	Below Rs.25000	( )
		Rs.25001-50000	( )
		Rs. 50001-100000	( )
		Above Rs.100000	( )

MARKETING RELATED INFORMATION

Demand

10. Do you agree that there should be a steady demand for your product?

1. Never ( )
2. Rarely ( )
3. Sometimes ( )

4. Most of the times ( )
5. Always ( )
11. Are you able to encash your produces whenever you want?
1. Never ( )
2. Rarely ( )
3. Sometimes ( )
4. Most of the times ( )
5. Always ( )
Grading and standardization:
12. Is warehousing helpful to producers towards storage and mortgaging?
1. Yes ( )
2. No ( )
3. Don't know ( )
13. Do you make any cleaning process before selling?
1. Never ( )
2. Rarely ( )
3. Sometimes ( )
4. Most of the times ( )
5. Always ( )
14. Average time lag in between produce and sale of Cardamom (in months)
1. Less than 1 ( )
2. 2-3 ( )
3. 4-6 ( )
4. Above 6 ( )
15. In your opinion, which strategies of the following are useful towards marketing of Cardamom (Please Rank)
Quality upgrading ( )
Grading and Standardization ( )
Value addition ( )
Branding ( )
Price reduction ( )
Good packaging ( )
Target marketing ( )
16. How do you sell your products?
1. Un processed ( )
2. Semi-processed ( )
3. Processed ( )
Transportation
17.How can you transport the cardamom to the Auction centre
1. Bullock cart ( )
2. Bus ( )
3. Tractor ( )
4. Lorry ( )
5. Mini Van ( )
6. Jeep ( )
7. Auto ( )
8. Head luggage ( )
6. Others please specify___________
Pricing
18. Do you get fair/adequate remunerative prices for your produces?
1. Never ( )
2. Rarely ( )
3. Sometimes ( )
4. Most of the times ( )
5. Always ( )
19. Are you aware of the market price fluctuation of cardamom?
1. Never ( )
2. Rarely ( )
3. Sometimes ( )
4. Most of the times ( )
5. Always ( )
20. How you gain/get information about price fluctuation
1. Daily News Papers ( )
2. Magazine ( )
3. TV ( )
4. Radio ( )
5. From Auction centers ( )
6. From Traders ( )
7. From Spices board ( )
8. From Competitors ( )
9. From Friends ( )
10. Others Please specify____________
21. Price fluctuation is the prime reason for crop shifting
1. Yes ( )
2. No ( )
22. What is your Opinion regarding selling cost of cardamom
1. Very high ( )

2. High ( )
3. Normal ( )
4. Low ( )
23. Average Selling price per kg
2006 ________
2007 ________
2008 ________
2009 ________
2010 ________
2011 ________
Selling
24. How do you market your product?
1. Local Marketing ( )
2. Small / Village traders ( )
3. Auction Centers ( )
4. Licensed dealers ( )
5. Direct export ( )
6. Exporters ( )
7. Others please specify _________
25. Whether the present Auction Centre marketing system is effective?
1. Strongly Disagree ( )
2. Disagree ( )
3. Can't say ( )
4. Agree ( )
5. Strongly Agree ( )
68. To whom you are selling your cardamom
Agents ( )
Middleman ( )
Auction Center ( )
Processing Units ( )
Exporters ( )
Local market ( )
Direct export ( )
26. Legal formalities in cardamom selling are
1. Minimum ( )
2. Tolerable ( )
3. Very high ( )
Middlemen:
27. Do you feel that you are exploited by the traders?
1. Always ( )
2. Sometimes ( )
3. Never ( )
28. "Elimination of intermediaries will improve profit"
1. Yes ( )
2. No ( )
3. Not sure ( )
Financing:
29. Capital Employed in Marketing.
1. Own fund ( )
2. Borrowed from village traders ( )
3. Financial Assistance from Spices Board ( )
4. Banks/cooperatives ( )
5. others ( )
Competition:
30. What is the degree and intensity of competition prevailing among the sellers of cardamom?
1. Very high ( )
2. High ( )
3. Normal ( )
31. Do you think Competition is high at the time of selling?
1. Strongly disagree ( )
2. Disagree ( )
3. Neutral ( )
4. Agree ( )
5. Strongly agree ( )
If you are exporting directly
Demand:
32. Are you able to supply your product as per the international specifications?
1. Yes ( )
2. No ( )
3. No idea ( )
33. Please indicate your target market?
Saudi Arabia ( )
UAE ( )
Kuwait ( )
Egypt ( )
USA ( )

UK ( )
Japan ( )
Malaysia ( )
Others Please specify________________
34. Do you find any difficulty in getting export orders?
1. Never ( )
2. Rarely ( )
3. Sometimes ( )
4. Most of the times ( )
5. Always ( )
35. Sources of information about foreign demand
1. Spices board ( )
2. Trade-links ( )
3. Web-sites ( )
4. Trade fairs ( )
5. IPSTA ( )
6. Others Please specify_______
Export promotion:
36. Mention the reason for exporting?
Traditional Business ( )
More Profit ( )
Minimum Risk ( )
Govt. Policy ( )
Suitable for one place ( )
Helps from Spices board ( )
Individual capability ( )
37. Do you feel the current system is effective towards export promotion?
1. Yes ( )
2. No ( )
3. No idea ( )
Promotional Agencies:
38. Name the promotional agency assisting you towards securing export orders?
1. Spices Board ( )
2. Trade Fare Authority of India ( )
3. State Trading Corporation of India ( )
4. Indian Institute of Foreign Trade ( )
5. IPSTA ( )
6. Indian Banks ( )
7. Foreign Banks ( )
8. Other Sources please specify _______
39. Functioning of spices board is beneficial to exporters?
1. Yes ( )
2. No ( )
3. No idea ( )
Competition:
40. Is there any monopolistic practices in the international cardamom market?
1. Never ( )
2. Rarely ( )
3. Sometimes ( )
4. Most of the times ( )
5. Always ( )
41. What is the degree of competition in the international cardamom market?
1. Never ( )
2. Rarely ( )
3. Sometimes ( )
4. Most of the times ( )
5. Always ( )
42. What is the degree of competition among cardamom exporters?
1. Normal ( )
2. High ( )
3. Very high ( )
Pricing:
43. Do you get International price for your product?
1. Never ( )
2. Rarely ( )
3. Sometimes ( )
4. Most of the times ( )
5. Always ( )
44. International price fluctuation is a problem to export business?
1. Never ( )
2. Rarely ( )
3. Sometimes ( )
4. Most of the times ( )
5. Always ( )
45. What is the degree of speculation in the international market?
1. Normal ( )

2. High ( )
3. Very high ( )

46. Expenses involved in the export marketing is
1. Normal ( )
2. High ( )
3. Very high ( )

Payments:

47. Do you face any financial problems in the export marketing?
1. Never ( )
2. Rarely ( )
3. Sometimes ( )
4. Most of the times ( )
5. Always ( )

48. Financial settlement is a problem in export promotion?
1. Never ( )
2. Rarely ( )
3. Sometimes ( )
4. Most of the times ( )
5. Always ( )

49. Do you get any assistance from any agency in getting dues from importers?
1. Never ( )
2. Rarely ( )
3. Sometimes ( )
4. Most of the times ( )
5. Always ( )

50. Currency exchange rates will affect the export business?
1. Yes ( )
2. No ( )
3. Not sure ( )

Government role:

51. Legal formalities for export of cardamom are
1. Normal ( )
2. High ( )
3. Very high ( )

52. What is the attitude of government towards cardamom export?
1. Favorable ( )
2. Neutral ( )
3. Un Favorable ( )

Problems:

53. Problems in exporting of cardamom are due to
High production cost ( )
High transport cost ( )
High agent commission ( )
Delayed payment ( )
Competition from other exporters ( )
Unavailability of good variety ( )

54. Future Plan in exporting of cardamom
Continuing export ( )
Expansion of existing business ( )
Change the business ( )
Stop the business ( )

55.Your Comments about this study(if any):_________________

THE EMPIRICAL RELATIONSHIP BETWEEN TRADING VOLUME, RETURNS AND VOLATILITY

DR. BAL KRISHAN
PROFESSOR
DEPARTMENT OF COMMERCE
HIMACHAL PRADESH UNIVERSITY
SHIMLA

DR. REKHA GUPTA
ASST. PROFESSOR
GOVERNMENT P. G. COLLEGE
UNA

ABSTRACT

This paper examines the causal and dynamic relationship between stock returns and trading volume for six indices. For this purpose Unit root test, Granger Causality Tests, VAR and GARCH (1,1) have been used. There is strong evidence of asymmetry in the relationship between the volatilities and trading volume; trading volume and volatilities are important in predicting their future dynamics as well as those of the return, but return has a very limited impact on the future dynamics of trading volume. The Granger-causality test shows the evidence of unidirectional causality running from volume to return for almost indices. This study also shows that data related to return, trading volume and volatilities are stationarity. According to GARCH model values of parameters are more than .90. Therefore, weak form efficiency does not exist in Indian stock market. It concludes that lagged trading volume and volatilities contain information which can be useful in predicting current stock returns.

KEYWORDS

stock returns, trading volume, six indices.

INTRODUCTION

In a stock market, relationship between return, volatility and trading volume are more important, because this empirical relationship helps in understanding the competing theories of dissemination of information flow into the market. This may also help in event (informational event/liquidity event) studies by improving the construction of test and its validity. This relationship is also critical in assessing the empirical distribution of returns as many financial models are based on an assumed distribution of return series. Similar to returns and volume, considerable attention has also been given to understand the relationship between volatility and trading volume of an asset by the researchers.

Understanding the relationship between returns, volatility and trading volume in financial markets is equally important for traders, researchers and policy makers. The distribution of returns has implications for various financial models and risk management practices. The dynamic relationship between returns and trading volume helps to understand the market clearing process and frictions in the market. Also, implications trading volume in forecasting volatility help segments like traders, with a very short term investment horizon and many portfolio managers that have a medium to long term investment horizon. In emerging markets, in Indian stock market context specifically, very few empirical studies have been reported on mentioned issues. This paper reports an empirical study for Indian Stock market.

REVIEW OF LITERATURE

There have been number of empirical studies in developed markets that provide evidence on their relationship between trading volume and stock returns. In the sequential information arrival model (arrival model and distribution model), the flow of information to the market participants is considered to be asymmetric (i.e. the new information is not disseminated to all market participants simultaneously); the model allows several intermediate equilibrium positions before the final market equilibrium is reached. Due to this sequential information flow, lagged trading volume may contain information that can be useful in predicting current stock returns and lagged stock returns may contain information that can be useful in predicting current trading volume. This suggests a positive causality between trading volume and stock returns running from either direction. The mixture of distribution model suggests a unidirectional causality from trading volume to stock returns. In this model, Epps (1976) uses trading volume to measure disagreement among traders; investors revise their reservation prices when the new information reaches the market and the level of trading volume increases as the degree of disagreement among market participants widens. Karpoff (1987) provides a comprehensive review of theoretical and empirical work together with reasons for the importance of understanding this relationship. Researchers in this area have examined the volume-price/return relationship in a variety of contexts by employing a range of analytical techniques. Chordia and Swaminathan (2000) examine the interrelationship between trading volume and the predictability of short-term stock returns. They find that daily and weekly returns of high volume portfolios lead returns of low volume portfolios. The authors attribute these findings to the differences in the speed of price adjustment to information between the two types of stocks; stocks in low volume portfolios respond slowly to market-wide information while their high volume counterparts responding promptly to such information. Sarika and Balwinder (2008) found the causality test support the sequentially arrival of information hypothesis, which implies that new information is not simultaneously available to all traders and it takes time to absorb, which hamper the price discovery efficiency of the market. Thus, volume provides information on the precision and dispersion of information signals rather than saving as a proxy for the information signal itself. This paper investigates the causal and dynamic relationship between stock returns and trading volume for six indices.

HYPOTHESIS

To address the objective of the study and after the review of literature, the following hypotheses are formulated and put on test using collected data.
Hypothesis 1: Existence of Unit Root (non stationarity) in stock indices;
Hypothesis 2: No causality is found between returns and volume (return and volatility);
Hypothesis 3: No dynamic relationship is measured between returns and trading volume and volatility and trading volume; and
Hypothesis 4: There is no effect of conditional volatility.

DATA AND RESEARCH METHODOLOGY

This paper investigates the relationship between stock indices trading volume, returns and volume and volatilities. For this purpose the data for the six indices NSE NIFTY (1997 to 2010), BANK NIFTY (2006 to 2010), CNX10001 (2006 to 2010), CNX MIDCAP (2006 to 2010), CNX NIFTY JUNIOR (1997 to 2010) and S&P CNX50001 (1999 to 2010) are retrieved from NSE India website. The dataset used in this study comprises of the daily equity indices and the corresponding trading volume series. Share price of each stock index is obtained as:

$$Share\ price = \frac{P_H + P_L}{2}$$

$$P_H = Highest\ market\ price\ during\ the\ day;$$

$$P_L = Lowest\ market\ price\ during\ the\ day.$$

The **daily return** of the stock markets is calculated as:

$$R_t = ln(P_i - P_{i-1})$$

Following methods are used to test stationarity of time series, causalities and effect of conditional volatility.

Testing for stationarity is done by using both the Augmented Dickey- Fuller and the Phillips-Perron tests. Augmented Dickey –Fuller (ADF) test is most frequently used test of unit root. It is based on simple logic. A non-stationary process has infinite memory as it does not show decay in a shock that takes place in the process. Every random shock carries away the process from its earlier level not to return back again unless another random shock push it towards its previous level. PP Test performs a Phillips-Perron univariate unit root test. This test assumes that the true underlying process is a unit root process with drift. A statistical approach proposed by Clive W Granger (1969) to infer cause and effect relationship between two or more time series is known as Granger causality. Granger Causality is based on the simple logic that effect cannot precede cause. It is important to note that the statement " x Granger causes y " does not imply that y is the effect or the result of x .Granger causality measures precedence and information contents. For causality Test, Gragner test is used. The vector auto regression (VAR) test is commonly used for forecasting systems of interrelated time series and for analyzing the dynamic impact of random disturbances on the system of variables. VAR process assumes that white noise is independently distributed with zero mean. To test the conditional variance effect GARCH (1, 1) is used.

RESULTS

AUGMENTED DICKEY-FULLER TEST

Augmented Dickey-Fuller and Phillips-Perron tests are used to test a time series for stationariry. Augmented Dickey-Fuller test statistic for six indices is presented in table-I. It can be concluded that ADF statistic are significant at one and five per cent level. Null hypotheses about the existence of a unit root can be rejected for all indices, using intercept term and intercept and trend in the test equation at the level form. It reveals that null hypotheses are rejected. It can be concluded that all indices are stationarity in their level forms.

PHILLIPS-PERRON TEST

The Phillips-Perron test provides an alternative way for checking the stationarity of a time series. Table-II shows output related to PP test. This indicates that alternative hypotheses are accepted, statistics are significant at one and five per cent level. It reveals that the time series of various stock indices under study are stationarity at their level form. Both tests are supporting the stationarity of indices.

GRANGER CAUSALITY TEST

Granger Causality Test involves examining the short run cause and effect relationship. The results of this test are summarized in table-III. It depicts that returns are insignificantly affected by trading volume of almost indices (except CNX MID CAP), but trading volume has significant effect on return up to one day lag. But it presents different results, when analysis is done on volatility and trading volume. It states the two-way causality between volatility and trading volume of all indices. It can be said that preceding information related to return volatility (trading volume) has significant effect.

VECTOR AUTO REGRESSION MODEL

VAR test has been used for testing the effect of lagged variables such as return (volatility) and trading volume. The results of this model are presented in table-IV. It depicts that trading volume of NSE Nifty, CNX 10001, CNX MID, CNX NIFTY JUNIOR and S&P CNX 50001 have significant effect on returns up to one day lag. Thus, trading volume is also significantly affected by return (CNX MID CAP, BANK NIFTY AND CNX NIFTY JUNIOR). It reveals that there is lagged relationship between these two variables.

The autoregressive coefficient of volatilities on past volume and autoregressive coefficient of volume on past volatilities are also presented in table-IV. It indicates that trading volume and volatility have significant effect of six indices up to one day lag. These results provide evidence that in Indian market, information is processed sequentially.

GARCH MODEL

In order to investigate the effect of trading volume and conditional volatilities, time series of all stock returns are using GARCH (1, 1) model with a volume parameter in the mean equation. The results of this model are reported in table-V. It reveals that coefficient of trading volume is positive, but significant only in case of CNX1001 and CNX MID CAP. Further significant ARCH and GARCH coefficient indicate that conditional variance is affected by lagged variance, which implies that previous information shocks significantly affect current return. It also shows that parameters are positive and significant at one and five per cent level, the sum of parameters of all indices are greater than 0.90.

Further, GARCH (1, 1) is also studied in case of volume and volatilities relationship which is presented in table-V. It shows that there is positive impact of trading volume and parameters are positive and significant. It reveals that Indian stock market is not efficient in weak form.

CONCLUSION

This study investigates relationship between the stock price and trading volume. The findings of the present study are as follows:

- Data of all indices are stationarity.
- The findings indicate a statistically significant causality running from trading volume to return for NSE Nifty, CNX 10001, CNX Mid, CNX Nifty junior and S&P CNX 50001. On the other hand, a significant causal effect from stock returns to trading volume is detected only for CNX MID CAP, BANK NIFTY AND CNX NIFTY JUNIOR.
- The results of relation between trading volume and conditional volatility support strong contemporaneous relationship between trading volume and conditional volatility. It indicates that parameter related to ARCH and GARCH are significant and more than 0.90. Therefore, the trading volume is a better proxy of information than the return itself.

On comparing the present study with the previous studies (Blume), it has been found that there is quite variation in the results. The results of this study fully support the Epps model.

REFERENCES

1. Epps, T.W., and Epps, M.L. (1976), "The stochastic dependence of security price changes and transaction volumes: implications for the Mixture-of-distributions hypothesis" Econometrica, 44: 305-321.
2. Karpoff, J.M. (1987), "The relations between price changes and trading volume: A survey), Journal of Financial and Quantitative Analysis, 22: 109-126.
3. Sarika and Balwinder (2008), "An empirical analysis of stock price-volume relationship in Indian stock market", Vision, pp. 1-13.
4. Swaminathan, (2000), "Price momentum and Trading Volume", The Jounal of Finance, 55.5, pp.1017-1069.

TABLES

TABLE I: UNIT ROOT TEST RESULTS

Augmented Dickey-Fuller test

Variables	Return		Volume		Volatility	
	Statistic	p value	Statistic	p value	Statistic	p value
with constant	-27.5566	0	-2.6166	0.0897	-13.8666	0
with constant and trend	-27.5637	0	-3.57437	0.0322	-13.9158	0
with constant	-25.6746	0	-2.87581	0.0485	-18.029	0
with constant and trend	-25.6719	0	-4.52881	0.0014	-18.0273	0
with constant	-27.5686	0	-3.87278	0.0023	-21.7908	0
with constant and trend	-27.5614	0	-4.53801	0.0013	-21.8023	0
with constant	-27.0517	0	-3.54911	0.007	-19.8809	0
with constant and trend	-27.0573	0	-6.85413	0	-19.9188	0
with constant	-29.9117	0	-3.08659	0.0277	-12.6827	0
with constant and trend	-29.908	0	-5.28906	0	-12.6842	0
with constant	-35.3006	0	-2.88494	0.0472	-28.1761	0
with constant and trend	-35.2966	0	-5.04899	0.0002	-28.175	0

TABLE II: UNIT ROOT TEST RESULTS
PHILLIPS-PERRON TEST

	Variables	Return		Volume		Volatility	
		Statistic	p value	Statistic	p value	Statistic	p value
NSE NIFTY	with constant	-38.0088	0	-11.5809	0	-41.33	0
	with constant and trend	-37.9463	0	-21.4595	0	-41.2546	0
BANK NIFTY	with constant	-25.3705	0	-13.1634	0	-26.3588	0
	with constant and trend	-25.3714	0	-15.7125	0	-26.3504	0
CNX10001	with constant	-27.5569	0	-9.58211	0	-22.7189	0
	with constant and trend	-27.5437	0	-12.828	0	-22.7174	0
CNX MIDCAP	with constant	-27.0931	0	-11.8965	0	-19.7506	0
	with constant and trend	-27.0917	0	-15.7179	0	-19.7879	0
CNX NIFTY JUNIOR	with constant	-44.5331	0.0001	-9.55507	0	-47.4581	0.0001
	with constant and trend	-44.5268	0	-25.3097	0	-47.4467	0
S&P CNX 50001	with constant	-42.472	0	-6.64107	0	-44.4229	0.0001
	with constant and trend	-42.4651	0	-20.8054	0	-44.413	0

TABLE III: GRANGER CAUSALITY RESULTS

VARIABLES	NULL HYPOTHESIS	F-STATISTIC	P-VALUE	NULL HYPOTHESIS	F-STATISTIC	P-VALUE
NSE NIFTY	V does not Granger Cause R	0.58943	0.4427	V does not Granger Cause R*R	19.8535**	9.00E-06
	R does not Granger Cause V	21.9587**	3.00E-06	R*R does not Granger Cause V	7.36249**	0.0067
BANK NIFTY	V does not Granger Cause R	3.59219	0.0583	V does not Granger Cause R*R	33.5508	9.00E-09
	R does not Granger Cause V	0.41685	0.5186	R*R does not Granger Cause V	49.3849	4.00E-12
CNX10001	V does not Granger Cause R	1.49939	0.221	V does not Granger Cause R*R	7.84482	0.0052
	R does not Granger Cause V	32.3454**	2.00E-08	R*R does not Granger Cause V	43.4875	7.00E-11
CNX MIDCAP	V does not Granger Cause R	7.4245**	0.0065	V does not Granger Cause R*R	0.65303	0.4192
	R does not Granger Cause V	18.2498**	2.00E-05	R*R does not Granger Cause V	5.64092	0.0177
CNX NIFTY JUNIOR	V does not Granger Cause R	2.58063	0.1083	V does not Granger Cause R*R	7.65915	0.0057
	R does not Granger Cause V	11.4641**	0.0007	R*R does not Granger Cause V	10.1638	0.0014
S&P CNX 50001	V does not Granger Cause R	1.33599	0.2478	V does not Granger Cause R*R	6.24317	0.0125
	R does not Granger Cause V	47.8989**	6.00E-12	R*R does not Granger Cause V	71.678	4.00E-17

V-VOLUME
R-RETURN
R*R-VOLATILITY

TABLE IV: VECTOR AUTOREGRESSION ESTIMATES

t-statistics in [ ]

		R	V		R*R	V			R	V		R*R	V
NSE NIFTY	R(-1)	0.314726	1.72E+08	R*R(-1)	0.331683	3.88E+09	BANK NIFTY	R(-1)	0.271425	1617233	R*R(-1)	0.258289	1.09E+09
		[16.0350]	[4.05114]		[16.9106]	[4.23112]			[8.99440]	[0.19252]		[8.54027]	[7.06778]
	R(-2)	-0.13598	7336790	R*R(-2)	0.055003	########		R(-2)	-0.08106	5560613	R*R(-2)	0.042521	########
		[-6.58187]	[0.16387]		[2.66477]	[-0.55235]			[-2.59656]	[0.63991]		[1.33730]	[-2.44779]
	R(-3)	0.043613	-1.4E+07	R*R(-3)	-0.01631	4.03E+08		R(-3)	0.049931	-1.5E+07	R*R(-3)	-1.62E-02	1.75E+08
		[2.09539]	[-0.30388]		[-0.79041]	[0.41749]			[1.59660]	[-1.66889]		[-0.50821]	[1.07463]
	R(-4)	-0.00013	11807455	R*R(-4)	0.069809	########		R(-4)	-0.05678	-1.2E+07	R*R(-4)	5.85E-02	########
		[-0.00613]	[0.26413]		[3.39013]	[-2.47925]			[-1.81883]	[-1.34840]		[1.83338]	[-1.87682]
	R(-5)	-0.03748	2099382	R*R(-5)	0.038407	########		R(-5)	-0.05676	-1916111	R*R(-5)	-1.81E-02	########
		[-1.90680]	[0.04929]		[1.95583]	[-1.57758]			[-1.88220]	[-0.22825]		[-0.58669]	[-1.98026]
	V(-1)	-3.11E-12	0.502973	V(-1)	1.37E-12	0.493734		V(-1)	2.15E-10	0.403816	V(-1)	1.45E-11	0.410418
		[-0.34752]	[25.9134]		[3.29259]	[25.4424]			[2.01770]	[13.6142]		[2.50707]	[13.8883]
	V(-2)	6.97E-12	0.101384	V(-2)	-1.12E-13	0.096116		V(-2)	-1.92E-10	0.188765	V(-2)	3.16E-12	0.162146
		[0.69595]	[4.67099]		[-0.24326]	[4.45000]			[-1.66266]	[5.87936]		[0.50297]	[5.04768]
	V(-3)	2.86E-12	0.09142	V(-3)	-8.73E-13	0.097724		V(-3)	1.39E-10	0.098651	V(-3)	7.99E-13	0.10914
		[0.28548]	[4.20810]		[-1.88912]	[4.52483]			[1.18757]	[3.03579]		[0.12628]	[3.37752]
	V(-4)	2.82E-12	0.100566	V(-4)	6.45E-13	0.108356		V(-4)	4.72E-11	0.042895	V(-4)	-1.41E-13	0.043561
		[0.28178]	[4.63176]		[1.39488]	[5.01137]			[0.40870]	[1.33456]		[-0.02247]	[1.36055]
	V(-5)	-5.14E-12	0.167997	V(-5)	-5.25E-13	0.169891		V(-5)	-1.27E-10	0.196543	V(-5)	-1.84E-12	0.199143
		[-0.57417]	[8.66566]		[-1.26748]	[8.77636]			[-1.19480]	[6.62500]		[-0.32553]	[6.88382]
	C	-9.01E-05	3925424	C	5.77E-05	3878217		C	-0.00076	1329910	C	4.40E-05	1299178
		[-0.18573]	[3.73253]		[2.55534]	[3.67420]			[-0.56211]	[3.54855]		[0.61427]	[3.55197]
CNX10001	R(-1)	0.201016	5.03E+08	R*R(-1)	0.404418	1.44E+10	CNX MIDCAP	R(-1)	0.194589	1.54E+08	R*R(-1)	0.506734	1.84E+09
		[6.62148]	[4.68869]		[13.3013]	[7.32829]			[6.43335]	[4.73581]		[16.7515]	[3.16929]
	R(-2)	-0.07136	2.06E+08	R*R(-2)	-0.02676	########		R(-2)	-0.03925	51164291	R*R(-2)	-0.07599	########
		[-2.27722]	[1.85603]		[-0.79479]	[-2.96537]			[-1.26384]	[1.52872]		[-2.23318]	[-1.32777]
	R(-3)	0.027128	-7.5E+07	R*R(-3)	0.00823	3.92E+09		R(-3)	0.043542	-3.8E+07	R*R(-3)	5.11E-03	########
		[0.86322]	[-0.67279]		[0.24353]	[1.79093]			[1.40562]	[-1.12885]		[0.14986]	[-0.31895]
	R(-4)	-0.03258	1.26E+08	R*R(-4)	0.081393	########		R(-4)	-0.00843	41325578	R*R(-4)	5.99E-02	########
		[-1.03865]	[1.13203]		[2.41367]	[-2.11387]			[-0.27240]	[1.23931]		[1.76284]	[-0.40935]
	R(-5)	-0.05138	-4.7E+07	R*R(-5)	-0.01649	########		R(-5)	-0.04091	-3.3E+07	R*R(-5)	-0.02553	########
		[-1.67104]	[-0.43087]		[-0.53133]	[-0.82684]			[-1.34637]	[-0.99483]		[-0.84149]	[-1.21723]
	V(-1)	1.52E-11	0.493455	V(-1)	1.75E-12	0.515708		V(-1)	1.04E-10	0.47098	V(-1)	4.04E-12	0.48786
		[1.78097]	[16.3834]		[3.76246]	[17.1095]			[3.71938]	[15.5860]		[2.56325]	[16.1585]
	V(-2)	-7.03E-12	0.130732	V(-2)	-1.03E-12	0.083126		V(-2)	-1.24E-11	0.193928	V(-2)	-3.18E-12	0.196972
		[-0.74077]	[3.89372]		[-1.95219]	[2.43514]			[-0.40135]	[5.82783]		[-1.81665]	[5.86648]
	V(-3)	-1.37E-12	0.068657	V(-3)	-5.09E-13	0.112528		V(-3)	-2.71E-11	0.048947	V(-3)	-1.32E-12	0.05741
		[-0.14374]	[2.03553]		[-0.96532]	[3.29814]			[-0.86537]	[1.45177]		[-0.74093]	[1.68387]
	V(-4)	2.23E-12	0.11211	V(-4)	7.79E-13	0.095958		V(-4)	6.60E-12	0.111917	V(-4)	1.78E-12	1.04E-01
		[0.23535]	[3.34203]		[1.48218]	[2.82192]			[0.21421]	[3.37067]		[1.01861]	[3.08779]
	V(-5)	-4.84E-12	0.132256	V(-5)	-6.52E-13	0.130958		V(-5)	-4.77E-11	0.070154	V(-5)	-1.40E-12	0.05855
		[-0.57046]	[4.40711]		[-1.42278]	[4.42029]			[-1.71382]	[2.33746]		[-0.88937]	[1.94516]
	C	-0.00069	17339003	C	9.04E-05	15503245		C	-0.00148	8517667	C	0.000188	7982406
		[-0.51519]	[3.67388]		[1.25491]	[3.32494]			[-0.95993]	[5.14052]		[2.17987]	[4.82918]
CNX NIFTY JUNIOR	R(-1)	0.273258	85329984	R*R(-1)	0.332653	1.80E+09	S&P CNX 50001	R(-1)	0.229471	5.23E+08	R*R(-1)	0.286734	1.10E+10
		[15.7786]	[4.33659]		[19.2085]	[4.68278]			[12.1343]	[7.44342]		[15.0613]	[8.02306]
	R(-2)	-0.09787	18951385	R*R(-2)	0.083137	########		R(-2)	-0.07753	2.52E+08	R*R(-2)	0.067266	########
		[-5.44008]	[0.92715]		[4.55516]	[-1.87280]			[-3.96014]	[3.45798]		[3.35067]	[-0.74550]
	R(-3)	0.060806	-1.3E+07	R*R(-3)	-0.00283	2.49E+08		R(-3)	0.046468	-1E+07	R*R(-3)	0.010977	########
		[3.37404]	[-0.64712]		[-0.15469]	[0.61231]			[2.36698]	[-0.13913]		[0.54588]	[-0.26781]
	R(-4)	-7.31E-05	23503180	R*R(-4)	0.071735	########		R(-4)	0.010735	98010995	R*R(-4)	0.057469	########
		[-0.00407]	[1.15228]		[3.93053]	[-2.42514]			[0.54832]	[1.34676]		[2.86635]	[-2.16529]
	R(-5)	-0.01816	-3.5E+07	R*R(-5)	0.024458	########		R(-5)	-0.03455	-7.5E+07	R*R(-5)	0.024357	########
		[-1.04931]	[-1.77772]		[1.40757]	[-1.23527]			[-1.81017]	[-1.05279]		[1.26636]	[-1.63712]
	V(-1)	6.32E-11	0.577108	V(-1)	1.96E-12	0.578834		V(-1)	1.05E-11	0.498813	V(-1)	8.74E-13	0.523928
		[4.17133]	[33.5262]		[2.53058]	[33.6140]			[2.08672]	[26.5805]		[3.32298]	[27.7278]
	V(-2)	-2.64E-11	0.134832	V(-2)	-7.60E-13	0.134427		V(-2)	-5.19E-12	0.157711	V(-2)	-5.65E-13	0.145334
		[-1.50657]	[6.78174]		[-0.84914]	[6.76012]			[-0.92416]	[7.56013]		[-1.90385]	[6.81903]
	V(-3)	-2.11E-11	0.067119	V(-3)	-8.94E-13	0.071916		V(-3)	-3.73E-13	0.049221	V(-3)	-1.47E-13	0.056941
		[-1.20051]	[3.35770]		[-0.99296]	[3.59841]			[-0.06595]	[2.33822]		[-0.49086]	[2.65153]
	V(-4)	9.65E-12	0.076425	V(-4)	7.51E-13	0.072566		V(-4)	3.11E-12	0.140942	V(-4)	2.34E-13	0.131594
		[0.55127]	[3.84208]		[0.83819]	[3.64924]			[0.55463]	[6.75584]		[0.78614]	[6.16572]
	V(-5)	-2.17E-11	0.108777	V(-5)	-6.10E-13	0.107531		V(-5)	-6.77E-12	0.127777	V(-5)	-2.88E-13	0.118323
		[-1.43044]	[6.31339]		[-0.78895]	[6.26537]			[-1.34259]	[6.82006]		[-1.09999]	[6.29610]
	C	0.000347	2013570	C	0.000141	2070035		C	0.000162	6712062	C	0.000118	5647414
		[0.78484]	[4.00707]		[5.96439]	[3.95762]			[0.30618]	[3.41805]		[4.20424]	[2.80597]

TABLE V: GARCH (1,1)

Dependent Variable: RETURN and independent variable lag returns (1) and lag TRADING VOLUME (1 – 5)					Dependent Variable: VOLATILITY and independent variable lag VOLATILITY (1) and lag TRADING VOLUME(1 – 5)				
Variable	Coefficient	Std. Error	z-Statistic	Prob.	Variable	Coefficient	Std. Error	z-Statistic	Prob.
NSE NIFTY									
C	0.000673	0.000348	1.931602	0.0534	C	5.77E-05	6.52E-05	0.884574	0.3764
R(-1)	0.283832	0.018642	15.22522	0	RR(-1)	0.331683	0.098526	3.366467	0.0008
V(-1)	4.23E-12	7.03E-12	0.601834	0.5473	V(-1)	1.34E-12	6.27E-12	0.214304	0.8303
V(-2)	6.16E-12	8.85E-12	0.695583	0.4867	V(-2)	-1.18E-13	6.49E-12	-0.01823	0.9855
V(-3)	-2.24E-12	9.36E-12	-0.23902	0.8111	V(-3)	-8.68E-13	1.06E-11	-0.0816	0.935
V(-4)	-3.45E-12	9.43E-12	-0.36622	0.7142	V(-4)	6.42E-13	1.13E-11	0.05689	0.9546
V(-5)	-1.03E-12	7.65E-12	-0.13432	0.8932	V(-5)	-5.22E-13	9.23E-12	-0.05655	0.9549
Variance Equation					Variance Equation				
C	6.99E-06	1.04E-06	6.694926	0	C	2.74E-07	4.77E-08	5.757176	0
RESID(-1)^2	0.21871	0.014582	14.99884	0	RESID(-1)^2	0.15	0.031795	4.71773	0
GARCH(-1)	0.757761	0.017538	43.20614	0	GARCH(-1)	0.6	0.067465	8.893464	0
BANK NIFTY									
C	0.001602	0.000591	2.708939	0.0067	C	0.000308	1.03E-05	29.89529	0
R(-1)	0.260862	0.02861	9.117713	0	VA(-1)	0.400266	0.025605	15.63207	0
VA(-1)	0.623282	1.050903	0.593092	0.5531	VO(-1)	5.82E-12	1.29E-12	4.51347	0
VA(-2)	0.177401	1.017258	0.174391	0.8616	VO(-2)	-5.57E-12	1.35E-12	-4.11299	0
VA(-3)	-0.66311	1.130364	-0.58663	0.5575	VO(-3)	-9.44E-12	1.18E-12	-7.97553	0
VA(-4)	0.127459	1.011747	0.125979	0.8997	VO(-4)	-2.38E-12	1.15E-12	-2.0618	0.0392
VA(-5)	-0.14622	1.125909	-0.12987	0.8967	VO(-5)	-3.87E-12	1.33E-12	-2.90312	0.0037
Variance Equation					Variance Equation				
C	1.06E-05	2.86E-06	3.711239	0.0002	C	9.95E-10	1.59E-09	0.624458	0.5323
RESID(-1)^2	0.179643	0.021799	8.240858	0	RESID(-1)^2	1.907163	0.057069	33.41862	0
GARCH(-1)	0.814454	0.020987	38.80796	0	GARCH(-1)	0.495384	0.007349	67.40583	0
CNX10001									
C	0.001517	0.000869	1.745292	0.0809	C	9.20E-05	0.000151	0.608768	0.5427
R(-1)	0.229796	0.029514	7.785975	0	VA(-1)	0.400587	0.134236	2.984195	0.0028
V(-1)	1.27E-11	6.05E-12	2.10574	0.0352	V(-1)	1.64E-12	7.05E-12	0.232593	0.8161
V(-2)	-2.93E-12	7.61E-12	-0.38537	0.7	V(-2)	-1.01E-12	1.37E-11	-0.07349	0.9414
V(-3)	-9.43E-12	7.91E-12	-1.19244	0.2331	V(-3)	-3.46E-13	1.56E-11	-0.02218	0.9823
V(-4)	5.94E-12	7.08E-12	0.838478	0.4018	V(-4)	5.42E-13	2.20E-11	0.024649	0.9803
V(-5)	-6.72E-12	6.35E-12	-1.05755	0.2903	V(-5)	-5.77E-13	2.25E-11	-0.02571	0.9795
Variance Equation					Variance Equation				
C	6.38E-06	1.67E-06	3.822605	0.0001	C	6.17E-07	1.25E-07	4.938036	0
RESID(-1)^2	0.250704	0.02368	10.58717	0	RESID(-1)^2	0.15	0.034817	4.308274	0
GARCH(-1)	0.762749	0.022472	33.94275	0	GARCH(-1)	0.6	0.077502	7.741706	0
CNX MIDCAP									
C	0.002101	0.000907	2.316362	0.0205	C	5.44E-05	1.04E-05	5.24504	0
SERIES01(-1)	0.208078	0.032324	6.43727	0	SERIES03(-1)	0.473558	0.041721	11.35053	0
SERIES02(-1)	4.67E-11	1.93E-11	2.423512	0.0154	SERIES02(-1)	-8.80E-13	2.57E-13	-3.42354	0.0006
SERIES02(-2)	1.47E-11	2.03E-11	0.722403	0.47	SERIES02(-2)	7.11E-13	3.53E-13	2.012137	0.0442
SERIES02(-3)	-4.70E-11	1.75E-11	-2.6932	0.0071	SERIES02(-3)	-1.31E-12	3.85E-13	-3.40439	0.0007
SERIES02(-4)	7.19E-12	1.97E-11	0.365115	0.715	SERIES02(-4)	5.64E-13	2.31E-13	2.440211	0.0147
SERIES02(-5)	-2.63E-11	1.79E-11	-1.4713	0.1412	SERIES02(-5)	9.18E-13	1.83E-13	5.010849	0
Variance Equation					Variance Equation				
C	8.76E-06	2.19E-06	3.994918	0.0001	C	2.58E-08	1.24E-09	20.77307	0
RESID(-1)^2	0.306522	0.031114	9.851617	0	RESID(-1)^2	2.188296	0.066769	32.77411	0
GARCH(-1)	0.706557	0.025327	27.89688	0	GARCH(-1)	0.308906	0.010521	29.35983	0
CNX NIFTY JUNIOR									
C	0.001101	0.000246	4.480098	0	C	7.67E-05	2.98E-06	25.6919	0
R(-1)	0.267961	0.017859	15.00466	0	VA(-1)	0.358345	0.015028	23.84592	0
VA(-1)	0.447071	0.656529	0.680961	0.4959	VO(-1)	1.50E-13	1.33E-13	1.123685	0.2611
VA(-2)	0.945858	0.738191	1.281318	0.2001	VO(-2)	-1.06E-12	1.56E-13	-6.80258	0
VA(-3)	0.635843	0.703737	0.903524	0.3662	VO(-3)	-1.25E-12	1.80E-13	-6.90943	0
VA(-4)	-0.9947	0.714456	-1.39225	0.1638	VO(-4)	1.97E-12	1.55E-13	12.69614	0
VA(-5)	-0.09333	0.686028	-0.13604	0.8918	VO(-5)	5.42E-14	1.25E-13	0.43538	0.6633
Variance Equation					Variance Equation				
C	8.06E-06	1.12E-06	7.178415	0	C	1.09E-08	3.42E-10	31.91224	0
RESID(-1)^2	0.206142	0.0136	15.15792	0	RESID(-1)^2	1.215973	0.022654	53.67494	0
GARCH(-1)	0.780556	0.013592	57.42706	0	GARCH(-1)	0.50734	0.005554	91.35233	0
S&P CNX 50001									
C	0.001339	0.000239	5.611245	0	C	0.000142	7.16E-05	1.988379	0.0468
R(-1)	0.23086	1.91E-02	1.21E+01	0	VA(-1)	0.319564	0.080822	3.953928	0.0001
VA(-1)	0.578375	0.86686	0.667208	0.5046	VO(-1)	1.03E-12	8.11E-12	0.126869	0.899
VA(-2)	0.794707	9.23E-01	8.61E-01	0.3892	VO(-2)	-6.98E-13	1.07E-11	-0.06546	0.9478
VA(-3)	0.443599	0.771689	0.574841	0.5654	VO(-3)	7.52E-15	1.46E-11	0.000517	0.9996
VA(-4)	-1.03462	0.850514	-1.21646	0.2238	VO(-4)	1.46E-13	1.53E-11	0.009505	0.9924
VA(-5)	0.180756	0.785644	0.230074	0.818	VO(-5)	-3.42E-13	1.54E-11	-0.02214	0.9823
Variance Equation					Variance Equation				
C	7.68E-06	9.85E-07	7.792479	0	C	4.45E-07	5.75E-08	7.73439	0
RESID(-1)^2	0.221488	0.012815	17.28351	0	RESID(-1)^2	0.15	0.024356	6.158589	0
GARCH(-1)	0.765754	0.014338	53.4072	0	GARCH(-1)	0.6	0.05143	11.66645	0

IMPACT OF EMPLOYEE SATISFACTION AND UNION – MANAGEMENT RELATION ON ENHANCED CUSTOMER SATISFACTION- REGRESSION ANALYSIS [A STUDY OF ANDHRA PRADESH STATE ROAD TRANSPORT CORPORATION (A.P.S.R.T.C)]

A. R. VIJAYA CHANDRAN
ASST. PROFESSOR
CHRIST UNIVERSITY INSTITUTE OF MANAGEMENT
CHRIST UNIVERSITY
BANGALORE

DR. V. M. PRASAD
PROFESSOR
SCHOOL OF MANAGEMENT STUDIES
JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY
KUKATPALLY

ABSTRACT
For any organization Union and Management relations is very important for its effective functioning. Doing a job effectively can be done by employees only when they are satisfied. And when both Employee Satisfaction and Union –Management Relations are in good manner then it will have its good impact on Customer Satisfaction as they will be (that is Employer and Employee) will be in a position to do their jobs effectively in serving customers (passengers). This humble study makes an analysis on Employee Satisfaction and Union – Management relations and its impact on Customer Satisfaction.

KEYWORDS
employee satisfaction, union-management relations, APSRTC.

INTRODUCTION
APSRTC (Andhra Pradesh State Road Transport Corporation) the other name for this organization is common man's vehicle or poor man's vehicle. As per the estimates of the organization more than one crore passengers travel daily in the State from one place to another place. APSRTC which is used as an essential service by all the sections of society should get its pie of Importance from its benefactors. "To acquire resources organizations must inevitably interact with their social environments. No Organization is completely self contained – survival comes when the organization adjusts to and copes with its environment, not only when it makes efficient internal adjustments" [1]

NEED FOR THE STUDY
APSRTC (Andhra Pradesh State Road Transport Corporation) is a corporation which is meant for providing service to the common man. According to the Corporations estimates only more than 1.32 crore passengers travel in APSRTC on a daily basis. This shows the enormous service this organization does for the sake of the public. It covers all the sections of the society and almost all the parts of the state in doing service. But it has its own problems created by number of factors. One of the problems has been taken and considered in this study that is the Impact of Employee Satisfaction and Union – Management relation on Customer Satisfaction(that is passenger satisfaction). "Employees who feel satisfied with their jobs provide higher levels of customer satisfaction"[2]. Such an organization which is having lot of importance now a days is plagued by problems. This humble study is an attempt to provide a solution for increasing customer satisfaction which is being eroded systematically. After the analysis of the study we can clearly conclude that Employee Satisfaction and Union – Management relation show considerable impact on Customer Satisfaction. " Estimation of a path analytic model using the aggregated data shows that customer perceived service quality completely mediates the relationship between employee job satisfaction and customer satisfaction" [3].

STATEMENT OF THE PROBLEM
APSRTC (Andhra Pradesh State Road Transport Corporation) which is one of the biggest Public Sector Corporations in Andhra Pradesh State is plagued by innumerable problems because of number of factors. One of the problems is losing confidence amongst the customers (i.e. passengers) and its decreasing occupancy ratio (ratio between number of passengers boarding and the number of seats available in a bus). This study tries to provide a solution for the problem of Customer satisfaction towards APSRTC.

OBJECTIVES OF THE STUDY
1. To contain eroding customer satisfaction towards the corporation.
2. Contribution of satisfied employees towards Customer satisfaction.
3. Union – Management relation and its impact on Customer Satisfaction.

METHODOLOGY
Random Sampling has been done. Out of 21 depots in twin cities (Hyderabad and Secunderabad) 5 depots has been selected from different parts that is Uppal, Mehidipatnam, Mushirabad, Dilshukhnagar and Midhani depots. And out these 5 depots 1007 employees were taken as sample size and questionnaire was administered.

SCOPE OF THE STUDY
The scope of the study is limited to twin cities that are Hyderabad and Secunderabad that too the study is limited to City buses only (i.e. which run in city and its Surroundings only.)

BACK DROP
The origin of APSRTC (Andhra Pradesh State Road Transport Corporation) dates back to June 15th, 1932 when the passenger road transport was started in the Nizam's State Railways in Telangana Area with a modest fleet of 27 buses each having a seat capacity of 24 and 166 employees with a capital investment of 3, 93,000/- (Three lakh ninety three thousand rupees only). In 1936 a full – fledged department popularly known as Nizam State Railway road transport

department was formed. After the integration of Nizam's State with Indian Union in 1950, the Nizam's State Railway was integrated with the Indian railways. The Road Transport department of Nizam's state railways was integrated with Indian Railways. The Road Transport Department of Nizam's state railway was therefore separated from 16.10.1950. The Indian Railways managed the Road Transport Department till October 31st, 1951 on an agency basis.

The constitution of APSRTC on 11th January, 1958 under the provisions of Road Transport Corporations act 1950 heralded rapid growth of nationalized transport in Andhra Pradesh. In pursuance of policy of nationalization the Corporation had taken over passenger transport of Krishna, Guntur and West Godavari districts between 1959 and after a period of consolidation launched the second phase of expansion from 1973 onwards. During the period 1973-78 the passenger Transport of Intra – state routes of Kurnool, Chittoor, East Godavari and Anantapur were nationalized in addition to important routes in Cuddapah, Nellore, Prakasham, Vishakapatnam and Vizianagaram districts. The Corporation was running a few services on long distance routes in Srikakulam district although services in district were not fully nationalized.

In 1999 the Corporation has entered Guinness Book of World Records for owning largest fleet of buses. At the end of February 2007 the Corporation was operating 19,548 buses including about 1500 hired buses, with a staff strength of 1, 15,513 carrying approximately 1.32 crore passengers everyday to their destinations. The Corporation is credited with many distinctions envisioned to other Corporations in areas of Vehicular Utilization, Kilometers per liter, Biggest Bus station complexes in Asia etc and has been recipient of many awards including for maintaining good Industrial Relations from State and Central Governments. Now after a gap of three successful years the corporation has added still some more buses to its existing fleet and number of employees to its existing number of employees. The present strength of employees is 1, 13,234, the number of buses which it is having is 20,637 and the strength is according to statistics available up to 31st January, 2009. "We propose that organizational size affects customer satisfaction directly and through the interesting variable of employee job satisfaction."[4]

APSRTC to survive there should have cordial atmosphere between Union and Management. If it is lacking then the organization which is gigantic in nature and second to none in competition might lose its shine and might cave in for private competitors then the employees and customers (passengers) future might be put to jeopardy. This humble study is an attempt to know the importance of Employee Satisfaction and Union Management Relation on Enhanced Customer Satisfaction. That is this analysis finds out both the Employee satisfaction and Union Management relation and its effect on Enhanced Customer Satisfaction. And after the analysis we can clearly conclude that Employee Satisfaction and Union Management relation is essential for Customer satisfaction.

ANALYSIS OF THE STUDY

Model	Predictors	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	Sig.	Standardized Coefficients - Beta	t	Sig.
1	Employees Monetary Satisfaction	0.484	**0.235**	0.234	0.572	**303.98**	**0.000**	0.484	17.435	0.000
2	Employees Monetary Satisfaction	0.566	**0.320**	0.319	0.540	**233.26**	**0.000**	**0.449**	17.026	0.000
	Role Played							0.295	11.164	0.000
3	Employees Monetary Satisfaction	0.643	**0.414**	0.412	0.502	**232.69**	**0.000**	0.278	9.922	0.000
	Role Played							0.319	12.960	0.000
	Relationship							0.**350**	12.560	0.000
4	Employees Monetary Satisfaction	0.646	**0.417**	0.415	0.500	**177.20**	**0.000**	0.288	10.208	0.000
	Role Played							0.296	11.411	0.000
	Relationship							0.**333**	11.672	0.000
	Role deal with Govt.							-0.068	-2.591	0.010

DEPENDENT VARIABLE: ENHANCED CUSTOMER SATISFACTION

Regression analysis was used to find the effect of Employee Satisfaction (ES) and Union- Management Relation Index (UMR) on Enhanced Customer Satisfaction (ECS) of the APSRTC Employees. Employee Satisfaction (ES) comprises two dimensions such as Employee Monetary Satisfaction (EMS) and Employee Stress (ES). UMR comprises three dimensions such as Role Played (RP) Relationship (RE) and Role deal with Government (RDG). In Multiple Linear Regression Analysis, as method Step wise is used. Dependent Variables is ECS and independent variables are EMS, ES, RP, RE and RDG.

The regression models shown in above table contributed significantly and predicted 23.5 percent of impact of Employees Monetary Satisfaction (EMS) in mode-1, 32 percent variation by EMS & Role Played in model-2 and 41.4 percent variation by EMS , Role Played (RP) & Relationship (RE) in model-3, 41.7 per cent variation by EMS , Role Played (RP) , Relationship (RE) and Role deal with Govt. (RDG) in model-4 towards Enhanced Customer Satisfaction among APSRTC employees. For all the four models F value is greater than 4 and Sig value is <.01 Hence all models are statistically significant at 1% level. The equations to predict the Dependent variable is given below: - The equation shows the constant and respective unstandardized beta value of independent variables.

$Y = .849 + 0.870X_1$——-- (1)

$Y = .428 + 0.807X_1 + 0.160X_2$—— (2)

$Y = .560 + 0.500X_1 + 0.173X_2 - 0.221X_3$——— (3)

$Y = .899 + 0.517X_1 + 0.161X_2 + 0.21X_3 - .116X_4$——— (4)

Whereas, Y= Enhanced Customer Satisfaction (ECS); X_1= Employee Monetary Satisfaction (EMS); X2= Role Played (RP), and X_3= Relationship (RE) X_4 = Role deal with Govt. (RDG);

FINDINGS AND SUGGESTIONS

The above findings suggest that Customer satisfaction is very important for an organization's survival. Especially for a service oriented organization it is still important to gain customer satisfaction.

Suggestion 1 : Dependent variable and independent variables are significantly related to each other.

Suggestion 2 : For Customer Satisfaction – Employee Satisfaction and Union Management Relations are very important. That is without Employee Satisfaction and Union Management relations customer satisfaction can't be achieved.

REFERENCES

1. A meta analysis of relationships linking employee satisfaction to customer responses – Journal of Retailing, Volume 84, Issue 3, September 2008, PP 243 – 255
2. Nadav Goldschmidt, Belts G. Cheng, "Size does matter: The effect of organizational size on customer satisfaction" Journal of quality of management, Volume No. 6 Issue 1, 4th quarter 2001, PP 47 – 60.
3. Paul S. Good man, Mark Fichman, F. Javier Lerch Panda R. Snyden, Carnegie Mellon University, "Customer – Firm relationships, involvement and Customer Satisfaction", Academy of Management Journal 1995, Vol. 38, No.5, 1310-1324.
4. Robin L. Snipes, Sharon L. Oswald, Michael Latous Achilles, A. Armenakis, " The effect of job satisfaction facets on customer perceptions of service quality an employee level analysis"– Journal of Business Research, Volume 58, Issue 10, October 2005, Pages 1330 – 1339.

MARKETING STRATEGIES IN HEALTHCARE

DR. SOMU.G
ASSOCIATE PROFESSOR
DEPARTMENT OF HOSPITAL ADMINISTRATION
KMC MANIPAL
MANIPAL UNIVERSITY
MANIPAL

ABSTRACT

Owing to increase in health awareness among the public, the demand for quality care, value and service at an affordable cost has posed a challenge to those involved in delivering health care. To survive, hospitals tend to compete more than ever in terms of quality, service and price. Almost all health care organizations have take up establishing marketing departments which would help in developing better communication with their customers. This paper throws light on marketing strategies adopted by a tertiary level teaching hospital, in order to overcome competition from nearby healthcare institutions/facilities while continuing to maintain high standards in providing quality healthcare to all patients. The study was carried out with the following objectives: to study the marketing strategies & initiatives adopted along with its outcome measurement by a tertiary level teaching hospital and to study and understand the marketing strategies and initiatives adopted and outcome measure by the marketing team in helping the hospital achieve excellence. Study was conducted by visiting the marketing department and having informal discussion with the marketing manager and interacting with his team of marketing executives. The results and outcome of the marketing activities was compiled and analyzed after going through the records and statistical data for a three year period in retrospect. The index considered for measuring the outcome are standard hospital indices, i.e. Outpatient attendance, new and repeat visits, diagnostic and lab investigations, bed occupancy and PSI (Patient Satisfaction Index) score. The results showed an overall increase in the out patient traffic (OP- attendance) by an average of 2000 patients accounting to about 9%.The inpatient admissions showed an average monthly of 3800 cases amounting to increase in admission rate by 12%.Bed occupancy increased by 8%.OT utilization increased by 11%.The PSI scores for out patient attendance increased from 3.7 to 4.1 and for inpatient it increased from 2.6 to 2.8. It is concluded that in the era of competition driven market especially in healthcare sector it is essential that hospitals are assured of having its own database of patients/customers as also identifying potential catchment areas for the future. The case study also shows the importance of internal marketing which is vital not only in satisfying the patients/customers during the visit but also in bringing in repeat visits. The strategies adopted and highlighted in this study can serve as an effective tool in marketing healthcare industry.

KEYWORDS

Healthcare; internal marketing; external marketing; strategies.

INTRODUCTION

Owing to increase in health awareness among the public, the demand for quality care, value and service at an affordable cost has posed a challenge to those involved in delivering health care. Strategizing a customer relationship management process helps a marketer in being proactive and design marketing programs that will be successful while implementing.

A ***marketing strategy*** serves as the foundation of a marketing plan. It contains a list of specific actions required to successfully implement a specific marketing strategy[1]. An organization's strategy must be appropriate for its resources, environmental circumstances, and core objectives.[2]

A Strategy formulation involves:[2]

1. Doing a situation analysis: internal and external; micro-environmental and macro-environmental.
2. Concurrent with this assessment, objectives to be set. This involves crafting vision statements (long term view of a possible future), mission statements (the role that the organization gives itself in society), overall corporate objectives (both financial and strategic), strategic business unit objectives (both financial and strategic), and tactical objectives.
3. These objectives should, in the light of the situation analysis, suggest a strategic plan. The plan provides the details of how to achieve these objectives.

This move is starting to take shape through introduction of consumer-driven plans and associated health savings accounts. The tradeoff for higher out-of-pocket costs is a lower premium. Health savings accounts are a means to put money aside to pay for those higher out-of-pocket costs. This reality gives employees an incentive to avoid unnecessary care, to stay healthy, to participate in disease management programs and to shop, not just on quality, value and service, but on price. The insurer is providing tools and people to assist the consumer in making cost effective, quality healthcare decisions.[3]

REACHING OUT TO THE PATIENT-BASE

The real money is in delivering high-end services. However, the real relationship-building will be driven by wellness offerings. Helping patients stay well leads to a relationship built over time. When they need acute care, patients will have trust to turn to the hospital.[3]

New primary care physicians need to know which specialists to send their patients to. They will gain confidence in consultants' ability to treat their patients from a personal and a clinical point of view upon opening the lines of communication and strengthening the relationship. Younger specialists need to know as much as they can about the primary care physicians that serve the community, especially those that have been in practice for an extended period of time.[4]

It is very effective to tap into the media. Contact the health and medicine editor of the local newspaper. Inquire about a possible by-line and invite the editors to call for an interview whenever a hot health care topic is ready to hit the news.[4]

The hospital studied, is a tertiary care teaching hospital catering to the needs of the population in and around the district. With mushrooming of several healthcare delivery centers around the hospital premises, the need to have a marketing strategy led by a dynamic team in place was felt. Hence the marketing department was established in the year 2003.

AIM

To study the marketing strategies & initiatives adopted along with its outcome measurement by a tertiary level teaching hospital.

OBJECTIVES

To study and understand the marketing strategies and initiatives adopted by the marketing team along with its outcome measure in driving the hospital ahead.

METHODOLOGY

1. The study was conducted by visiting the marketing department and having informal discussion with the marketing manager and interacting with his team of marketing executives.
2. The results and outcome of the marketing activities was compiled and analyzed after going through the records and statistical data for a period over three years in retrospect.

3. The index considered for measuring the outcome are standard hospital indices viz. Outpatient attendance, new and repeat visits, diagnostic and lab investigations, bed occupancy and PSI (Patient Satisfaction Index) score.

OBSERVATIONS
The marketing methods adopted by the hospital can be broadly classified into internal marketing and external marketing.

A. EXTERNAL METHODS ADOPTED WERE:

1. Group family health insurance scheme: This health insurance scheme was targeted at making quality healthcare at affordable costs for economically weaker section of the society residing in the neighborhoods. The uniqueness of this plan is that it covered both outpatient and inpatient medical benefits to those enrolled in the scheme. Even those with preexisting disease, maternity and accident victims could avail the benefits. With a nominal premium, the benefits could be availed by individuals & their complete family. The renewal/issue of cards is done once in a year with in a notified time frame. The benefits of this insurance scheme were made use by nearly 400 below poverty line (BPL) families covering approximately 1500 individuals.

2. Extension of the family health insurance scheme: The family health insurance scheme along with general health insurance companies was extended to families availing health facilities at the rural maternal child welfare homes. The population in these areas all belonged to BPL group. Maternal and child welfare homes were targeted, covering approximately 50,000 individuals. This tie-up ensured that members got good and quality medical care. This scheme also benefited to network hospitals in generating referrals out of these centers.

3. Cashless medical benefit facility: The hospital management also decided in extending cashless medical benefit facility to its patient clientele. In this regard the marketing department of the hospital took initiatives to tie-up with few insurance companies and third-party administrators (TPA's). It was agreed to have the TPA's establish an office room with in the hospital for their functioning. This helped in establishing good communication among patients (healthcare beneficiaries), hospital (healthcare providers) and the third party administrators (TPA's).

4. Corporate empanelment: It was also planned to increase the patient traffic. The agreements with existing companies on the list of empanelment were reviewed. Companies with which agreements due to be renewed were done promptly with the assurance of delivering quality health care to all its employees. The possibility of adding more companies on to the list was explored and acted upon. During the tie-up the terms and conditions agreed upon included facilities available to, type of facilities, concession limits, inclusion and exclusion criteria and validity period of agreement. Nearly 50 companies had been empanelled.

5. CME's and Camps: This initiative was taken up by the marketing department. Continuing Medical Education (CME's) was conducted after interacting with the local medical associations. The venue for conducting CME was decided taking the local association in confidence. The specialty in which the CME would be conducted was decided upon by the hospital authorities. The decision was need based, based on market analysis, location etc. On receiving a request by the administrative offices for a CME from the local organizations, the marketing department swings into action in making preparations for organizing the event. Some of these events include identifying the doctors for participation (consultants willing to participate were identified), call for press meet etc. The topic to be deliberated upon was decided by the consultant in association with the local medical organizations.

The CME's helped the local general practioners (GP) or junior doctors in getting updated with the current trends in medical knowledge. It also gave an insight to the availability of facilities and state of art technology. At the end of the deliberation there was an interactive session which helped build good rapport between the hospital consultant and the junior doctors. This interaction also gave the general practioners confidence in their consultants. The CME's usually associated with tea/lunch/dinner, giving ample opportunity for the junior doctors and consultants to share their medical knowledge on a more personal note. Approximately 2-3 CME's every month was the target.

6. Camps: Apart from organizing routine camps, the hospital also undertook the activity of organizing free health check camps in association with the local organizations and NGO's. The camps were mainly targeted at providing health awareness, screening for non-communicable disease etc. These camps which were conducted in the vicinity were attended to by doctors and paramedics from the hospital. Portable medical equipments were carried to the camp site. The hospital conducts around 120 camps annually.

7. Health events: Initiative of holding events based on health calendar was started. The main purpose of this was to create health awareness among the general public and to promote health. Few camps were also held in this regard, the camps were disease based; equipment based; organ based. During these events, free checks, screening and special health packages were devised and made available to the population as a whole.

8. Media and Press coverage: In organizing the health events active participation from the public was encouraged. Wide publicity via hospital website, media and press coverage was undertaken during the pre and post health events session. News letters, news magazine and health talk on television and radio was also undertaken.

Apart from external marketing initiatives the hospital management also strengthened its internal activities which was taken up as a continuous ongoing process in improving the image of the hospital are

B. INTERNAL MARKETING COVERED THE FOLLOWING:

1. Scheduling training programs: The Human Resource Department (HR-dept) developed a skill matrix for all its employees working in the hospital. Several training modules were developed in soft skills and training programs was conducted. This training delivered was from both internal and external sources. Training calendars was developed and classes were conducted as per the schedule.

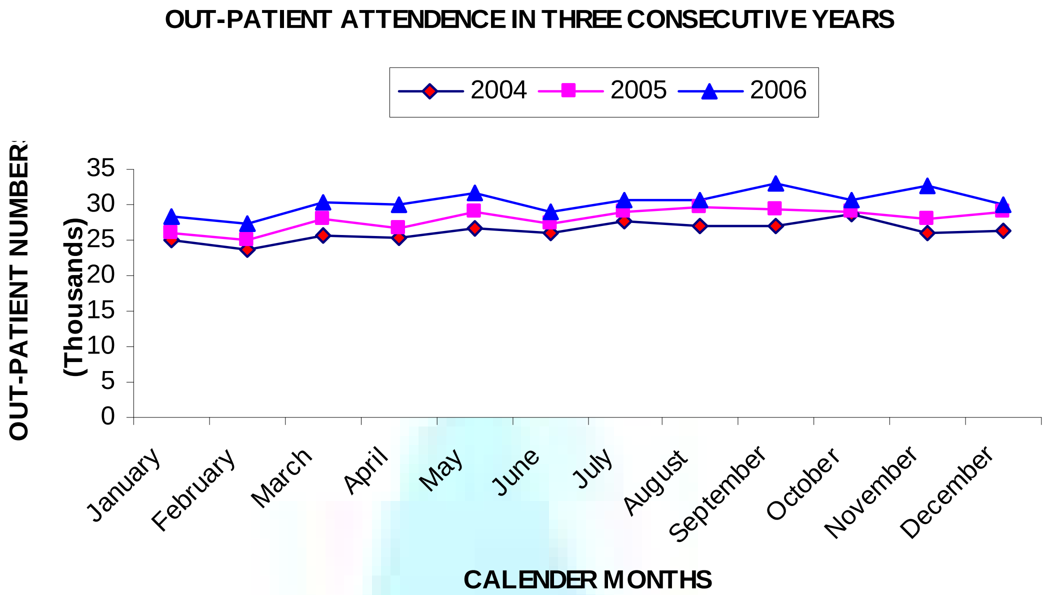
2. Identifying bottlenecks and streamlining: The operations executives were actively involved in identifying and eliminating hospital bottlenecks as and when they came across, either by visualizing a potential bottleneck or through customer feed-back responses. The various process flows was re-looked into and streamlined.

3. Establishing good customer relationship: Some of the activities undertaken in building good relations with customers was, providing good ambience at the front office; maintaining proper signage in the hospital; appointing patient relation executives who are actively involved in accompanying and directing the patients and their relatives with in the hospital. Making prompt payments and clarifying the terms of payment and delivery of goods (materials), helped in maintaining a healthy relationship with vendors and suppliers.

4. Creation of new facilities: Corporate help desk/MAY I HELP YOU counters/HELP LINE facility was started at the front office. This gave walk in patients and corporate clients proper orientation of the hospital.

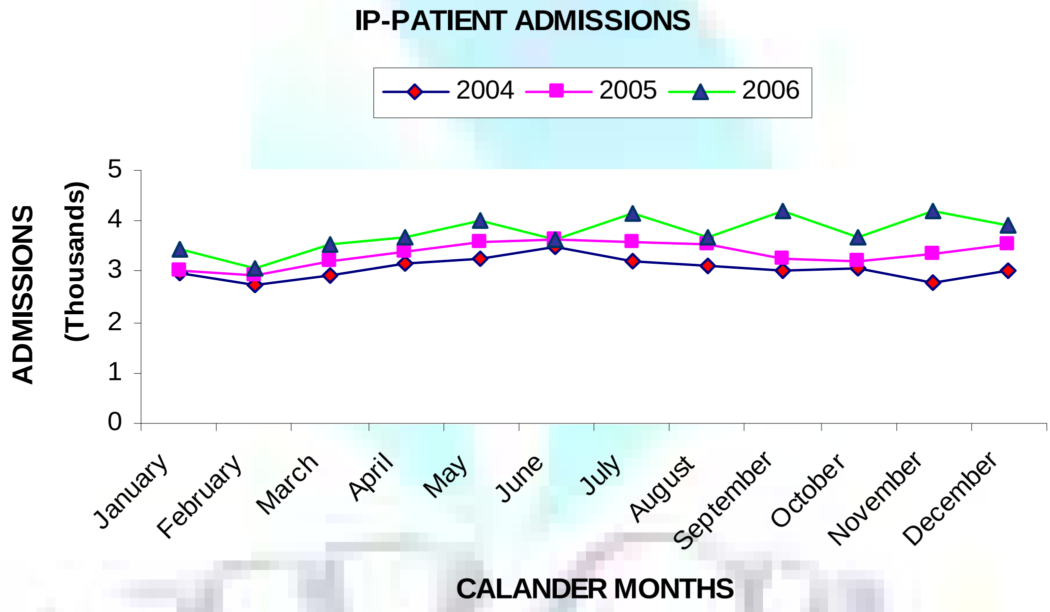
RESULTS
After having adopted newer strategies and initiatives in marketing the hospital, the outcome of these activities was measured using standard hospital indices. The statistics showed an overall increase in the outpatient traffic (OP- attendance) by an average of 2000 patients accounting to about 9%. **(Chart-1).**

CHART – 1: SHOWS OP TRAFFIC IN THREE YEARS



Likewise inpatient attendance (admissions) showed an average monthly of 3800 cases amounting to increase in admission rate by 12%. Bed occupancy increased by 8%. **(Chart-2)**.

CHART -2 SHOWS IP ADMISSIONS IN THREE YEARS



Operation Theater utilization increased by 11 %, lab and diagnostic services increased by 20 %.(**Chart-3 & Chart-4**). The PSI scores for out patient attendance increased from 3.7 to 4.1 and for in-patient it increased from 2.6 to 2.8 with the maximum achievable score being 5.

CHART -3 SHOWS NUMBER OF OPERATIONS DONE MONTHLY

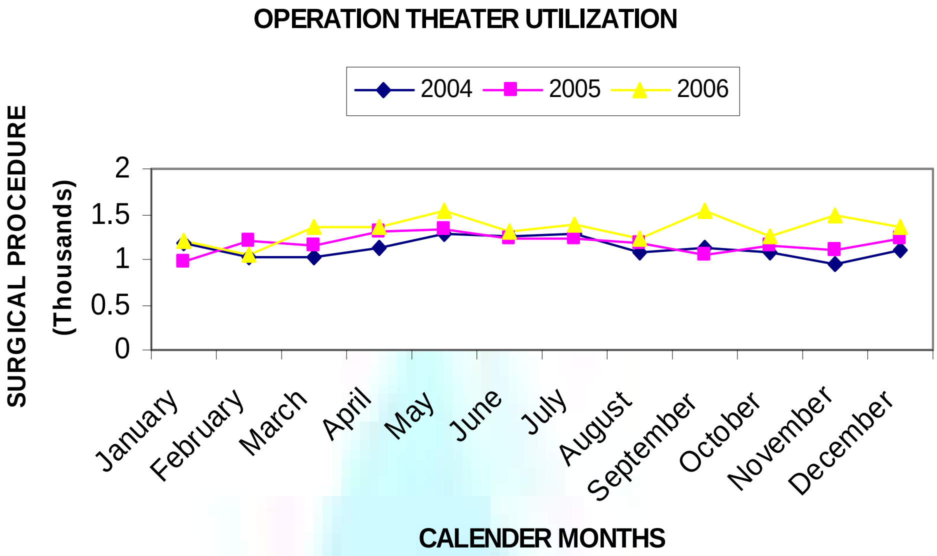
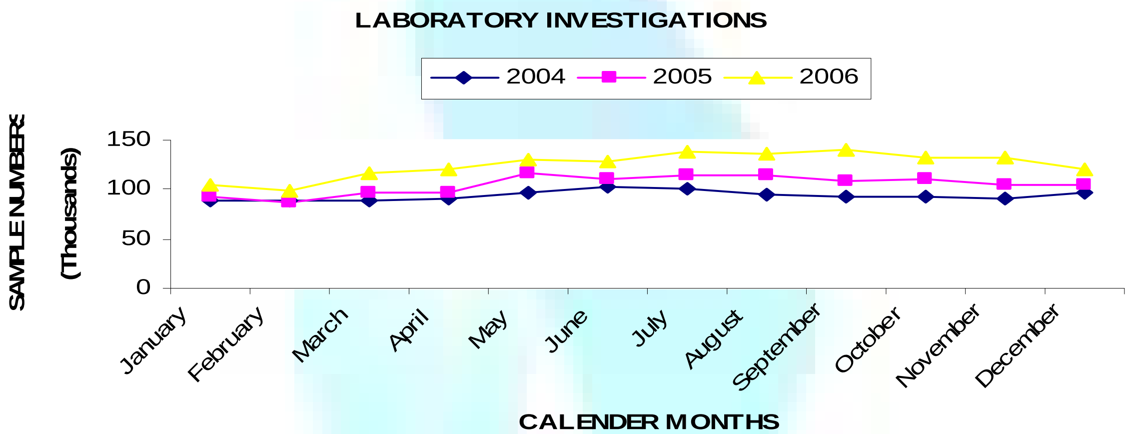


CHART -4 SHOWS NUMBER OF LABORATORY INVESTIGATIONS DONE MONTHLY



DISCUSSION

The tertiary level hospital under study is a multi-specialty teaching hospital catering to the needs of the entire district with a population of approximately 12 lakhs and also to the surrounding districts and states in the vicinity for the last 55 years. The analysis in the trends of the parameters like Outpatient attendance; Inpatient attendance; PSI scores and utilization of laboratory and OT services have been constant (status-co) over the years. In the year 2004 the hospital which was committed to rendering quality in patient care services felt the need to better its services to the society and overcome competition from the surrounding healthcare facilities established the marketing department and chalked out marketing strategies in realizing its goal. The hospital did not undertake any new initiatives in adding additional services/facilities into the existing setup other than resorting to extensive marketing activities within and outside the district during 2004-07. The increase in outpatient numbers and Inpatient attendance can be attributed to the CME's and camps conducted in the neighboring districts. The improvement seen in the PSI scores is due to the internal marketing done taking the entire operations team into confidence. Further the utilization of the OT (11%) and laboratory services (20%) is a fall out of increased volumes recorded during 2005 and 2006.

CONCLUSION

From the observations & discussions it can be concluded that the increase in OP traffic can be attributed to external marketing like corporate tie-up, insurance scheme and tie-up with TPA's. The increase in number of admissions can be associated with a lot number of CME's and camps conducted in association with the local medical organizations and the NGO's. Increase in PSI scores reflect on the effectiveness of internal marketing like identifying and addressing bottle necks, conducting training programs etc. as the hospital did not undertake any major initiatives in setting up any new facilities or services. In conclusion framing policies and laying down appropriate marketing strategies is essential for the success of any enterprise function irrespective of the type of organization.

ACKNOWLEDGEMENT

The present paper is presented in Pinnacle 2012, National Research Conference on 'Innovative Paradigms in Contemporary Management' held at S. B. Jain Institute of Technology, Management & Research, Nagpur in collaboration of IJRCM.

REFERENCES

1. Marketing strategies http://en.wikipedia.org/wiki/Marketing_strategy accessed on 02.01.12
2. Anthony Cirillo, Hospitals and Consumer-Driven Healthcare: Five Marketing Moves Health Leaders News, July 29, 2005
3. Rebecca Anwar, Marketing Strategies for your medical practice; Physicians' news digest; Oct 2001.
4. Business Strategy- Introduction, Gibbs Knowledge series, Jan 1, 2007 *http://gibsdiscussions.blogspot.com/2007/01/business-strategy-Introduction,* accessed on 19.02.2007

MANAGEMENT OF TRANSLATION EXPOSURE: A COMPARATIVE ANALYSIS OF MNCS IN INDIA

DR. MANISHA GOEL
ASSOCIATE PROFESSOR
DEPARTMENT OF MANAGEMENT STUDIES
YMCA UNIVERSITY OF SCIENCE & TECHNOLOGY
FARIDABAD

ABSTRACT

Translation exposure refers primarily to the impact of exchange rate fluctuations on consolidated financial statements of MNCs. It is usually treated as only one of the accounting issues as it does not represent real movements of cash. This may be one of the reasons for dearth of literature in this area especially in India. The present study portrays translation exposure management as practiced by various multinational companies in India. It is a comparative analysis of management of translation exposure by banking and non banking as well as foreign and Indian MNCs. This paper is based on a questionnaire study undertaken in 2004-2008. Using a sample of 200 Indian and foreign MNCs operating in India, the purpose of the paper to make a comparative analysis of attitude of banking and non-banking MNCs in India towards management of their translation exposure. The companies selected under study cover a broad spectrum of major players of various sectors producing a variety of products. Usually it is presumed that method of translation and management policy affects translation gain or loss. We find that there is no significant effect of method of translation and management policy of the company on their translation loss or gain. We find very significant difference between attitude of banking and non banking companies. Most of the banking companies are managing their translation exposure either actively or regularly whereas most of the non- banking companies are ignoring their translation exposure. Attitude of Indian and foreign companies towards management of their translation exposure has been significantly different. Majority of companies are using techniques of exposure netting, leading and lagging and balance sheet hedges for the management of their translation exposure. Usage of derivatives is very less as compared to other hedging techniques. This paper explores the need of further study of behavior of companies towards translation exposure management.

KEYWORDS

Derivatives, Exposure Management, Exposure Netting, Translation Exposure, Translation Gain/ Loss.

INTRODUCTION

Translation exposure is the risk of the net worth of a company changing because of the fluctuating home valuation of assets and liabilities denominated in foreign currencies. Translation exposure arises from the need to "translate" foreign currency assets or liabilities into the home currency for the purpose of finalizing the accounts for any given period. Multinational corporations having operations in many countries have to prepare their consolidated financial statements to have a complete knowledge of result of all their business operations. Usually, foreign subsidiaries prepare their accounting records and financial statements in the currency of the country where they operate. For this, it is necessary to translate foreign currency denominated accounts of subsidiary companies into the currency of parent company. Most of the companies not having any foreign subsidiary also deal in many international transactions such as exports, imports, borrowing in foreign currency, acquiring assets from other countries and making international investments. At the end of financial year, many of these transactions remain unsettled which result in foreign currency assets or liabilities. Such assets and liabilities also have to be translated into their home currency in order to prepare their final financial statements. But the currency fluctuations can create currency gains or losses from such translations.

Translation exposure does not represent real movements of cash between different currency systems, but can clearly impact both the consolidated profit and loss account and the consolidated balance sheet. The balance sheet effects are often dismissed as illusory since they have no impact on cash. However the level of assets and liabilities can affect financial ratios which are calculated using the balance sheet figures. It may result in practical problems where the company has restrictions on its level of borrowings. Translation exposure is the difference between exposed assets and exposed liabilities. A greater amount of exposed assets than liabilities will give rise to a positive exposure while a greater amount of liabilities than assets will give rise to a negative exposure. The amount of translation exposure depends on the degree of foreign involvement of a multinational's overseas subsidiaries, the location of these foreign subsidiaries and the correlation between foreign currency and the home currency and the methods of accounting for the translation. There are mainly four methods of accounting for the translation of foreign currency assets, liabilities and items of income statement i.e. current rate method, temporal method, monetary/ non-monetary method and current/ non-current method. In current rate method all the items are translated into reporting currency on the rate prevailing on the date of balance sheet. In case of temporal method assets and liabilities which are to be carried at historical values (like fixed assets, cost of goods sold, depreciation, amortization expenses etc) are translated at historical rates whereas the assets and liabilities which are to be carried at current value (current assets, receivables, payables and cash) are translated at current rate. In case of monetary/ non-monetary method, the monetary items of balance sheet like debtors, creditors, receivables, payables, loans etc. are to be translated at current rates whereas non-monetary assets, non monetary liabilities and share capital are translated at historical rate. In current/ non-current method, current liabilities and current assets are translated at balance sheet date rate whereas non-current liabilities and fixed assets are translated at historical exchange rates. Assets and liabilities that are translated at the current exchange rate are considered to be exposed to foreign exchange risk; those assets and liabilities which are translated at a historic exchange rate will maintain their home currency values and hence are not exposed. Under all of these methods except current rate method, all the items of income statement are to be translated at the average rate during the period.

As per Indian Accounting Standard for the translation of financial information of foreign subsidiaries different rates are used. An Indian company is to use spot rate to translate its daily foreign currency transactions. It can otherwise use an average rate to translate the transactions related to a week or a month but the care should be taken to ensure that this exchange rate is true representative of actual exchange rates prevailing at the time of transaction. More over when the transaction is settled partly or fully, on a date other than transaction date, then it will result in exchange gain or loss which is shown in income statement of Indian company. For the purpose of balance sheet, historical rate is to be used for fixed assets, depreciation, monetary and non monetary assets and liabilities. Current rate is to be applied for inventory valuation and contingent liabilities.

Companies can plan to take advantage of favorable exchange rate fluctuations. Even unfavorable fluctuations can prove to be profitable ones provided these are duly managed in advance. Translation exposure can be managed by matching assets and liabilities in the overseas currency, whenever possible. But this may result in losing control over consolidated gearing. There is also the problem of trying to match assets and liabilities in countries where there are no sophisticate capital markets or in other cases a perfect match is not necessarily desirable. Other strategies which can be applied internally to hedge translation exposure include exposure netting, leading, lagging, adjusting flow of funds and balance sheet hedge. External techniques such as money market hedge, currency swap, cross currency swap and forward contracts can also be applied. Results of the study explore that majority of companies are using techniques of exposure netting, leading/lagging and balance sheet hedges.

LITERATURE REVIEW

As translation exposure refers primarily to the impact of exchange rates on earnings and balance sheet items when consolidating financial statements from foreign subsidiaries, it does not represent real movements of cash between different currency systems. It is treated as only one of the accounting issues. Many of the companies in India do not take their translation exposure so seriously and ignore it completely. This may be one of the reasons for dearth of literature in the area of management of translation exposure, especially in India. Some of the studies identified in this area are as follow;

Dalthan Medeiros Simasa and Otavio R. de Medeirosb, in their paper, “Translation of Financial Statements” critically analyze the effects of accounting procedures for changing prices and exchange rate fluctuations of various multinational companies. They conclude that with regard to changing prices, General Price Level Accounting is the best option. They also suggest that for exchange rate fluctuations, the Closing Rate Method should be preferred over the Temporal Method. They conclude that convenience of use, for both the accounting profession and report users, seems to have been the determinant factor.

Gordon M. Bodnar (1998) in his study “Derivatives usage in Risk Management by U.S. and German Non-Financial Firms: A comparative Survey”, critically analyses effect of environment in different economies on the hedging strategies of the firms. The study points out that German firms are more likely to use derivatives as compared to U.S. firms. There is a strong focus on accounting earnings in all business decisions in Germany. For U.S. firms, the translation exposure under the current rate method is given by the net equity of the foreign subsidiary whereas under the temporal method it is the net amount of assets and liabilities translated at the current exchange rate. He concludes that majority of U.S. companies do care as they hedge their translation exposure.

Niclas Hagelin and Bengt Pramborg, in their research study, “Hedging Foreign Exchange Exposure: Risk Reduction from Transaction and Translation Hedging”, investigate the risk reducing effect of foreign exchange exposure hedging by using a sample of Swedish firms. They investigate risk reduction from using different hedging instruments. The results of the study show that firms' foreign exchange exposure increases with the level of inherent exposure, measured as the difference between revenues and costs denominated in foreign currency, and that it is decreasing with firm size. It also concludes a significant reduction in foreign exchange exposure from the use of financial hedging strategies. The evidence suggests that the usage of foreign denominated debt as well as currency derivatives reduce firms' foreign exchange exposure. They reach to the conclusion that both transaction exposure hedges and translation exposure hedges reduce exposure. A possible explanation for this is that translation exposure approximates the exposed value of future cash flows from operations in foreign subsidiaries (i.e. economic exposure). So, economic exposure can be reduced by hedging the translation exposure.

Richard P. Melnick and W. Carl Kester in their “Note on Transaction and Translation Exposure”, provide explanation to transaction and translation exposure. They pointed out that translation exposure arises whenever a firm has assets and liabilities whose value is denominated in currencies other than the parent’s reporting currency. They lay emphasis on various techniques for managing these exposures such as forward marked hedge, money market hedge, balance sheet hedges, swaps and leads and lags. Every one of these methods entails a cost of some type. Explicit cost can be adequately measured in percentage rates as the forward premium or discount on a currency, or the difference in nominal interest rates on credit denominated in the two currencies. Implicit costs are related to the conduct and management of business locally. They find out that eliminating one type of exposure sometimes comes at the expense of exacerbating another exposure. A logically prior question for managers to address is which of several types of exposures deserves the highest priority. The issue of how much time, efforts and expense to devote to the elimination of foreign exchange exposures depends on the factors like management’s attitudes toward risk and the efficiency of foreign exchange and credit markets. They conclude that risk averter managers are more likely to engage in hedging activities as compared to risk taker managers.

SIGNIFICANCE OF STUDY

High volatility of exchange rates imposes threat to the company engaged in international business. Every company that conducts at least some of its business in another currency is exposed to foreign exchange risk in one form or the other. It is obligatory for all firms having foreign subsidiaries to prepare consolidated accounts at the end of the financial year. In this case, it is difficult to fix the exchange rate at which the financial items of final accounts of a subsidiary company should be translated into the home currency, leading to translation exposure which can be translation loss or translation gain. Usually it is also stated that success of any MNC largely depends on how effectively it manages its translation exposure. In India, MNCs are expanding their business beyond national boundaries at a very fast pace. A major proportion of their total revenue is dependent on their business operations in foreign countries. But they do not take translation exposure so seriously and usually leave it unmanaged. Many a times, the net worth of these companies have abruptly gone down just because of their careless attitude towards their translation exposure. That is why the study of translation exposure management is very significant in Indian context. This study can be of great use for exporters, importers, business planners, bankers, researchers, students and academicians to judge the effectiveness of various translation exposure management tools in India.

OBJECTIVES OF STUDY

Translation exposure is related directly to consolidated financial statements of MNCs having foreign subsidiaries. Very high translation exposure can adversely affect the image of company in international market. But despite the vast expansion of their business beyond national boundaries, many companies in India have ignored their translation exposure assuming it to be only accounting exposure not the real one like transaction or economic exposure. It has resulted in too many questions; whether or not companies in India are seriously managing their translation exposure? If yes, how do they manage? All of these questions are required to be answered which initiate this research work. The present study examines the available evidence on management policy of MNCs in India towards management of their translation exposure. It is usually stated that Indian companies are not so serious about management of their translation exposure as compared to their foreign counterparts. This research is a comparative analysis of management policy of Indian and foreign companies. Management policy of banking and non-banking companies towards for their translation exposure has also been compared. The difference between attitude of companies having foreign subsidiaries and not having foreign subsidiaries has also been investigated. Usage of various strategies to manage translation exposure has been scrutinized in detail.

HYPOTHESIS

In this research the following hypothesis have been tested;

a) There is no significant effect of method of translation on translation gain or loss faced by the non-banking companies.

b) There is no significance difference between Indian and foreign companies having foreign subsidiaries regarding their attitude towards management of translation exposure.

c) There is no significance effect of management of translation exposure by non-banking companies and translation gain or loss faced by them.

RESEARCH METHODOLOGY

This study is a comparative analysis of management of translation exposure by various banking and non banking, Indian and foreign MNCs operating in India. The results presented in this study are based on a questionnaire study undertaken in 2005-2010. The sample is composed of 200 companies out of fortune 500 companies which were ranked on the basis of their sales during the financial year from 1st Jan to 31st December 2003, as published in Economic Times in May 2004. The selected companies cover a broad specter of major players of various sectors such as Auto, Parma, Banking, Oil, Cement, FMCG, Chemicals, Steel, IT, Textile, Nuts, consumer durable, Electricity, energy, Paper and paper products etc. Out of 200 companies, 95 companies responded back.

Management policies for managing translation exposure have been divided into mainly three groups; Active management, Regular management and no management. Three point scales has been used for this purpose. 3 have been used for active management, 2 for regular management and 1 for no management of translation exposure. On the basis of general statements, hypothesis have been framed regarding the behavior of companies in India and tested with the help of ANOVA technique. A scale of 1 to 5 has been used to analyze results. Significance was discussed on 5 % level in all tests used for hypothesis testing. Graphs and tables have also been used to facilitate the analysis of data.

RESULT & DISCUSSION

In the survey it has been found that all of the companies under study are heavily internationally oriented as significant proportion of their turnover originates from foreign markets on the basis of their published accounts. The international trade of these companies is denominated in various foreign currencies resulting in high translation exposure. On the basis of the study of management of translation exposure by these companies, the followings are the findings of the study;

COMPARISON OF TRANSLATION METHODS USED BY INDIAN & FOREIGN NON-BANKING COMPANIES NOT HAVING FOREIGN SUBSIDIARY

Even the companies not having any foreign subsidiary also face translation exposure as some or the other assets, liabilities or transactions are denominated in foreign currency. At the time of preparation of financial statements all the items have to be denominated only in single reporting currency. So these companies also have to choose certain method of translation for this purpose. The results have been depicted in table 1.

TABLE 1: METHODS OF TRANSLATION OF NON-BANKING COMPANIES NOT HAVING FOREIGN SUBSIDIARIES

Method of Translation	Indian	Foreign	Total
Monetary/Non Monetary	*16*	*3*	*19*
Current/ Non Current	*9*	*3*	*12*
Current	*8*	*1*	*9*
Total	*32*	*7*	*39*

The results of the survey show that most of such Indian as well as foreign companies is applying monetary/ non-monetary method for the purpose of translation of their assets and liabilities. Some of these companies are also applying current/ non-current method. Only a few of the Indian companies are following current method. All of these companies are translating their foreign currency transactions at the rate which was prevalent on the date of occurrence of transaction. The results also reflect actual rate method is most popular among companies for translation of most of the items of their income statement.

COMPARISON OF TRANSLATION METHODS USED BY INDIAN & FOREIGN NON-BANKING COMPANIES HAVING FOREIGN SUBSIDIARY

The companies which have foreign subsidiary apply different method of translation for their main company and their subsidiary company. The methods of translation used by these companies for their own foreign currency denominated assets and liabilities have been presented in table 2 and for income statements in table 3. The methods of translation used by these companies for assets and liabilities of their foreign subsidiaries have been depicted in table 4 and for income statements in table 5.

TABLE 2: METHODS OF TRANSLATION OF NON-BANKING COMPANIES HAVING FOREIGN SUBSIDIARIES FOR THEIR OWN FOREIGN CURRENCY ASSETS & LIABILITIES

Method of Translation	Indian	Foreign	Total
Monetary/Non Monetary	*16*	*3*	*19*
Current	*9*	*1*	*10*
Not Disclosed	*13*	*2*	*15*
Total	38	6	44

TABLE 3: METHODS OF TRANSLATION OF NON-BANKING COMPANIES HAVING FOREIGN SUBSIDIARIES FOR THEIR OWN INCOME STATEMENTS

Method of Translation	Total
Transaction Date Rate (Actual Rate)	*30*
Current Rate	*1*
Monthly Average	*3*
Not Disclosed	*10*
Total	44

The results show that most of Indian as well as foreign companies under survey are applying monetary/ non-monetary method for the purpose of translation of their own assets and liabilities. Some of these companies are also applying current rate method. Some of the Indian companies have not even disclosed their method of translation. For translating the items of income statement, most of the companies are applying actual rate prevailing on transaction date. Some of the companies have followed the system of monthly average. It also reflects that current rate method is not so popular among companies for translation of their income statement.

TABLE 4: METHODS OF TRANSLATION OF NON-BANKING COMPANIES FOR ASSETS & LIABILITIES OF THEIR FOREIGN SUBSIDIARIES

Method Of Translation	Indian	Foreign	Total
Monetary/Non Monetary	*12*	*4*	*16*
Current	*13*	*2*	*15*
Not Disclosed	*13*	*Nil*	*13*
Total	38	6	44

TABLE 5: METHODS OF TRANSLATION OF NON-BANKING COMPANIES FOR INCOME STATEMENTS OF THEIR FOREIGN SUBSIDIARIES

Method Of Translation	Total	Method Of Translation	Total
Transaction Date Rate	*5*	Yearly Average	*14*
Daily Average	*2*	Weighted Average	*4*
Monthly Average	*6*	Not Disclosed	*13*

The companies having foreign subsidiary apply different method of translation for their company and their subsidiaries. The results show that both monetary/ non-monetary method and current rate method are applied by the most of Indian as well as foreign companies for the purpose of translation of the assets and liabilities of their subsidiaries. For translating the items of income statement, most of the companies follow yearly average rate system. Some of the companies apply actual rate prevailing on transaction date whereas some of the companies also apply average rate systems where the average rate can be daily average, monthly average or weighted average rate.

EFFECT OF METHOD OF TRANSLATION ON TRANSLATION EXPOSURE OF NON-BANKING COMPANIES

Usually it is presumed that the method of translation has an impact on their translation gain or loss. The results of the study show that Indian and foreign non banking companies have adopted different methods of translation of their financial statements. To study the impact of method of translation on their translation exposure the following hypothesis has been formulated. The results of ANOVA are depicted in table 6.

Null Hypothesis: *There is no significant effect of method of translation on translation gain or loss faced by the non-banking companies.*

TABLE 6: EFFECT OF METHOD OF TRANSLATION ON TRANSLATION EXPOSURE OF NON-BANKING COMPANIES

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	*3.467(a)*	*2*	*1.733*	*2.473*	*.090*
Intercept	*254.372*	*1*	*254.372*	*362.953*	*.000*
Method of Translation	*3.467*	*2*	*1.733*	*2.473*	*.090*
Error	*67.281*	*96*	*.701*		
Total	*447.000*	*99*			
Corrected Total	*70.747*	*98*			

a R Squared = .049 (Adjusted R Squared = .029)

The results of the study show that the value of p is 0.090 which is higher than 0.05 (at 5 % level).So, null hypothesis that there is no significant effect of method of translation used by the non-banking companies on their translation loss or gain is accepted.

MANAGEMENT OF TRANSLATION EXPOSURE

As translation exposure can have an adverse impact on consolidated financial statements of any MNC, company must consider its translation exposure seriously. On one hand, some of the companies consider the management of translation exposure as an essential activity, on the other hand, some of the companies ignore it completely. For the purpose of study, management policy of companies has been divided into three categories; no management, regular management or active management. Three-point scale has been used for the purpose of study where 3 represents active management, 2 represents policy of regular management and 1 represents no management. Companies from different sectors have different attitude toward management of translation exposure. The results of survey for management of translation exposure by companies from different sectors are depicted in table 7.

TABLE 7: MANAGEMENT POLICY FOR MANAGEMENT OF TRANSLATION EXPOSURE

S. No.	Sector	Management			Total Responses
		Yes		No	
		Active	Regular		
1	Auto	*0*	*1*	*10*	*11*
2	Pharma	*0*	*5*	*8*	*13*
3	Oil	*1*	*0*	*10*	*11*
4	Cement	*0*	*0*	*3*	*3*
5	FMCG	*0*	*1*	*2*	*3*
6	Chemicals	*0*	*0*	*1*	*1*
7	Steel	*0*	*3*	*11*	*14*
8	IT	*0*	*1*	*6*	*7*
9	Textile	*3*	*1*	*3*	*7*
10	Nuts	*1*	*2*	*3*	*6*
11	Consumer Durable	*0*	*0*	*3*	*3*
12	Electricity & Energy	*0*	*1*	*1*	*2*
13	Paper & Paper Products	*0*	*0*	*1*	*1*
14	Banking	*7*	*4*	*1*	*12*
15	Miscellaneous	*0*	*0*	*1*	*1*
Total		12	19	64	95

The results of the study show that 67% of total respondents are not managing their translation exposure at all. Only 33 % companies are managing their translation exposure. It shows that only 13 % of companies are actively managing their exposure. So, very few companies in India manage their translation exposure seriously.

COMPARISON OF MANAGEMENT POLICY OF BANKING & NON-BANKING COMPANIES

Banking and non banking companies have different attitude towards management of their translation exposure. RBI has issued guidelines for risk management for banking companies in India. This may be one of the reasons for difference in their attitude. The result of the survey for comparison of attitude of banking and non- banking companies has been depicted in table 8.

TABLE 8: TRANSLATION EXPOSURE MANAGEMENT BY BANKING & NON-BANKING COMPANIES

Companies	Management			Total
	Active	Regular	No	
Non Banking Companies	*5*	*15*	*63*	*83*
Banking Companies	*7*	*4*	*1*	*12*
Total	12	19	64	95

The results show that the companies in some of the sectors are more active in managing their translation exposure as compared to other sectors. Most of the banking companies are managing their translation exposure either actively or regularly. On the other hand, most of the non- banking companies are ignoring their translation exposure.

COMPARISON OF MANAGEMENT POLICY OF NON BANKING COMPANIES HAVING AND NOT HAVING FOREIGN SUBSIDIARIES

Non banking companies having or not having foreign subsidiaries also have different approach for management of their translation exposure. The result of the survey has been depicted in table 9.

TABLE 9: COMPARISON OF TRANSLATION EXPOSURE MANAGEMENT BY NON-BANKING COMPANIES HAVING & NOT HAVING FOREIGN SUBSIDIARIES

Companies	Management			Total
	Active	Regular	No	
Companies Having Foreign Subsidiaries	*3*	*10*	*31*	*44*
Companies not Having Foreign Subsidiaries	*2*	*5*	*32*	*39*
Total	*5*	*15*	*63*	*83*

The results of the study show that most of them are not managing their translation exposure at all. Even those non banking companies which have foreign subsidiaries are not so serious about managing translation exposure. Only a few of the companies under survey are managing their translation exposure actively.

COMPARISON OF MANAGEMENT POLICY OF INDIAN AND FOREIGN NON BANKING COMPANIES HAVING FOREIGN SUBSIDIARIES

Indian and foreign companies have different attitude towards management of their translation exposure. It is usually observed that foreign companies are more serious in their management policy as compared to Indian companies. The results have been presented in table 10. A comparison of Indian and foreign companies has been made with the help of AVOVA at 5 % level of significance where management of translation exposure is dependent variable and origin of company (Indian or foreign) is independent variable. For the purpose of study null hypothesis has been formulated and tested. The results of ANOVA have been presented in table 11.

Null Hypothesis: *There is no significance difference between Indian and foreign companies having foreign subsidiaries regarding their attitude towards management of translation exposure.*

TABLE 10: COMPARISON OF TRANSLATION EXPOSURE MANAGEMENT BY NON-BANKING INDIAN & FOREIGN COMPANIES HAVING FOREIGN SUBSIDIARIES

Companies Having Foreign Subsidiaries	Management			Total
	Active	Regular	No	
Indian	*1*	*8*	*29*	*38*
Foreign	*2*	*2*	*2*	*6*
Total	*3*	*10*	*31*	*44*

Out of total 44 non Banking Companies having foreign, 38 companies are Indian and 6 are foreign companies. Most of the foreign companies are managing their translation exposure. Some of them have regular management of their translation exposure whereas some of them are also following the policy of active management. On the other hand, Indian companies are not so serious about the management of their translation exposure. Most of the Indian companies are not managing their translation exposure. Only a few of them are managing it on regular basis.

TABLE 11: EFFECT OF ORIGIN ON TRANSLATION EXPOSURE MANAGEMENT

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	*.957(a)*	*1*	*.957*	*4.902*	*.032*
Intercept	*43.685*	*1*	*43.685*	*223.703*	*.000*
Origin of Company	*.957*	*1*	*.957*	*4.902*	*.032*
Error	*8.202*	*42*	*.195*		
Total	*83.000*	*44*			
Corrected Total	*9.159*	*43*			

a R Squared = .105 (Adjusted R Squared = .083)

The results of the study show that the value of p is 0.032 which is lesser than 0.05 (at 5 % level).So, null hypothesis that there is no significance difference between Indian and foreign companies having foreign subsidiaries regarding their attitude towards management of translation exposure is rejected. The results of the survey show that there is significance difference between Indian and foreign companies regarding their attitude towards management of their translation exposure.

EFFECT OF MANAGEMENT OF TRANSLATION EXPOSURE MANAGEMENT ON TRANSLATION GAIN/ LOSS OF NON-BANKING COMPANIES

Management of translation exposure has an impact on translation gain or loss. Usually it is assumed that the companies who manage their translation exposure are able to reduce their translation loss and they may even enjoy translation gains. On the other hand, companies who do not manage their translation exposure face huge translation losses. For the purpose of the study null hypothesis has been formulated and tested. The results of study of effect of management of translation exposure on translation gain or loss faced by companies have been reflected in table 12 and table 13.

Null Hypothesis: *There is no significance effect of management of translation exposure by non-banking companies on translation gain or loss faced by them.*

TABLE 12: EXISTENCE OF TRANSLATION GAIN/ LOSS IN NON-BANKING COMPANIES

Origin of Company	No.	Manage But Suffer Loss	Manage & Don't Suffer	Manage & Enjoy Gain	Don't Manage & Suffer	Don't Manage & Don't Suffer	Don't Manage But Enjoy Gain
Not Having foreign subsidiaries (39)							
Indian	*32*	*2(Little Loss)*	*5*	*1*	*3*	*14*	*7*
Foreign	*7*	*Nil*	*Nil*	*Nil*	*3*	*3*	*1*
Having foreign subsidiaries (44)							
Indian	*38*	*2*	*2*	*5*	*9*	*8*	*12*
Foreign	*6*	*2*	*1*	*1*	*Nil*	*2*	*Nil*

TABLE 13: EFFECT OF TRANSLATION EXPOSURE MANAGEMENT ON TRANSLATION GAIN/ LOSS

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	*.017(a)*	*1*	*.017*	*.029*	*.865*
Intercept	*267.342*	*1*	*267.342*	*455.418*	*.000*
Management of Translation Exposure	*.017*	*1*	*.017*	*.029*	*.865*
Error	*47.549*	*81*	*.587*		
Total	*404.000*	*83*			
Corrected Total	*47.566*	*82*			

a R Squared = .000 (Adjusted R Squared = -.012)

At 5 % level of significance, results of ANOVA table show that, the value of p is 0.865 which is higher than 0.05. So, null hypothesis that there is no significant effect of management of translation exposure on translation gain or loss faced by the non-banking companies is accepted. Some of the companies are not even managing their translation exposure and even then they have enjoyed translation gain. It may be one of the reasons for non-banking companies not taking their translation exposure so seriously.

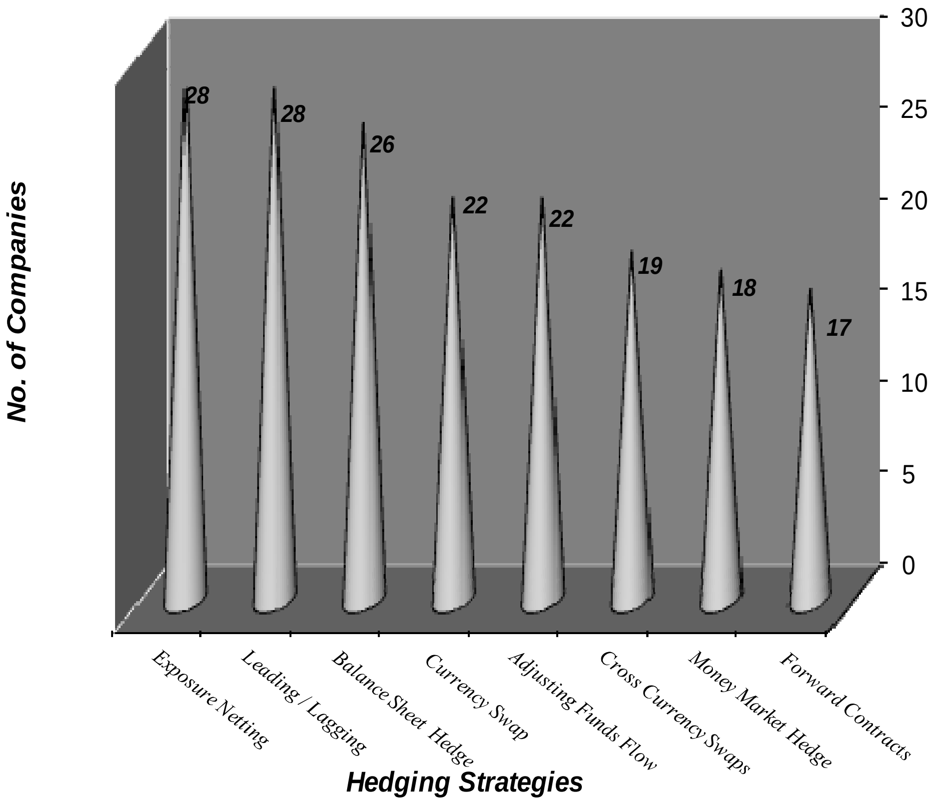
STRATEGIES USED FOR MANAGEMENT OF TRANSLATION EXPOSURE

Various internal and external strategies can be used for the purpose of management of translation exposure. In this study, popularity of various strategies has been studied in detail. The results have been depicted in table 14 and figure 1.

TABLE 14: STRATEGIES USED FOR TRANSLATION EXPOSURE MANAGEMENT

S. No.	Strategies	Non Banking	Banking	Total	% age
1	Exposure Netting	*18*	*10*	*28*	*90*
2	Leading / Lagging	*17*	*11*	*28*	*90*
3	Balance Sheet Hedge	*15*	*11*	*26*	*84*
4	Currency Swap	*12*	*10*	*22*	*71*
5	Adjusting Funds Flow	*12*	*10*	*22*	*71*
6	Cross Currency Swaps	*10*	*9*	*19*	*61*
7	Money Market Hedge	*11*	*7*	*18*	*58*
8	Forward Contracts	*10*	*7*	*17*	*55*

FIGURE 1: STRATEGIES USED FOR TRANSLATION EXPOSURE MANAGEMENT



The results of the study show that out of 31 companies managing their translation exposure, majority of companies are using techniques of exposure netting, leading and lagging and balance sheet hedges. Usage of derivatives is very less as compared to other hedging techniques for management of translation exposure.

CONCLUSION

All the foreign companies operating in India have their own currency of origin as their reporting currency. Most of the Indian companies having foreign subsidiaries prepare their consolidated financial statements in Rupee. All of the Indian companies follow Indian accounting standards for the preparation of their consolidated financial statements. Some of the Indian multinational companies like; Bajaj Auto, Bharat Heavy Electricals, Cadila, Dr. Reddy, Infosys and Wipro also prepare their financial statement on the basis of US GAAP in order to facilitate international comparison.

Results of the study show that monetary/ non monetary method has been most popular method among companies under survey for the purpose of translation of assets and liabilities. For translating the items of income statement, some of the companies apply actual rate prevailing on transaction date. But most of the companies follow yearly average rate system. Some of the companies are also applying other average rate systems where the average rate can be daily average, monthly average or weighted average rate. Companies in some of the sectors are more active in managing their translation exposure as compared to other sectors. Most of the banking companies are managing their translation exposure either actively or regularly may be due to strict guidelines of RBI. On the other hand, most of the non- banking companies are ignoring their translation exposure. Only a few of them are actively managing their exposure. The results also show that there is no significant effect of method of translation and management policy of the company on their translation loss or gain. Some of the companies are not even managing their translation exposure yet they have enjoyed translation gain. It may be one of the reasons for non-banking companies not taking their translation exposure so seriously.

There is significant different between the attitude of Indian and foreign companies towards management of their translation exposure. Most of the foreign companies are managing their translation exposure. Some of them have regular management of their translation exposure whereas some of them are also following the policy of active management. On the other hand, Indian companies are not so serious about the management of their translation exposure. Most of the Indian companies are not managing their translation exposure. Only a few of them are managing it on regular basis. Majority of companies are using techniques of exposure netting, leading and lagging and balance sheet hedges for the management of their translation exposure. Usage of derivatives is very less as compared to other hedging techniques in India.

REFERENCES

1. Bodnar, Gordon M. and W.M. Gentry (1993), "*Exchange Rate Exposure and Industry Characteristics: Evidence from Canada, Japan and U.S.*", Journal of International Money and Finance (February), 29- 45.

2. Chowdhry, Bhagwan, and Jonathan B. Howe (1999), "*Corporate Risk Management for Multinational Corporations: Financial and Operational Hedging Policies*", European Finance Review, Vol. 2, 229-246.
3. Dalthan Medeiros Simasa and Otavio R. de Medeirosb (Feb 2005), "Translation of Financial Statements" Working Paper Series of Social Science Electronic Publishing.
4. Davis, Henry A., and Frederick C. Militello, Jr. (1995), "*Foreign Exchange Risk Management: A Survey of Corporate Practices*", (Financial Executives Research Foundation, Morristown, New Jersey, USA) 44
5. Doukas, John, Christos Pantzalis, and Sungsoo Kim (1999), "*Intangible Assets and the Network Structure of MNCs*", Journal of International Financial Management and Accounting 10 (1), 1-23.
6. Niclas Hagelin and Bengt Pramborg (March 2004), "*Hedging Foreign Exchange Exposure: Risk Reduction from Transaction and Translation Hedging*", Journal of International Financial Management & Accounting, Vol. 15, pp. 1-20.
7. Shapiro, Alan C. (1996), "*Multinational Financial Management*", 5 th edition, Prentice Hall Inc., Upper Saddle River, New Jersey.

DIFFERENT RELATIONSHIPS BETWEEN PERCEPTIONS OF DEVELOPMENTAL PERFORMANCE APPRAISAL AND WORK PERFORMANCE

DR. VENKATESH. J
ASSOCIATE PROFESSOR
SCHOOL OF MANAGEMENT STUDIES
ANNA UNIVERSITY OF TECHNOLOGY COIMBATORE
JOTHIPURAM POST

VIVEKANANDAN. K
RESEARCH SCHOLAR
SCHOOL OF MANAGEMENT STUDIES
ANNA UNIVERSITY OF TECHNOLOGY COIMBATORE
JOTHIPURAM POST

BALAJI. D
RESEARCH SCHOLAR
SCHOOL OF MANAGEMENT STUDIES
ANNA UNIVERSITY OF TECHNOLOGY COIMBATORE
JOTHIPURAM POST

ABSTRACT
It is regularly recommended that in order for performance appraisal to positively influence employee behaviour, employees ought to experience positive appraisal reactions. The principle of the present study is to inspect two different models of the relationship among employee perceptions of developmental performance appraisal and self-reported work performance. Reference of cross-sectional review of employees revealed that the relationship among perceptions of developmental performance assessment and self-reported work performance was mediated by employees' fundamental motivation, and strongly reasonable by their independence orientation. The mainly interesting and practically applicable finding is that autonomy orientation moderated the association among perceptions of developmental performance assessment and work performance. Accordingly, additional importance should be put on participative and autonomy encouraging application of performance appraisal involving employees with a strong autonomy course. For employees with a feeble autonomy orientation, the relationship was positive, but for those with a tough autonomy orientation, the relationship was negative.

KEYWORDS
Performance appraisal, Human resource management, Performance management.

INTRODUCTION
Performance appraisal (PA) is often considered one of the most important human resource practices and is one of the more heavily researched topics in work psychology. PA has increasingly become part of a more strategic approach to integrating HR activities and business policies and is now a generic term covering a variety of activities through which organizations seek to assess employees and develop their competence, enhance performance and distribute rewards. While both practice and research have moved away from a narrow focus on psychometric and evaluation issues to the more developmental and motivational aspects of PA, many organizations still express dissatisfaction with their appraisal schemes (Fletcher, 1997). According to Fletcher, this may signal a lack of success of PA as a mechanism for developing and motivating people. Although this is not a new observation, little systematic research exists on developmental PA, i.e. any attempt disturbed with enriching attitudes, experiences, and skills that improve the effectiveness of employees and the potential it has to build a committed and motivated work force.

In current years, an escalating number of organizations encompass implemented performance management systems based on serious success factors (CFSs) and key performance indicators (KPIs). A regularly used format in this context is the often-recommended balanced scorecard (BSC), a comprehensive management system of performance measurement linking strategic and short-term action planning. BSC focuses on clarifying and translating vision and strategy, communicating and linking strategic objectives and measures, planning and setting targets, and enhancing strategic feedback and learning. The main purpose of a BSC is that organizations can transform vision and strategy into operational terms – from management level down to day-to-day activities. Accordingly, BSC shares the interest of contemporary PA in the developmental and motivational aspects of performance management, making BSC an interesting research context for developmental PA. Besides, BSC is a widely used management tool in which managers report more than acceptable satisfaction with. Yet, most of the existing literature on BSC is either normative prescription or uncritical reports of BSC successes. The principle of this study is to explore two different models of the relationship between PA in a BSC context and work performance: a mediation model and a moderation model. There is a tough belief that as long as employees accept or are contented with PA, or when PA is properly managed, PA will be positively related to work performance. Still, despite the rhetoric of developmental PA and its impact on motivation, commitment, and work performance, these relationships are mostly assumed rather than tested. Thus, in their recent review of PA research, Levy and Williams called for more field research on the relationship between PA reactions, employee attitudes and behaviour. In order to learn more about these relationships, this study examines hypotheses claiming that employee motivation and commitment will mediate the relationship between perceptions of developmental PA and work performance. As much as moderation is concerned, it cannot be expected that all employees will react the same way to PA. On the contrary, the outcomes of PA may depend heavily on individual psychological factors. Moreover, since investigations of individual differences that are likely to influence the relationship between PA and work performance can identify conditions under which PA is more or less effective, this type of research is likely to yield results of practical relevance. Accordingly, this study proposes that the relationship between perceptions of developmental PA and work performance will be moderated by the autonomy orientation of employees. Since this individual disposition can explain why people respond differently to job characteristics that may be influenced by PA, it may partly explain individual differences in how employees are exaggerated by PA.

PERCEPTIONS OF DEVELOPMENTAL PERFORMANCE APPRAISAL AND WORK PERFORMANCE
Employees may not always perceive the objective existence of human resource practices as the organization intends. For instance, whereas the organization lays out the procedures to be followed in implementation and administration of PA, it is individual managers, often line managers, who actually manage these

procedures. Furthermore, since we know that individual differences among appraisers affect how those appraised experience and react to PA, the best criterion to use in estimating and investigating PA systems is the reactions of the appraises.
The most frequently measured reaction in PA research has been some form of PA satisfaction or acceptance. In the present study, I examine employees' perceptions of developmental PA, which is defined as the perceived clarity, relevance, recognition and understanding with regard to goal setting and feedback activities involved in PA. More specifically, developmental goal setting refers to the degree to which employees perceive that goals are clear, relevant and understandable, and developmental feedback to the extent to which employees' experience recognition from feedback that is perceived as clear, relevant and understandable. These perceptions represent some of the most important underlying mechanisms used to explain how goal setting and feedback, which are key PA activities in organizations, can develop employee motivation, commitment, skills and performance.

MEDIATING ROLES OF INTRINSIC MOTIVATION AND AFFECTIVE COMMITMENT

Goal setting and feedback are widely believed to affect performance positively through enhancing the information and motivation necessary for work performance. Accordingly, we should expect that the effect of PA on employees' work performance would be mediated by work motivation. Here it is suggested that intrinsic work motivation and affective organizational commitment are potential mediators between perceptions of developmental PA and work performance. Fundamental motivation is the motivation to perform an activity for it, in order to experience the satisfaction and satisfaction inherent in the activity. Roberts and Reed proposed that participation, goals, and feedback increase appraisal acceptance, which affects appraisal satisfaction and ultimately employee motivation and productivity. Furthermore, research on the job characteristics model has supported the relationships between the psychological states of experienced meaningfulness, responsibility of outcomes, and awareness of the actual results of the work, and intrinsic motivation. The focus of PA in a BSC context on communicating and translating strategic visions and goals to employees may be particularly effective in increasing intrinsic motivation through experienced meaningfulness of work, because super ordinate goals have the capacity to convey to employees something they can believe in.
Similarly, and according to self-determination theory, intrinsic motivation will increase as long as communication of organizational goals provides rationale for behaviour at work. Systematic performance feedback may impact intrinsic motivation through increased levels of experienced responsibility of outcomes and knowledge of the actual results of the work. Feedback that is seen as recognition of good performance may also increase intrinsic motivation because it may enhance employees' perceived competence. Accordingly, there are reasons to believe that perceptions of developmental PA may operate via intrinsic motivation to influence work performance. As much as the relationship among intrinsic work motivation and work performance is disturbed, a meta-analysis by Fried and Ferris showing that the motivating prospective of the work characteristics in the job characteristics replica was associated with work performance indirectly supports this relationship. Intrinsic motivation as a analyst of performance is also supported by investigate within sports. Affective organizational commitment describes "an affective or emotional attachment to the organization such that the strongly committed individuals identifies with, is involved in, and enjoys membership in, the organization". Support for a positive relationship between affective commitment and different measures of work performance are provided by two recent meta-analyses. In a case study of the BSC as a device for communicating and controlling strategy, Malina and Selto concluded that "the BSC does present significant opportunities to develop, communicate, and implement strategy – just as Kaplan and Norton aver." Latham called attention to the affective and emotional aspects of super ordinate goals and argued that such goals may capture the "hearts" of employees and give "people a cause they can rally around." Thus, to the amount that PA in a BSC framework is effectual in communicating organizational strategies, goals and vision, employees should experience higher levels of commitment to organizational goals and therefore become more affectively committed to their organization.

A MODERATING ROLE OF AUTONOMY ORIENTATION

Klein and Snell argued that there is "no best way" to conduct an appraisal interview, and that it depends on the situation, the relationship of the parties involved and their individual make-up. In a review of an individual psychological perspective on PA, Fletcher claimed that the notion that all appraises are going to react the same way to appraisal is probably very unsafe, and Ilgen et al. noted that individual differences likely play a substantial role in how people interpret appraisal feedback and how they respond to these interpretations. Here it is suggested that employees' autonomy orientation will moderate the relationship between perceptions of developmental PA and work performance. Autonomy is one of the most fundamental psychological needs and individual differences in autonomy orientation can in part explain why people react differently to external interventions, such as goal setting. Autonomy orientation is rooted in needs and self-determination theories, and refers to a character to attend to environmental cues that signal personal interest and options for free choice behaviour. When motivated by autonomy orientation, people's choices are made on the basis of internal needs and preference. Research on autonomy orientation or needs for autonomy suggests that people with a strong autonomy orientation is more likely to set mastery goals for themselves and take greater responsibility for their own performance than those with a low autonomy orientation. In a work setting, Orpen found that managers' need for independence moderated the relationship between perceived job characteristics and performance. The findings suggested that managers with a strong autonomy orientation will react to more interesting, challenging and autonomous jobs by performing better, while those low in autonomy orientation may actually respond with lower performance. Moreover, autonomy orientation is positively related to internal locus of control, and in a PA setting, Tang et al. found that internals were not affected by self-reported appraisal feedback, whereas externals were positively affected by way of increased personal sacrifice. Finally, Fletcher proposed that employees who are high on internal ability, a measure of individual differences in feedback preferences where an internal ability propensity reflects the ability to self-assess, to recognize what is requisite by way of performance and the ability to judge one's progress towards it, will respond best where appraisal is initiated and led by their self-assessment. Together, these findings and theoretical arguments suggest that employees with a low autonomy orientation will respond positively to developmental goal setting and feedback by performing well.

POSITIVE INFLUENCE OF PERFORMANCE APPRAISAL

In order for performance appraisal (PA) to positively influence employee behaviour and future development, employees must experience positive appraisal reactions. Thus, there is general consensus among PA researchers and practitioners that assessment of appraisal reactions is important. However, one of the key findings of the present study suggests that perceptions of developmental PA do not increase work performance. When it was controlled for demographic characteristics and other relevant factors in a PA context, such as affective commitment, intrinsic motivation and autonomy orientation, there was no direct relationship between perceptions of developmental PA and work performance. The most interesting and perhaps most practically relevant finding of this study was that autonomy orientation moderated the relationship between perceptions of developmental PA and work performance. It makes intuitive sense that employees with a strong autonomy orientation, with internal locus of control, or with a high internal ability propensity, will be less affected or not affected at all by external interventions, such as goal setting and feedback involved in PA. Still, a negative relationship was not expected. This finding may imply that these employees experienced developmental performance appraisal as controlling, which in turn could have undermined their need for autonomy and therefore adversely affected performance. Since autonomy orientation was the most powerful predictor of work performance, it is also possible that high performing employees with a strong autonomy orientation experienced developmental PA as too much of a good thing. These employees already perform well and may think that too much time and energy are being used on providing unnecessarily clear, relevant and understandable goals and feedback, and therefore react negatively to developmental PA. An interesting avenue for future research, then, would be to investigate employees' perceptions of being controlled by PA and perceptions of the degree to which PA interferes with day-to-day work activities, and relate these variables to individual differences in autonomy orientation and work performance. Finally, the finding that autonomy orientation was strongly related to work performance implies that developmental PA adversely affects the best performers, which may be particularly critical for knowledge-based organizations with few management levels and high levels of autonomy for individual employees. Still, since no single study can provide conclusive evidence, this interpretation should be examined in future PA research. On the more positive side, the measure of perceptions of developmental PA was positively related to both affective commitment and intrinsic motivation, and tests of mediation suggest that intrinsic motivation may mediate the relationship between developmental PA and work performance. These results support previous findings and propositions, but it should be noted that there was a relatively weak relationship between developmental PA and work performance before intrinsic motivation was entered.

Similar findings have been taken as support for "the concept that properly conducted performance appraisals can provide numerous positive organizational results". Yet, such findings simply imply that employees with positive perceptions of PA have higher affective commitment and intrinsic motivation, while those with less positive perceptions are less committed and intrinsically motivated. Similarly, negative reactions such as the perception that ratings are influenced because of raters' personal partiality and intent to punish subordinates are negatively related to job satisfaction and positively related to turnover intention. Consequently such findings underscore the importance of employee reactions to performance appraisal, but they do not provide much information about the quality of PA as a developmental management tool. Still, the present study adds to the literature by indicating that PA in a balanced scorecard context may increase affective commitment and intrinsic motivation, to the extent that employees perceive PA as developmental. The contributions of this research should be viewed in light of several limitations. Primarily, the data were assembled at one point in time, making it impracticable to draw inferences of causality or rule out the possibility of reverse causality. Still, PA is concerned with a lot more than PA interviews and a range of factors beyond those strictly related to the interviews will influence experiences with PA. Furthermore, these interviews are usually not conducted at the same point of time for all employees. Therefore, it is far from evident that temporal separation by using a time lag between collecting data on PA and the other variables would have provided more muscle in terms of causality interpretation. Besides, co variation and temporal precedence are only two out of three bases for drawing more valid causal inferences, and providing control for all other variables that might have caused work performance in the present study would have been extremely difficult. Consequently, experimental studies are needed to examine causality on the relationships examined in the present study. However, since moderated regression analysis is sensitive to both range restriction and sample size, relatively large samples will be needed in order to capture a wide enough range of individual differences in autonomy orientation and to be able to detect moderation effects.

Another limitation is the reliance on self-reported questionnaire data causing concerns about possible mono-method bias and percept-percept inflated measures. I therefore conducted Harman's one-factor test using a factor analysis of all the multi-item measures. This analysis generated nine factors with Eigen values of 1 or more, and an explained variance of the factors ranging from 24 per cent to 2.8 per cent. Although this test is only a diagnostic technique for assessing the degree to which ordinary method variance may be a problem, it seems to indicate that mono-method variance was not a serious threat in this study. Besides, since this study investigated employees' perceptions of PA, the only construct that could have been validly measured by other means than self-report is work performance. Still, although a minimum of two data sources are needed to help rule out the validity threats of self-report and mono-method, PA research suggests that performance ratings performed by supervisors are not necessarily less biased than self-report measures. In addition, given the modest correlation between the perceptions of developmental PA and work performance, it is not very likely that common method bias has heavily influenced the observed relationships. In order to avoid confounded measures of constructs, it had to shorten some of the scales. Although the final scales had acceptable reliability estimates, it cannot discount the possibility that this may have had impact on some of the findings. Finally, it is obviously a limitation that the data were obtained only from employees in a Norwegian bank, since relationships may differ in other organizations, in other industries, or in other countries. For instance, most research on performance appraisal is conducted in the US, and it is questionable that the findings from this research can generalize to other countries. On the other hand, research on the self-determination model provides support for the relevance of work autonomy across US and Bulgaria, which are nations with very different national cultures. Moreover, the link between intrinsic job characteristics and job satisfaction are found to be similar across richer countries, countries with improved governmental social wellbeing programs, more individualistic countries, and smaller power distance countries. Since all of these characteristics apply to Norway and most western countries, and the relationships referred to relates to key constructs in the present study, there is evidence supporting the notion that the results may have implications in other western countries. Still, research in other organizations from different industries in other countries is warranted before any firm conclusions can be drawn.

CONCLUSION

Beyond the practical implications already touched upon, the findings of the present study suggest that in order to avoid unintended outcomes; it may be wise to be flexible in the application of PA. Though viewing performance assessment as a mechanism for management control, power and management may replicate a relatively monothematic and overly-simple account, employees with a strong independence direction may to a greater degree than others react according to the concerns laid out in the more critical viewpoints on performance appraisal. Thus, if the main principle of performance appraisal is enlargement, both the organization and the employees with a strong autonomy orientation may actually be enhanced off without austerely formalized appraisal. If prescribed evaluation is necessary, extra importance should be put on participative and autonomy supportive appliance of PA concerning such employees. Several field studies sustain the universal significance of employee "voice" and participation in PA, especially involvement for the sake of having one's voice heard, and management autonomy maintain, i.e. when people are afforded with reasons and choices for doing tasks. The findings of this study imply that participation and independence support may be particularly essential for employees with a strong autonomy orientation.

REFERENCES

1. Aguinis, H. (1995), "Statistical power problems with moderated multiple regression in management research", Journal of Management, Vol. 21, pp. 1141-58.
2. Ahn, H. (2001), "Applying the balanced scorecard concept: an experience report", Long Range Planning, Vol. 34, pp. 441-61.
3. Aiken, L.S. and West, S.G. (1991), Multiple Regression: Testing and Interpreting Interactions, Sage, Thousand Oaks, CA.
4. Allen, N.J. and Meyer, J.P. (1990), "The measurement and antecedents of affective, continuance, and normative commitments to organization", Journal of Occupational Psychology, Vol. 63, pp. 1-8.
5. Babakus, E., Cravens, D.W., Johnston, M. and Moncrief, W.C. (1996), "Examining the role of organisational variables in the salesperson job satisfaction model", Journal of Personal Selling and Sales Management, Vol. XVI, pp. 33-46.
6. Baron, R. and Kenny, D. (1986), "The moderator-mediator variable distinction in social psychological research: conceptual, strategic, and statistical considerations", Journal of Personality and Social Psychology, Vol. 51, pp. 1173-82.
7. Bartol, K.M. (1999), "Reframing salesforce compensation systems: an agency theory-based performance management perspective", Journal of Personal Selling and Sales Management, Vol. XIX, pp. 1-16.
8. Boswell, W.R. and Boudreau, J.W. (2002), "Separating the developmental and evaluative performance appraisal uses", Journal of Business and Psychology, Vol. 16, pp. 391-412.
9. Brockner, J., Tyler, T.R. and Cooper-Schneider, R. (1992), "The influence of prior commitment to an institution on reactions to perceived fairness: the higher they are, the harder they fall", Administrative Science Quarterly, Vol. 37, pp. 241-61.
10. Catley, D. and Duda, J.L. (1997), "Psychological antecedents of the frequency and intensity of flow in golfers", International Journal of Sports Psychology, Vol. 28, pp. 309-22.
11. Cawley, B.D., Keeping, L.M. and Levy, P.E. (1998), "Participation in the performance appraisal process and employee reactions: a meta-analytic review of field investigations", Journal of Applied Psychology, Vol. 83, pp. 615-31.
12. Coates, G. (1994), "Performance appraisal as icon: Oscar-winning performance or dressing to impress?", The International Journal of Human Resource Management, Vol. 5, pp. 167-91.
13. Deci, E.L. and Ryan, R.M. (1990), "A motivational approach to self: integration in personality", in Dienstbier, R. (Ed.), Nebraska Symposium on Motivation, Vol. 38, University of Nebraska Press, Lincoln, NE, pp. 237-88.
14. Deci, E.L., Connell, J.P. and Ryan, R.M. (1989), "Self-determination in a work organization", Journal of Applied Psychology, Vol. 74, pp. 580-90.
15. Fletcher, C. (1997), Appraisal: Routes to Improved Performance, Chartered Institute of Personnel & Development, London.

16. Fletcher, C. (2001), “Performance appraisal and management: the developing research agenda”, Journal of Occupational and Organizational Psychology, Vol. 74, pp. 473-87.
17. Fletcher, C. (2002), “Appraisal: an individual psychological analysis”, in Sonnentag, S. (Ed.), Psychological Management of Individual Performance, Wiley, Chichester, pp. 115-35.
18. framework for the future”, Journal of Management, Vol. 30, pp. 881-905.
19. Hackman, J.R. and Oldham, G.R. (1976), “Motivation through the design of work: test of a theory”, Organizational Behavior and Human Performance, Vol. 16, pp. 250-79.
20. Ilgen, D.R., Fisher, C.D. and Taylor, M.S. (1979), “Consequences of individual feedback on behavior in organizations”, Journal of Applied Psychology, Vol. 64, pp. 349-71.
21. Judge, T.A. and Ferris, G.R. (1993), “Social context of performance evaluation decisions”, Academy of Management Journal, Vol. 36, pp. 80-105.
22. Klein, H.J. and Snell, S.A. (1994), “The impact of interview process and context on performance appraisal interview effectiveness”, Journal of Managerial Issues, Vol. 6 No. 2, pp. 160-75.
23. Lefkowitz, J. (2000), “The role of interpersonal affective regard in supervisory performance ratings: a literature review and proposed causal model”, Journal of Occupational and Organizational Psychology, Vol. 73, pp. 67-85.
24. Levy, P.E. and Williams, J.R. (2004), “The social context of performance appraisal: a review and
25. Lin, Y.-G., McKeachie, W.J. and Kim, Y.C. (2003), “College student intrinsic and/or extrinsic motivation and learning”, Learning and Individual Differences, Vol. 13, pp. 251-8.
26. Whitener, E.M. (2001), “Do ‘high commitment’ human resource practices affect employee commitment?”, Journal of Management, Vol. 27, pp. 515-35.
27. Wright, R.P. (2004), “Mapping cognitions to better understand attitudinal and behavioral responses in appraisal research”, Journal of Organizational Behavior, Vol. 25, pp. 339-74.

A COMPARATIVE ASSESSMENT OF RURAL AND URBAN CONSUMERS' ATTITUDE TOWARDS THE PRACTICE OF MARKETING CONCEPTS BY MARKETERS

DR. DEBASIS BHATTACHARYA
ASSOCIATE PROFESSOR
DEPARTMENT OF COMMERCE
UNIVERSITY OF NORTH BENGAL
DARJEELING

DIPAK SAHA
ASST. PROFESSOR
DEPARTMENT OF BUSINESS ADMINISTRATION
SILIGURI INSTITUTE OF TECHNOLOGY
DARJEELING

ABSTRACT

*It is a fundamental idea of marketing that organizations survive and prosper through meeting the needs and wants of customers. This important perspective is commonly known as the marketing concept. According to Drucker and Levitt one of the principal responsibilities marketing management, is to make the entire business market-driven and customer-focused. This advocacy role is a key one for the corporate marketing staff. The task is to make sure that everyone in the firm works toward that overriding objective of creating satisfied customers. Each individual and especially those who have direct contact with the customer in any form, is responsible for the level of customer service and satisfaction. The task is to be sure that everyone in the firm works toward that overriding objective of creating satisfied customers. Each individual, and especially those who have direct contact with the customer in any form, is responsible for the level of customer service and satisfaction. According to the National Council of Applied Economic Research (NCAER), an independent, non-profit research institution, rural households form 71.7% of the total households in the country. Spending in this segment is growing rapidly and consumption patterns are closing in on those of urban India. In this backdrop we are contemplating to make an evaluation of comparative perception of two heterogeneous groups of consumers consuming similar fmcg brands. The data for the sample are gathered from all the districts of North Bengal including **A1A2** and **E1E2** social classes to discern the attitudinal and perceptual discrepancies .Statistical analysis like Chronbach alpha, factor analysis and other non-parametric tools have been employed for drawing meaningful conclusions. Limitations and research for further direction are also addressed.*

KEYWORDS

Marketing concept, Powerlessness, Consumer alienation, Attitude towards marketers, Social Class.

INTRODUCTION

According to Peter Drucker, a business will remain in business for a long period if the target group of customers is satisfied (Drucker, 1954). Again, Philip Kotler has stressed that the corporate profit is derived by satisfying customer needs through integrated marketing activities which is popularly known as the marketing concept.

The idea of Drucker is still valid and is equally applicable in today's competitive environment (Moore, 1995, Tapscott, 1995, Moore, 1996, Shapiro and Varian, 1999, Hagel III and Singer, 1999a, b, Brännback, 1999). The idea of Drucker draws our attention towards two very important issues: customer focus and continuous innovation of firm's product portfolio for the long run survival of any business.

McCarthy in (1960) who popularized the marketing mix concept had stated that the marketer should pursue the marketing concept in instead of the old production-oriented philosophy to survive in a turbulent environment. The new philosophy of business introduced by McCarthy is labeled as marketing-orientation. While implementing the marketing concept it is very likely to incorporate major changes in managerial attitudes as well as the methods and procedures, and the structure of the organization (Brännback, 1999). Brännback observed that it had taken almost four decades for managers to comprehend the idea that customer-orientation is not merely a simple departmental activity but a philosophy, which should be disseminated through-out the company and it should be incorporated while shaping the culture of the organization.

Philip Kotler (1967) also followed the same line of thought and coined a new term what he described as the new marketing concept. According to Kotler's "new" marketing concept the company starts with the customer (existing and potential) and works its way back into the company asking what products are to be launched for satisfying the unfulfilled needs of those customers (Brännback, 1999).

The marketing field experienced initially the introduction of the service marketing concept followed by the relationship marketing concept before the concept of the electronic marketing came into being. The service marketing concept originated from the relationship marketing concept and was implemented first for studying buyer-seller relationships within industrial markets. These two concepts can be seen as additional steps towards the refinement of marketing-orientation and customer-orientation (Brännback, 1999).

The service marketing concept (Grönroos, 1979, 1989, 1996, Zeithaml and Bitner, 1996) evolved as a result of criticism of the traditional marketing-mix paradigm, because services are inherently different from products. Services cannot be stored, they are produced and consumed simultaneously, they are generally intangible, and they are heterogeneous. The marketing concept is move relevant in the context of service since service can not be standardized. The customers constantly evaluate the expected service with the actual outcome (Zeithaml and Bitner , 1996 , Brannback , 1999)

A BRIEF REVIEW OF LITERATURE

Marketing is the process by which companies create value for customers and build strong customer relationships in order to generate revenue from customers in return (Kotler et al., 2008). It has been seen that despite the growing interest in the topic of marketing, there have been insufficient literature in this field. Not much empirical work has been conducted concerning the successful implementation of the marketing concept by organizations delivering goods and services to customers. Nevertheless the market practitioners are expected to acknowledge the concept as the core of marketing (Turner and Spencer, 1997; Alhakimi and Baharun, 2009). For implementing the marketing concept the term "market orientation" is used by the researchers in the field of marketing and academicians doing research in the field of human resource management (e.g. Narver and Slater, 1990; Kohli and Jaworski, 1990; Shapiro, 1998). Needless to mention that when an organization wants to be market oriented, it is understandable that the organization has to design its activities to be consistent with the marketing concept (Alhakimi and Baharun, 2009). Customer value is a theory emphasizing the implementation of customer-centric thinking in marketing. Delivering value to the customer is regarded as the premise for achieving a positive business performance. Researchers working in the field of customer orientation have established the link between marketing orientation and customer value (Chen and Quester, 2009). Market orientation has been assigned as the major area of research over the last decade and that has been recognized by the Marketing Science Institute. It can be hardly denied that both marketing professionals as well as academicians have acknowledged the role of market orientation as a major source of achieving a sustainable competitive advantage (Castro et al., 2005; Alhakimi and Baharun, 2009). Deshpande and Webster (1989) are to be given the recognition to link the idea of marketing orientation with the organizational culture. It is believed that the market orientation is considered as the organizational culture that produces the necessary behaviours to create superior value for customers (Narver and Slater, 1990). In spite of the importance of market orientation there is a lack of systematic effort to develop valid measures of market orientation (Kaynak and Kara, 2004; Alhakimi and Baharun, 2009).

According to the Kohli and Jaworski's (1990), the definition of market orientation, the measurement of market orientation needs only to assess the degree to which a company is market oriented. In general, various authors define market orientation as a set of cross-functional processes and activities directed at creating and satisfying customers through continuous needs-assessment. According to Narver and Slater (1998), the continuous creation of superior value for customers is the heart of marketing and, hence, market orientation. Top level management in an organization implementing the marketing concept always, believes that organizations can ultimately achieve the strategic goal by satisfying customer needs (Deshpande, Farley, and Webster 1993; Kotler 1997; Brown, Mowen, Donaven and Licata, 2002).

It is already established that customer oriented selling or customer orientation evolved from the marketing concept (Brown, Mowen, Donaven and Licata, 2002). According to Saxe and Weitz (1982), the degree to which salespeople practice the marketing concept by trying to help their customers make purchase decisions that will satisfy customer needs is referred to as customer oriented selling. According to Narver and Slater (1990) customer orientation demands sufficient understanding of one's target buyers to be able to create superior value for them on a continuous basis. Henceforth, it can be said that, a seller has to understand a buyer's entire value chain (Day and Wensley, 1988; Brown, Mowen, Donaven and Licata, 2002).

We come across that despite the apparent importance of employees' customer orientation while implementation of the marketing concept in the market driven company, more empirical research work should be undertaken to unfold the relationship between customer orientation and their level of satisfaction. The first attempt what we discern to measure directly the customer orientation at the individual level was initiated by Saxe and Weitz (1982). In practice it is an uphill task to implement the marketing concepts at all levels of the organizational hierarchy. A recent *McKinsey Quarterly* article reports that almost all of the 30 European CEOs interviewed expressed dissatisfaction with the business acumen of their marketers (Cassidy, Freeling and Kiewell 2005).

In the recent past two empirical studies shed direct light on American consumers' attitudes towards marketing. Smith, Clurman and Wood (2004) present a Yankelovich Partners survey in which 36% of 601 respondents expressed a negative opinion about marketing, whereas 28% had a positive view. In the same survey, 60% of respondents agreed with the statement that their perception of marketing deteriorated in recent years. The later result is particularly noteworthy, because it suggests a negative trend in popular attitudes towards marketing that warrants further investigation by researchers and practitioners working in this field.

In a similar vein, Sheth, Sisodia and Barbulescu (2006) report that 65% of 973 respondents to their online survey displayed a negative attitude towards marketing and only 8% were positive. The composite Index of Consumer Sentiment towards Marketing (ICST) (e.g., Gaski and Etzel 2005) is a valuable measure of household sector sentiment towards a range of marketing and non-marketing *decisions*, such as product quality, price levels and store merchandising including advertising. In particular, marketing's central function is to identify and satisfy customer needs, thus improving the quality of life and increasing social welfare (Kotler and Keller 2009; Wilkie and Moore 1999). Given marketing's constructive nature, one would expect a favorable view of the discipline in our society.

Realizing the research gaps in this area, we have tried to explore the attitudes of consumers towards marketing concept practiced by marketers drawn from two heterogeneous groups viz. consumers belonging to upper and lower social classes. To our knowledge no systematic study has been conducted in India to explore the behavioural response of consumers towards the marketers marketing wide range of goods and services.

OBJECTIVES OF THE STUDY

Keeping in view the dearth of research work in this field, an attempt is made in this study to explore the differences of attitude of consumer towards the marketing concept drawn from two heterogeneous segments.

THE MAJOR OBJECTIVES OF THE STUDY ARE DEPICTED AS BELOW

1. To discern the attitude of consumers towards the practice of marketing concept by the marketers.
2. To examine whether their attitudes differ significantly depending on the social class to which they belong.
3. To comprehend the awareness of consumers towards various programmes initiated by the Government.
4. To integrate the findings mentioned above and suggest policy implications to protect the interest of consumers.

RESEARCH METHODS

PHASE I

In phase I of our research we have made an attempt to implement an instrument which can be administered to the consumers belonging to different social classes. Since majority of the lower social class consumers are less educated or uneducated, we have to develop a very simple questionnaire which could be understood by the consumers especially belonging to the lower segment of the social class stratification scale. A small sample (n=14) of respondents belonging to lower social class were contacted and were asked to comprehend the purpose of the study and give response on a 5 point Likert scale on various issues relating to the practice of marketing concepts , consumer complaining behaviour and alienation behaviour. It was found that without adequate explanation it was impossible to get their proper response. Though it is not permissible to exclude reverse scoring items to avoid response bias, we were forced to do so to make it easier for them to respond to a set of very simple question included in the questionnaire. In this process we had to adapt the scales developed by included in the questionnaire.

PHASE II

In phase II of our study we have personally administered the questionnaire to get the desired response from consumers belonging to upper social class (n=156) and consumers who belong to lower social class (n=111). After collecting the data we have found that 122 questionnaires were complete in all respect that were drawn from the upper social class and for the lower social class 99 questionnaires could be usable.The rejection rate of the lower social class was low since the interviewer was present at the time of collecting their response and necessary probing had to be done to extract their response. However, adequate measures were taken to obtain the unbiased response. The data obtained from the respondents were analyzed using a very simple methodology to unfold the perceptual differences of opinions on various constructs included in the questionnaire. It is not surprising to observe the differences in the opinions of consumers since they belong to different groups having heterogeneous background in terms of education, occupation, Income and other demographic characteristics.

RESEARCH QUESTIONS

The study basically is exploratory in nature and hence it is very difficult to formulate hypothesis. Since there is real dearth of materials from which we could not develop research hypotheses. Instead of formulating research hypothesis we considered it to be more meaningful to frame a few research questions to get an insight into the perceptions of two groups of the consumers towards the practice of marketing concepts.

For this study we frame the research questions as below:

1. Do the responses of consumer towards the practice of marketing concepts scale vary significantly?
2. Is the lower social class has any tendency to lodge complain against the unscrupulous marketers?
3. Are consumers belonging to lower social class feel alienated?
4. Do the awareness of upper social class to the various programmes undertaken by the government is significantly higher than their counterpart who belong to the lower social class?

SAMPLE DEMOGRAPHICS

The demographic characteristics of the sample respondents have been presented in Appendix - I. The tables are self expletory but a few observations need further explanation. As expected, the income and education level of the consumers belonging to the upper social are much higher than the consumers belonging to the lower social class. Since the scale we have used for classifying the consumers into different social classes is based on the occupation and education of the chief wage earner, the percentage of consumers according to their demographic variables have been reported

SCALE RELIABILITY AND VALIDITY

The marketing concept scale adapted from Gaski and Etzel (1985) has been tested by different authors.However in our study since we have adopted the scale to suit our requirement, we felt it necessary to test the reliability and validity of the scale. By reliability we mean the repeatability property of the scale and it is very common to measure the scale reliability by Cronbach's alpha measure. The scales that we have employed in our study are found to be reliable except the powerlessness facet scale. However, only two items have been considered to measure this construct for which the reliability is found to be low. The validity of the scale has been established by conducting a factor analysis using varimax rotation procedure. The confirmatory factor analysis extracted from factors and the four constructs have emerged. The results of the factor analysis suggest that the scale has got adequate construct validity inspite of one or two misloadings.

SURVEY FINDINGS

Before we present the findings of the survey, it is imperative to establish the scale reliability and validity. For measuring reliability, the most common technique as we employed . We have computed the Cronbach's Alpha for the adopted marketing concept scale as well as Complaining behaviour Scale and Alienation from the market scale.

The Alpha values are quite satisfactory excluding the complaining behaviour scale. The reason is that the Alpha value depends on the number items in the scale: higher the number of item in the scale, the higher is the scale reliability. The complaining behavior scales we have considered consist of only two items and hence the reliability is much less than the others scales.

RELIABILITY STATISTICS

Category	N of Items	Cronbach's Alpha
Product	5	0.659
Advertisement	5	0.879
Price	5	0.876
Retail	5	0.875
Complain	2	0.474
Alienation	5	0.739

ROTATED COMPONENT MATRIX (a)

	Component			
	1	2	3	4
PS	-.066	.050	-.034	**.584**
WOQ	-.076	-.020	.171	**.793**
QI	.011	.006	-.097	**.414**
pp	.030	-.048	-.058	**.597**
pd	-.032	-.105	.207	**.830**
AA	**.801**	-.119	.095	-.194
AFC	**.909**	-.203	.039	-.001
AECB	**.762**	-.034	.139	-.050
ADRI	**.587**	-.049	-.200	.069
adenjoy	**.936**	-.182	.079	-.031
POP	-.117	**.777**	.074	.061
LPSP	-.019	**.869**	.093	-.108
FP	-.075	**.831**	.025	-.143
prrea	-.216	**.717**	.035	.012
prsat	-.042	**.835**	.013	.057
SSCW	.064	**.090**	**.920**	.057
SPVH	-.131	-.012	**.872**	-.084
AS	**-.495**	-.201	**.574**	-.106
unplshop	**.301**	.212	**.710**	.070
adretser	.064	.090	**.920**	.057

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 5 iterations.

Note : *PS : Product Satisfaction ; WOQ: Wear out Quickly ; QI : Quality Improvement ; PP : Product Performance ; PD : Defective Product ; AA: Advertisement annoying : AFC : Advertisement make false claim ; AECB : Advertisement eliminated consumers better off ; ADRI: Advertisement intended rather inform ; Adenjoy : Advertisement Enjoyment ; POP: Product over priced ; LPSP : Lower price still profitable ; Prrea : Reasonable price; Prsat : Price satisfaction ; SSCW : Stores serve customer well ; SPVH : Sales people very helpful ; AS: Assistance in Store ; Pl shop : Pleasant shopping ; Adretser : Adequate retail service.*

TOTAL VARIANCE EXPLAINED

Component	Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.327	21.633	21.633	3.707	18.534	18.534
2	3.561	17.803	39.436	3.472	17.358	35.891
3	2.893	14.464	53.900	3.466	17.33	53.222
4	2.165	10.825	64.725	2.301	11.503	64.725

EXTRACTION METHOD: PRINCIPAL COMPONENT ANALYSIS

In an attempt to establish the construct validity we have employed Factor analysis using principal component method and following a Varimax rotation procedure. The Factor Analysis results reveal that the four factor solution explains 64.725 % of the variability in the original data using a Confirmatory Factor Analysis restricting the Eigen value factor. Except some mis-loadings and split loadings, the result of factor analysis is quite satisfactory.

DESCRIPTIVE STATISTICS

Variables	Social Class	No. of scale Items	Mean
Product	Upper	5	14.2869
	Lower	5	16.1414
Advertisement	Upper	5	13.8607
	Lower	5	20.1313
Price	Upper	5	16.3197
	Lower	5	21.6970
Retail	Upper	5	18.3607
	Lower	5	13.2222
Powerlessness	Upper	2	7.4262
	Lower	2	3.5960
Alienation	Upper	5	14.3770
	Lower	5	10.7172

The descriptive statistics reported above clearly demonstrate that the satisfaction with product performance is marginally higher for the consumers belonging to lower social class. On the contrary, attitude towards advertising is much lower for the upper social class indicating that this class is frustrated with the exaggerated claims made by the advertisers in promoting their brands. As expected, the price sensitivity is much higher for the consumers who belong to lower echelon of the social stratification scale. So far as the behaviour of the retailers is concerned, the mean score of the upper social class is quite high compared to the consumers of lower social class. The perception of powerlessness facet also reveals that the upper social class of consumer feels that they have some control over the unscrupulous intermediaries. Consumers belonging to Lower social class have a sense of alienation from the market place. This is quite expected due to the fact that they cannot handle more information, while the upper social class consumers suffer less from information overload due to their ability to process and retrieve information since their level of education is high.

INDEPENDENT SAMPLES t-TEST

Variables	Assumption	t	df	Sig. (2-tailed)	Mean Difference
Product	Equal variances assumed	-5.840	219	.000	-1.85453
	Equal variances not assumed	-5.842	210.021	.000	-1.85453
Advertisement	Equal variances assumed	-12.447	219	.000	-6.27066
	Equal variances not assumed	-13.168	194.171	.000	-6.27066
Price	Equal variances assumed	-18.702	219	.000	-5.37730
	Equal variances not assumed	-19.279	217.334	.000	-5.37730
Retail	Equal variances assumed	21.079	219	.000	5.13843
	Equal variances not assumed	21.910	212.694	.000	5.13843
Powerlessness	Equal variances assumed	23.968	219	.000	3.83027
	Equal variances not assumed	23.658	197.208	.000	3.83027
Alienation	Equal variances assumed	11.136	219	.000	3.65988
	Equal variances not assumed	11.207	214.197	.000	3.65988

The independent sample t – test amply demonstrate the fact that the variables those are included in the study differ significantly and for all the variables. The mean values are statistically significant beyond $p < .000$.

AWARENESS OF UPPER SOCIAL CLASS

Awareness regarding	Level	Frequency	Percent
Consumer Court	Aware	112	92.0
	Unaware	10	8.0
	Total	122	100.0
Jago Grahok Jago	Aware	98	80.0
	Unaware	24	20.0
	Total	122	100.0
ISI	Aware	116	95.0
	Unaware	6	5.0
	Total	122	100.0
AG Mark	Aware	92	75.0
	Unaware	30	25.0
	Total	122	55.2

AWARENESS OF LOWER SOCIAL CLASS

Awareness regarding	Level	Frequency	Percent
Consumer Court	Aware	15	15.2
	Unaware	84	84.8
	Total	99	100.0
Jago Grahok Jago	Aware	36	36.4
	Unaware	63	63.6
	Total	99	100.0
ISI	Aware	31	31.3
	Unaware	68	68.7
	Total	99	100.0
AG Mark	Aware	13	13.0
	Unaware	86	87.0
	Total	99	100.0

The upper classes of consumers are more aware of the various avenues to protect their interests and most of them are familiar with the campaigns initiated by the Ministry of Consumer Affairs, Government of India. They are quality conscious and also aware of the ISI & AG Mark Symbols of quality than their counter part who belong to the lower social class. The comparative figures are depicted in the above two tables.

CONCLUSION & POLICY IMPLICATIONS

The study undertaken by us unfold some interesting findings that demands the attention of the policy makers to protect the interests of the naïve consumers who are less educated and suffer from powerlessness syndrome. The findings of the study also reveal that both classes of consumers are not very serious about their rights and duties to initiate concerted effort to protect their interest. In spite of massive media campaign, the educated section of the community could not recollect various messages without aided recall. The study discloses the deplorable condition of awareness level of the lower social class who could not even recognize and comprehend the central message of "Jago Grahok Jago" directed to protect especially the interest of the under privileged section of the society.

In view of the findings of the study, it is imperative to educate the vulnerable sections of the society through adult education programmes undertaken by different academic institutions in collaboration with the NGOs working in this field. By establishing consumers' forum at the district and block levels may play a pivotal role to extend support to fight against the unethical practices adopted by the marketers who want to maximize profit by deceiving the customers. Serious effort on the part of the consumers' forum is required to bridge the gap to educate and extend fullest cooperation to safeguard the interests of the poorest segment of the society.

The consumers must always insist on "ISI", "AG Mark", "FPO" certified goods but majority of lower social class consumers are not aware of the above certification. To protect the interest of consumer, various organizations involved in this field must initiate serious step to convey the rights conferred by the Government under the Consumer Protection Act, 1986.

LIMITATIONS AND RESEARCH FOR FUTURE DIRECTION

The primary limitation of the study is that we could not take a random sample and the sample of our study may not reflect the universe under consideration. Due to constraint of time and financial resources we had to conduct the study using a convenient sample.

Another major limitation of the study is that the assistance provided during the course of administrating the questionnaire some response bias might have occurred in an attempt to clarify the respondents belonging to the lower social class. In future studies these limitations should be taken care of to make the study more meaningful. In future studies an attempt should be made to involve the village level. Panchayats, NGO's and consumer forum to redress the grievances and dissatisfaction of consumers deceived by the marketers who are guided by profit maximization principle.

ACKNOWLEDGEMENT

This paper is presented at the Conference organised by University of Kalyani, India, in association with Indian Institute of Public Administration, New Delhi.

REFERENCES

1. Alajoutsijärvi, K.: Rautainen pari, Kymmenen ja Valmetin suhde, lähiverkosto ja makrovoimat 1948-90, Doctoral Dissertation, in Finnish, University of Jyväskylä, 1996.
2. Brännback, M., "Is Internet Changing the Dominant Logic of Marketing?" European Management Journal, Vol. 15. No. 6., pp. 698-707, 1997a.
3. Brännback, M., The Knowledge-Based Marketing Concept – A Basis For Global Business, Human Systems Management, Vol. 16, no. 4, pp. 293-299, 1997b.
4. Brännback, M., The Knowledge-Based Marketing Concept – A Basis For Global Business, Human Systems Management, Vol. 16, no. 4, pp. 293-299, 1997b.
5. Brown, T.J., Mowen, J.C., Donavan, D.T. and Licata, J.W. (2002), "The customer orientation of service workers: personality trait influences on self and supervisor performance ratings", Journal of Marketing Research, Vol. 39 No. 1, pp. 110-19.
6. Castro CB, Armario EM, Río MES (2005). "Consequences of market orientation for customers and employees", Eur. J. Mark. 39(5/6): 646.
7. Day, G. S.: What Does It Mean to be Market-Driven, Business Strategy Review, Vol. 9, No. 1, pp. 1-14, 1998.
8. Day GS, Wensley R., (1988). "Assessing advantage: A framework for diagnosing competitive superiority", J. Mark. 52: 1-20.
9. Deshpande R, Webster FE Jr. (1989). "Organizational culture and marketing: Defining the research agenda", J. Mark. 53(1): 3–15.
10. Deshpande R, Farley JU, Webster FE Jr (1993). "Corporate culture, customer orientation, and innovativeness in Japanese firms: A quadrad analysis", J. Mark. 57(1): 23-37.
11. Drucker, P. F.: The Practice of Management, Harper &Brothers, New York, 1954
12. Gaski, John F. and Michael J. Etzel (2005), "National Aggregate Consumer Sentiment toward Marketing: A Thirty-Year Retrospective and Analysis," Journal of Consumer Research, 31 (March), 859-67.
13. Gaski and Etzel (1986, 2005).... www.pdftop.com/ebook/marketing+etzel/ -
14. Goldberg, Marvin E (1995), "Social Marketing: Are we Fiddling While Rome Burns?" Journal of Consumer Psychology, 4 (4), 347-70.
15. Grönroos, C.: Marknadsföring av Tjänster. En studie av marknadsföringsfunktionen itjänsteföretag (Marketing of Services: A Study of the Marketing Function in Service Firms) Doctoral Dissertation, Svenska Handelshögskolan, 1979.
16. Grönroos, C.: Defining Marketing: A Market-Oriented Approach, European Journal of marketing, Vol. 23, No. 1, pp. 52-60, 1989
17. Grönroos, C.: Relationship marketing: Strategic and Tactical Implications, Management Decisions, Vol. 34, No. 3, pp. 5-14, 1996.
18. Hagel III, J., Singer, M.: Unbundling the Corporation, Harvard Business Review, march-April, pp. 133-141, 1999b.
19. Hurley RF, Hult GTM (1998). "Innovation, market orientation, organizational learning: An integration and empirical examination', J. Mark. 62: 42-54
20. Kaynak E, Kara A (2004). "Market orientation and organizational performance: A comparison of industrial versus consumer companies in Mainland China using market orientation scale (MARKOR)", Ind. Mark. Manage. 33(5): 743-753.
21. Kohli AK, Jaworski BJ (1990). "Market orientation: The construct, research propositions, and managerial implications", J. Mark. 54: 1-18.
22. Kohli AK, Jaworski BJ (1990). "Market orientation: The construct, research propositions, and managerial implications", J. Mark. 54: 1-18.
23. Kotler, P.: Marketing Management Analysis, Planning, and Control, 9th ed. Prentice Hall Inc., Englewood Cliffs, NJ, 1967.

24. Kotler, Philip----- (2005), "The Role Played by the Broademening of Marketing Movement in the History of Marketing Thought," Journal of Public Policy and Marketing, 24 (1), 114-16.
25. Kotler, Philip ----- (2006), "Ethical Lapses of Marketers," in Does Marketing Need Reform, Jagdish N. Sheth and Rajendra S. Sisodia editors. Armonk, NY: M. E. Sharpe, 153-57.
26. Kotler and Kevin Lane Keller (2009), Marketing Management. 13th Edition, Upper Saddle River, NJ: Pearson Prentice Hall.
27. McCarthy, E. J.: Basic Marketing, A managerial approach, Richard D. irwin, Homewood Ill., 1960
28. Moore, G. A.: Inside the Tornado, Capstone, Oxford, 1995
29. Moore, J. F.: The Death of Competition: leadership and Strategy in the Age of Business Ecosystem, Harper Business, New York, 1996.
30. Narver, J.C. and Slater, S.F. (1990), "The effect of a market orientation on business profitability", Journal of Marketing, Vol. 54, October, pp. 20-35.
31. Narver, J.C. and Slater, S.F. (1990), "The effect of a market orientation on business profitability", Journal of Marketing, Vol. 54, October, pp. 20-35.
32. Narver, J.C. and Slater, S.F. (1990), "The effect of a market orientation on business profitability", Journal of Marketing, Vol. 54, October, pp. 20-35.
33. Saxe, R., & Weitz B. A., (1982). "The SOCO scale: a measure of the customer orientation of salespeople", J Mark Res;19(August):343– 51.
34. Shapiro, C., Varian, H. R.: Information Rules, A strategic guide to the network economy, Harvard Business school press Boston, Mass. 1999.
35. Shapiro BP (1988). "What the hell is 'Market Oriented'?", Harv. Bus. Rev. 66: 119-125.
36. Sheth. et. al (2006), "The Image of Marketing," in Does Marketing Need Reform? Jagdith N. Sheth and Rajendra S. Sisodia editors. Armonk, NY: M. E. Sharpe, 26-36
37. Turner, G., Spencer, B., (1997). "Understanding the marketing concept as organizational culture", Eur. J. Mark. 31(2): 110-121.
38. Zeithaml, V. A. and Bitner, M. J.: Service Marketing, New York, McGraw-Hill Companies Inc, 1996.

APPENDIX

APPENDIX - I

UPPER SOCIAL CLASS

SEX

	Frequency	Percent
Female	55	45
Male	67	54.9
Total	122	100

AGE

	Frequency	Percent
26-35	23	18.8
36-45	87	71.3
46-55	12	9.8
Total	122	100

INCOME

	Frequency	Percent
15000	19	8.6
>15000	7	3.2
>20000	96	78.6
Total	122	100

EDU

	Frequency	Percent
Graduate	9	7.3
PG	113	92.6
Total	122	100

Lower Social Class

Sex	Frequency	Percent
Female	36	36.4
Male	63	63.6
Total	99	100

Age	Frequency	Percent
below 26	12	12.1
26 -35	54	54.5
36-45	27	27.3
46-55	3	3
56 +	3	3
Total	99	100

Education	Frequency	Percent
	55	55.5
Primary		
UG	35	35.3
Graduate	09	9.2
Total	99	100

Income	Frequency	Percent
	24	24.2
> 3000		
>6000	47	475
>10000	27	27.3
>15000	2	2
Total	99	100

RELEVANCE OF TPM IN INDIAN INDUSTRIES: LITERATURE REVIEW

DR. A. K. GUPTA
ASSOCIATE PROFESSOR
MECHANICAL ENGINEERING DEPARTMENT
DCR UNIVERSITY OF SCIENCE & TECHNOLOGY
MURTHAL

NARENDER
RESEARCH SCHOLAR
MECHANICAL ENGINEERING DEPARTMENT
MEWAR UNIVERSITY
CHHITORGARH

ABSTRACT

Total Productive Maintenance (TPM) has attracted the attention of industries all over the world. The perceptible impact of TPM lies in attaining the far reaching productivity and quality standards. Indian industries are looking for innovative approaches like TPM, TQM, and JIT etc. in order to become competitive and survive in the global market. The intent of this research is to review the literature on TPM and to study its relevance in Indian Industries.

KEYWORDS

Attributes, competitive, implementation.

INTRODUCTION

Business conditions are changing rapidly and continuously. Markets are affected by diverse customer needs, which demand higher quality, shorter delivery time, higher customer service level and lower prices. At the same time, product life cycles are becoming shorter and shorter. Success in any competitive context depends on having either a cost advantage or a value advantage, or, ideally both. The survival of any business depends on its ability to compete effectively. Therefore, the manufacturing company structure has changed from a labor-intensive industry to a technology-intensive, i.e. capital intensive, industry. Many changes in the internal environment of the companies are taking place increased use of mechanization and automation of operations such as total productive maintenance (TPM), flexible manufacturing systems (FMS), robots, automatic warehousing, automatic guided vehicles (AGVs); increased trends of using just-in-time (JIT).Industrialists have realized the need to improve quality of products & services to compete successfully in the world market. Manufacturing organizations striving for world-class performance wants to improve productivity by utilizing the available resources. Full utilization of resources requires better machine output, better employee output, and better services.

The concept of T P M, which aims at maximizing the equipment effectiveness, originated from Japan. It made progressive strides in countries like USA, Europe and other south Asian countries after its successful implementation in Japan. Total productive maintenance (T P M) is the process of maximizing equipment performance, availability, and quality with the total involvement of the production operators, technicians, engineers, supervisors and managers. In this global environment, Indian industries have to improve in order to compete and survive. This paper attempts to review papers in the area of TPM and based on this identify research directions in Indian context.

MOTIVATION

Today, manufacturers have realized that for staying for long time in international market, they have not to be concentrate on company profit only but product quality, zero defect, safety, overall equipment effectiveness are the other criteria which needs a strong attention. TPM is a management approach which improves the organization internally i.e. productivity aspect, as well as externally i.e. market value aspect. Customers expectation have increased as the globalization has born competitiveness now the key of customer satisfaction is high product quality, low product price, more options. Fortunately these keys are requirements belong to target of TPM. As the TPM program is not a matter of days or months it may take even two or more year. During this time period it's more important to work over the factors on priority basis to get successful implementation of TPM. As the study of change in frequency of failure must be started only after implementation of TPM pillars, otherwise result of early studies may decline the moral of employee's. For staying in competitive market an organization must have continuous improvement throughout the organization with innovative plan .TPM is the right approach for continuous improvement with innovative tools like automation, vibration based and other. Therefore it has been chosen as a research area for TPM implementation in Industrial Scenario.

LITERATURE REVIEW

In the literature, TPM has continuously drawn attention from researchers and practitioners. TPM is a method for bringing about change. It is a set of standard activities that can lead to improved management of plant assets when properly performed by individuals and teams. Total productive maintenance (TPM), as defined by Nakajima, 1984 [15] is productive maintenance carried out by all employees through small group activities and can be viewed as equipment maintenance performed on a company-wide basis.

The original approach to implementing TPM was described by Nakajima, 1984 [15] with reference to the fabrication and assembly industries. Now TPM is Extending, all over the world, to encompass also process industry, an example of an implementation programme of TPM for this type of manufacturer is that which has been carried out by Suzuki

In an effort to increase organizational capabilities, companies have made investments in programs such as just-in-time (JIT) and total quality management (TQM). However, benefits from these programs have often been limited because of unreliable or inflexible equipment. Therefore, many companies, including Procter and Gamble, Dupont, Ford and Eastman Chemical, have looked toward total productive maintenance (TPM) to augment their JIT and TQM programs in a drive for continual improvement. TPM addresses equipment maintenance through a comprehensive productive-maintenance delivery system covering the entire life of the equipment and involving all employees from production and maintenance personnel to top management.

While research that considers the mathematical modeling and statistical research base of equipment maintenance has been extensive, little research has directly investigated TPM maintenance activities. Refer to Wiremen, 1991 [11] for reviews of the maintenance and reliability literature. These papers focus on modeling the reliability of equipment and on developing policies to inspect, repair, or replace equipment based on its specific reliability characteristics. We are interested in academic research that goes beyond these traditional modeling approaches and adequately supports the implementation of TPM activities, practices, and management systems.

Christian N. Madu 1994 [3] has stated that total productivity maintenance (TPM) is a maintenance productivity improvement practice analogous to the use of total quality management (TQM). TPM involves the participation of employees from cross-functional departments to achieve continuous improvement in terms of product quality, operation efficiency, production capacity, and safety. This is achieved through total equipment effectiveness and total maintenance delivery. Maintenance operations are increasingly popular as a means of improving equipment reliability, availability, and effectiveness. For example, estimates that 10.40% of production costs are due to direct maintenance expenditures. Thus, maintenance costs must be considered and strategies formalized to minimize them.

McCone and Weiss, in 1995 identify significant gaps between industry practice and academic research and emphasize the need to bridge these gaps by providing guidelines for implementing TPM activities. TPM is designed to maximize equipment effectiveness improving overall efficiency by establishing a comprehensive productive-maintenance system covering the entire life of the equipment, spanning all equipment-related fields planning, use, maintenance, etc. and, with the participation of all employees from top management down to shop-floor workers, to promote productive maintenance through motivation management or voluntary small-group activities.

The continuous improvement concepts such as total quality management, just-in-time and total productive maintenance have been widely recognized as a strategic weapon and successfully implemented in many organizations. In this paper, we focus on the application of total productive maintenance (TPM). A random non-linear regression model called the time constant model was used to formulate a prediction model for the learning rate in terms of company size, sales, ISO 9000 certification and TPM award year. A two-stage analysis was employed to estimate the parameters. Using the approach of this study, one can determine the appropriate time for checking the performance of implementing total productive maintenance. By comparing the expected overall equipment effectiveness (OEE), one can improve the maintenance policy and monitor the progress of OEE.

Laura Swanson, 1997 [13] stated that in an increasingly competitive environment, manufacturing firms have continued to implement new technologies aimed at improving plant performance. These new technologies are often more complex to maintain. At the same time, equipment breakdowns can become more costly and disruptive. However, managers tend to give little consideration to how different production technologies may affect the maintenance function. This paper reports the results of a study of the relationship between the characteristics of production technology and maintenance practices. Based on the responses from a survey of plant managers and maintenance managers, the analysis shows a strong relationship between technical complexity and maintenance practices that increase the technical expertise of the maintenance workforce.

G. Chand, 2000 [5] stated “total productive maintenance is a Japanese concept of equipment management that allows a facility to improve decisively the equipment performance in the manufacturing area with the help and involvement of all employees”. A fundamental component of world-class manufacturing (WCM) is that of total productive maintenance (TPM), linked to both total quality management (TQM) and the concepts of continuous-flow manufacturing which are embedded in cellular manufacturing An investigation was conducted in collaboration with a first tier automotive component supplier to determine the overall equipment effectiveness (OEE) of a semi-automated assembly cell. The big losses associated with equipment effectiveness were also identified. This represents 97% good components, 0.33% scrap and 2.67% rework. The number of stoppages recorded was 156, where the 10 most common causes were identified. The OEE was 62% and the six big losses represent 38% loss of the productive time. Based on the findings, it was recommended that a pilot project to be conducted to implement a TPM programme for the cell and expand it further to the other cells in the factory.

Geert Waeyenbergh, 2004 [6 stated that TPM activities focus on eliminating the six major losses. These losses include equipment failure, set-up and adjustment time, idling and minor stoppages, reduced speed, defects in process and reduced yield. A company contains a large number of technical systems which all interact to achieve the pursued business objectives. Maintenance contributes more than ever to the achievement of these objectives. Indeed, proper maintenance does not only help to keep the life cycle cost down; it also contributes positively to the overall performance of the company. However, maintenance also contributes significantly to the total cost, and this often forms the basis of performance improvement demands to the maintenance department. A maintenance concept can be defined as the set of various maintenance interventions (corrective, preventive, condition based, etc.) and the general structure in which these interventions are foreseen. The maintenance concept forms the framework from which installation-specific maintenance policies are developed and is the embodiment of the way a company thinks about the role of maintenance as an operations function. As a consequence, it influences every part of the maintenance activities in the company.

This thesis shows how their models could be modified by applying analytic hierarchy process (AHP) to consider total productivity maintenance. Through this application, it is shown that “optimal” solutions with lower costs are obtained. These results are, therefore, improvement over the models presented by other researchers. Total productive maintenance (TPM) is the systematic execution of maintenance by all employees through small group activities.

The dual goals of TPM are zero breakdowns and zero defects; this obviously improves equipment efficiency rates and reduces costs. It also minimizes inventory costs associated with spare parts. It is claimed that most companies can realize a 15-25 percent increase in equipment operation rates within three years of adopting TPM. Labour productivity also generally increases by a significant margin, sometimes as high as 40-50 percent.

The Japanese imported preventive maintenance (PM) from the United States in the 1950s and it remained well established until the 1970s. This consisted mainly of time-based maintenance featuring periodic servicing and overhaul. During the 1980s PM was steadily replaced by predictive maintenance, or condition-based maintenance (see reliability-centered maintenance). TPM is often defined as productive maintenance involving total participation - a kind of marriage between PM and TQM. Many organizations misconstrue this to imply that only shop floor staff needs be involved. However, TPM should be implemented on a company-wide basis.

C.D.O’Donoghue, 2004 [4] stated equipment, be it sophisticated or basic in operation and design, depending on its usage, will inevitably malfunction and breakdown. Within any organization where manufacture is the primary activity, it is crucial that procedures exist for equipment maintenance. Not only does equipment maintenance need to be planned for, the possibility and probability of breakdowns and disruption to operations must also be considered when planning and scheduling production. This paper examines the basis of various maintenance management strategies used to date in international manufacturing. These strategies assist the maintenance function and enable the process of maintenance to be optimized. Special attention is given to computerized maintenance management systems (CMMSs), how this particular strategy was successfully implemented in a medium sized Irish textile manufacturing company.

Mark C. Eti, 2006 [14] have told that a developing society needs to adapt to change and foster creativity. In the pursuit of continual improvement (e.g., reducing fossil-fuel consumption and waste, better service performance, greater availability and improved reliability), implementing wise maintenance schedules is essential for contemporary organizations. Several studies of a wide range of Nigerian industries indicate that indigenous low availability and low productivity are endemic. The resulting closure of some of these industries has triggered off a realization of the strategic challenges in maintenance management. In addition, the increasingly-competitive business environment in Nigeria has raised the strategic importance of maintenance functions, especially in organizations with significant investments in physical assets. Five strategic aspects of maintenance management have been identified, namely: maintenance methodology; support processes; organization and work structuring; comparable culture; and general management policy.

Abhijit Gosavi, 2006 [1] has told that total productive maintenance (TPM) is a management initiative that has been widely embraced in the industry. A positive strategic outcome of such implementations is the reduced occurrence of unexpected machine breakdowns that disrupt production and lead to losses which can exceed millions of dollars annually. Additionally, frequent machine breakdowns indirectly can lead to a host of other problems, e.g., difficulties in meeting customer deadlines, which makes the transition from make-to stock to make-to-order difficult and magnifies the need to keep extra safety stocks, increasing inventory-holding costs. An important tool of a TPM program is the stochastic model used to determine the optimal time for preventive maintenance (PM). PM can help reduce the frequency of unexpected repairs when the failure rate is of an increasing nature.

Macarmen Corners, 2006 [8] told that predictive maintenance can provide an increase in safety, quality and availability in industrial plants. However, the setting up of a predictive maintenance programme is a strategic decision that until now has lacked analysis of questions related to its setting up, management and control. An evaluation system is proposed that carries out the decision making in relation to the feasibility of the setting up. The evaluation system uses a combination of tools belonging to operational research such as: analytic hierarchy process, decision rules and Bayesian tools. This system is help tools available to the managers of predictive maintenance programmes which can both increase the number of predictive maintenance programmes set up and avoid the failure of these programmes.

A.K.M. Masada, 2007 [2] has told that TPM brings maintenance into focus as a necessary and vitally important part of the business. Downtime for maintenance is scheduled as a part of the manufacturing day and, in some cases, as an integral part of the manufacturing process. The goal is to hold emergency and unscheduled maintenance to a minimum.

J Venkatesh, 2007 [10] stated that TPM is a new approach to equipment and facility management. TPM is a maintenance program, which involves a newly defined concept for maintaining plant, equipment and facilities.

- Total: signifies involvement of all functions and people at all levels of hierarchies.
- Productive: emphasizes efficient and effective utilization of all resources.
- Maintenance: means keeping man-machine-material systems in optimal condition.

Imad Alsyouf, 2007 [7] illustrates how an effective maintenance policy could influence the productivity and profitability of a manufacturing process. It was possible to show how changes in the productivity affect profit, separately from the effects of changes in the uncontrollable factors, i.e. price recovery. The main results of the case study performed at a Swedish paper mill showed that a paper-mill machine could, ideally, generate extra profit of at least 7.8 million Swedish kronor (SEK) (approximately US$ 0.975 million) per year, i.e. 12.5% of its yearly maintenance budget, if it avoids all unplanned stoppages and bad quality production due to maintenance-related causes. Thus, maintenance is not a cost centre, but a profit generating function.

Kamran et al. 2009 [12] states through system dynamics concepts, effects of implementation of TPM on machine reliability, process quality and net throughput has been analyzed. Results obtained show the effectiveness and usefulness of TPM in reducing breakdown maintenance (BM) tasks as well as enhancing machine reliability, process quality and product's throughput.

According to Jorge L.Perez-Lafont, 1997 [9], total productive maintenance (TPM) is the process of maximizing equipment performance, availability, and quality with the total involvement of the production operators, technicians, engineers, supervisors and managers.

CONCLUDING OBSERVATIONS AND DIRECTIONS FOR FUTURE RESEARCH

It has been observed from the literature review that more empirical studies are needed in Indian context to test rigorously the conjecturer around total productive maintenance. The following gaps are identified from the literature review:

1. There is no focus to implement TPM in small scale industries in Indian industrial scenario.
2. There are few studies till date that have been devoted to analysis of total productive maintenance adopted by Indian manufacturing companies.
3. There are many qualitative studies reported on total productive maintenance for different sector companies i.e. process industries, mechanical industries etc. But, there are few studies those have focus on electronics manufacturing industries and service sector.

Keeping in the view of the above insights, there is real need to study implementation of total productive maintenance in cross- sector Indian scenario. The present work attempts to study the various implementation techniques of total productive maintenance in response to the emerging globalized and competitive environment in Indian context.

REFERENCES

1. A.K.M. Masada., Abdullah-Al-Khaled., Seratun Jannat., A.K.M. Sajedul Arefin Khan and Kingshuk Jubaer Islam. (2007), "Total Productive Maintenance in RMG sector a case: Burlingtons Limited Bangladesh" Journal of Mechanical Engineering, vol. 37.
2. Abhijit, G. (2006), "A risk-sensitive approach to total productive maintenance", Vol.42, pp .1321-1330.
3. C.D. O'Donoghue. J.G. Prendergast. (2004), "Implementation and benefits of introducing a computerized maintenance management system into a textile manufacturing company", Journal of Materials Processing Technology, Vol.153-154, pp. 226-232,
4. Christian N. (1994), "On the total productivity management of maintenance float system through AHP applications", Int. J. Production Economics, Vol. 34, pp. .201-207.
5. G. Chand, B. (2000), "Implementation of TPM in cellular manufacture", Journal of Materials Processing Technology, Vol.103, pp..149-154.
6. Geert Waeyenbergh., Liliane Pintelon. (2004), "Maintenance concept development: A case study", Int. J. Production Economics, Vol. 89, pp. .395-405.
7. Imad, A. (2007), "The role of maintenance in improving companies' productivity and profitability", Int. J. Production Economics, Vol. 105, pp.70-78.
8. J. Venkatesh. (2007), "An introduction to total productive maintenance."
9. Jorge L. (1997), "Installation of a T.P.M. program in a Caribbean plant", Journal of computer engineering, Vol.33, No.1-2, pp. 315-318.
10. Kamran S., Seyed Ahmad, Y. (2009), "Analyzing the effects of implementation of total productive maintenance (TPM) in the manufacturing companies", Journal of Modeling and SimulationVol.5, pp.120-129.
11. Laura, S. (1997), "An empirical study of the relationship between production technology and maintenance management", Int. J. Production Economics, Vol. 55, pp.191-207.
12. Macarmen, C. (2006), "An evaluation system of the setting up of predictive maintenance programmes", Reliability Engineering and System Safety, Vol. 91, pp. 945-963, 2006.
13. Mark C., S.O.T. Ogaji b., S.D. Probert. (2006), "Strategic maintenance-management in Nigerian industries", Applied Energy, Vol.83, pp.211-227.
14. Nakajima, S. (1984), "Introduction to TPM: Total Productive Maintenance", Cambridge, MA, Productivity Press.
15. Wireman T. (1991), "The History and Impact of Total Productive Maintenance ", New York.

CAPITAL STRUCTURE ANALYSIS IN TATA STEEL LIMITED

DR. ASHA SHARMA
ASST. PROFESSOR
DEPARTMENT OF MANAGEMENT
ARAVALI INSTITUTE OF MANAGEMENT
JODHPUR

ABSTRACT

Steel Industry in India is on an upswing because of the strong global and domestic demand. India's rapid economic growth and soaring demand by sectors like infrastructure, real estate and automobiles, at home and abroad, has put Indian steel industry on the global map. According to the latest report by International Iron and Steel Institute (IISI), India is the seventh largest steel producer in the world. This paper attempts to make an analytical study of application of optimum capital structure, financial leverage, earnings per share and dividend per share of steel industry with data for the period of 2006 to 2010. For the purpose of analysis, ratio techniques and to test hypothesis other statistical tools have been used for the research purpose. The result of the study indicates that there is a correlation between DFL and EPS & DFL and DPS & EPS and DPS.

KEYWORDS

Capital Structure, Financial Leverage, Operating leverage, Dividend per share, Earning per share, dividend policy.

INTRODUCTION

Capital structure refers to the mix of long term sources of funds, such as debentures, long-term debt, preference share capital and equity share capital including reserves and surpluses. Firms can raise money through a variety of means. Usually, money is raised through the issuance of different types of securities (such as stocks and bonds). The capital structure of a firm is the proportion of each type of security that the firm has used. Most firms have both debt and equity in their capital structure. Leverage increases the expected return to shareholders, but also the risk. The appropriate capital structure maximizes the long term market price per share, also keeping in view the financial requirements of a company. A sound or appropriate capital structure should have the following features:

1. It should generate maximum returns to the shareholders.
2. There should not be the use of excessive debt to maintain long-term solvency.
3. The capital structure should be flexible, to provide funds to finance its profitable activities in future.
4. The capital structure should involve minimum risk of loss of control of the company.

ABOUT THE STEEL INDUSTRY

Government targets to increase the production capacity from 56 million tones annually to 124 MT in the first phase which will come to an end by 2011 - 12. Currently with a production of 56 million tones India accounts for over 7% of the total steel produced globally, while it accounts to about 5% of global steel consumption. The steel sector in India grew by 5.3% in May 2009. Globally India is the only country to post a positive overall growth in the production of crude steel at 1.01% for the period of January - March in 2009.

STRUCTURAL WEAKNESSES OF INDIAN STEEL INDUSTRY

- Although India has modernised its steelmaking considerably, however, nearly 6% of its crude steel is still produced using the outdated open-hearth process.
- Labour productivity in India is still very low. According to an estimate crude steel output at the biggest Indian steelmaker is roughly 144 tonnes per worker per year, whereas in Western Europe the figure is around 600 tonnes.
- India has to do a lot of catching in the production of stainless steel, which is primarily required by the plant and equipment, pharmaceutical and chemical industries.
- Steel production in India is also hampered by power shortages.
- India is deficient in raw materials required by the steel industry. Iron ore deposits are finite and there are problems in mining sufficient amounts of it. India's hard coal deposits are of low quality.
- Insufficient freight capacity and transport infrastructure impediments too hamper the growth of Indian steel industry.

STRENGTHS OF INDIAN STEEL INDUSTRY

- Low labour wage rates
- Abundance of quality manpower
- Mature production base
- Positive stimuli from construction industry
- Booming automobile industry

COMPANY PROFILE

Tata Steel Limited (BSE: 500470) (formerly **TISCO** and **Tata Iron and Steel Company Limited**) is a multinational steel company headquartered in Mumbai, India and subsidiary of Tata Group. It is the tenth-largest steel producing company in the world, with an annual crude steel capacity of 23.5 million tonnes, and the largest private-sector steel company in India measured by domestic production. Tata Steel is also India's second largest and second-most profitable private-sector company, with consolidated revenues of $26 billion and net profit of over $1.9 billion in the year ended March 31, 2011. Tata Steel is the eighth most-valuable Indian brand according to an annual survey conducted by Brand Finance and The Economic Times in 2010. It is currently ranked 410th in the Fortune Global 500.

OPTIMUM CAPITAL STRUCTURE

The role of financial leverage in magnifying the return of the shareholders' is based on the assumptions that the fixed-charges funds (such as the loan from financial institutions and other sources or debentures or bonds) can be obtained at a cost lower than the firm's rate of return on net assets. So, when the difference between the earnings generated by assets financed by the fixed charges funds and costs of these funds is distributed to the shareholders, the earnings per share (EPS) (or return on equity, ROE) increases. EPS is calculated by dividing profits after tax (PAT) (net of preference dividend) by the number of shares outstanding.

Earning per share is the reward of an investor for making his investment and it is the best measure of performance of a firm. "The bottom line of Income Statement is an indicator of performance of 'think tank' or 'top level' of the company". Ordinary investors lacking in-depth knowledge and inside information mainly based on EPS to make their investment decision. So it should be the objective of financial management to maximize the EPS from the view point of both the investor and owners.

DIVIDEND POLICY DECISION

Dividend decision is the major decision area of financial management. A firm is to decide what portion of earnings would be distributed to the shareholders by way of dividend and what portion of the same would be retained in the firm for its future growth. Both dividend and retention are desirable but they are conflicting to each other. A finance manager should be able to formulate a suitable dividend policy, which will satisfy the shareholders without hampering future progress of the firm. It is common that higher the earnings, higher will be the amount of dividend and vice-versa.

FINANCIAL LEVERAGE

Financial leverage is primarily concerned with the financial activities which involve raising of funds from the sources for which a firm has to bear a fixed charge. These sources include long-term debt (e.g. bonds, debentures etc.) and preference share capital. Long-term debts capital carries a contractual fixed rate of interest and its payment is obligatory. As the debt providers have prior claim on income and assets of a firm over equity shareholders, their rate of interest is generally lower than the expected return on equity shareholders. Further interest on debt capital is a tax deductible expense. These two phenomena lead to the magnification of rate of return on equity capital and hence EPS. It goes without saying that the effect of changes in EBIT on the earnings per share is shown by the financial leverage. Financial leverage can best be described as "the ability of a firm to use fixed financial charges to magnify the effect of changes in EBIT on the firm's earning per share."

OPERATING LEVERAGE

Operating leverage measures a firm's fixed versus variable costs. The greater proportion of fixed costs, the greater the operating leverage. Like financial leverage, operating leverage magnifies results, making gains look better and losses look worse. Both operating and financial leverage increase risks because they make returns less predictable over time.

FINANCIAL LEVERAGE, EARNINGS AND DIVIDEND

Financial leverage works both ways. It accelerates EPS (and ROE) under favorable economic conditions, but depresses EPS (and ROE) when the going are not good for the firm. The favorable effect of the increasing financial leverage during normal and good years is on account of the fact that the rates of return on assets exceed the cost of debt. Use of fixed cost bearing capital in the capital structure is termed as financial leverage. Such capital especially debt is cheaper than the equity as the cost of debt is generally lower than that of equity and a tax advantage is attached with its use. In this circumstances, if total capital employed remains constant, increase in the financial leverage or use of debt implies that a relatively cheaper source of fund replaces a source of fund having relatively higher cost.

DEGREE OF FINANCIAL LEVERAGE

A leverage ratio summarizing the affect a particular amount of financial leverage has on a company's earnings per share (EPS). Financial leverage involves using fixed costs to finance the firm, and will include higher expenses before interest and taxes (EBIT). The higher the degree of financial leverage, the more volatile EPS will be, all other things remaining the same. The formula is as follows:

Degree of financial leverage DFL = % Change in EPS / % Change in EBIT

The degree of financial leverage or DFL helps in calculating the comparative change in net income caused by a change in the capital structure of business. This ratio would help in determining the fate of net income of the business. This ratio also helps in determining the suitable financial leverage which is to be used to achieve the business goal. The higher the leverage of the company, the more risk it has, and a business should try and balance it as leverage is similar to having a debt

DEGREE OF OPERATING LEVERAGE

Operating leverage is a measure of how sensitive net operating income is to percentage changes in sales. Operating leverage acts as a multiplier. If operating leverage is high, a small percentage increase in sales can produce a much larger percentage increase in net operating income. It is high near the break even point and decreases as the sales and profit increase. The **Degree of Operating Leverage** (DOL) can be computed in a number of equivalent ways; one way it is defined as the ratio of the percentage change in Operating Income for a given percentage change in Sales.

Degree of operating leverage (DOL) = = % Change in EBIT / % Change in sales

DOL is highest near the break-even point; in fact, at the break-even point. DOL is closely related to the rate of increase in the operating margin: as sales increase past the break-even point, operating margin rapidly increases from 0% (reflected in a high DOL), and as sales increase, asymptotically approaches the contribution margin: thus the rate of change in operating margin decreases, as does the DOL, which asymptotically.

OBJECTIVES OF STUDY

The objectives of the study are as under:

1. To study the methods of raising finance and financial leverage practice of the company
2. To examine the impact of financial leverage on EPS
3. To know about the dividend policy of the company
4. To assess the inter relationship between degree of financial leverage (DFL), earnings per share (EPS) and dividend per share (DPS)
5. To summaries main finding of the study and offer some suggestion, if any, for improving EPS by the use of financial leverage

HYPOTHESIS

In order to realize the above objectives, the following hypothesis has been formulated.

1. The company uses debt as a cheaper source of finance than equity
2. The company is enable to earn a higher rate of return on investment than the cost of financing investment.
3. DFL and EPS are positively correlated in such a manner that increase in financial leverage leads to increase in the EPS
4. DFL is positively correlated with DPS.
5. EPS is positive correlated with DPS

RESEARCH METHODOLOGY

COLLECTION OF DATA

The data of steel industry have been collected from the annual reports of the company and capitaline data base. The data collected from this source have been used and compiled with due care as per requirement of the study.

PERIOD OF STUDY

The present study covers a period of five years from 2006-2010.

TECHNIQUES OF ANALYSIS

The study has been made by converting the collected data in to relative measures such as ratios, percentage rather than absolute one. For analyzing the degree of association between DFL, EPS and DPS, statistical technique of Pearson’s correlation analysis has been used to judge whether the calculated correlation coefficient are significant or not.

EMPIRICAL ANALYSIS

CAPITAL STRUCTURE POLICY OF STEEL INDUSTRY

TABLE-1

Tata Steel 2009-2010				
Source of Capital	Book Value	Weight	Market Value	Weight
Short term debt	850		6,800	
Long term debt	19,577.60		22,588.38	
Debt	20,246.34	0.95	25,588.38	0.958
Equity	1,018.30	0.05	1132.3	0.0424
Total Capital	21264.64	1	26,720.68	1

Table 1 shows that the logic of capital structure policy of Tata Steel Co. is to increase its net worth by ploughing back of profit in this way to reduce cost of equity as a cheaper cost if its networth is strengthen by ploughing back of profits, which is not dividend bearing. Now if we have a mark on Table-7 , an increase amount of reserve and surplus included in net worth is seen all over the period of five years. Keeping the equity capital constant throughout the period of study, the company increased its net-worth with the utilization of reserve & surplus by the same amount. The company increased its capitalization with the correspondingly 40% increase in the use of long term debt but just 10% change in net worth during the study. Both the increased capitalization and slightly increase in the use of debt in each year were commensurated by the reserve and surplus i.e., by successful ploughing back of profit instead of making additional issue of equity shares. If the same was made by fresh issue of equity shares the company would not be able to reward its shareholders more in terms of return. Since reserve & surplus was not divided bearing, its utilization brought down the cost of equity and at the same time it maintained the lower base of equity share- holders resulting higher amount of EPS (lower base means lower number of equity shares).

EBIT, EBT & EAT OF TATA STEEL LTD

TABLE -2: COMPUTATIONS OF EBIT, EBT & EAT OF TATA STEEL LTD.

Particulars	Mar ' 10	Mar ' 09	Mar ' 08	Mar ' 07	Mar'06
EBIT	12223.53	10146.67	9779.51	8830.95	7275.87
EPS	72.74	63.85	69.70	56.37	71.58
Sales	29307.55	24490.65	24348.32	19654.41	17452.66

COMPUTATION OF DFL, EPS, DPS, DIP RATIO AND RATE OF RETURN ON INVESTMENT

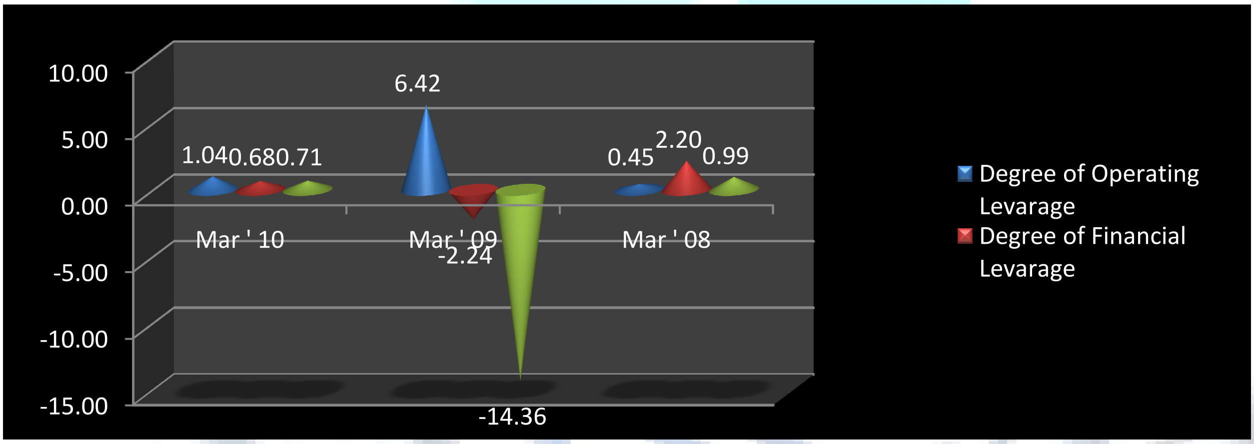
A- DEGREE OF OPERATING LEVARAGE, DEGREE OF FINANCIAL LEVARAGE AND DEGREE OF COMBINE LEVARAGE OF TATA STEEL

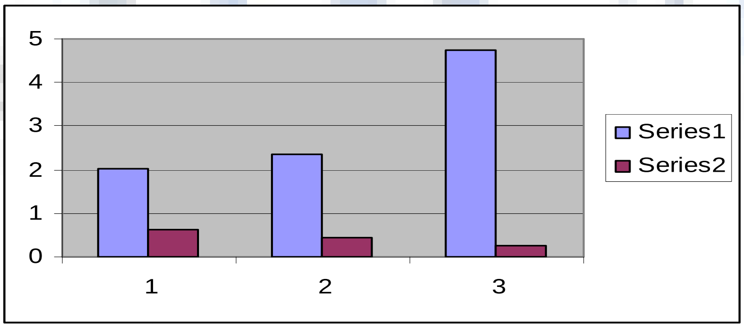
TABLE - 3

	2010	2009	2008	2007	2006
Operating Leverage	2.787128936	4.201013408	3.039833314	2.417339506	2.513928768
Financial Leverage	2.050319119	1.806399686	1.557615438	1.580590337	1.3474138
Combined Leverage	5.714503746	7.5887093	4.734891298	3.820823463	3.387302314

TABLE-4

Particulars	Mar ' 10	Mar ' 09	Mar ' 08	Mar ' 07
Degree of Operating Levarage	1.04	6.42	0.45	1.69
Degree of Financial Levarage	0.68	-2.24	2.20	-0.99
Degree of Combine Levarage	0.71	-14.36	0.99	-1.68





NOTES AND EXPLANATIONS

1. DFL = Degree of Financial Leverage = EBIT I EBT
2. EPS = EAT / No. of Equity Shares.
3. DPS = Dividend / No. of Equity Shares.

4. DIP Ratio = DPS / EPS x 100
5. Rate of Interest = (Interest / Long-term debt) X 100
6. Rate of return on investment = (EAT / Total Capital Employed) x 100

FINANCIAL LEVERAGE PRACTICE AND EPS OF TATA STEEL LIMITED

If one looks at the financial data of Tata Steel, given in table-3 a declining trend to EPS with decline in DFL become evident.

The table shows that EPS was increasing from 63.35 to as 72.74 during the period of from 2006 to 2007. In the year In the year 2007-8, EPS decreased to 63.85 against Rs. 72.74 in 2007 with the minute decrease in DFL from -.99 to 2.2. This might have taken place owing to the fact that this year debt carried the higher rate of interest. . In the next year of consideration EPS decreased 69.70 to 63.85 with the decreased DFL from 2.2 to -2.24. In year 2010 Successive EPS is showing a fluctuating trend with the increase in DFL like all the preceding years. DFL is continuously increasing or decreasing with EPS in the same direcction.

In Tata Steel Ltd there is a positive relationship between DFL and EPS in such a way corresponding increase or decrease in DFL with the fulfillment of main two criteria – one being dent capital cheaper than equity capital and another being rate of return on investment exceeded (after-tax) cost of debt.

OPERATING LEVERAGE PRACTICE AND EBIT OF TATA STEEL LIMITED

DOL to quickly estimate what impact various percentage changes in sales will have on profits, the effect of operating leverage can be dramatic. If a company is near its break even point, then even a small percentage increases in sales can yield large percentage in profits. This explains why management will often work very hard for only a small increase in sales volume. If the DOL is 1.04, then a 19.66 increase in sales would translate into a 20.44% increase in profits and so on. As soon as the degree of operating leverage will increase, its earning capacity will also increase in the proportionate of % change in DOL and sales. So if is positively increase, it is a good and strong earning capability symptoms.

B- SOLVENCY, PROFITABILITY AND INVESTMENT RATIO OF TATA STEEL MLTD.

SOLVENCY RATIO

TABLE-5

	2006	2007	2008	2009	2010
Debt-equity	0.69	1.08	1.34	0.68	0.64
Proprietory ratio	59.32	60.23	52.43	59.55	61.16
Solvency ratio	1	0	0	0	0
Capital- gearing ratio	0	0.13	0.14	0	0

Interpretation: The solvency of the firm in 2010 is good because less than 1 solvency ratio shows the good position of solvency of business entity.

PROFITABILITY RATIO

TABLE-6

	2006	2007	2008	2009	2010
Return on Capital Employed	27.71	17.11	15.01	13.06	14.43
Return on Assets	236.82	296.65	330.24	418.94	487.55
Return on Equity	0.29	0.17	0.17	0.13	0.14

Interpretation: It measures the overall efficiency of production, selling, financing, pricing, tax management. Capital employed shows average of equity share capital & long term funds provided by the owners & creditors. ROE shows how well the firm has used the resources of owners.

INVESTMENT ANALYSIS

TABLE - 7

	2006	2007	2008	2009	2010
EPS	72.74	63.85	69.7	56.37	71.58
DPS	15.5	16	16	8	12
Dividened Payout Ratio	0.213088	0.250587	0.229555	0.141919	0.167645

Interpretation: EPS shows the profitability of the firm on a per-share basis, it does not reflect how much is paid as dividened. In this EPS is 71.58 in 2010 DPS shows the earning distributed as cash dividened.

The debt-equity ratio of Essar steel shows a downward trend. This implies that the company is relying more on its owner's equity to finance its assets rather than on borrowed funds.

In debt-equity year 2009 & 2010 the ratio increase this show good.

The low gross margin reported by Essar stee reflects the company's ability to keep a high cost of production. In year 2007 the GP is increase rest in all year decrease.

This operating ratio show poor effenciency after 2007 because it is decrease.

NP ratio show company is not earning profit properly which is earning in 2006 this is also a bad impact.

EPS is also going down wards which show that the shareholders are also not getting good return . It show also bad effiency related to company.

CORRELATION ANALYSIS

TABLE – 8: RELATIONSHIP BETWEEN DFL, EPS & DPS (TATA STEEL LTD.)

Corelation between DFL, DOL, EPS and DPS	
EPS & DOL	-0.907716
EPS & DFL	-0.967863
DPS & DOL	0.4202344
DPS & DFL	-0.1785344
EPS & DPS	-0.7621916

Relationship between DFL, DOL, EPS and DPS

ANALYSIS OF TABLE 8

The co-efficient of correlation in between DFL, EPS and DPS are presented in Table-8 to assess to closeness of association between each other. It is evident from the table 8 that the co-relation co-efficient between DOL and EPS is (0.907716). The co-relation co-efficient between DFL and EPS is (0.967863). It indicates that there is a negative association between DFL and EPS supporting the explanation given earlier the value of correlation co-efficient is also found to be highly insignificant lesser than the table value of 1.96.

The co-relation co-efficient between EPS & DFL and EPS & DOL is (0.907716) and (0.967863), showing that there is negative correlation and means leverage advantage is same in the industry and DPS is not correlated at all. Tata is using aggressive dividend policy.

It indicates that there is a negative association between DFL and EPS supporting the explanation given earlier the value of correlation co-efficient is also found to be highly insignificant lesser than the table value of 1.96. So the hypothesis that DOL and EPS are positively correlated is outright accepted. Here the data as obtained from the annual report of Tata Steel Ltd. are consistent with the assumption that the hypothesis is true. In order to assess the degree of association between DFL and DPS, correlation coefficient between these two variables has been calculated. It is seen that correlation co-efficient between DFL and EPS is (0.75383) indicating that there is a high degree of negative correlation between DFL and DPS. The value of correlation co-efficient is found to be much insignificant at 5% levels.

So the hypothesis that DOL and EPS are negatively correlated is outright accepted. Here the data as obtained from the annual report of Tata Steel Ltd. are consistent with the assumption that the hypothesis is true. In order to assess the degree of association between DFL and DPS, correlation coefficient between these two variables has been calculated. It is seen that correlation co-efficient between DFL and DPS is (0.1785344) indicating that there is a high degree of negative correlation between DFL and DPS. The value of correlation co-efficient is found to be much insignificant at 5% levels. Lastly, the co-efficient of correlation between EPS and DPS is (0.7621916) which is also insignificant at 5% level. Still degree of DPS and DOL is positive.

The study on the inter relationship between the degree of financial leverage, earning per share and dividend per share of Tata Steel Ltd. showed negative association. For the purposes of study, the correlation co-efficient of five sets of selected variables have been analyzed. The sign of correlation coefficient between (I) DFL and DPS and (II) EPS and DPS (III) DPS & DOL (IV) EPS & DOL (V) EPS & DFL are not conformed to hypotheses that DFL is negative correlated with DPS and EPS. The data could not provide any evidence of the hypothesis. So this hypothesis is not accepted to be true case for the company. The result of correlation co-efficient between EPS and DPS is what we have not expected. So the hypothesis that EPS is negatively correlated with DPS might be rejected to be false in case of steel industry.

TABLE – 9: ANALYSIS OF CAPITAL STRUCTURE

%of Net worth % of Capital Employed

Net worth ratio	59.32	60.23	52.43	59.55	61.16
Long term debt / Equity	0.58	0.67	1.31	1.07	0.67
Total debt/equity	0.58	0.67	1.34	1.08	0.69
Owners fund as % of total source	63.03	59.55	42.77	48.16	59.12
Fixed assets turnover ratio	1.29	1.12	1.22	1.20	1.09

Source: Annual reports ofTata Steel Ltd.

Table-9 has been prepared to reflect the relative method of finance adopted by the company. It is seen from the table – 9 that the net-worth of the company constituted equity capital and reserve & surplus and it was 59.12% of total capital in year 2006 and 42.7% of of total caoital in the year 2008. In the following years the company stated increasing the proportion of equity capital from 42.77% to 59.55% and 63.03% respectively. One can observe from the table that a percentage decrease in the equity capital led to the same percentage increase in debt capital.

The same analysis may be drawn from table -3 about long-term debt, equity share capital and Reserve & surplus (net worth), fixed assets and capital employed. It is cleared by the table that company is enjoying leverage benefit in first three year but advantages are reduced in last two years.

TABLE – 10: DIVIDEND POLICY OF STEEL INDUSTRY

Tata Steel Financial Data										
Year	EPS	DPS	BV	MV	ROE	EY	DY	Payout	No. of Share	Net Worth
March 06	63.35	19.16	176.26	158.61	41.13889	39.94074	12.079945	330.63674	63.35	9,755.30
March 07	72.74	21.9	240.31	256	32.69034	28.41406	8.5546875	332.14612	63.35	14,096.15
March 08	63.85	24.93	298.78	302.48	14.81608	21.10883	8.2418672	256.11713	63.35	27,300.73
March 09	69.7	22.8	331.68	233.3	14.86468	29.8757	9.7728247	305.70175	63.35	29,704.60
March 10	56.37	13.68	418.94	332.34	9.607639	16.96155	4.1162665	412.0614	63.35	37,168.75
Average	65.202	20.5	293.2	256.55	22.624	25.415	7.98843	318.152		

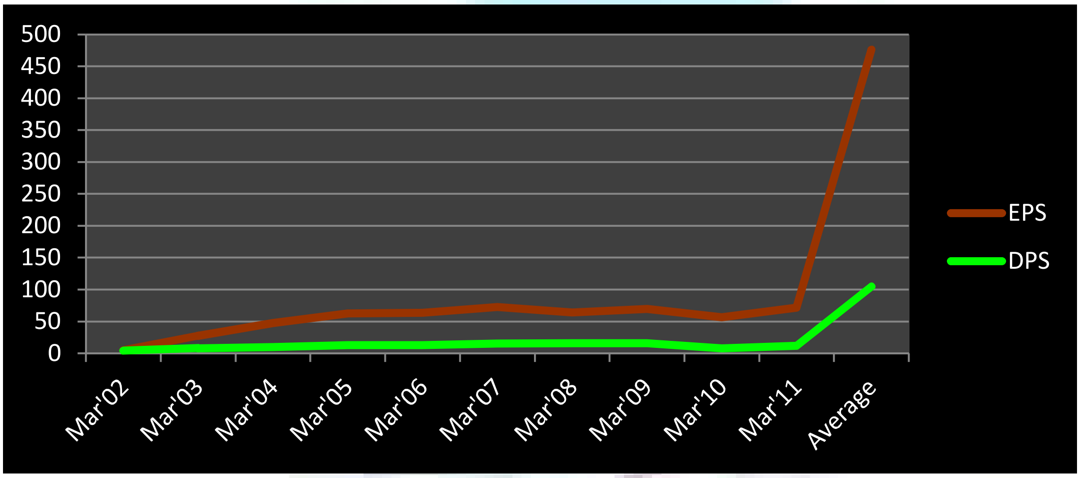


Table 10 is showing that TATA Steels EPS and DPS has been slowly and steadily growing, but in the year 2011 DPS has increased.

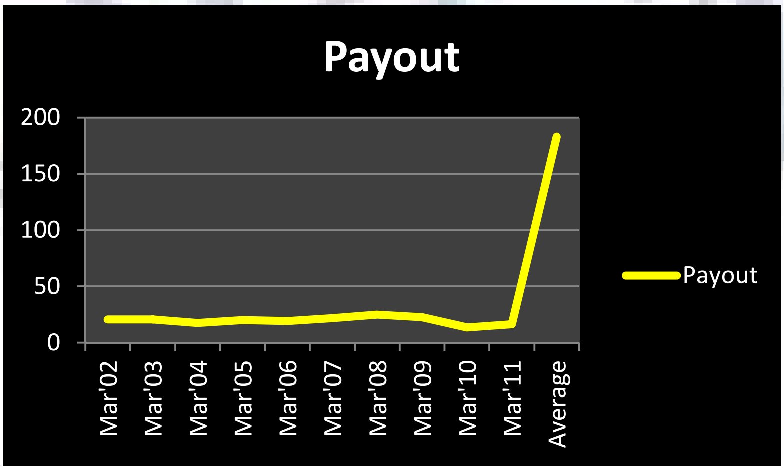


Table 10 is showing that Payout Ratio has been growing slowly from the year 2002-2010, and in 2011 it has increased faste.r It shows that company has high dividend payment and company also has slow growth with less market share price.

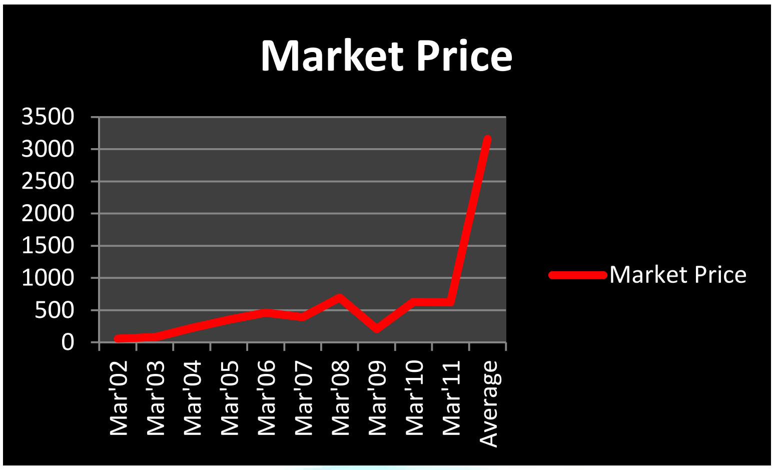


Table 10 is showing that slow growth in market price of TATA Steel shows that there is a significant relation between its EPS, DPS and Payout Ratio.

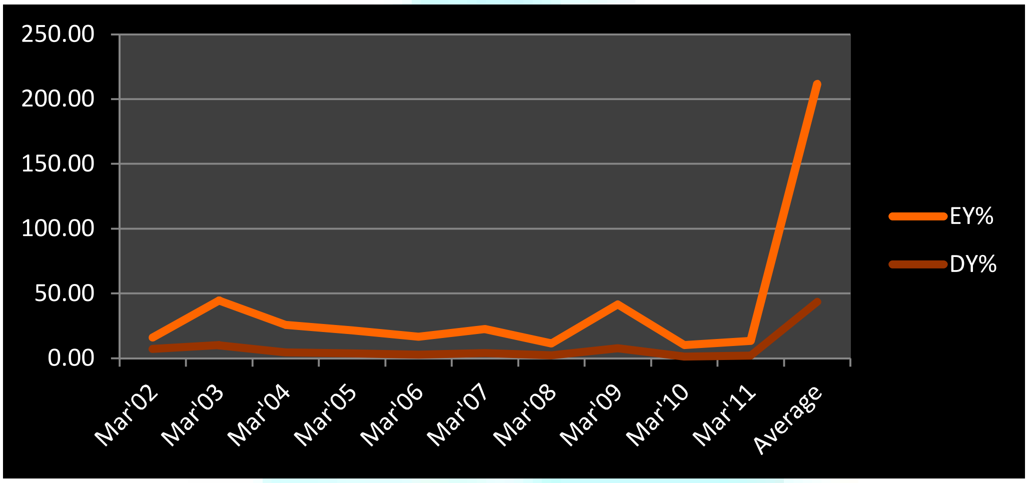


Table 10 is showing that TATA Steel Ltd. earning and Dividend yield show a wide decline after 2003 to 2008 but then it start rising. In 2011 both EY and DY are increasing in which EY has increased faster than DY. The table shows that DPS of first three years of consideration is increasing and thereafter the company has been decreasing DPS at a higher rate. The dividend payout ratio of the company is gradually decreasing during the study period other than 2010. Overall, we can say that Tata Steel Ltd. is following a conservative dividend policy

ANALYSIS FOR DESCRIPTIVE STATISTICS
FOR EPS

TABLE 11

Mean	65.202
Standard Error	2.831214
Median	63.85
Mode	#N/A
Standard Deviation	6.330787
Sample Variance	40.07887
Kurtosis	-0.42228
Skewness	-0.29302
Range	16.37
Minimum	56.37
Maximum	72.74
Sum	326.01
Count	5

Average mean is 65.202, means earning per share for last five year is 65.202.Median is 63.85, means mid 50 % values are around 63.85. The Standard Deviation is used in statistics to measure the variability or dispersion of a data set. The standard deviation analysis looks at the difference between the proportion of the average EPS and EPS of all five year. This difference has a normal distribution with a mean and standard deviation. It is 6.330787, which shows that EPS is varying 6.330787 times to its average value, which is 65.202. Range, between minimum 56.37 and maximum 72.74, is 16.37. Skewness measures the symmetry of the distribution. Here it is negative, means mode is greater than medium and medium is greater than mean. It is an unsymmetrical. Moments is used to know construction and formation of distribution and kutosis for the mode of a frequency curve. A distribution with negative excess kurtosis distribution has a lower, wider peak around the mean and thinner tails, means data are not clustering of frequencies which are in middle. So it shows about more scattered EPS from its central values.

FOR DPS

Table 12

Mean	20.494
Standard Error	1.938849
Median	21.9
Mode	#N/A
Standard Deviation	4.335398
Sample Variance	18.79568
Kurtosis	1.123066
Skewness	-1.10661
Range	11.25
Minimum	13.68
Maximum	24.93
Sum	102.47
Count	5

Average mean is 20.494, means earning per share for last five year is 20.494. Median is 21.9; means mid 50 % values are around 21.9. The Standard Deviation is used in statistics to measure the variability or dispersion of a data set. The standard deviation analysis looks at the difference between the proportion of the average DPS and DPS of all five year. This difference has a normal distribution with a mean and standard deviation. It is 4.335398, which shows that DPS is varying times 4.335398 to its average value, which is20.494. Range, between minimum 13.68 and maximum 24.93, is 11.25.

FOR DFL

TABLE 13

Mean	2.636667
Standard Error	1.899319
Median	1.04
Mode	#N/A
Standard Deviation	3.289716
Sample Variance	10.82223
Kurtosis	#DIV/0!
Skewness	1.669585
Range	5.97
Minimum	0.45
Maximum	6.42
Sum	7.91
Count	3

Average mean is 2.636667, means earning per share for last five year is 2.636667. Median is 1.04, means mid 50 % values are around 1.04. The Standard Deviation is used in statistics to measure the variability or dispersion of a data set. The standard deviation analysis looks at the difference between the proportion of the average DFL and DFL of all five year. This difference has a normal distribution with a mean and standard deviation. It is 3.289716, which shows that DFL is varying 3.289716 times to its average value, which is 2.636667. Range, between minimum 0.45 and maximum 6.42 , is 5.97.

FINANCIAL LEVERAGE, EARNING AND DIVIDEND

The first finding follows that the company has positive relationship as well positive effect of financing leverage on earnings per share. Earning per share has been fluctuating with the variation in the financial leverage. Now if we want to establish a relationship between financial leverage, earnings per share and dividend per share has been increasing with increase in the earning per share and decrease in the degree of financial leverage with the decrease in EPS. General view is that higher the earnings, greater is the dividend and higher impact on financial leverage. In the second year consideration, there is no change in the DPS through there is a slight increase in the EPS. Almost in all the remaining years there is an increase in DPS with the increase in the EPS except 2007-09. But the proportionate increase in DPS is less than that of EPS during the period of six years from 2002-03 to 2006-07. As a consequence D/P ratio has been decreasing during the study period.

CONCLUSION

Tata Steel Ltd. is enjoying the benefit of accepted leverage theorem and accrued operation of financial leverage. So leverage theorem is a general rule. The dividend policy of the company is conservative. The company has been maintaining a decreasing trend in its dividend pay-out. The company was enabling to maximize the EPS by the reverse operation of financial leverage. The company successfully pulled down the degree of financial leverage to reap the EPS advantage. Thus the objective of this paper to maximize the EPS through judicious operation of financial leverage has been fulfilled

REFERENCES

1. Banerjee, B., Financial Policy and Management Accounting, The world Press Pvt. Ltd., Calcutta, 1995.
2. Compsey, B.J., Eugene F.Brightman. Introduction to Financial Management. The Dry den press, New York, 1985, p.533.
3. Gitma,J.L., Principle of managerial Finance, Harper & Row, New York ,p.84
4. H.G. guthmann and H.E. Doughall, Corporate Financial policy, (New York: Prentice Hall, 1955). P.387.
5. Hyderabad, R.L., EPS management: an analysis, The Management Accountant, Vol.32 No.3 March, 1997.
6. James E. Walter," Determination of technical Solvency" The journal of business, Vol.30, Jan, 1957, pp. 30. 30-43.
7. Khan,M.Y and .Jain,P.K., Financial Management, text & Problems, Tata McGraw-Hill Publishing Co ltd., New Delhi,1992.
8. Patra,Santimoy, effect of debt financing on capital structure decision, The Management Accoutant,Vol.35,No.9,September,2000

ANNEXURE

A- BALANCE SHEET OF TATA STEEL LTD.

	Mar ' 10	Mar ' 09	Mar ' 08	Mar ' 07
Sources of funds				
Owner's fund				
Equity share capital	887.41	730.79	730.78	580.67
Share application money	-	-	-	147.06
Preference share capital	-	5,472.66	5,472.52	-
Reserves & surplus	36,281.34	23,501.15	21,097.43	13,368.42
Loan funds				
Secured loans	2,259.32	3,913.05	3,520.58	3,758.92
Unsecured loans	22,979.88	23,033.13	14,501.11	5,886.41
Total	62,407.95	56,650.78	45,322.42	23,741.48
Uses of funds				
Fixed assets				
Gross block	22,306.07	20,057.01	16,479.59	16,029.49
Less : revaluation reserve	-	-	-	-
Less : accumulated depreciation	10,143.63	9,062.47	8,223.48	7,486.37
Net block	12,162.44	10,994.54	8,256.11	8,543.12
Capital work-in-progress	3,843.59	3,487.68	4,367.45	2,497.44
Investments	44,979.67	42,371.78	4,103.19	6,106.18
Net current assets				
Current assets, loans & advances	13,425.27	11,591.66	38,196.34	14,671.91
Less : current liabilities & provisions	12,003.02	11,899.95	9,755.78	8,279.70
Total net current assets	1,422.25	-308.29	28,440.56	6,392.21
Miscellaneous expenses not written	-	105.07	155.11	202.53
Total	62,407.95	56,650.78	45,322.42	23,741.48
Notes:				
Book value of unquoted investments	44,243.24	41,665.63	3,790.47	5,793.46
Market value of quoted investments	4,397.79	1,491.89	3,260.65	2,979.00
Contingent liabilities	13,184.61	12,188.55	9,250.08	7,185.93
Number of equity shares outstanding (Lacs)	8872.14	7305.92	7305.84	5804.73

AN ANALYTICAL STUDY ON EFFECTS OF CORPORATE GOVERNANCE DISCLOSURE TO FINANCIAL PERFORMANCE

PAYAL THAKAR
ASST. PROFESSOR
TAKSHASHILA COLLEGE OF MANAGEMENT & TECHNOLOGY, SARDAR PATEL UNIVERSITY
BAKROL

JAIMIN H. TRIVEDI
ASST. PROFESSOR
TAKSHASHILA COLLEGE OF MANAGEMENT & TECHNOLOGY, SARDAR PATEL UNIVERSITY
BAKROL

CHHAYA PRAJAPATI
ASST. PROFESSOR
TAKSHASHILA COLLEGE OF MANAGEMENT & TECHNOLOGY, SARDAR PATEL UNIVERSITY
BAKROL

ABSTRACT
This paper attempts to study the legal requirement comply by the two banking units (ICICI & HDFC) according to various laws. This study will give insight in to the corporate governance disclosure practice followed by both the bank which is require to be understand by stakeholder as well as shareholder to measures the overall efficiency of the organization. Moreover, it can also give the insight into the improvement of the financial performance of the organization.

KEYWORDS
ICICI, HDFC, disclosure practice.

INTRODUCTION
Modern day business has always suffered from dilemma of the sole goal of profit maximization or other goals like personal interests of managers. Values & ethics are loosing its existence in run for profit. So, good corporate governance practices are necessary to focus the board's attention towards rules, regulations, laws, policies, ethics, social responsibility etc. Good Corporate Governance encompasses all actions aimed at providing its citizens good quality of life. It relates with a code of conduct which the management of a company observes while exercising its power. In this context, the Indian Banking sector has a special role to play, not because of the critical nature of the business, but because it is a sector that has large public ownership.
The data contained in the Corporate Governance Report of the banks are results of the combined effect of Clause 49 of Listing Agreement of SEBI, Accounting Standards and conventions, Companies Act 1956, Banking Regulation Act 1949 and Companies Philosophy & code of conduct. Corporate Governance is about commitment to values and ethical business conduct. CG is necessary for maintaining public trust & to achieve business success. CG includes corporate policies & the manner in which it deals with various stakeholders. Here the researcher has tried to analyses CG Practices with regard to various stakeholders' interest.

ICICI
ICICI Bank is India's largest private sector bank and second largest overall in terms of assets. It was promoted in 1994 by ICICI, an Industrial development financial institution. A new generation bank, ICICI Bank started with all the latest technologies to hit the Indian banking industry in the second half of the nineties. All its branches are fully computerized with the state-of-the-art technology and systems, networked through VSAT technology. The bank is connected to the SWIFT international network. The bank is also keen to offer its services to the Indian agricultural sector. ICICI Bank offers a wide range of banking products and financial services to corporate and retail customers through a variety of delivery channels and specialized subsidiaries and affiliates in the areas of investment banking, life and non-life insurance, venture capital and asset management. ICICI Bank is also the largest issuer of credit cards in India. ICICI Bank has got its equity shares listed on the stock exchanges at Kolkata and Vadodara, Mumbai and the National Stock Exchange of India Limited, and its ADRs on the New York Stock Exchange (NYSE).

HDFC
It is the first Private Bank in India to receive a principle approval from the Reserve Bank of India to set up a bank in the private sector banks in India as part of the RBI's liberalization policy of the Indian Banking Industry. It was promoted by House Development Finance Corporation (HDFC) & incorporated in August 1994 as HDFC Bank Limited. The Bank has a network of 1725 branches in 771 cities across India. All branches are linked on an online real-time basis. Customers in over 500 locations are also serviced through Telephone Banking. The Bank also has a network of 3898 ATMs across India. HDFC Bank operates in a highly automated environment in terms of information technology and communication systems. All the bank's branches have online connectivity

RESEARCH METHODOLOGY
In this study the focus is to make comparison between two banking units. So as to analyze the extent of Corporate Governance Disclosure Practices of both the banks. Various tools and techniques are used for assessing Corporate Governance Disclosure Practices in both the banks. The data has been collected from the published annual report of 5 years, i.e. from 2005 to 2009.There are many techniques used to analyze Corporate Governance Disclosure Practices like:
- Item wise disclosure of CG
- Comparative financial statements

The detail regarding each of the above devices is discussed in following pages.

ITEM WISE DISCLOSURE OF CG
In order to discuss the concept of CG in Banking Industry, the annual reports of two banks for the year 2006-07 to 2008-09 have been analyzed. After scanning of annual report of these banks, 27 mandatory items, other non-mandatory items & other expected items of disclosure through CG has been identified. It is in relation to these items that the disclosure level of CG has been studied. The items of disclosure is based on Clause 49 of Listing Agreement & some expected disclosures are based on the recommendation of some authority like ICSI etc & at the rational of researcher at stakeholder's view point. The items wise disclosure has been calculated by the ratings. For the compliance of mandatory requirements 1 point is assigned, for the compliance of non-mandatory requirements 2 points are assigned, for the compliance of expected items 3 points are assigned & for the non-compliance in each case 0 point is assigned

TABLE 1: ITEM WISE DISCLOSURE OF CORPORATE GOVERNANCE OF ICICI BANK

Sr. No.	Disclosure of Bank in Different Years in Score	2004-05	2005-06	2006-07	2007-08	2008-09	Mean
A	**Disclosure of Mandatory Items**						
1	Corporate Governance Philosophy	1	1	1	1	1	1
2	Composition of BOD and Category of Directors	1	1	1	1	1	1
3	Disclosure on number of meetings held and information thereof.	1	1	1	1	1	1
4	Attendance particulars of last AGM	1	1	1	1	1	1
5	Declaration reveling that the number of posts held do not exceed the stipulated norms.	0	0	0	0	0	0
6	List of companies where the Board also hold position.	0	0	0	0	0	0
7	Compliance of minimum requirements of the number of independent directors in the committee.			1	1	1	1
8	Chairman is independent director	1	1	1	1	1	1
9	Compliance of minimum requirement of the number of meetings of the committee.	1	1	1	1	1	1
10	Information regarding the literacy and expertise of the team members.	0	0	0	0	0	0
11	Information regarding participation of head of finance, chief internal auditor in the meetings.	0	0	0	0	0	0
12	Permission to obtain information from outside council or other expert at the company's expense.	1	1	1	1	1	1
13	Information regarding number of meetings held and attendance for the meetings.	1	1	1	1	1	1
14	Disclosure of remuneration policy.	1	1	1	1	1	1
15	Details of remuneration to all directors, as per format in the report.	1	1	1	1	1	1
16	Information regarding number of meetings held and attendance thereof.	1	1	1	1	1	1
17	Information regarding nature of complaints and queries received and disposed, item wise.	1	1	1	1	1	1
18	Name of non-executive directors heading the committee and the name and designation of the compliance officer.	1	1	1	1	1	1
19	General body meetings and information thereof.	1	1	1	1	1	1
20	Disclosure on materially significant related party transaction.	1	1	1	1	1	1
21	Details of non-compliance by the company, penalties and strictures imposed on the company by stock exchange or SEBI or any statutory authority, on any matter related to capital markets during the last three years.	1	1	1	1	1	1
22	Means of communication.	1	1	1	1	1	1
23	Shareholders information.	1	1	1	1	1	1
24	Code of conduct/ethics	1	1	1	1	1	1
25	Policy prohibiting insider treading	1	1	1	1	1	1
26	A whistle blower policy	1	1	1	1	1	1
27	CEO/ CFO certification.	1	1	1	1	1	1
B	**Disclosure of non-mandatory requirements**						
28	The company has set up a remuneration committee comprising of : -At least 3 non-executive directors -Compliance of the provision of independent director as chairman of the committee.	2	2	2	2	2	2
29	Chairmen of board is not an executive chairman.	2	2	2	2	2	2
30	Quarterly financial report is made available to shareholders by way of newspaper and website.	2	2	2	2	2	2
31	Postal ballot.	2	2	2	2	2	2
32	Audit qualification by continuous best audit practice.	0	0	0	0	0	0
33	Training of board members.	0	0	0	0	0	0
34	Office space for non-executive chairman.	0	0	0	0	0	0
35	Separation of the role of the CEO & Chairman.	2	2	2	2	2	2
36	Segment wise operational performance.	2	2	2	2	2	2
37	Disclosure regarding compliance/non-compliance of non-mandatory requirements.	0	0	0	0	0	0
38	Mechanism for evaluating non-executive Board Members.	0	0	0	0	0	0
C	**Expected Items of Disclosure**						
39	Functions of Board	0	0	0	0	0	0
40	Date of Appointment of Director	0	0	0	0	0	0
41	Retirement age/Tenure of Directors.	0	0	0	0	0	0
42	Relationship with other directors	0	0	0	0	0	0
43	Shareholding of the directors	3	3	3	3	3	3
44	Information on scheduling & selection of agenda items.	0	0	0	0	0	0
45	Duration of gap between two meetings	0	0	0	0	0	0
46	Procedure of board & committee meetings	0	0	0	0	0	0
47	Formation of committees :						
	• Corporate Governance committee	0	0	0	0	0	0
	• Ethics committee	0	0	0	0	0	0
	• Nomination committee	0	0	0	0	0	0
	• Investment committee	0	0	0	0	0	0
	• Management committee	0	0	0	0	0	0
	• Research & Development committee	0	0	0	0	0	0
	• Miscellaneous	3	3	3	3	3	3
48	Code of conduct for directors/ senior management personnel			3	3	3	3
49	Corporate governance rating	0	0	0	0	0	0
50	Insider trading code	3	3	3	3	3	3
51	Audit committee report	0	0	0	0	0	0
52	Investors' grievance committee report	0	0	3	3	3	3
53	Top 10 shareholders of the company	3	3	3	3	3	3
54	Electronic clearing service (ECS)Mandate	3	3	3	3	3	3
55	Award for corporate governance	0	0	0	0	0	0
		57	57	57	57	57	57

Source: Annual Report

TABLE 2: ITEM WISE DISCLOSURE OF CORPORATE GOVERNANCE OF HDFC BANK

Sr. No	Disclosing Banks in different Years in score	2004-05	2005-06	2006-07	2007-08	2008-09	Mean
A	**Disclosure of Mandatory Items**						
1	Corporate Governance Philosophy	1	1	1	1	1	1
2	Composition of BOD and Category of Directors	1	1	1	1	1	1
3	Disclosure on number of meetings held and information thereof.	1	1	1	1	1	1
4	Attendance particulars of last AGM	1	1	1	1	1	1
5	Declaration reveling that the number of posts held do not exceed the stipulated norms.	1	1	1	1	1	1
6	List of companies where the Board also hold position.	1	1	1	1	1	1
7	Compliance of minimum requirements of the number of independent directors in the committee.	1	1	1	1	1	1
8	Chairman is independent director	1	1	1	1	1	1
9	Compliance of minimum requirements of the number of meetings of the committee.	1	1	1	1	1	1
10	Information regarding the literacy and expertise of the team members.	1	1	1	1	1	1
11	Information regarding participation of head of finance, chief internal auditor in the meetings.	1	1	1	1	1	1
12	Permission to obtain information from outside council or other expert at the company's expense.	1	1	1	1	1	1
13	Information regarding number of meetings held and attendance for the meetings.	1	1	1	1	1	1
14	Disclosure of remuneration policy.	1	1	1	1	1	1
15	Details of remuneration to all directors, as per format in the report.	1	1	1	1	1	1
16	Information regarding number of meetings held and attendance thereof.	1	1	1	1	1	1
17	Information regarding nature of complaints and queries received and disposed, item wise.	1	1	1	1	1	1
18	Name of non-executive directors heading the committee and the name and designation of the compliance officer.	1	1	1	1	1	1
19	General body meetings and information thereof.	1	1	1	1	1	1
20	Disclosure on materially significant related party transaction.	1	1	1	1	1	1
21	Details of non-compliance by the company, penalties and strictures imposed on the company by stock exchange or SEBI or any statutory authority, on any matter related to capital markets during the last three years.	1	1	1	1	1	1
22	Means of communication.	1	1	1	1	1	1
23	Shareholders information.	1	1	1	1	1	1
24	Code of conduct/ethics	1	1	1	1	1	1
25	Policy prohibiting insider treading	1	1	1	1	1	1
26	A whistle blower policy	1	1	1	1	1	1
27	CEO/ CFO certification.	1	1	1	1	1	1
B	**Disclosure of non-mandatory requirements:**						
28	The company has set up a remuneration committee comprising of : -At least 3 non-executive directors -Compliance of the provision of independent director as chairman of the committee.	2	2	2	2	2	2
29	A chairman of board is not an executive chairman.	2	2	2	2	2	2
30	Quarterly financial report is made available to shareholders by way of newspaper and website.	0	0	0	0	0	0
31	Postal ballot.	2	2	2	2	2	2
32	Audit qualification by continuous best audit practice.	2	2	2	2	2	2
33	Training of board members.	2	2	2	2	2	2
34	Office space for non-executive chairman.	2	2	2	2	2	2
35	Separation of the role of the CEO & Chairman.	2	2	2	2	2	2
36	Segment wise operational performance.	2	2	2	2	2	2
37	Disclosure regarding compliance/non-compliance of non-mandatory requirements.	2	2	2	2	2	2
C	**Expected Items of Disclosure**						
39	Functions of Board	3	3	3	3	3	3
40	Date of Appointment of Director	0	0	0	0	0	0
41	Retirement age/Tenure of Directors.	0	0	0	0	0	0
42	Relationship with other directors	0	0	0	0	3	0.6
43	Shareholding of the directors	3	3	3	3	3	3
44	Information on scheduling & selection of agenda items.	0	0	0	0	0	0
45	Duration of gap between two meetings	0	0	0	0	0	0
46	Procedure of board & committee meetings	0	0	0	0	0	0
47	Formation of committees :						
	• Corporate Governance committee	0	0	0	0	0	0
	• Ethics committee	0	0	0	0	0	0
	• Nomination committee	3	3	3	3	3	3
	• Investment committee	0	0	0	0	0	0
	• Management committee	0	0	0	0	0	0
	• Research & Development committee	0	0	0	0	0	0
	• Miscellaneous	3	3	3	3	3	3
	• Risk Management Committee	3	3	3	3	3	3
48	Code of conduct for directors/ senior management personnel	3	3	3	3	3	3
49	Corporate governance rating	3	3	3	3	3	3
50	Insider trading code	3	3	3	3	3	3
51	Audit committee report	0	0	0	0	0	0
52	Investors' grievance committee report	3	3	3	3	3	3
53	Top 10 shareholders of the company	3	3	3	3	3	3
54	Electronic clearing service (ECS)Mandate	3	3	3	3	3	3
55	Award for corporate governance	0	0	0	3	0	0.6
		78	78	78	81	81	79.2

Source: Annual Reports

INFERENCES

It is clear from the above table that HDFC Bank discloses more items then ICICI Bank. HDFC Bank has disclosed all required items while ICICI Bank needs to disclose more items for better disclosure. There are 27 items of information which have been fully disclosed by HDFC Bank and 23 items of information which have been fully disclosed by ICICI Bank for all five years of the study. There are 9 items disclosed by HDFC Bank & 5 items disclosed by ICICI Bank which are in nature of non-mandatory. There are 11 expected items are disclosed by HDFC Bank whereas the ICICI Bank has disclosed 7 items.

1. DISCLOSURE ABOUT CORPORATE GOVERNANCE CODE

The disclosure of corporate governance code reflects the commitment of the management towards the performance of its duties for the steady growth of the company and enhancing shareholders' value. Both the banks have developed corporate governance philosophy and the mean disclosure of this item is fully disclosed for the years of study.

2. DISCLOSURE ABOUT BOARD OF DIRECTORS

The disclosure about BODs requires certain items such as constitution of board, composition of board, profile of the directors, function of board, date of appointment of the director, training of Board members, retirement age or tenure of directors, relationship with other directors, shareholdings of the directors details of Board meetings, attendance of directors, relationship with other directors etc. The first three items are amongst the mandatory requirements and disclosed by HDFC Bank where as ICICI Bank has not disclosed the profile of the directors. The remaining items are among the non-mandatory and expected items in which certain items are disclosed and certain not.

3. DISCLOSURE ABOUT SPECIALIZED BOARD COMMITTEES

There are many items disclosed by both the banks, like names of committees, its members, number of meetings during the year, head of the committee, attendance of directors etc. But in audit committee there is one of the requirements for members is that minimum one person must possess qualification in the area of accounting and finance. But ICICI has mentioned this detail.

4. DISCLOSURE ABOUT ANNUAL GENERAL MEETING

Day, date, time and venue of AGM have been disclosed by both banks. Since the disclosure of these items is compulsory as per the companies Act 1956, so the disclosure score is 100 percent.

5. DISCLOSURE ABOUT CAPITAL RELATED MATTERS

Both the banks disclose listing with various stock exchanges and their stock code has been given by both the banks for all the years of study. Date of listing is given by both the banks. Both the banks have disclosed 11 & 12 matters regarding shareholders of ICICI & HDFC respectively.

6. DISCLOSURE ABOUT SHARES

Out of 6 items included under this head, 2 items i.e. distribution pattern of shares and categories of shareholders have been reported by both the banks. Data about shareholding patterns of both the banks has been disclosed with the percentage and number of shareholders. Both the banks have given information regarding Registrar and transfer agent and share transfer system.

7. MISCELLANEOUS DISCLOSURE

Out of the 3 items included under this head, 1 item of auditor certificate of corporate governance compliance has been given by both the banks for all years, since this disclosure is compulsory as per clause 49 of the Listing Agreement of SEBI, so the disclosure is 100 percent. Director responsibility statement is also attached.

8. NON-MANDATORY DISCLOSURE

Out of 10 non-mandatories Disclosure, HDFC Bank has Disclosure 9 items and ICICI Bank has Disclosed 5 items.

As per Clause 49 of Listing Agreement of SEBI both the banks has disclosed mandatory, non-mandatory, some expected requirement of CG. In this study the score of total disclosure is 78.67 & 55 of respectively.

From this above analysis, it is obvious that both the banks in India have started evolving the concept of CG and are following the regulatory framework of Companies Act, Banking Regulation Act, SEBI and other regulatory bodies. But as per above ratings of score the HDFC Bank has followed better CG Practices than ICICI Bank.

COMPARATIVE STUDY OF FINANCIAL STATEMENTS

In these statements, the financial data for two or more years are presented in adjacent columns so that it may provide a true perspective in order to facilitate comparison. The objective of comparative financial statements is to ascertain the changes occurring year by year in each item of assets, liabilities & net worth shown in the financial statements of a business firm and whether such changes are favorable or adverse. There are two types of comparative statements:

- Comparative Balance Sheet
- Comparative Income Statement

COMPARATIVE BALANCE SHEET

Comparative Balance Sheet is the study of the trend of the same items, group of items and computed items in two or more balance-sheets of the same business enterprise on different dates. The study of comparative balance-sheet helps in framing an opinion about the progress of an enterprise. Comparative balance-sheets of ICICI Bank & HDFC Bank for the period of 2006-07 to 2008-09 are given in table respectively.

TABLE 3: COMPARATIVE BALANCE SHEET OF ICICI BANK FOR THE PERIOD 2005 - 2009

(Rs. in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Capital and Liabilities					
Capital	1086	1239	1249	1463	1463
Reserves and surplus	11813	21316	23414	45385	48420
Deposits	99818	165083	230510	244431	218348
Borrowings	33544	38521	51256	65648	673234
Other liabilities & Provisions	21396	25228	38229	42895	43795
Total Capital and Liabilities	167657	251387	344658	399793	379310
Assets					
Cash & balance with RBI.	6345	8343	18407	29378	17536
Balance with banks & money at call & short notice	6586	8106	18414	8664	12430
Investment	50488	71548	91257	111454	103058
Advances	91406	146163	195866	225614	218310
Fixed assets	4038	3980	3924	4107	3802
Other assets	8704	12657	16490	20575	24164
Total Assets	167657	251387	344658	399793	379310

Source: Annual Reports

The Table 3 reveals that:

1. The total fund from all the sources were Rs 167657 crore,251389 crore, 344658 crore, 399793 crore, and 379310 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. The total fund is continuously increasing from 2004-05 to 2007-08. But there is little decrease in 2008-09. As the decrease is minor, it can be said that ICICI Bank has been making satisfactory progress as regards to total sources of fund.
2. The main source of funds is deposits. The amount of deposit was Rs 99818 crore, 165083 crore, 230510 crore, 244431 crore, 218348 crore for 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. The trend is increasing during the period of 2004-05 to 2007-08. There is little decrease in 2008-09. Still it can be said that the bank is getting good amount of deposits.
3. The capital is showing increasing trend but not much drastic increase is there. The increase in capital is negligible. It was Rs 1084 crore, 1239 crore, 1249 crore, 1463 crore, 1463 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively.
4. The reserve & surplus increased greatly during the period of study. The reason may be the increase in profit. It was Rs 11813 crore, 21316 crore, 23414 crore, 45358 crore, 48420 crore for 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively.
5. Borrowing & other liability is also showing increasing trend. The borrowings were Rs 33544 crore, 38521 crore, 51256 crore, 65648 crore, 67324 crore for 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. The other liabilities were Rs 21396 crore, 25228 crore, 38229 crore, 42895 crore, 43795 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively.
6. Looking at the application of fund, it is found that the most important use has been investment and advances. Advances were Rs 91406 crore, 146163 crore, 195866 crore, 225614 crore, 218310 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. The amount of investments were Rs 50488 crore, 71548 crore, 195866 crore, 225614 crore, 218310 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. Investments and advances are increased that means the bank can earn good amount of income from the two sources.
7. The amount of cash & reserve with RBI shows increasing trend which will increase bank’s creditability. It was Rs 6345 crore, 8344 crore, 18407 crore, 29378 crore, 17536 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. There is decrease in 2008-09 which give negative impact. Investment & advances are increased that means the bank can earn good amount of income from both the two sources.
8. There is increase & decrease in Money at call & short notice. So, it can said that the liquidity position of the bank is unstable. It was Rs 6586 crore, 8106 crore, 18414 crore,8664 crore, 12430 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively.
9. There is increase & decrease in fixed assets during the period of study whereas other assets shows increasing trend. The fixed assets were Rs 4038 crore, 3980 crore, 3924 crore, 4107 crore, 3802 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. The other assets were Rs 8704 crore, 12658 crore, 16490 crore, 20575 crore, 24164 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively

From the above analysis it is clear that during the period of 2004-05 to 2007-08 the bank is showing progressive trend, but in 2008-09 the position of bank is weak compare to other years.

TABLE 4: COMPARATIVE BALANCE SHEET OF HDFC BANK FOR THE PERIOD 2005 TO 2009

(Rs. in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Capital and Liabilities					
Capital	310	313	319	354	425
Equity Share Warrant	-	-	-	-	401
Reserve & Surplus	4210	4986	6114	11143	14221
Employee stock option outstanding	0.4	0.07	-	-	5
Deposits	36354	55797	68298	100769	142811
Borrowings	4790	2858	2815	4595	2686
Subordinate debt	500	1702	-	-	-
Other liability & Provisions	5263.6	7848.03	13689	16316	22721
Total Capital and Liabilities	**51429**	**73506**	**91235**	**133177**	**183270**
Assets					
Cash & balances with RBI	2650	3307	5075	12553	13527
Balances with bank & money at call & short notice	1824	3612	3971	2225	3979
Investment	19350	28394	30565	49394	58818
Advances	25566	35061	46945	63427	98883
Fixed assets	708	855	967	1175	1707
Other assets	1330	2277	3712	4403	**6356**
Total Assets	**51429**	**73506**	**91235**	**133177**	**183270**

Source: Annual Reports

The Table 4 reveals that:

1. The total fund from all the sources were Rs 51429 crore,73506 crore, 91235 crore, 133177 crore, and 183270 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. The total fund is continuously increasing from 2004-05 to 2008-09. It can be said that HDFC Bank has been making satisfactory progress as regards to total sources of funds.
2. The main source of funds is deposits. The amount of deposit was Rs 36354 crore, 55797 crore, 68298 crore, 100769 crore, 142811 crore for 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. The trend is increasing during the period of study. It is good sign for the bank.
3. The capital is showing increasing trend. It was Rs 310 crore, 313 crore, 319 crore, 354 crore, 425 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. In 2004-05, 2005-06 & 2008-09 the bank has given shares as employee stock option. The amount is 40 lacs,7 lacks & 5 crore respectively. Here it can be said that the bank is having good H R Policy.
4. The reserve & surplus increased during the period of study. The reason may be the increase in profit. It was Rs 4210 crore, 4986 crore, 6114 crore, 11143 crore, 14221 crore for 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively.
5. There is increase & decrease in borrowings. It were Rs 4790 crore, 2858 crore, 2815 crore, 4595 crore, 2686 crore for 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively
6. Other liabilities are also showing increasing trend. It were Rs 5264 crore, 7849 crore, 13689 crore, 16316 crore, 22721 crore for 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively.
7. Looking at the application of fund, it is found that the most important use has been investment and advances. Advances were Rs 25566 crore, 35061 crore, 46945 crore, 63427 crore, 98883 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. The amount of investments were Rs 19350 crore, 28394 crore, 30565 crore, 49394 crore, 58818 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. Investments and advances are increased that means the bank can earn good amount of income from the two sources.
8. The amount of cash & reserve with RBI shows increasing trend which will increase bank’s creditability. It was Rs 2650 crore, 3307 crore, 5075 crore, 12553 crore, 13527 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively.
9. There is increase & decrease in Money at call & short notice. So, it can said that the liquidity position of the bank is unstable. It was Rs 1824 crore, 3612 crore, 3971 crore,2225 crore, 3979 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively.

10. There is increase in fixed assets & other assets during the period of study. The fixed assets were Rs 708 crore, 855 crore, 967 crore, 1175 crore, 1707 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. The other assets were Rs 1330 crore, 2277 crore, 3712 crore, 4403 crore, 6356 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively

From the above analysis it is clear that the financial position of the bank is healthy & good.

COMPARISON OF INCOME STATEMENT

The Comparative Profit & Loss a/c or Income Statement shows the operational results of business for a number of accounting periods. So that change in absolute figures from one period to another period may be stated in terms of money, value & percentages. The comparative P & L A/C is helpful in deriving meaningful conclusions regarding changes in sales variables, cost of goods sold, different expenses etc.

TABLE 5: COMPARATIVE P&L A/C OF ICICI BANK FOR THE PERIOD 2004-05 TO 2008-09

(Rs. in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Income					
Interest earned	9410	14306	21996	30788	31093
Other income	3416	4181	6928	8810	7604
Total income	12826	18487	28924	39599	38696
Expenditure					
Interest expended	6571	9597	16358	23484	22726
Operating expenses	3178	5001	6691	8154	7045
Provision & contingencies	1072	1348	2764	3803	5167
Total expenditure	10821	15946	25813	35441	34938
Profit & loss					
Net profit for the year	2005	2540	3110	4158	3758
Profit brought foreword	53	188	293	998	2436
Total profit /loss	2058	2728	3404	5156	6194
Appropriations – transfers					
Transfer to Statutory Reserve	547	636	780	1040	940
Transfer to Capital Reserve	165	68	121	127	818
Transfer to Revenue & other reserve	90	1320	-	-	-
Transfer to Investment Fluctuation Reserve	-	590	-	-	-
Transfer from Investment fluctuation Reserve	-	(1320)	-	-	-
Transfer to Special Reserve	250	275	450	175	250
Proposed Equity Share Dividend	723	759	1228	1224	1225
Corporate Dividend Tax	95	106	153	149	151
Balance Carried Over to Balance-Sheet	188	293	998	2436	2810
Total	2058	2727	3404	5156	6194

Source: Annual Reports

The Table 5 reveals that:

1. The total income of bank includes interest income & other income. Both the income shows increasing trend. It was 12826 crore, 18487 crore, 28924 crore, 39599 crore, 38696 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. Out of total, income the major portion is of interest income during the period of study. More than half amount of total income was in form of interest income. The interest income was 77.10% in 2004-05, 73.15% in 2005-06, 76.05% in 2006-07, 78.50% in 2007-08, 79.56% in 2008-09.
2. The amount of total expenditure of bank includes interest expense, operating expense & provision & contingencies. The total expenditure shows increasing trend. It were Rs10821 crore, 15946 crore, 25813 crore, 35441 crore, 34938 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. The major expense of bank is interest expense during the period of study. More than half amount of total expense was in form of interest expense. The interest expense was 60.72% in 2004-05, 60.18% in 2005-06, 63.37% in 2006-07, 66.26% in 2007-08, and 65.06% in 2008-09.
3. Looking at net profit, the trend is increasing during the period 2004-05 to 2007-08. In 2008-09 it shows decreasing trend. It was Rs 2005 crore in 2004-05, Rs. 2540 crore in 2005-06, Rs. 3110 crore in 2006-07, Rs. 4158 crore in 2007-08, Rs. 3758 in 2008-09. The reason for the decrease in net profit of 2008-09 compare to its previous years decrease in total income. But the total profit increased about three times during the period of study. It was Rs. 2058 crore in 2004-05 which reaches to Rs. 6194 crore in 2008-09.
4. The total profit of each year is distributed among various reserves like, statutory reserve, capital reserve, special reserve, investment fluctuation reserve. The remaining profit is transferred to proposed equity share dividend, & corporate dividend tax. After all these provisions the remaining amount is carried over Balance Sheet. In 2005-06 there was withdrawal from investment fluctuation reserve.

After all the above analysis it can be concluded that the bank is having good profit earning capacity.

TABLE 6: COMPARATIVE P&L A/C OF HDFC BANK FOR THE PERIOD OF 2004-05 TO 2008-09

(Rs. in crore)

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
Income					
Interest earned	3093	4475	6648	10115	16332
Other income	651	1124	1516	2283	3291
Total income	3745	5599	8164	12398	19623
Expenditure					
Interest expended	1316	1930	3179	4887	8911
Operating expenses	1085	1691	2421	3756	5533
Provision & Contingencies	678	1108	1422	2175	2934
Total expenditure	3079	4728	7023	10808	17378
Profit					
Net Profit	666	871	1141	1590	2245
Profit brought forward	405	602	1455	1932	2575
Transfer from Investment Fluctuation Reserve	-	484	-	-	-
Total	1071	1957	2596	3522	4820
Appropriation					
Transfer to Statutory Reserve	166	218	385	398	561
Proposed dividend	140	172	223	301	425
Tax on dividend	19	24	38	51	72
Transfer to general reserve	67	87	114	159	224
Transfer to capital reserve	-	-	-	-	94
Transfer to investment reserve account	75	-	-	39	(14)
Balance carried over to Balance-Sheet	602	1455	1932	2575	3456
Total	1071	1957	2596	3522	4820

Source: Annual Reports

The Table 6 reveals that:

1. The total income of bank includes interest income & other income. The total income shows increasing trend. It was Rs.3793 crore, Rs. 5599 crore, Rs. 8164 crore, Rs. 12398 crore, 19623 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. Out of total, income the major portion is of interest income during the period of study. More than half amount of total income was in form of interest income. The interest income was 82.59% in 2004-05, 79.92% in 2005-06, 81.43% in 2006-07, 81.53% in 2007-08, 83.32% in 2008-09.
2. The amount of total expenditure of bank includes interest expense, operating expense & provision & contingencies. The total expenditure shows increasing trend. It were Rs 3079 crore, 4728 crore, 7022 crore, 10808 crore, 17378 crore in 2004-05, 2005-06, 2006-07, 2007-08, 2008-09 respectively. The major expense of bank is interest expense during the period of study. About average 40% of total expense was in form of interest expense. The interest expense was 60.72% in 2004-05, 60.18% in 2005-06, 63.37% in 2006-07, 66.26% in 2007-08, and 65.06% in 2008-09.
3. Looking at net profit, the trend is increasing year by year. It was Rs 666 crore in 2004-05, Rs. 871 crore in 2005-06, Rs. 1141 crore in 2006-07, Rs. 1590 crore in 2007-08, Rs. 2245 in 2008-09. The total profit also increased about four times during the period of study. It was Rs. 1071 crore in 2004-05 which reaches to Rs. 4820 crore in 2008-09.
4. The total profit of each year is distributed among various reserves like, statutory reserve, capital reserve, special reserve, investment fluctuation reserve. The remaining profit is transferred to proposed equity share dividend, & corporate dividend tax. After all these provisions the remaining amount is carried over Balance Sheet. In 2008-09 there was withdrawal from investment fluctuation reserve.

After all the above analysis it can be concluded that the bank is having good profit earning capacity.

CONCLUSION

As we have already made an elaborate discussion on the various issues pertaining good CG, Clause 49 of Listing Agreement, the role of BODs, banks industry in India, particularly two private sector banks, their disclosures practices & financial performance. Now, here with below an attempt is made to highlight the main findings of the present investigation.

ICICI Bank has followed almost all mandatory requirements of Clause 49 of Listing Agreement except the declaration of the list of companies where the board hold position, information regarding literacy & expertise of directors, whereas the non-mandatory requirements are very rarely disclosed by it. Expected disclosures are also very rarely disclosed and over all.

HDFC Bank has disclosed of all mandatory item. It also disclosed almost all non-mandatory items & expected item. The overall score of CG disclosure practices test is 79.67

It is found from the annual report that HDFC Bank has also mentioned one separate section regarding key comparatives between US & Indian corporate governance practices as it is listed in NYSE. It includes certain standards of corporate governance that must be followed by NYSE listed companies and the cases where the Indian corporate governance rules under Clause 49 differ from those in the NYSE's listed company.

From the item wise disclosure score it is clear that HDFC Bank is having good disclosure practices then ICICI Bank. An examination of above stated paragraphs it reveals that HDFC Bank discloses more items of corporate governance with compare to ICICI Bank and therefore, the financial performance is also better than ICICI Bank during the period of study.

REFERENCES

1. C. Newquist (2007), *Corporate Governance: A Financial Perspective,* Jaico Publishing House, Mumbai.
2. Cherunilam, Francies (2003), *Business Environment Text & Cases,* Himalaya Publishing House, New Delhi.
3. Kothari C. R. (2004), *Research Methodology*, Age International Publisher's Pvt. Ltd., New Delhi.
4. Maheshwari, S.N. (2007), *Management Accounting and Financial Control,* Sultan Chand and sons, New Delhi,.
5. Prasanna Chandra (2007), *Financial Management,* Tata McGraw-Hill Publishing Company Ltd., New Delhi. 8.
6. Published Annual reports of ICICI from 2005 to 2009
7. Published Annul reports of HDFC from 2005 to 2009
8. The Institute of Company Secretaries of India (2003), *Corporate Governance – Modules of Best Practices*, Taxman Publication, New Delhi.
9. Zikmund, William G., *Business Research Mehods*, The Poyen Press, New York,

WEBSITES

10. www.icicibank.com
11. www.hdfcbank.com
12. www.google.com

A STUDY OF IMPACT OF WORKING CAPITAL MANAGEMENT ON FIRM'S PERFORMANCE: EVIDENCE FROM CEMENT INDUSTRY IN INDIA FOR THE PERIOD 2007-2011

ZOHRA ZABEEN SABUNWALA
ASST. PROFESSOR
INDIRA SCHOOL OF BUSINESS STUDIES
PUNE

ABSTRACT

The given study tries to prove a direct relationship of Working Capital Management (WCM) with firm's performance. The challenge for the firm is to decide what the optimum level is and which both the motives of profitability and liquidity can be satisfied. I have focused on to find out the relationship between WCM and firm's profitability WCM measured through Return on Total Assets (ROTA) for the cement industry in India. A sample of 60 cement companies listed on Bombay Stock Exchange has been taken for a period of 5 years (2007-2011) that is 300 firm-years.

KEYWORDS
Working Capital Management, Profitability, Return on Total Assets, Cement Industry.

INTRODUCTION
Working capital management is of prime importance for every firm. WCM has direct linkage with firm's profitability and liquidity. It is most important for every firm to meet its working capital requirements at all points of time to maintain liquidity and at the same time to keep optimum level of current assets and current liabilities in place so as not to impact profitability. Gitman (1974) argued that the cash conversion cycle was a key factor in working capital management. Actually, decisions about how much to invest in the customer and inventory accounts, and how much credit to accept from suppliers, are reflected in the firm's cash conversion cycle, which represents the average number of days between the date when the firm must start paying its suppliers and the date when it begins to collect payments from its customers. Previous studies have used measures based on the cash conversion cycle to analyze whether shortening this cycle has positive or negative effects on the firm's profitability. Empirical evidence relating working capital management and profitability in general supports the fact that aggressive working capital policies enhance profitability (Jose et al., 1996; Shin and Soenen, 1998; for US companies; Deloof, 2003; for Belgian firms; Wang (2002) for Japanese and Taiwanese firms). This suggests that reducing working capital investment is likely to lead to higher profits. In this study, I will try to find out the impact of working capital management on profitability (measured through ROTA) for the Indian Cement Industry for the period from 2007-2011 to understand this relationship.

REVIEW OF LITERATURE
LITERATURE REVIEW: WORKING CAPITAL MANAGEMENT AND PROFITABILITY
Moussawi et al in Corporate working capital management: Determinants and Consequences mainly focused on determining the relevance of the core factors to the efficiency of a firm's Working capital management. According to their findings, Working Capital efficiency positively and significantly impacts firm size, executive compensation, future firm sales growth, the proportion of outside directors on a Board, industry practices and it negatively and significantly impacts CEO share ownership. They also found that Working Capital efficiency unrelated with industry concentration. On the contrary, Filbeck[7] in An Analysis of Working Capital Management Results Across Industries found that Significant differences exist between industries across time with respect to measures of working capital measures and that working capital measures for a given firm are not static, and significant differences in these measures exist across time.

Deloof in Does Working Capital Management(WCM) Affect Profitability of Belgian Firms investigated the impact of WCM on corporate profitability by taking 2000 most important Belgian firms for the period 1991-1996 and found that Gross operating income negatively and significantly impacted by number of days accounts payable, number of days inventories, number of days accounts receivable but positively and significantly impacted by firm size (measured by the natural logarithm of sales), sales growth and fixed financial assets, and decreases with financial debt. Padachi in Trends in Working Capital Management and its Impact on Firms' Performance: An Analysis of Mauritian Small Manufacturing Firms examined the impact of accounts receivables days, inventories days, accounts payable days and CCC on Return on Total Assets (ROTA) for a sample of 58 small manufacturing companies for the period of 1997-98 to 2002-03 and found that ROTA is significantly positively and significantly affected by Operating Profit Margin and capital-turnover ratio, but negatively and significantly impacted by the measures of WCM.

The above findings were also supported by Raheman and Nasr in Working Capital Management And Profitability – Case Of Pakistani Firms and they also found that Net Operating profitability is significantly negatively impacted by measures of elements of WCM i.e. Average Payment Period, Inventory turnover in days, Average Payment Period and Cash Conversion cycle.

Another important findings by Lazardidis and Tryfonidis in Relationship between working capital management and profitability of listed companies in the Athens stock exchange on the relationship between working capital management and profitability of listed companies in the Athens stock exchange for a sample of 131 companies listed on Athens stock exchange for a period of 2001-04 also found that CCC is significantly negatively related with profitability.

Mukhopadhyay in Working capital management in heavy engineering firms studied the effectiveness of working capital management of a firm with particular reference to its short term liquidity and solvency and impact on commercial operations of the organization and found that Gross working capital is significantly positively related with Inventory, Debtors and Receivables, Loans and Advances, Other current Assets and Net working capital and significantly and negatively related with current Liabilities and provision. The study also found significantly negative relation with current liabilities and provisions.

CEMENT INDUSTRY IN INDIA
Cement industry has a vital role to play in the infrastructural and economic development of any country. India is a fast developing country providing enormous scope for the development of cement industry. The cement industry in India had been completely under the supervision and control of the government but after the economic reforms, the scenario has changed significantly. But still the government plays a major role in regulating the prices.

Demand for cement depends on industrial activity, real estate and construction activity. Indian cement industry has grown largely due to the rising demand from the housing sector, increased activity in infrastructure and construction recovery. Even in the tough conditions, Indian cement industry has been able to sustain its growth. Production and capacity of cement has been rising over the years.

Cement industry has a large number of fragmented firms. The large firms are consolidating by acquiring smaller players ones. High debt levels have adversely impacted the profitability of several cement companies.

According to a report by Department Related Parliamentary Standing Committee on Commerce (2011), the performance of cement industry has been commendable even during the global economic slowdown. The sector has survived the adverse impact as public spending on infrastructure projects remained optimum, keeping in view its multiplier effects to spur the economy. There is an interlinking relation between cement consumption and the growth of economy. The country is on a high growth track and the focus now is on the development of the infrastructure facilities such as, highways, ports, canals, bridges, power-houses etc. Infrastructural development obviously gives rise to increased demand for cement.

TABLE 1: ANNUAL DEMAND, PRODUCTION & EXPORT FIGURES FOR CEMENT INDUSTRY

(in Million Tonnes)

Year	Demand of Cement	Production of Cement	Export of Cement
2005-06	135.56	141.81	5.98
2006-07	149.34	155.64	5.89
2007-08	164.03	168.31	3.65
2008-09	177.98	181.61	3.20
2009-10	196.12	201.00	2.27

Source: Department Related Parliamentary Standing Committee on Commerce

NEED/IMPORTANCE OF THE STUDY
WCM has got a lot of emphasis in financial management of the firms. A greater extent of profitability of a firm is determined by the components of working capital management like Accounts Receivable, Accounts Payable and Inventory and Cash Conversion Cycle. Thus, it is very important to understand the relationship between working capital management and its impact on profitability of the firm. The given study will measure the impact of WCM on profitability of cement firms to understand the dynamics of liquidity management on profitability.

STATEMENT OF THE PROBLEM
To study the impact of the various components of working capital like account receivable, account payable, inventories days & cash conversion cycle, and log sales, gearing ratio on return on total assets (ROTA).

OBJECTIVES OF THE STUDY
1. To examine the impact of various components of working capital like account receivable, account payable, inventories days and cash conversion cycle on return on total assets (ROTA)
2. To examine the impact of firm size measured by natural log of sales on return on total assets (ROTA)
3. To examine the impact of leverage measured by gearing ratio on return on total assets (ROTA)
4. To analyze the trend in working capital needs of the firms in cement sector

HYPOTHESIS
1. H0: Cash Conversion Cycle does not significantly impacts the ROTA of cement firms listed on Bombay Stock Exchange
2. H0: Accounts Receivable days does not significantly impacts the ROTA of cement firms listed on Bombay Stock Exchange
3. H0: Accounts Payable Days does not significantly impacts the ROTA of cement firms listed on Bombay Stock Exchange
4. H0: Days Inventory does not significantly impacts the ROTA of cement firms listed on Bombay Stock Exchange
5. H0: Firm Size does not significantly impacts ROTA of cement firms listed on Bombay Stock Exchange
6. H0: Higher leverage does not significantly impacts the ROTA of cement firms listed on Bombay Stock Exchange

RESEARCH METHODOLOGY
The primary objective of this paper is to investigate the impact of Working Capital Management (WCM) on profitability of Indian Cement Industry. This is achieved by using the similar empirical framework as used by Shin and Soenen14 (1998), Deloof15 (2003) and later by Padachi16 (2006). The study uses secondary data to analyze and interpret the results. The paper also tries to understand the trends in the working capital needs of the cement sector over the period of time considered in the study. The study mainly focuses on cement industry in India which includes firms that are registered and listed on Bombay Stock Exchange (BSE). The empirical study is based on the sample of 60 firms in cement industry that are listed on BSE and have their annual reports filed with BSE for the period of 5 years from 2007-2011 in the study. This gives the set of 300 firm-year observations for a sample of 60 firms.

EXPLANATORY VARIABLES & CONTROL VARIABLES
RETURN ON TOTAL ASSETS
For the purpose of this study, profitability is measured by Return on Total Assets (ROTA) as this ratio best captures the profitability as it captures the return the firm generates on the total funds invested. This ratio also brings the firms with different asset bases and earnings on the same platform making them comparable. This acts as a dependent variable for the study.

$$\text{ROTA} = \frac{\text{Earnings before Interest Depreciation amortization and Taxes (EBITDA)}}{\text{Total Assets (TA)}}$$

Following are the independent/ explanatory variables used in the study to get a better understanding of Working Capital in these companies.

LOG SALES
The log transforms is taken for the sales value in order to obtain the normal plots. By this we have normalized the sales value so that our data can be appropriately used for the purpose of analysis. Many a times the data are Heteroskedastic, that is, the estimation error is not random; it increases predictably with some variable. The log transform is a common method of fixing this issue.

GEARING RATIO
The Gearing Ratio measures the percentage of capital employed that is financed by debt and long term finance. The higher the gearing, the higher the dependency is on borrowings and long term financing. The lower the gearing ratio, the higher the dependency is on equity financing. Traditionally, the higher the level of gearing, the higher the level of financial risk due to the increased volatility of profits.

$$\text{Gearing ratio} = \frac{\text{Long Term Debt}}{\text{Total Equity}}$$

CURRENT LIABILITIES TO TOTAL ASSETS
This ratio gives us the ratio of the Current Liabilities to the Total Assets of the firm. This ratio has been used to compare the Current Assets to Total Assets ratio and have a clear picture of what portion of the assets are invested as current assets and compare the same with this ratio.

$$\text{Current Liabilities to Total Assets} = \frac{\text{Current Liabilities}}{\text{Total Assets}}$$

CURRENT ASSETS TURNOVER RATIO
It shows the management's efficiency in employing funds invested in Current assets. The formula is the following:

$$\text{Current Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Average current assets (stocks + debtors + cash \& cash equivalents)}}$$

INVENTORY TURNOVER RATIO
A ratio showing how many times a company's inventory is sold and replaced over a period.

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average inventory}}$$

COGS (cost of goods sold) is taken because sales are recorded at market value, while inventories are usually recorded at cost. Also, average inventory may be used instead of the ending inventory level to minimize seasonal factors.

DAYS INVENTORY

This ratio identifies the average length of time in days it takes the inventory to turn over. As with inventory turnover (above), fewer days mean that inventory is being sold more quickly.

$$\text{Days Inventory} = \frac{\text{365 Days}}{\text{Inventory Turnover}}$$

ACCOUNTS RECEIVABLE TURNOVER RATIO

Many businesses need to sell their goods on credit, otherwise they might find it difficult to survive if their competitors provide such credit facilities; this could mean losing customers to the opposition. This ratio indicates how well accounts receivable are being collected. If receivables are not collected reasonably in accordance with their terms, management should rethink its collection policy. If receivables are excessively slow in being converted to cash, liquidity could be severely impaired.

$$\text{Accounts Receivable Turnover} = \frac{\text{Net Credit Sales}}{\text{Average Receivable}}$$

ACCOUNTS RECEIVABLE COLLECTION PERIOD

This reveals how many days it takes to collect all accounts receivable. As with accounts receivable turnover (above), fewer days means the company is collecting more quickly on its accounts.

$$\text{Accounts Receivable Collection Period} = \frac{\text{365 Days}}{\text{Accounts Receivable Turnover}}$$

ACCOUNTS PAYABLE TURNOVER

This ratio shows how many times in one accounting period the company turns over (repays) its accounts payable to creditors. A higher number indicates either that the business has decided to hold on to its money longer or that it is having greater difficulty paying creditors.

$$\text{Accounts Payable Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Accounts Payable}}$$

DAYS PAYABLE

This ratio shows how many days it takes to pay accounts payable. This ratio is similar to accounts payable turnover (above.) The business may be losing valuable creditor discounts by not paying promptly.

$$\text{Days Payable} = \frac{\text{365 days}}{\text{Accounts Payable Turnover}}$$

CASH CONVERSION CYCLE

The cash conversion cycle is the number of days between paying for raw materials and receiving cash from selling goods made from that raw material. It is the duration between the purchase of a firm's inventory and the collection of accounts receivable (Wikipedia).

Cash Conversion Cycle = (Average Stockholding Period) + (Average Receivables Processing Period) – (Average Payables Processing Period)

Where:

Average Stockholding Period (in days) = Average Stock / COGS * 365

Average Receivables Processing Period (in days) = Accounts Receivable / Average Credit Sales*365

Average Payable Processing Period (in days) = Accounts Payable / Average Credit Purchases*365

CURRENT RATIO

Current Ratio measures a company's ability to pay short-term obligations.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

This ratio is mainly used to give an idea of the company's ability to pay back its short-term liabilities (debt and payables) with its short-term assets (cash, inventory, receivables).

The current ratio can give a sense of the efficiency of a company's operating cycle or its ability to turn its product into cash. Companies that have trouble getting paid on their receivables or have long inventory turnover can run into liquidity problems because they are unable to alleviate their obligations.

QUICK RATIO

The quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets. The quick ratio is calculated as:

$$\text{Quick Ratio} = \frac{\text{Current Assets – Inventories}}{\text{Current Liabilities- Bank Overdraft}}$$

This ratio is also known as acid-test ratio or quick assets ratio.

The quick ratio is more conservative than the current ratio, a more well-known liquidity measure, because it excludes inventory from current assets. Inventory is excluded because some companies have difficulty turning their inventory into cash. In the event that short-term obligations need to be paid off immediately, there are situations in which the current ratio would overestimate a company's short-term financial strength.

WORKING CAPITAL TURNOVER RATIO

A company uses working capital (current assets - current liabilities) to fund operations and purchase inventory. These operations and inventory are then converted into sales revenue for the company. The working capital turnover ratio gives an indication as to how much money is used to fund these operations and the sales revenue generated from these operations. The higher the working capital turnover, the better it is considered because it means that the company is generating a lot of sales compared to the money it is investing to achieve this sales.

$$\text{Working Capital Turnover Ratio} = \frac{\text{Sales}}{\text{Working Capital}}$$

DATA COLLECTION

The study is based on secondary data and uses a sample of 60 cement companies listed on Bombay Stock Exchange. The data has been collected for a period of 5 years from 2007 to 2011. The data set has been filtered for the non availability of information on key parameters. Hence out of the total approximately 92 firms listed on BSE, we have got a sample of 60 firms. The total firm-year observation thus stands at 300.

RESULTS & DISCUSSION

We will be applying linear multiple regression model to investigate the impact of working capital management on profitability. We will also find the correlations among the various independent variables and the dependent variable which in this case is ROTA. We will be using SPSS to see the extent to which the given independent variable impacts the ROTA and what is the type of relation whether positive or negative. The model used for the regressions analysis is adopted from *Trends in Working Capital Management and its Impact on Firms' Performance: An Analysis of Mauritian Small Manufacturing Firms by Kesseven Padachi*. It is expressed in the general form as given in equations below and the variable ivndays will be replaced turn by the other explanatory variables: ARdays, APdays and CCC. The relationship of WCM with profitability will be measured through two models:

1. The first one takes into account individual elements of WCM (ivn_days, ardays and apdays) and control variables like ln_sales, gearing ratio, CL/TA , CA Turnover.

2. The second equation replaces individual elements with Cash Conversion Cycle.

ROTA 1 = β0 +β1 ln_sales+ β2 gear+ β3 clta+β4 turnca+ β5 invdays+ β6 ardays+ β7 apdays+ εn

ROTA 2 = β0 + β1 ln_sales1 + β2 gear + β3 clta + β4 turnca + β8 CCC + εn

DESCRIPTIVE STATISTICS

TABLE 2: DESCRIPTIVE STATISTICS

	Mean	Std. Deviation	N
Return on Total Assets (ROTA)	.4224	.22154	300
Natural Log of Sales (Ln_sales)	6.6746	1.12903	300
Debt equity ratio (D/E)	2.3883	5.83250	300
Current Liabilities/ Total Assets (CL/TA)	.4403	.27412	300
Current Assets Turnover Ratio (CA_Turn)	3.0852	2.66635	300
Inventory days (Inv_Days)	184.96	341.692	300
Average Receivable days (AR_Days)	108.88	130.512	300
Average Payable Days (AP_Days)	140.85	137.209	300
Cash Conversion Cycle (days) (CCC)	152.99	411.028	300

Source: Results of panel data from SPSS

CORRELATION ANALYSIS

TABLE 3: PEARSON CORRELATION COEFFICIENTS

		ROTA	Ln_Sales	D/E	CL/TA	CA_TURN	INV_DAYS	AR_DAYS	AP_DAYS	CCC
ROTA	**Pearson Correlation**	1.000	.224**	-.059	-.165**	.577**	-.438**	-.591**	-.321**	-.440**
	Sig. (2-tailed)		.000	.158	.048	.000	.000	.000	.000	.000
	N		300	300	300	300	300	300	300	300
Ln_Sales	**Pearson Correlation**		1.000	-.012	-.042	.437**	-.134**	-.278**	-.196**	-.117
	Sig. (2-tailed)			.376	.147	.000	.036	.001	.003	.061
	N			300	300	300	300	300	300	300
D/E	**Pearson Correlation**			1.000	-.154**	-.071	-.059	.017	-.012	-.039
	Sig. (2-tailed)				.012	.152	.198	.402	.432	.284
	N				300	300	300	300	300	300
CL/TA	**Pearson Correlation**				1.000	-.178**	.210**	.169**	.332**	.117**
	Sig. (2-tailed)					.005	.001	.007	.000	.044
	N					300	300	300	300	300
CA_TURN	**Pearson Correlation**					1.000	-.367**	-.518**	-.351**	-.356**
	Sig. (2-tailed)						.000	.000	.000	.000
	N						300	300	300	300
INV_DAYS	**Pearson Correlation**						1.000	.756**	.354**	.940**
	Sig. (2-tailed)							.000	.000	.000
	N							300	300	300
AR_DAYS	**Pearson Correlation**							1.000	.397**	.840**
	Sig. (2-tailed)								.000	.000
	N								300	300
AP_DAYS	**Pearson Correlation**								1.000	.131
	Sig. (2-tailed)									.106
	N									300
CCC	**Pearson Correlation**									1.000

*(** significant at 0.05 confidence level)*

Source: Results of panel data from SPSS

Table 3 presents Pearson correlation coefficients for the variables and they are used to assess the direction and extent to which one variable is linearly associated to another variable. Here we measure the impact of independent variables of working capital management on profitability, as measured by return on total assets (dependent variable).

ROTA is significantly positively correlated with CA turnover ratio, natural log of sales but negatively correlated with elements of WCM viz. accounts receivable days, accounts payable days, inventory days and CCC. Also ROTA shows negative correlation with gearing ratio (D/E ratio), and CL/TA. The positive relation for ROTA with CA turnover is consistent with the view that operational efficiency is directly related to profitability. The better the utilization of current assets in generating sales better are the prospects of profitability. Also, the positive correlation of sales with ROTA is obvious from the fact that higher the sales, higher the profits.

Negative correlation of working capital elements with ROTA can be explained from the fact that larger the cash conversion cycle, longer are the resources tied up at the different stage of the supply chain, and thus elongating the time in which returns can be generated otherwise, hence lowering the profitability in due course of time. Like, the costs of tied up capital in holding more inventories may lower the benefits generated due to holding higher stocks. Granting more trade credit to customers for longer time period may result in slower recovery and higher chances of bad debts. In some cases, trade credit from the suppliers may be for shorter time period to enable the firm to reap the benefits of the time gap between repaying the suppliers and recovering money from the buyers of goods. This may also explain for the negative correlation of ROTA with CL/TA.

REGRESSION EQUATIONS

ROTA= 126.315 + 0.974x1 - 0.012x2 - 0.095x3 + 0.062x4 - 0.792x5 - 0.009x6 - 0.387x7………………………. (1)

ROTA= 86.815 + 0.989x1 - 0.012x2 - 0.098x3 + 0.069x4 – 0.364x8………………………………………. (2)

TABLE 4: REGRESSION OF PROFITABILITY ON WORKING CAPITAL VARIABLES

Dependent Variable:	**Return on Total Assets**	
Regression Model:	**I**	**II**
Ln_Sales (x1)	0.974** (.000)	0.989** (.000)
Gearing ratio (x2)	-.012** (.002)	-.012** (.000)
CL/TA (x3)	-.095** (.043)	-.098** (.041)
CA_TURN (x4)	.062** (.005)	.069** (.005)
INV_DAYS (x5)	-.792** (.000)	
AR_DAYS (x6)	-.009** (.000)	
AP_DAYS (x7)	-.387** (.000)	
CCC (x8)	-	-.364** (.000)
Adjusted R^2	**.522**	**. 467**

*(** significant at 0.05 confidence level)*

Source: Results of panel data from SPSS

The first model of regression explains the variability best as the value of adjusted R^2 is the highest at 52.2% where all the three individual elements of cash conversion cycle have been used. In case of second model, the three elements of Working Capital have been replaced by cash Conversion Cycle and has the adjusted R^2 is 46.7%.

The Ln_sales and CA_Turn are significant and positively related which shows that as the firms' sales increases; working capital efficiency also increases.

The use of long term funds in WCM of the firms as shown by gearing ratio also come as significant and reveals the lesser use of long term funds in WCM of firms helps increase the profitability. This also points to the fact that cement firms have been relying more on short term assets to meet their WC needs. The decreasing CL/TA also points towards the same thing that firms now rely more on short term loans and credit to meet their short term demands.

The positively and significantly related CA turnover ratio also indicates that the Current Assets are fast moving and not stagnant and higher the current asset movement with respect to sales more is the profitability.

The Inv_days, AR days, AP days and ultimately CCC in the two regression models respectively shows that these variables have significant impact on WCM profitability. All the four elements of WCM show significant negative correlation. On the basis of P-value of 0.000, we reject the null hypothesis that the elements of working capital management (CCC, AR days, AP days, Inv_days) have no statistical significant effect on the profitability. Our findings are in tandem with the results for the previous study where CCC was negatively and sig related to profitability.

The models also reject the null hypothesis that firm size has no statistically significant effect on the profitability and the positive sign of the coefficient points to the fact that as the firms' size increases, its profitability also increases.

The models also reject the null hypothesis that gearing ratio (Debt-Equity ratio) has no statistically significant effect on the profitability and the negative sign of the coefficient points to the fact that as the cement firms depends less on long term funds meeting their WC requirements and depends more on short term credit from suppliers. This could be possible in this industry because of the strong supply chain management emerging in this industry.

CONCLUSIONS

1. Working Capital elements (Accounts payable days, Accounts Receivable days, inventory days and eventually the Cash Conversion Cycle) significantly impacts the profitability of the cement firms.
2. The lower the cash conversion cycle, higher is the profitability as measured by the ROTA and vice versa.
3. As the size of cement firm increases, the profitability also increases.
4. Gearing Ratio is significantly and negatively related with ROTA and that cement firms depend less on long term funds and depends more on short term supplier's credit as the Current Liabilities to Total Assets is high and significant.
5. The Current Assets turnover ratio is also significant and positive and points to the fact that the higher the efficiency (the usage of current assets in generating sales) the higher the ROTA is.

LIMITATIONS

1. The data might not be available for certain parameters involved in the study.
2. Some specific sectors/ industries may be left out to be studied under this research.
3. The results and findings might not be true for smaller firms with less of capital and funds at hand.

SCOPE OF FURTHER RESEARCH

The study mainly concentrates on the working capital management of cement industry and its impact on profitability of the cement companies. The study can be further extended to other industries like steel, automobiles, infrastructure, logistics etc. to establish the impact WCM has on the profitability. Also, more factors can be added along with WCM variables likes capital structure, Assets turnover, Solvency ratios etc. to give a better model which explains the profitability.

REFERENCES

1. Anand, M. 2001. "Working Capital performance of corporate India: An empirical survey", Management & Accounting Research, Vol. 4(4), pp. 35-65.
2. Berryman, J. 1983. "Small Business Failure and Bankruptcy: A survey of the Literature", European Small Business Journal, 1(4), pp. 47-59.
3. Bhattacharya, H. 2001. Working Capital Management: Strategies and Techniques, Prentice Hall, New Delhi.
4. Bolton, J. E. 1971. "Small Firms", Report of the Commission of Inquiry on Small Firms, London.
5. Burns, R and Walker, J. 1991. "A Survey of Working Capital Policy among Small Manufacturing Firms", The Journal of Small Business Finance, 1 (1), pp. 61-74.
6. Chittenden, F., Poutziouris, P., Michaelas, N. 1998. "Financial Management and Working Capital Practices in UK SMEs", Manchester, Manchester Business School.
7. Deloof, D. 2003. "Does Working Capital Management affect Profitability of Belgian Firms"? Journal of Business Finance and Accounting, Vol 30 No 3 & 4 pp. 573 – 587.
8. Dunn, P. and Cheatham, L. 1993. "Fundamentals of Small Business Financial Management for Start-up, Survival, Growth, and Changing Economic Circumstances", Managerial Finance, Vol 19 No 8, pp. 1-13.

9. Eljelly and Abuzar M. A. (2004), "Liquidity-profitability Tradeoff: An Empirical Investigation in an Emerging Market (Liquidity Management)", International Journal of Commerce and Management, June-2004.
10. Filbeck, G. and Krueger, T. M. (2005). "An analysis of working capital management results across industries", American Journal of Business, Vol. 20, Issue 2, pp. 11-18.
11. Fischer, E.O., R. Heinkel, and J. Zechner, (1989), Dynamic Capital Structure Choice: Theory and Tests, Journal of Finance, Vo. 44, pp. 19-40.
12. Gill, A., (2011), Factors that Influence Working Capital Requirements in Canada, Economics and Finance Review, Vol. 1(3), pp. 30 – 40.
13. Gitman, L. J. 1994. Principles of Managerial Finance, 7th Ed. Harper Collins, pp. 646-652.
14. Howorth C., P. Westhead (2003), „ The focus of working capital management in UK small firms‟, „Management Accounting Research 14, pp 97-111, Blackwell Publishing.
15. Jose, M. L., C. Lancaster, and J. L. Stevens, (1996), Corporate Returns and Cash Conversion Cycles. Journal of Economics and Finance. 20(1), 33-46.
16. Lazaridis Ioannis, Tryfonidis Dimitrios (2006), "The relationship between working capital management and profitability of listed companies in the Athens Stock Exchange, Journal of Financial Management and Analysis, Vol. 19.
17. Moussawi R., Kieschnick R. and M. La Plante (2006), Corporate Working Capital Management: Determinants and Consequences. Working Paper, The Wharton School.
18. Mukhopadhyay D. (2004), "Working capital management in heavy engineering firms-A case study." Management Accountant, pp. 317-323.
19. Myers, S., and N. Majluf (1984), "Corporate Financing and Investment Decisions when Firms Have Information Investors Do Not Have", Journal of Financial Economics, Vol. 13, pp. 187-222.
20. Ninety Fifth report on Performance of cement Industry, Department Related Parliamentary Standing Committee on Commerce, 2011, India.
21. Padachi, K. (2006). Trends in Working Capital Management and its Impact on Firms' Performance: An Analysis of Mauritian Small Manufacturing Firms, International Review of Business Research Papers. 2(2), 45 - 58.
22. Raheman A., Nasr M. (2007), "Working Capital Management And Profitability – Case Of Pakistani Firms‟, International Review of Business Research Papers, Vol 3, No. 1, pp. 279-300.
23. Ross, S., A. (1977), "The Determination of Financial Structure: The Incentive Signaling Approach", Bell Journal of Economics, pp. 23-40.
24. Shin, H.H. and L. Soenen (1998), „Efficiency of Working Capital and Corporate Profitability‟, Financial Practice and Education, Vol 8, No2, pp. 37-45.
25. Strebulaev, I.A., (2003), "Do Tests of Capital Structure Theory Mean What They Say?" working paper, London Business School.
26. Titman, S. and Wessels, R. (1988), "The Determinants of Capital Structure Choice", Journal of Finance, Vol. 43.
27. Wang, Y.J. (2002). Liquidity Management, Operating Performance, and Corporate Value: Evidence from Japan and Taiwan. Journal of Multinational Financial Management. 12, 159-169.

INDUSTRIALISATION IN HIMACHAL PRADESH: PROBLEMS, PROSPECTS AND ALTERNATIVE STRATEGIES (A CASE STUDY OF KANGRA DISTRICT)

CHAMAN LAL
ASST. PROFESSOR
SCHOOL OF MANAGEMENT STUDIES
INDIRA GANDHI NATIONAL OPEN UNIVERSITY
NEW DELHI

ABSTRACT
Industries play an important role on the over-all development of any country. To solve the main problems like unemployment, poverty, regional imbalances, it is essential to industrialise the country. It is the establishment of industries alone that can generate employment opportunities to an accelerated rate. Himachal Pradesh (H.P.) has made significant progress in the field of industrialization in the recent past. But still the most of the districts of the state are industrial backward and state's largest district Kangra is among thee backward districts. In the present paper an attempt has been made to identify the factors which are responsible for the industrial backwardness of the district and also highlighted the factors which welcome the industrialists to establish industrial units in Kangra.

KEYWORDS
District Industries Centre (DIC), industrialization, medium and large scale industries, small scale units.

INTRODUCTION
Industries, which act as engine of growth and development of any country, play a pivotal role on the over-all economic development of India too. Indian economy is characterized by surplus labour and rapidly growing population. To absorb these pressures of population at a rate commensurate with the addition to the unemployment pool of labour, it is essential to industrialise the country and that too quickly. It is the establishment of industries alone that can generate employment opportunities to an accelerated rate. In India the process of industrialization was largely of colonial character in pre-independence period, which remained limited only to the few parts of the country. It was only after independence when some systematic efforts were made to decolonize the character of Indian industries. Industrial policies 1948, 1956 and new industrial policy were the major milestones in this direction. Since independence to 1980, growth of private sector was very slow because government's permission was required to set up any private enterprise in India. Despite this the GDP grew at a rate of 1.4% per annum from 1940-1970. Post 1980, India saw liberalization and achieved further growth and the exports rose by 27%. Since the liberalization policy, due to opening of several public sector enterprises, the exports saw a 17% rise in 1994 and 28% in 1995-96. The progress of industrialization during last three decades has been striking feature of Indian economic development. Most of the rural areas in the past history of India have now been urbanized as a result of intensive development through industrialization. Himachal Pradesh (H.P.), a hilly region of the country, was earlier totally industrial backward, has now made significant progress in this field. But Kangra district of the state, which is the largest district and has its own unique importance on the development of the state, is still industrial backward district and has no single large scale industry till date. In present study, an attempt has been made to identify the factors which are responsible for this industrial backwardness of the district and also tried to identify the positive factors for industrial development.

REVIEW OF LITERATURE
PANDEY, RAMESH (1976) in his research has assessed the resource base of the state for industrialization. **SHARMA (1989-90)** has studied the history of industrial development in H.P. during the period 1947 to 1985. **DAS (2001)** has conducted a study on khadi and village industries program. The main objective of the study was to evaluate the khadi and village industries program in term of employment generation. **POONAM AND RAMNA (2010)** in their research "status of micro, small and medium enterprises in H.P.-a case study of Mandi district" have analysed the status of MSMEs in H.P.

NEED OF THE STUDY
With high potential for employment generation, industries also help in solving the main problems like vast unemployment, poverty and regional imbalances. Because of seasonal agriculture and geographical situation of the land, importance of industries in Himachal is enhanced. Since the very early stage of industrialization in Himachal, district Kangra has captured the first position in small scale industries but till date there is no large scale industry and very few medium scale industries are operating in Kangra. Therefore it is very important to analyse the problems and prospects for industrial development in this region of Himachal Pradesh.

OBJECTIVES
The main objectives of the research are:
- To study present level of industrialization in district Kangra of Himachal Pradesh.
- To identify the major problems of industrialization in district Kangra.
- To study the resource base and infrastructure for industrialization in district Kangra.
- To form alternative strategies for industrialization and suggest measures to overcome the problems faced by industries.

RESEARCH METHODOLOGY
In order to meet the objectives of the study, both types of data have been collected. Secondary data pertaining to industries collected from the Directorate of Industries (H.P.), Directorate of Economic and Statistics of H.P., District Industries Centres (DIC), various reports of the state, news papers and magazines etc. Primary data is collected from the primes of the industries by applying multistage stratified random sampling technique through observation, discussion schedule and personal interviews. At first stage, Kangra district is divided into two parts; Industrial Area (I.A.) and Industrial Estate (I.E.). At the second stage five (5) industrial areas out of total eight (8) and one (1) industrial estate out of total 3 are selected randomly. At the third stage five industrial units are selected from each selected industrial areas and industrial estate to collect the required data.

INDUSTRIAL DEVELOPMENT IN HIMACHAL PRADESH
In comparison with other hilly states of the country, Himachal Pradesh has made significant progress in the field of industrialization. Industrial process in the state has started during the eighties. The efforts of the state Govt. to promote industries have received further impetus with the notification of special package of incentives for the state by the central Govt. in 2003. The economy of Himachal Pradesh has shown a shift from agriculture sector to industries as the percentage contribution of agriculture and allied sectors in total State Domestic Product has declined from 57.9 percent in 1950-51 to 55.5 percent in 1967- 68, 26.5 percent in 1990-91 and to 14.5 percent in 2009-10.The share of industries has increased from 1.1 percent in 1950-51 to 5.6 percent in 1967-68, 9.4 percent in 1990-91 and to 11.7 percent in 2009-10.

TABLE 1.1 DISTRICT WISE DETAIL OF INDUSTRIAL UNITS REGISTERED IN THE SMALL, MEDIUM AND LARGE SECTOR (UP TO 30.11.2011)

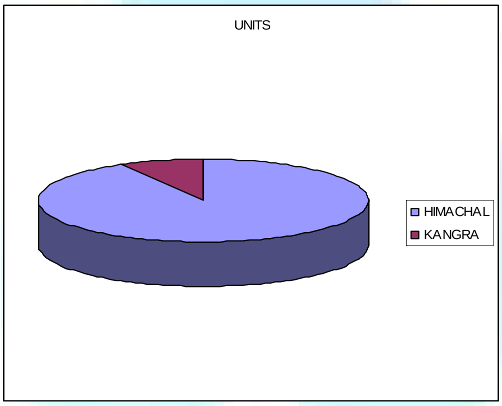
Sl. No.	District	No. of Units	Investment (Rs. In lakh)	Employment (in person)
1	Bilaspur	2300	53908.1	9949
2	Chamba	1769	3358.68	6126
3	Hamirpur	2788	6279.18	10010
4	Kangra	8946	54756.5	40686
5	Kullu	2521	8292.68	13795
6	Kinnaur	576	529.92	1804
7	Lahaul & Spiti	576	321.79	1589
8	Mandi	3869	10601.3	15989
9	Shimla	3419	24242.9	13102
10	Solan	5022	967258	99624
11	Sirmour	3204	171675	28152
12	Una	3301	109705	19705
Total		**38291**	**1410929**	**260531**

Source: Report (2010-11), Department of Industries, Government of Himachal Pradesh.

As on 30.11.11 there are 38291 small, medium and large scale industries with a total investment of about Rs. 1410929 lakh working in the State. These industries are providing employment to about 2.60 lakh persons. After the notification of Special Incentives Package by Government of India in January,2003, 7,050 small scale industrial units (292 expansion and existing units) and 264 medium and large scale units having a total investment of Rs.10,103.74 crore have been actually set and employment opportunities were provided to 95,615 persons.

INDUSTRIALISATION IN KANGRA DISTRICT

During the initial stage of industrialization process in the state, the status of industrialization in Kangra was not very satisfactory. The Kangra district was totally backward in industries, there were only traditional type of industries like, hand weaving and spinning, leather shoe making, oil seed crushing, basket making etc. there were only traditional artisans. The wages of these artisans were paid in kind and only twice or thrice in a year during harvesting season. This system is still in vogue in some interior part of the district. But with the passage of time number of small scale industries came up in district. There are 38291 small-scale and medium industries working in different part of twelve districts in Himachal Pradesh, out of which 8946 small and medium industries working in district Kangra and providing employment to 40686 persons up to 2011. State's only industrial development centre is also working in the district at Sansarpur Terrace.



At present there is only 30 medium scale units are working in the districts and no large-scale industry has been established till date in district Kangra and district covers under "industrially backward district". Kangra holds the first position in terms of small scale units and total share of Kangra district in small scale industrial units is about 24%.

INDUSTRIAL AREAS AND ESTATES OF KANGRA, INDICATING THEIR CATEGORY

Industrial Area	Industrial Estates	Industrial Developing Areas
1. Nagrota Bagwan	1. Kangra	
2. Sansarpur Terrace (Growth Centre)	2. Jwali	No developing area
3. Nagri	3. Dehra Gopipur	
4. Dhaliara		
5. Bain Attarian		
6. Raja-Ka-Bagh		
7. Bhadal		
8. Nargla Jwali		

Source: Department of Industries (H.P.)

PROBLEMS OF INDUSTRIALISATION IN KANGRA DISTRICT

After having discussions with the target groups, problems of industries in Kangra district are divided into two groups- internal and external. External problems are those which result from factors beyond the control of the industrialists, the availability of power and other infrastructure facilities etc. require for the smooth running of industries. Internal problems are those which are not influenced by external forces. The internal problems affecting the industries relate to organization, structure, production, distribution channel, technical know how, training, industrial relation and inadequacy of management etc.

Internal Factors	External Factors
1. Choice of an idea	1. Infrastructure
2. Feeble structure	a) location
3. Faculty planning	b) Power
4. Poor project implementation	c) Water
5. Poor management	d) Post office etc.
6. Poor production	e) Communication
7. Quality	2. Financial
8. Marketing	a) Capital
9. Inadequate financing	b) Working capital
10. Labour problems	c) Long term funds
11. Capacity utilization	d) Recovery
12. Lack of vertical and horizontal integration	3. Marketing
13. Inadequate training in skills	4. Taxation
14. Poor and loose organization	5. Raw material
15. Lack of strategies	6. Industrial and financial Regulations
	7. Inspection
	8. Technology
	9. Policy
	10. Competitive and volatile environment

Major problems responsible for industrial backwardness of the district are:

LACK OF FINANCE

Availability of timely and adequate finance plays an important role on the industrial development of a country/state/area. Because finance is the life blood of the industries, without sufficient finance no industry can work smoothly. It becomes most important in case of small-scale industries because small entrepreneurs generally have weak financial base, and in Kangra most of the industries are small scale. Industries need finance for financing both fixed assets, such as land, plant and machinery as well as working capital. Cumbersome procedure adopted by banking institutions and other financial agencies creates initial hurdles for industrialists. Working capital provisions by the banks is the major grievance of industrial units. In present study it is found that there is no easy and sound system of financing the loans to industrial units. Most of the applicants are avoid loan from these institutions because of this complicated system. Other problems related to finance is that these industrial units are not in position to offer the guarantee required by the banks. Even when small loans can be raised from Government agencies, the procedure is so cumbersome that most of the entrepreneurs, who are either illiterate, semiliterate hesitate to make use of these facilities.

UNDER DEVELOPED MARKET

The second major problem faced by the industrialists in the district pertains to marketing of their products. The entire state is thinly populated and Kangra district is at first place in the population of the state. There is no such whole sale market in the districts where industrialists can buy and sell their products. Hence they have to market their products directly to retailers who are scattered all over the state as well as country, which increases their cost of production and reduces their profits. This is also a reason behind the industrial backwardness of the district.

PROBLEMS OF RAW MATERIAL

Raw material is the main cause behind the lack of industries in the district because scarcity of raw material forces entrepreneurs to buy the raw material from other states which increases the cost of production and financial burden to industrialists.

INDUSTRIAL ACCOMMODATION

Availability of land and building is another factor which influences industrial activities in any area. Although land is available in the almost all parts of the district, but land is agriculture based causes costly in the area. In present study it is found that Special Economic Zone was granted to Kangra but because of non availability of sufficient land this step of the Government is also on the half way. All the industrial areas and estates which are already set, there is least chance to increase their size and area because no further land is there in nearby.

SUPPLY OF POWER

Hydro-power projects are the main source of power in the state of Himachal Pradesh as well as in district Kangra. In Kangra there are only few mini hydro electric power projects namely Gaj, Binwa, Iccu and Maujhi hydle projects and the production capacity of these projects is lies between 2 to 5 M.W. which is not sufficient for the population of the district. For the development of the industries, power is very much important factor. In Kangra, govt. announced some concession in power for industries but scarcity of power affects the industrialization in the district and it is the main bottleneck in the industrial development of Kangra.

TRANSPORTATION PROBLEMS

In Kangra poor condition of roads increase the transportation costs of goods and there lies a chance of damage to goods. Because of hilly terrain of the state, railway plays a minor role in the state/district. At present the district is served by a narrow gauge railway line.

TECHNOLOGY

Due to old technology, entrepreneur can not ensure the quality and high rate of their production. Industries in lack of finance are not in the position to acquire new technology for their production, because the new technologies are very costly. Generally all the industries of Kangra are working in the rural areas and are not aware of new techniques and due to lack of these new techniques they are not in the position to upgrade their quality to compete with other quality products.

LACK OF SKILLED LABOUR

Labour is the major force to increase the industrial production in any industries. Kangra is the district which pertains the educated unemployed youth. But they are not technically educated and to develop industries in any region there is a need of technical persons.

PROSPECTS FOR INDUSTRIALISATION IN DISTRICT KANGRA

Kangra is the highly populated district of Himachal Pradesh and located at the centre of the state. Status of industrialization in Kangra is not very satisfactory and comes under the industrial backward district of the state. Because of hilly terrain there may some problems for industrialist but beyond these problems there are so many factors which welcome the industrialists to establish industrial units in Kangra.

- Kangra is at the centre of the state and has very high potential and highly developed markets very near to it like Chandigarh, Pathankot etc.
- Kangra is highly populated district and have vast man power in it self. Labour is the main force of any industries and in many areas maximum industries are failed because of lack of adequate man power.
- States only industrial development centre is also working in district Kangra at Sansarpur Terrace which is a good signal for the industrial growth in Kangra.
- State's biggest railway line Jogindernagar to Pathankot is also in Kangra district which covers whole district and the biggest airport of H.P. also in the Kangra district at Gaggal. These are the main plus point of Kangra district to develop industries in Kangra.

- Kangra is a rich district with natural resources like herbs, tea estates, famous temples and tourist places etc. there is high potential in these resources to develop good and sound industries. For example Ayush Herbal industry of Nagrota Bagwan which exports its herbal products and has gained good name in this industry.

ALTERNATIVE STRATEGIES FOR INDUSTRIES IN KANGRA DISTRICT

During the present research, it has been found that Kangra is still industrial backward district of the state beside the high potential of industrialization in Kangra. There are very few industries operating in Kangra as compare to its potential. There is a vast scope for industrialization in Kangra. On the ground of present study, there are some alternative strategies for some industries discussed below which will help to strengthen industrialization in Kangra.

AGRO-BASED INDUSTRIES

Kangra's history told that Kangra is a district whose economy was totally based on agriculture for many years. It is agriculture sector which was lonely serves Kangra for many years. Kangra's soil is much suitable for farming and the production of agriculture produces is always higher than other districts. There are so many agro-based industries working in Kangra like fruit and food industry at Nagrota, herbal industry etc. there is great scope to establish sugar and rubber industries in Kangra, others is herbal industry because Kangra is basically a hilly district and there are so many herbs exist in the valley. There is a need to catch the time and cash these agro-based products by establishing industries.

FOREST BASED INDUSTRIES

Kangra's 60% area is covered under forest land. To cash this natural gift, there is need to develop some forest based industries, because most of the open area covers under agricultural land and most of the agricultural land is used for farming purpose. Because of scarcity of open land there is an urgent need to set forest based industries in Kangra. For example industries like sandal sticks, ropes and furniture etc., which are highly profitable products.

TOURISM INDUSTRY

Tourism industry is the main and highly growing industry of Kangra. Today tourism industry is the biggest industry of Kangra. The main reason of the growth of this industry is the world famous places in Kangra like, Mcleodganj, Beer Biling, Baijnath, Brijeshwari temple, Chamunda Dham, Jwalaji temple and Masroor temple etc. Now the international cricket stadium at Dharamshala is going to strengthen the tourism industry. To strengthen this industry, there is a need to make proper tourism policy and to develop infrastructure facilities. If Govt. tries to organize some international cricket match at Dharamshala then it will definitely boost tourism industry.

TEA INDUSTRY

Tea industry is the 2nd biggest industry of Kangra and at one time Kangra district was known for Kangra tea. Kangra tea has its own name and reputation in tea industry of India. But in recent years there is continuous decrease recorded in tea production. To develop this industry, there is a need to develop the present condition of tea gardens and also create and develop good market for Kangra tea.

I.T. INDUSTRY

Information technology industry is a highly growing industry of India. It generates profit as well as serves the nation for social development. Kangra district is at the centre of the state and also the biggest district. All these factors indicate that I.T. industry has very good scope in Kangra. To establish this industry in Kangra, I.T. parks should be developed in Kangra. Coordinal and educated peoples cool and calm climate is other favourable factors for the establishment of this industry.

HYDRO-ELECTRIC PROJECT

Kangra has snowy mountains, which provides regular water to Kangra district during the whole year in much more quantity. It is Kangra's water resources which are used for irrigation purpose in Kangra, Una and also in Punjab. There are 5 main mini rivers and one big river flows in Kangra. There are some mini hydle projects operating in these rivers. But besides these projects there is also a very good scope to establish some more hydro projects in these rivers. To grow hydro sector in Kangra, these natural resources should be properly utilized.

MEDIUM AND LARGE SCALE INDUSTRIES

Beside the high potential, there is very few medium scale industries are working in Kangra and has not a single large scale industry yet in Kangra. To improve the condition these sectors, proper policy formulation and ground adoption of that policy will be the key factor. If Directorate and D.I.C Dharamshala pay proper attention towards these industries, then some medium scale industries can be converted in to large-scale industries like herbal industry, pharmaceutical and furniture industry. Kangra captures the first position in small-scale sector and it will definitely prove an economic development factor of Kangra in near future.

There is high potential for some industries in Kangra and these are:

1. Paper mill.
2. Tea packing-cum-blending plants and tea processing industry.
3. Reclamation of rubber from old tyre.
4. Tourism industry.
5. Manufacture of chalk and chalk crayons.
6. Electric cables.
7. Printing press.
8. Power looms.
9. Ice factory-cum- cold storage.
10. Wool products
11. Straw board.
12. Card board boxes and cartons.
13. Ayurvedic / pharmaceutical.
14. Dhoop industry
15. Aluminum utensils.
16. Wire netting.
17. Fruits, canning and preservation.
18. Small bakery industry and confectionery.
19. Poultry farming.
20. Hosiery industry.
21. Plastic goods.
22. Paints varnishes industry.
23. Leather tanning.
24. Lime kiln.
25. Electric appliances etc.

SUGGESTIONS

Industries have an important role to play by way of creating more employment opportunities, utilization of local resources etc. it would be appropriate if few steps are taken to accelerate the pace of industrialisation in district Kangra.

1. It is suggested that there should be a separate entrepreneurial information and guidance centre at District Industries Centre (DIC), so that entrepreneurs can get necessary information like as:

a) The scope of industries in the district.
b) Incentives to small-scale industrialists.
c) Procedural aspects for setting up these industrial units.
d) Benefits and concession to these industries through various channels.

2. The Banks and other financial institutions should be liberal in giving financial assistance to industrial sector. The procedure of granting advances should also be simplified to avoid delay in sanctioning of loans.
3. It is observed that there is no readymade information, which can be disseminated to prospective entrepreneurs regarding area/block wise scope of industries. Hence there is a great need to conduct blocks level industries potential surveys. District Industries Centre should take the lead in conducting such survey.
4. Marketing of products, produced by these industries still remain a major problem in absence of any whole-sale market. It would be better to establish a wholesale market at any central place and invite whole sale traders from neighboring state to start whole sale trade here.
5. There are sufficient human resources available in district Kangra. It is in form of educated unemployed. But they are not aware about the opportunities which may available to them other than white-collar jobs. Intensive industrial motivation campaign is a practical approach to taking the message of industrialization.
6. Entrepreneur of small-scale units have bring raw material from outside the state to run their industries. In this process huge transportation costs are involved, which increases the cost of production. It is therefore suggested that raw material centre should be set up at the central place of the district. So that the entrepreneurs may run their units effectively and minimize the cost of their produces.
7. The problems of entrepreneurs are multidimensional. These can be solved by the co-ordinate efforts of entrepreneurs, co- ordinate function agencies and governmental assistance without red tape or bureaucratic delays.

CONCLUSION

Industrialization is an instrument for bringing social and economic development of a country. Hence, in order to increase the rate of development, plans should be made for increasing the pace of industrialization. Keeping in view, these objectives, the central and state Govt. undertook various measures, which could facilitate the smooth growth of industrialization. However, these efforts of Governments did help in increasing the rate of industrial development but it could not check the growth of regional industrialization. As a result of this, Kangra district remains industrial backward and has no large-scale industry yet. Total participation of Kangra district in Himachal's small-scale industries is about 25 percent. There are number of reasons for slow growth of industries in Kangra. It is observed that most of the small-scale industries are faced with the paucity of finances, banks and other financial institutions take much time to sanction loans. The scarcity of raw material and non-availability of raw material in time are the basic causes of problems of small-scale industries.

REFERENCES

1. Chang, P.K., (1964), "Agriculture and Industrialization", Harvard University Press, pp-69.
2. Das, D., (2001), "Khadi and Village Industries Program and Employment Evaluation", Yojna, Vol.45.
3. http://himachal.nic.in/industry/indstatus.htm on dated 17.04.2012.
4. Pandey, Ramesh (1976): "Industrial Development of H.P.: Problems and Prospects," Thesis, H.P. University, Shimla.
5. Poonam & Ramna. (2010) "Status of MSMEs in H.P-a case study of Mandi District" Paper presented at the National Seminar, Una, H.P., 12-13 April. Economic Survey of Himachal Pradesh-2010-11.
6. Rana, Kulwant, (1988), "Industrialisation of Hill States in India", Deep and Deep Publication, New Delhi.
7. Sharma, Devinder, (1990) "Industrial Finance in H.P., A Comparative Analysis of Effective Development Bank", Finance India, Vol. XI, No.-1, pp.24-39.
8. Sharma, N.N. (2010) "Problems and Prospects of MSMEs in India" Paper presented in the National Seminar, Una, H.P., 12-13 April.

INTERNAL BRANDING AS A MANAGEMENT STRATEGY: A CASE OF ORGANIZED RETAIL SECTOR

GIRISH MUDE
ASST. PROFESSOR
MIT SCHOOL OF MANAGEMENT
PUNE

SWAPNIL UNDALE
ASST. PROFESSOR
MIT SCHOOL OF MANAGEMENT
PUNE

VRUSHALI DAIGAVHANE
STUDENT
ARIHANT INSTITUTE OF BUSINESS MANAGEMENT
PUNE

ABSTRACT

This research aims to reveal use of internal branding in retail business and gain competitive advantage. Also paper examines the essential role that internal branding plays in doing successful business. A case-study approach is adopted using qualitative and quantitative methodologies from retail businesses, as well as reviews of earlier literature and research, give data for conducting analysis of internal branding in organized retail business. Authors find that internal branding is a new concept in retail business and internal branding helps in involvement of employees in making change, empower employees and build credibility with your employees and customers. Internal branding not only directly influences the performance of employees but their role in relation to the brand experience with customer in store. The research is relevant as it addresses issues of internal branding and its implications in retail business. Brand development is the business strategy and internal branding help to drive a business forward in complex environment. Study indicates that Marketers would learn how to effectively integrate and leverage internal branding and marketing to improve the short-term and long-term success of your organization. Research only related to retail sector. Implications on other sectors of businesses can be different. Extended research can be beneficial for strategy formulators.

KEYWORDS
Internal Branding, Retail, Retail Marketing.

INTRODUCTION
As the concept of large retail stores gains ground in India, the practice and concept of internal branding is likely to grow exponentially. In the western countries internal branding receives highest priority in commercial planning of a product and marketing activities. As seasons change, the branding techniques too change in a retail store. Traditional belief about branding and the biggest myth in the world of business continues to be that branding is for external purposes, for communicating to consumers and that it is the exclusive preserve of the marketing function. Then era came the belief that advertising, PR, database and direct marketing, interactive media must all create a consistent impression, and thus was born integrated branding, 360-degree branding, total branding and what have you. Not to mention PR agencies, direct marketing agencies and interactive agencies. But you may notice, that there aren't, as yet, organizations that specialize in what is called internal branding.

Retail industry is the sector that has grown in the last few years by leaps and bounds. There is a huge demand for internal branding and retail management work profiles now-a-days. Despite the growing interest in internal branding, there has been limited research conducted into the processes required to encourage brand-supporting behavior. Moreover, paradoxical to the need to understand employees, the existing insights have generally stemmed from research with management, brand practitioners' and even customers' perspectives. Therefore, this paper aims to unearth the role of internal branding and contribution of the employees who deliver brand values to the customer.

Being at the interface of the internal and the external world of the brand, customer facing employees exert a certain degree of influence on customers' and other stakeholders' perceptions about the brand and / or the organization, which determines the success of brand positioning. Their distinctive skills can create a company's competitive advantage that may be difficult to be matched. Such a differential advantage reduces the risk of being perceived as commodities. However, 'as much as the human factor is the company's most tenuous competitive feature, it can also be the most vulnerable one'. That is, they are as much a valuable asset as they are a challenge to a service organization.

The creation of a strong brand and the deliverance of perceived service quality are premised by employees' ability to deliver on customer expectations. Thus, adoption of internal-oriented initiatives, directed at employees improving service quality and bringing the brand to life, is advocated.

This paper, therefore, explores the effect of initiatives of internal branding in retail stores. Many leading retailers are leveraging their vast customer bases to build profitable relationships with customers by focusing branding marketing and customer service offering into a powerful, integrated brand offering. Retailers offering better customer service will build interactive relationship which helps to crate customer loyalty. This initiative lies at the heart of sustainable competitive advantage in the modern retail industry.

CONCEPTUAL FRAMEWORK OF INTERNAL BRANDING
Internal Branding is the set of strategic processes that align and empower employees to deliver the appropriate customer experience in a consistent fashion. Internal branding refers to the activities employed by a company to ensure intellectual and emotional staff buy-in (Thomson et al., 1999) into not only the corporate culture, but also the specific brand personality invoked within this culture.

As the definition of brand changes, the process of branding and brand management moves forward as well. Along with external brand building, traditionally the main branding concern, many companies have made internal branding a top priority to counteract short-term perspective and lack of understanding and appreciation of brands within an organization (Keller 2008, 333). Getting employees to sell promises instead of products is especially important in high technology markets where product functionality and features are not enough to provide a source of differentiation anymore (Ward, Light & Goldstine 1999a). Drake et al. (2005, 181) state that engaging employees in implementing promise-based business model requires an incentive system to reward them for exceptional support of the brand strategy. Rewards and recognition serve as a good motivational tool as long as the fundamentals of the program are communicated before the program is launched (Drake et al. 2005, 181). The most effective on-brand rewards and recognition are adequate, sincere, and timely, and coincide with the execution of the internal branding program (Davis 2005, 239).

RETAIL INDUSTRY OF INDIA

The Indian retail market, over the last decade, has shown greater acceptance for organized retailing formats. Domestic retailing is emerging from a multitude of unorganized family-owned businesses to organized modern retailing. Rapid urbanization, changes in shopping pattern, demographic dividend and pro-active measures by the Government are abetting the growth of the retail sector in India. Indian retail sector accounts for 22% of the country's GDP and contributes to 8% of total employment

Indian retail business values at around US$ 550 billion as of now and about four per cent of it accounts for the organized sector. A report by Boston Consulting Group (BCG) has revealed that the country's organized retail is estimated at US$ 28 billion with around 7 per cent penetration. It is projected to become a US$ 260 billion business over the next decade with around 21 per cent penetration. A report by CII-AT Kearney revealed that Luxury brands market in India grew at a healthy 20 per cent during 2010 reaching a size of US$ 5.8 billion. It further stated that the Indian luxury market stood at a value of US$ 4.76 billion in 2009 and is anticipated to be worth US$ 14.7 billion by 2015.

The world's largest retailer Wal-Mart will open an innovation lab in Bengaluru by the end of 2011. The lab would be tasked to drive the US$ 422-billion company's next generation innovations that impact shopping behavior among the customers.Real estate major DLF's subsidiary DLF Brands has struck a deal with Chicago-based Claire's Stores Inc to bring the latter to India and open its 75 stores over 2011-16. Claire's is a specialty retailer which targets young girls through over 3,000 stores globally.

From 2000 to 2010, Indian retail attracted about $1.8 billion in foreign direct investment, constituting 1.5% of total investment flow into India. India has topped the A.T. Kearney's annual Global Retail Development Index (GRDI) for the third consecutive year, maintaining its position as the most attractive market for retail investment.

Arvind Brands, Madura Garments, Spykar Lifestyle and Royal Classic Polo are known for Indian apparel retailers, leveraging opportunity from Indian market. Future Groups, RP-Sanjiv Goenka Group Retail, The Tata Group, Reliance Retail, K Raheja Corporation, Lifestyle International, Vishal Retail are prominent players in Indian retail market accounting major market share of organized retail in India

PURPOSE OF THE STUDY

This research aims to reveal use of internal branding in retail business and gain competitive advantage in complex business scenario. Also paper examines the essential role that internal branding plays in doing successful business. From our literature review, we derive several research questions to guide our study. Insights into these research questions help us develop the Internal branding concept further.

RQ1: What are opinions of sample employees regarding internal branding?

RQ2: What benefits these organizations achieved in adopting internal branding?

RQ3: Who are responsible for conducting internal branding in sample retail organizations?

RESEARCH DESIGN

For this study case study approach was adopted which included qualitative and quantitative research. The qualitative research consisted of eleven in-depth interviews conducted with executives/managers that are responsible for developing internal branding strategies within their organizations. These in-depth interviews revealed an expanded concept of internal branding and answered second (RQ2) and third (RQ3) research questions. Subsequently to answer first (RQ1) research question, the quantitative research portion of this study was managed through structured questionnaires survey of 36 respondents across industries who were employees involved in dealing customer directly. Sample retail store (With name of the retailer and Place) for study were Big Bazaar (Kothrud), Reliance Mart (Fatima Nagar), Mega Mart (Dapodi), Pune Central (University Road and Bund Garden), Shopper Stop (Camp), Lifestyle (Koregaon Park) and Croma (Hadapsar) from various part of Pune city.

For sample purpose, we thought that senior management typically develops brand strategy while the actual brand experience is most often delivered by the least-informed and lowest paid service associates or front line employees. Also, to further complicate matters, these front line associates are often part-time. Best practices in internal branding can build that crucial bridge between strategy and execution.

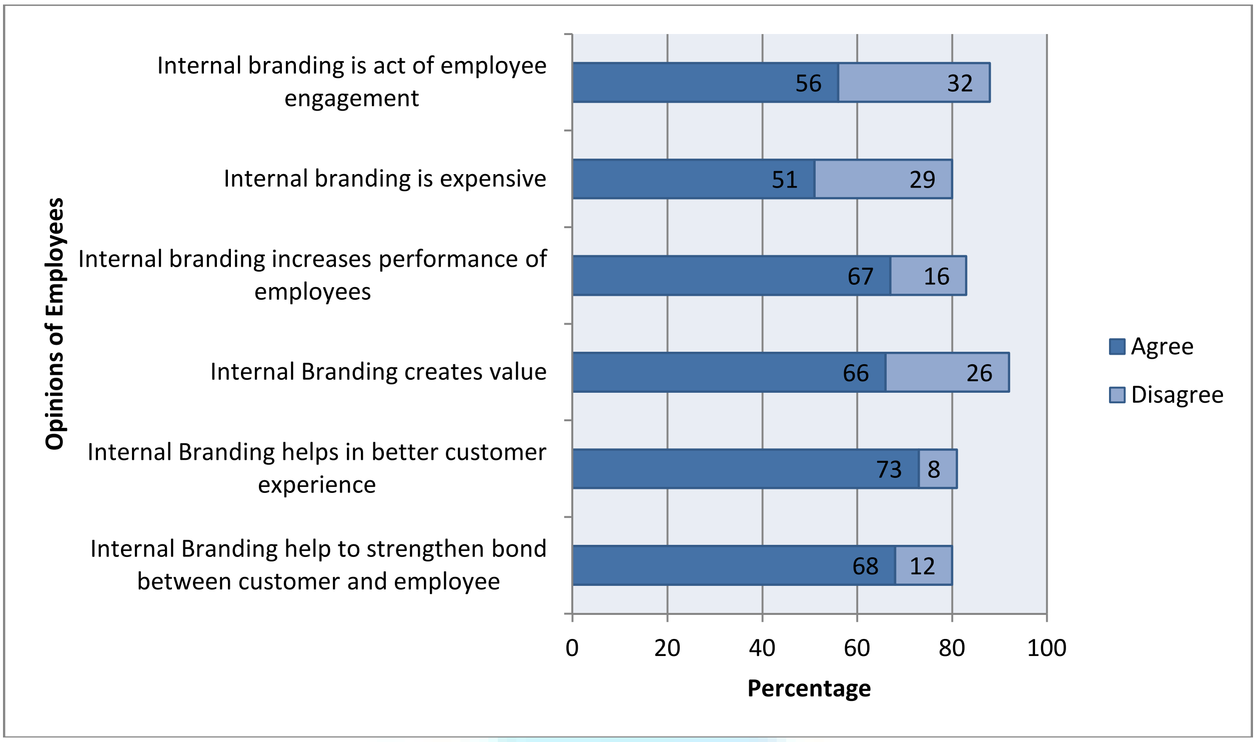
FINDINGS AND DISCUSSIONS

Internal branding focuses on what should be done in-house so that it translates into the company's desired results outside. And this study revealed exactly how internal branding creates impact on overall image of organization. Brand in itself is a powerful word-evoking emotions plugged with a particular product. While massive efforts are undertaken to project the company's right image in front of the public, they stand meaningless if these are not applied towards the internal customers, namely employees of the company. If employees are happy, it would transpire into better clientele.

Benefits that revolve around internal branding are manifold. Effective internal branding mechanism gives the company an edge over its competitors as brand employers are known for their reputation, good retention tactics, less attrition levels, who value employees and their individuality, who breed a cohesive culture, provide growth and development opportunities, and there is inclusive growth and overall organizational development. The goal of an internal branding campaign is very similar to that of an external campaign to create an emotional connection to your company that transcends any one particular experience. In the case of employees, companies also want the connection to inform the way they approach their jobs, even if they don't interact with customers. Companies always want them to have the brand vision in their minds and to consider whether or not they are supporting the brand in every decision they make.

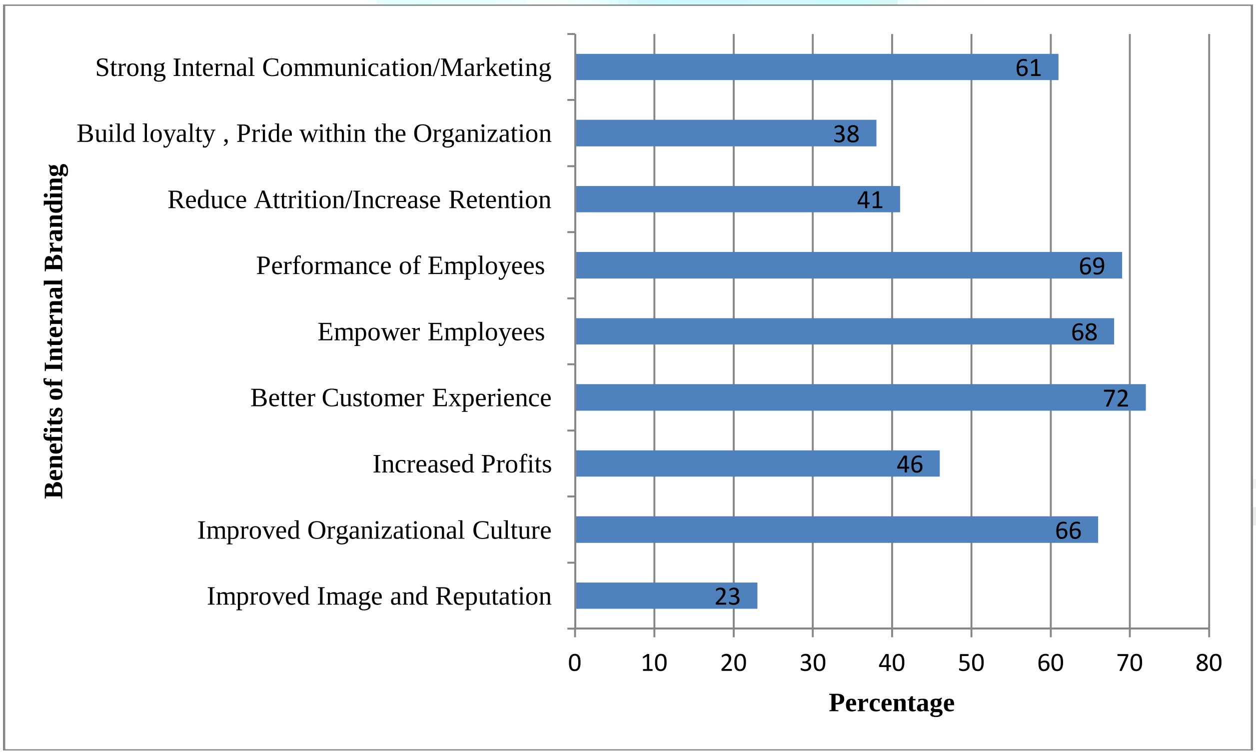
The effectiveness and overall success of internal branding program is dependent on an in-depth knowledge and understanding of the internal as well as the external environment of the organization, while market research provides such information (Berry and Parasuraman, 1992; Mitchell, 2002; Schultz, 2002; Beagrie, 2003). For study findings, research questions were analyzed respectively and outcomes are discussed in detail.

FIGURE.1. EMPLOYEES' OPINION REGARDING INTERNAL BRANDING IN SAMPLE ORGANIZATION



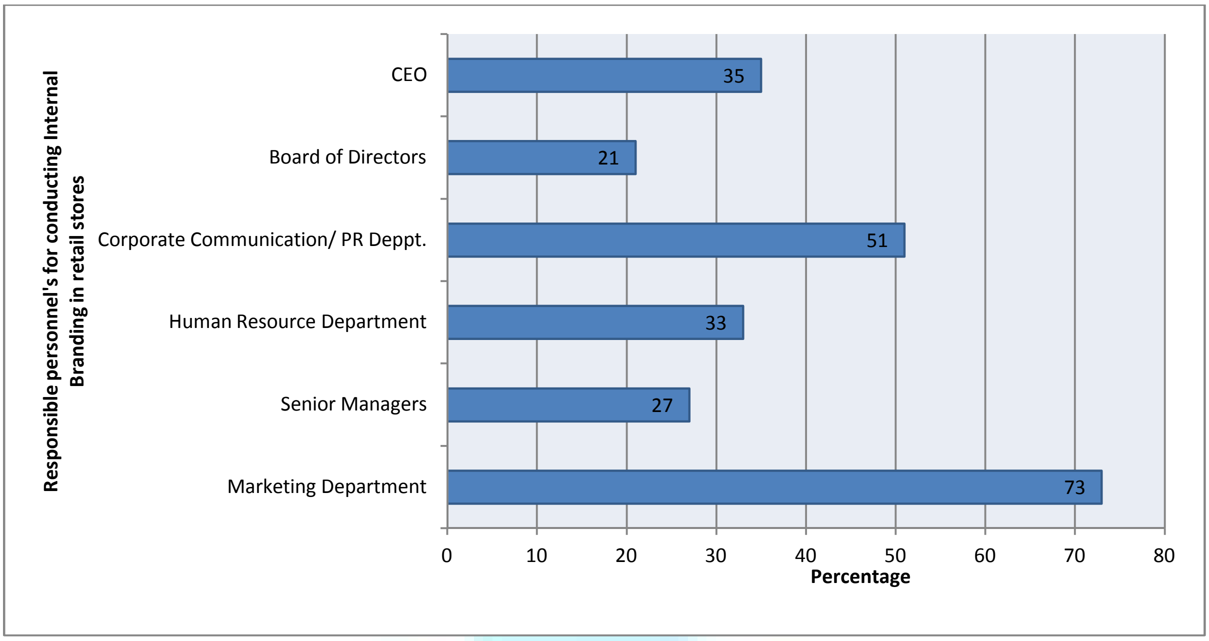
RQ1: First research question sought to know the opinions about internal branding from conducted sample employees in various retail stores of Pune. From above (Figure.1) we found that most of respondents were aware about internal branding and they agreed that internal branding helps in better customer experience (73%), and help to strengthen bond between customer and employee (68%), increases performance of employees (67%), create value (66%) for customer are subsequent opinions and perceptions about internal branding in sample organizations. Apart from that engagement of employee in internal branding and internal brand is expensive were considerably agreed opinions from sample. Output of this research question would help to understand different perception and opinion of employees related to internal branding and its execution.

FIGURE.2. BENEFITS ACHIEVED FROM INTERNAL BRANDING



RQ2: The overall results in (Figure.2.) indicate that, there are several benefits of internal branding but according to study, better customer service (72%), performance of employee (69%) and empower employee (68%) were prominent benefits out of internal branding. However sample respondents answered positively regarding other benefits of internal branding which include improved organizational culture, strong internal communication, build loyalty, pride within organization, increased profit and improved reputation of organization. Internal branding leads to an increase in efficiency and productivity levels of employees, which in turn makes customers happier. Effective internal branding mechanism gives the company an edge over its competitors as brand employers are known for their reputation, good retention tactics, less attrition levels, who value employees and their individuality, who breed a cohesive culture, provide growth and development opportunities, and there is inclusive growth and overall organizational development.

FIGURE.3: RESPONSIBLE PERSONNEL'S FOR CONDUCTING INTERNAL BRANDING IN SAMPLE ORGANIZATIONS



RQ3: Formulation and implementation of internal branding practices are crucial tasks in any organization and person who is responsible could play major role in creating better brand image in market. Our study revealed that Marketing Department (73%), Corporate Communication/ PR Department (51%), and CEO (35%) most often made internal branding related decisions. Many organizations in sample had Human Resource Department, Senior Managers and Board of Directors as decision makers for internal branding. This result would help to construct internal branding strategies for organizations.

IMPLICATIONS AND LIMITATIONS OF THE RESEARCH

The research is relevant as it addresses issues of internal branding and its implications in retail business. Brand development is the business strategy and internal branding help to drive a business forward in complex environment. Study indicates that Marketers would learn how to effectively integrate and leverage internal branding and marketing to improve the short-term and long-term success of your organization. Research only related to retail sector from Pune city. Implications on other sectors of businesses can be different. Extended research can be beneficial for strategy formulators who would deal with Internal Branding.

CONCLUSIONS

What makes internal branding such a compelling proposition is the fact of compounding benefits. A strong internal brand supports the human resource goals of total rewards. With talented, motivated, committed people working in the organization the external brand promise, and the business itself, are strengthened.
Internal branding is the connected of any corporate brand. Internal branding strengthens a corporate organization's position in a competitive market place as well as enhances organization's effectiveness. Internal branding is important because like every other branding strategy, internal brand is a form of an attempt to gain further control of niche through shaping internal audience identities. The essence of internal branding is to help employee internalize and truly represent the brand identity desired by corporate brand.

REFERENCES

1. Balmer, J . and Wilkinson, A . (1991) 'Building societies: Change, strategy and corporate identity', Journal of General Management, Vol. 17, No. 2, pp. 20 – 33.
2. Beagrie, S. (2003), 'How to ... influence employee behaviour through internal marketing'. Personnel Today, August, P-35
3. Berry, L.L. and A. Parasuraman (1992), 'Services marketing starts from within'. Marketing Management, vol. i, no. i, pp. 24-34.
4. Bharadwaj, S. G., Varadarajan, R. P. and Fahy, J. (1993) 'Sustainable competitive advantage of service industries: A conceptual model and research propositions', Journal of Marketing, Vol. 57, pp. 83 – 99.
5. Davis, S. 2005. Building a Brand-Driven Organization. Chapter 12 in Kellogg on Branding: The Marketing Faculty of the Kellogg School of Management. Eds. Tybout, A., Calkins, T. New Jersey: Jon Wiley & Sons. Accessed on 3 October, 2010. Http://books.google.es/
6. Day , G . S . and Wensley , R . (1988) 'Assessing advantage: A framework for diagnosing competitive superiority', Journal of Marketing, Vol. 52, pp. 1 – 20.
7. Drake, S., Gulman, M. & Roberts, S. (2005). Light Their Fire: Using Internal Marketing to Ignite Employee Performance and Wow Your Customers. Dearborn Trade, A Kaplan Professional Company. Accessed on 3 October, 2009. Http://www.jamk.fi/kirjasto, Nelli-portaali, Ebrary.
8. http://www.ibef.org/industry/retail.aspx (Accessed on 05February 2012)
9. Joseph, W. B. (1996) Internal marketing builds service quality ' , Journal of Health Care Marketing , Vol. 16 , No. 1 , pp. 54 – 59 .
10. Keller, K. (2008). Strategic Brand Management – Building, Measuring, and Managing Brand Equity. 3rd ed. New Jersey: Pearson International Edition.
11. Lings, I . N . (2004) ' Internal market orientation: Construct and consequences ' , Journal of Business Research , Vol. 57 , No. 4 , pp. 405 – 413 .
12. Mitchell, G. (2002), 'Selling the brand inside'. Harvard Business Review, vol. 80, no. i, January, pp. 99—10
13. Pagdiwalla Kashmira, (2007) Intas Biopharmaceuticals Limited, (IBPL), 'The magic of Internal Branding' Available at http://www.expresspharmaonline.com/20071115/pharmalife01.shtml Accessed on 12 October, 2010.
14. Research and Markets: Retail Sector in India 2011 - Indian Retail Sector Accounts for 22% of the Country's GDP http://www.reuters.com/article/2011/05/11/idUS29963+11-May-2011+BW20110511 (Accessed on 10 December 2011)
15. Samli , A . and Frohlich , C . (1992) 'Service: The competitive edge in banking', Journal of Services Marketing, Vol. 6 , No. 1 , pp. 15 – 22 .
16. Schultz, D.E. (2002), 'Study internal marketing for better impact'. Marketing News, vol. 36, no. 2i, October, pp. 8-9.
17. Susan Hunt • Sun Life Financial with Rob Landry • Magna International, "The Importance of Employer Branding
18. Thomson, K., L. de Chernatony, L. Arganbright and S. Khan (1999), 'The buy-in benchmark: how staff understanding and commitment impact brand and business performance'. Journal of Marketing Management, vol. 15, no. 8, Nov., pp. 819-35.
19. Ward, S., Light, L. & Goldstine, J. (2009) a. What High Tech Managers Need to Know About Brands. Harvard Business Review article search. Accessed on 19 November, 2010. Http://hbr.harvardbusiness.org/1999/07/what-high-tech-managers-need-toknow-about-brands/ar/1.
20. Wittke-Kothe, C. (2001) 'Internet Markenf ü hrung — Verankerung der Markenidentit ä t im Mitarbeiterverhalten ', Deutscher Universit ä tsverlag GmbH, Wiesbaden.

FINANCIAL REPORTING FRAMEWORK FOR CARBON CREDIT ACCOUNTING

TULIKA SOOD
RESEARCH SCHOLAR & LECTURER
SCHOOL OF BUSINESS AND MANAGEMENT
JAIPUR NATIONAL UNIVERSITY
JAIPUR

ABSTRACT

A famous ecologist says that 20 billion tonnes of carbon dioxide is generated every year by humanity that is absorbed by Nature. This tolerance of Nature could be reversed, if the carbon dioxide levels increase unabatedly. While this has become quintessential to reduce the emission levels, an entirely new industry has emerged having great potential and opportunities for the investors. This Global warming issue is a serious concern and Corporate are projecting to take initiatives by fulfilling their social responsibility and are making profits in the offing. It has become an emblem of bearing a meritorious entity showing responsible behavior towards the environment. Environmental awareness within the management community is reflected in frequent coverage of sustainability and environmental responsibility in management-oriented publications. These social developments create a need for financial information. Pundits are predicting that global carbon markets could well exceed the value of global oil markets in just a few years and the impact of emission allowances on the operation of almost every MNC is certain to be significant. As entities actually emit carbon, they incur a future obligation to relinquish an allowance to a regulator or incur penalties and under US GAAP and IFRS are a liability, which needs to be periodically measured and recorded. Therefore, these emissions allowances present challenges to accounting both for their value and for liabilities associated with their use. In spite of the growing importance of the emission allowances, there is no clarity on how they will be treated in financial accounting and reporting. The specific purpose of this paper is to examine how Carbon Credit accounting fits into the financial reporting framework.

KEYWORDS

Accounting issues, Carbon Credit, GHG, Taxation.

INTRODUCTION

Increase in carbon dioxide emissions are a result of either nature (e.g. volcanic eruptions) or the actions of man (e.g. burning fossil fuels), and thus, could be 'mopped up' only by the increased capacity of sinks, through growth of forests, or increases in water bodies (and the plankton within) in which carbon dioxide could be stored or dissolved. This imbalance calls for greater attention and precautionary measures to be put in place. These Exhausting fossil fuels are a major cause of Industrial Greenhouse Gas (GHG[1]) emissions.

To address the issue of global warming, the United Nations Framework Convention on Climate Change (UNFCCC) was adopted in 1992, with the objective of limiting the concentration of Green House Gases (GHGs) in the atmosphere. The response to this GHG emission has been the *Kyoto Protocol,* which came into force and became legally binding on 15 February 2005 when Russia ratified the treaty. The treaty demands a 5.2% cut in greenhouse gas emissions from the industrialized world as a whole by 2012. Under this over, 170 countries have agreed to strive to decrease CARBON DIOXIDE emissions, accounting for an estimated 55 percent of global Greenhouse gas emissions. Subsequently, the concept of carbon credit[2] came into existence because of increasing awareness for controlling emissions. The USA and Australia are among the countries that have not yet ratified the Kyoto Protocol. India and China, have ratified the protocol, but are not required to reduce carbon dioxide emissions. *India, along with China and Brazil, has emerged as one of its largest beneficiaries in terms of new source of revenue*.

The Kyoto Protocol provides for three mechanisms for countries with quantified emission limitation and reduction commitments to acquire greenhouse gas reduction credits that are Joint Implementation (JI)[3], Clean Development Mechanism (CDM)[4], and International Emission Trading (IET)[5]. These mechanisms serve the objective of both the developed countries with emission reduction targets, who are the buyers of carbon credits as well as of the developing and least developed countries with no emission targets (at present), who are the sellers/suppliers of carbon credits. The non-polluting companies from less developed countries can sell the quantity of carbon dioxide emissions they have reduced (carbon credits) and earn extra money in the process. *This mechanism of buying and selling carbon credits is known as carbon trading.*

CARBON CREDITS SCENARIO IN INDIA AND AS A WHOLE

India has generated approximately 30 Million carbon credits and approximately 140 million in run, the second highest transacted volumes in the world. India's carbon market is growing faster than even information technology, bio technology and BPO sectors as 850 projects with a huge investment of Rs 650,000 million are in pipeline. As per the Prime Minister's Council on Climate Change, the revenue from 200 projects is estimated at Rs. 97 billion till 2012.

India has been able to register approximately 350 projects spread across various sectors with major dominance of renewable energy, energy efficiency and biomass energy projects. Carbon, like any other commodity, has begun to be traded on India's Multi Commodity Exchange and has become first exchange in Asia to trade carbon credits.

India, being a non-Annex 1 country, is naturally one of largest beneficiaries of the Kyoto Protocol. Studies by Crisil and CII estimate the value of the Indian CDM market at more than a billion dollars per annum.

Most countries are considering 'managing' their carbon dioxide targets through the regulation of businesses and individuals in their countries in three ways:

- ***By Taxation***, the government imposes a tax on carbon dioxide emissions. The advantage could be that it is immediately implemental, transparent and tax regimes could be harmonized around the globe, perhaps under international oversight. The disadvantage is that business may absorb or pass on the tax to consumers, and not cut emissions.
- ***By allocating carbon credits*** or 'permits' to entities or individuals for the emission of a certain quantity of greenhouse gases in a particular period (i.e. a permitted quota). These permits may be given away free, sold at a predetermined price or auctioned. This is a carbon emission 'rationing' or a cap and trade system.
- ***By approving certain organizations*** as being able to issue legitimate carbon credits (called *'abatement certificates'*) by undertaking work to either increase the capacity of sinks, or reduce carbon dioxide emissions from sources. Known as a *cap and trade system*[6]*,* greenhouse performance levels are set whereby those that can deliver a particular product with emissions below the benchmark can earn (create) abatement certificates.

OBJECTIVE AND SCOPE OF THE STUDY

The development of carbon markets worldwide has created a host of challenges for companies - and of these challenges, *Accounting* is perhaps one of the least understood. As carbon markets is evolving and incorporating new elements, additional accounting challenges will continue to emerge.

Our scope of study will consider the following:

1. Carbon Credit Mechanism
2. Accounting issues – Exposure Draft on Guidance Note on accounting for carbon credits by ICAI

3. Taxation on Carbon Credits

CARBON CREDIT ACCOUNTING- A NEW CHALLENGE

Accounting plays a central role in determining what matters. Until it is measured and reported on in financial statements an economic development will rarely receive much attention.

1. CARBON CREDIT MECHANISM

Carbon credits are certificates issued to countries that reduce their GHG emission that causes global warming. *Carbon credits are measured and traded in units **of Certified Emission Reductions (CER)**. Each CER is equivalent to one tonne of carbon dioxide reduction*. CERs are in the form of certificates, just like a stock. A CER is given by the CDM Executive Board to projects in developing countries to certify that they have reduced greenhouse gas emissions by one tonne of carbon dioxide per year. Under IET (International Emissions Trading) mechanism, countries can trade in the international carbon credit market. Countries with surplus credits can sell the same to countries with quantified emission limitation and reduction commitments under the Kyoto Protocol. Developed countries that have exceeded the levels can either cut down emissions, or borrow or buy carbon credits from developing countries.

Typically, carbon credits are purchased either through CER purchase agreements, trading on the stock exchanges or even by bidding for tenders floated by several governments. Looking at the huge demand for carbon credits in the developed nations, the developing nations have geared up for tapping the market.

The emergence of the opportunity of revenue generation by taking up structured Clean Development Mechanism (CDM) projects has given a new dimension to *Accounting and Taxation.* This is due to Clean Development Mechanism (CDM), which is perhaps most exciting feature of the total scheme which allows 'Annex 1 countries' (A total of 36 countries are listed in Annex 1) to meet their emission reduction targets by paying for greenhouse gas emission reduction in non Annex 1 (developing) countries. Most Annex 1 countries have legally binding greenhouse gas emission reduction requirements under the Kyoto Protocol. These countries, instead of reducing emissions of their own companies, can 'buy' emission reductions in non-Annex 1 countries. Article 12 of the Kyoto Protocol states: "The purpose of the Clean Development Mechanism shall be to assist Parties not included in Annex 1 in achieving sustainable development and in contributing to the ultimate objective of the convention, and to assist Parties included in Annex 1 in achieving compliance with their quantified emission limitation and reduction commitments."

An entity desirous of undertaking a CDM project activity, generate carbon credits

There from, and earn revenue needs to go through several stages, described as below:

- *Registration/Accreditation of the project*
  - o *ProjectDesignDocument (PDD)*
  - o *Approval from Host country/DNA (Designated national authority)*
  - o *Validated by DOE (Designated Operational Entity)*
  - o *Registration (If within 8 weeks no request for review of the proposed CDM project is received by UNFCCC, the project is automatically registered.)*
- *Monitoring, Verification and Issuance of CERs*
- *Sale/Trade (The CERs obtained by the entity may be sold to those who need it*).

For example, if a project generates energy using wind power instead of burning coal, and in the process saves (say) 25 tonnes of carbon dioxide per year, it can claim 25 CERs (One CER is equivalent to one CDM Executive Board: A board comprising 10 members supervises the operation of CDM. The Board has the final say on whether a project is approved or not, and lays out procedures and guidelines for CDM). Verification: A CDM project is monitored or 'verified' after the project has been approved or registered by the CDM Executive Board. After the project is registered by the Executive Board, the Designated Operational Entity (DOE) periodically checks (usually once a year) whether emission reduction has actually taken place or not. It is only after verification by the DOE that CERs are delivered. There are presently 11 DOEs globally, out of which five are represented in India.

2. ACCOUNTING ISSUES – EXPOSURE DRAFT ON GUIDANCE NOTE ON ACCOUNTING FOR CARBON CREDITS BY ICAI

Generation and trading in carbon credits in India has gained a lot of momentum, but there remains lot of ambiguity for the accounting treatment – questions on accounting for expenditure on the CDM projects, accounting for self-generated CERs, accounting for sale consideration and so on. This could be resolved in the prevailing accounting standards as there are no separate accounting standards prescribed for accounting, measurement and disclosures of carbon credits. Some of the countries suggest recognition of carbon credits as government grant. However, this approach would be inappropriate as government grants are received by an organization on concessional or free of cost, wherein government would grant or allocate some concessional benefit to an entity. In case of CERs, it is not any benefit that is provided by government; it is an incentive provided to entities for conservation of the environment.

To resolve accounting issues, International Accounting Standards Board (IASB) had issued an interpretation **IFRIC 3** on Emission Rights but later withdrew the same, continuing to debate on the appropriate treatment for CERs. The Institute of Chartered Accountants of India (ICAI) has issued an Exposure Draft of the Guidance Note on Accounting for Self-generated Certified Emission Reductions in 2009 enumerating suggested accounting principles for CERs generated by an entity. The exposure draft provides for accounting principles relating to recognition, measurement and disclosures of CERs generated by CDM. Accounting treatment for CERs taking in consideration the exposure draft issued by ICAI is proposed in the following manner:

1. **Expenses in the research and development phase**: While undertaking the project for reduction in carbon emission, cost incurred on development should be accounted for as enumerated in AS 26 for intangible assets. Cost incurred on receiving CER is measured with certainty at the time of incurring those expenses whereas revenue recognition will happen only at the time of sale of CERs. So there is a mismatch in accounting for expenses and revenue
2. **CERs held with the CDM Executive Board** – The exposure draft on guidance note on accounting for carbon credits states that when the CERs are in the approval stage, these should be accounted for as per the provisions of AS 29 as Contingent Assets, and once approved, should be recorded in the books as an intangible asset.
3. **CERs held for sale** – In case an enterprise possess CER to be traded in the ordinary course of business, i.e., the enterprise would hold the asset as 'available for sale', the same should be accounted for as Inventory under provisions of AS 2.

Further, intent of the entity would determine whether these credits should be recorded as intangible assets or as inventory. There are further questions on CERs cost at which CERs be recorded in the books, as huge amount of expenditure is incurred in terms of initializing the project, emission of reduction, approval and acceptance of CERs, etc.

Despite several unresolved issues, carbon credits have emerged as a sought commodity for trade and will continue to interest the country for some time to come. India has around 35 million annual CERs under way from registered projects, of which, a large pool remains unsold.

3. TAXATION OF CARBON CREDITS

Income from sale of CERs should be accounted for under the head *'Business and Profession'*. However, in case of sale of Intangible, it would be taxable under the head *'Capital Gains'* though most companies in India are recording earnings from carbon credit trading as Income from 'Other Sources' currently. Claims for concessional rate of taxation should also be made if credit is held for more than 36 months immediately preceding the date of transfer. This gives an opportunity to take a decision about timings of sale of such credits, keeping a balance between cash flow needs, interest factor and difference in rate of tax between long-term and short-term holdings. As there would be no cost of acquisition for self-generated CER credits, section 55(2) of the Income Tax Act will come into operation, and total sale consideration will be liable for Capital Gains Tax (long term/short term) according to the period of holding

Trading in CER is carried out either in spot market or in futures. Service tax could be applicable on account of dealing in CERs on the exchange platform, and in case of contracts resulting in delivery, VAT could be applicable. Typically, carbon credits in India are sold to overseas buyers; hence, there would be no VAT applicable on these goods. Thus, sale of CERs to overseas buyers should qualify as exports. However, there is no explicit mention made in this regard by the revenue authorities. Further, in light of India undergoing a revolutionary amendment from regulatory perspective, like the proposed Direct Taxes Code, 2010, Goods and Service Tax, IFRS, etc., the position and treatment of carbon credits would have to be commented accordingly.

CER credits acquired from other parties for the purposes of trading are recognised in the books at the cost of acquisition, whereas self-generated CER credits are not reflected in financial accounts. In Indian circumstances, if sale of CER credits happen to overseas buyers, of the property held overseas, such sale, though sale of 'goods', will not attract any sales tax.

CONCLUSION AND RECOMMENDATIONS

There is currently no authoritative accounting literature from either the Financial Accounting Standards Board (FASB) or the International Accounting Standards Board (IASB) on accounting for emission allowances, although both U.S. and international accounting standard setters have previously attempted to address the issue:

• In 2003, the Emerging Issues Task Force (EITF) contemplated emission accounting questions in EITF 03-14, but the item was removed from its agenda in short order.

• In 2004, the International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 3 to address emission accounting issues, but the interpretation was withdrawn six months later in part due to criticism about potential income matching issues.

The FASB and IASB are currently working on a joint project to address emissions accounting, but both boards have been discussing the project since 2007 and final guidance is not expected until 2011. In the meantime, there are numerous companies currently impacted by carbon emissions (and likely many more in the near future) that have developed their own accounting policies in the absence of explicit authoritative guidance. Carbon accounting (also called GHG accounting) does assess the carbon footprint to help organizations adopt strategies aimed at fighting climate change. As with financial accounting and reporting, generally accepted carbon accounting principles are intended to underpin and guide carbon accounting and reporting to ensure that the reported information represents a faithful, true, and fair account of a company's carbon emissions.

There is still long way to go for Indian businesses on the path of carbon accounting and disclosures. Even in the top 200 firms in India (by market capitalization), the response rate in last few years has steadily increased and reached 20%, a rather dismal performance compared to developed markets. There are a few sectors like the software and services which are clear leaders in being carbon-aware, accounting carbon emissions from their emissions, taking efforts in reducing it and communicating it to the stakeholders.

Attention to accounting policy regarding carbon credits can be the professions positive contribution the societal discourse about environmental degradation!

REFERENCES

1. Accounting for carbon, IETA
2. Bothra Nidhi, "Carbon Credits – Unravelling Regulatory, Taxation & Accounting Issues".
3. http://carbonukcredit.blogspot.com/carbon accounting and disclosure in India, may 17, 2011
4. http://carbonukcredit.blogspot.com/may 6, 2011
5. http://www.articles.timesofindia.indiatimes.com-Accounting norms on C-credit from July 1, Namrata Singh, TNN Jun 13, 2009,
6. http://www.deloitte.com/energysolutions
7. http://www.epcandi.com/Default.aspx,Shailendra Sharma, sept 2011
8. http://www.globaladvisors.in/carboncredits.htm
9. http://www.scribd.com (Presentation by J K Dadoo, Secretary (Environment)-cum-Chairman (DPCC), Govt. of NCT of Delhi, CARBON CREDITS AND KYOTO PROTOCOL, 16th October 2008)
10. http://www.wikipedia.com
11. Kerr Stephen G., Bradley University, USA, "Accounting Policy And Carbon Credits", Journal of Business & Economics Research – August 2008 Volume 6.
12. Murray E.V, "The emerging market for carbon trading: a new business opportunity for banks", Cab calling oct-dec, 2007.
13. The Chartered Accountant October 2006

NOTES

1. **GHGs** refer to polluting gases including carbon dioxide which cause global warming.
2. **Carbon credits** are key component of national and international emission trading schemes implemented to mitigate global warming. They provide an incentive to reduce GHG effect emissions on an industrial scale by capping total annual emissions and letting the market assign a monetary value to any shortfall through trading. The prescribed targets under the protocol were not made applicable to the developing or least developed nations. It was like penalizing the developed countries for polluting the environment while spoiling the developing or less developed countries as they were allowed to continue to pollute. In a nutshell, a carbon credit is the financial instrument, which represents one metric ton of carbon pollution.
3. **JI**-Here, a developed country (say USA) with relatively high costs of domestic greenhouse reduction can set up a project in another developed country (say India) that has a relatively low cost, such that the CO2 mission of the project is counted within a country that has a surplus
4. **CDM**-Here, a developed country (say USA) can take up a greenhouse gas reduction project in a developing country (say China) where the cost of greenhouse gas reduction project activities is much lower. The developed country would be given credits for meeting its emission reduction targets, while the developing country would receive the capital and clean technology to implement the project.
5. **EIT**-Here, countries can trade in the international carbon credit market. Countries with surplus credits can sell them to countries with quantified emission limitation and reduction commitments under the Kyoto Protocol.
6. **In a** cap-and-trade **system, each individual emission allowance has a "vintage" year designation i.e the year an allowance may be used. Emission allowance with the same vintage year designation are fungible within a particular jurisdiction and can be used by any party to satisfy pollution from any source. Vinatge year swaps are common among participants in a US cap and trade program. One of the earliest trading schemes is the European Emission Trading Scheme (EU ETS), which the worlds largest multi-country cap and trade system. The EU has established a cap that limits emission of its member states, each of which has been given a specific number of credits. The total amount of credits cannot exceed the cap, limiting total emissions to that level.**

A STUDY OF INFLUENCES ON CONSUMER PRE PURCHASE ATTITUDE

ANILKUMAR. N
RESEARCH SCHOLAR, KARPAGAM UNIVERSITY, COIMBATORE; &
CHIEF MANAGER
FACT UDYOGAMANDAL COMPLEX
KOCHI

ABSTRACT

Consumer attitude is a relatively global and enduring evaluation of an object of consumption, issue, person or an act. Attitudes guides one's thoughts, influence feelings and affect behaviours. Changes in behavioural patterns of consumers over the years has been due to several factors and best described by the consumer acculturation. Consumers use attitudes as a frame of reference to judge new information/objects. Ultimately the consumer attitude which are learnt and stored in memory play a crucial role in decision making for the purchase of goods/services. A brief review of the Attitude and behaviour nexus conditioned by the consumer related factors, social factors and the intervening situational factors are discussed herein, combining TPB and TAM based on a attitude focused study on MWO. Consumer Attitude has gained larger importance today in the modern marketing segmentation strategies, targeting and product positioning, which can be appreciated from the consumer centric approach of all marketers today.

KEYWORDS
consumer attitude, pre-pruchase decisions.

INTRODUCTION
Consumer Attitude is a learnt predisposition to respond in a consistently favourable or unfavourable manner with respect to an object or action. Consumer Attitudes vary in strength, they reflect the consumer's values, are learnt/acquired over time and conditioned by the situations. The Consumer Attitudes lead to behavioual intention and to actual purchase behaviour. Today, the consistency of Attitude-Behaviour are influenced by a host of factors, which are delineated below that could guide in the study of consumer behavior for future. Situational variables and market-environmental factors are not delineated herein for brevity.

ATTITUDE DEFINED
Two important theories in social psychology, the theory of reasoned action (TRA) (Fishbein and Ajzen 1975) and the theory of planned behavior (TPB) (Ajzen 1991), have shown that consumer behavior is predicted by intention, which, in turn, is predicted by attitude. A basic definition of attitude is: "a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor" (Eagly and Chaiken 1993).Attitude is a variable of consumer behaviour, which is acquired and relatively permanent/gradual/purposeful/intensive/reasoned intention of the consumer to react to a particular product. Attitude is composed of cognition, emotion and intentions. Emotion is one of the sources for consumer attitude formation and change. Attitude is positive or negative / favourable or unfavourable or indifferent towards a product. Attitude contains consumer feelings and evaluations related with a product. Attitude is a long lasting common assessment of a product. Attitude is a particular system of motivation, emotions, perceptional and cognitional process responding to certain environmental aspects surrounding an individual/consumer. Attitude is permanent and achieved/perceived intention to respond favourably or unfavourably to a certain product or group of products. Attitude reflects the relationship between a consumer and a product. Attitude is a particular elaboration of a product, which could influence emotions, knowledge or behaviour with regard to the product. Attitudes are a function of beliefs. Attitude is achieved and normally the result of direct experience with a particular product. Attitude is an inclination to react to a stimuli or a decision to prefer one product to another. Attitude degree determines how much a person likes or dislikes a particular product. There could be different level of positive or negative attitudes. Attitude intensity is a reliability level of an opinion about an object or how much a consumer is convinced in his righteousness. An attitude marked by a bigger conviction is steadier. Most attitudes are the result of either direct experience or observational learning from the environment.Attitudes result from some very complex forces, but *they are learned an*d what is learned can be unlearned and changed. Attitudes also result by copying those of people who are important *to us.* Attitudes are very difficult to change. Consumer choice is the result of a complex interplay of cultural, social, personal, and psychological factors. Individual learns attitudes also through experience and interaction with other people. Consumer attitudes are a composite of a consumer's (1) beliefs, (2) feelings, (3) and behavioral intentions toward some object-within the context of marketing. According to the tri-component attitude model, attitude consists of three major components, viz., a cognitive component, an affective component, and a conative component.). According to Robertson (1973), attitude reflects the relationship between a consumer and an object. Attitude is determined indirectly& attitude is achieved. Attitude as an achieved inclination possesses its own motivation that is it could encourage particular consumer behaviour or deter from certain actions. Solomon et al. (2002) argue that attitudes exist simply because of the fact that they perform a particular function to a person; this means that they are determined by motives of an individual. Attitude is relatively permanent and reflects behaviour coherently. Schiffman and Kanuk (2004) state that attitude could be regarded as permanent if consumer behaviour matches up with consumer attitude. In other words, consumer is expected to behave in such a way, which would not contradict to his/her view/attitude expressed. Attitude can be favorable or unfavorable (positive or negative), being a vector. According to positive and negative attitude, consumers are sub-divided into two opposite groups; indifference indicates that attitude is neutral (Engel and Blackwell, 1998). Attitude is an inclination. This feature of attitude can be named as a view or frame. From consumer perspective this is a decision to prefer one thing to another. Attitude is an inclination to react to stimuli (Mellott, 1983). Attitude degree determines how much a person likes or dislikes a particular object or their group (Engel and Blackwell, 1998). This quality indicates the fact that there are different levels of positive and negative attitude. Attitude intensity is a reliability level of an opinion about an object or how much a person is convinced in his righteousness (Rice, 1997). Consumers are extremely sure of one attitudes and weakly sure of other. An attitude marked by a bigger conviction is steadier. Due to close relationship, the extent and intensity of attitude might be regarded as one feature, meaning that they are not synonyms. Permanence of attitude is conditioned by resistance. Resistance is a degree of attitude stability, which shows how attitude is influenced by environmental changes (Rice, 1997). Some attitudes have a high degree of resistance and are well protected from external influence, while others may depend on external effects. Attitudes possess structures. According to Loudon and Della Bitta (1993), attitudes incline to be steady and generalized; they are related one with another and make a unity. This signifies that there should be a particular match up between attitudes, as in another case they will clash up in between.

ANATOMY OF ATTITUDES
Attitudes make up a structure, they remain steady within time. It was already mentioned above that attitudes are mastered or learned, thus, the longer individuals possess them, the more intensive they become or at least more resistant to changes. Attitude is *generalized*. This indicates that consumer's attitude towards a certain object generalizes the entire group of those objects. Loudon and Della Bitta (1993) state that consumers are eager to evaluate generically as decision making process becomes simpler. A*ttitude is achieved,* relatively steady and at the same time purposeful, gradual, more or less intensive and motivated intention of a consumer to react to a certain object. Attitude exists, as they perform a particular function to a person and are determined by the particular motives of the consumer. Attitude is relatively permanent and reflects behaviour coherently. Attitude can be regarded as permanent if consumer behaviour matches up with consumer attitude expressed. The permanence of attitude is conditioned by resistance. Resistance is a degree of attitude stability which shows

how attitude is influenced by environmental changes. Some attitudes have a high degree of resistance and are well protected from external influence, while others may depend on external effects. The concept of attitudes influencing behavioural intentions was proposed by Ajzen & Fishbein(1980).Attitudes is a psychological tendency that is expressed by evaluating a particular entity with some degree of favour/disfavour (Eagly &Chaiken,1993).Consumers have distinguishable attitudes towards products used and these attitudes determine their intention to use a particular technology product as well(Curran etal,2003).Attitudes have Affective(feel)-Behavioral-cognitive (understand)components; Belief leads to attitude which in turn leads to behaviour. Attitudes lead to purchase intention which in turn leads to behaviour. Attitudes are antecedent to behavioural intention and certain beliefs are antecedent to these attitudes (Allen etal, 1992, Dabhilkar 1994, Taylor & Todd, 1995, Curran & Meuter 2005).

Attitude is the degree of intensity on strength of conviction/belief. Attitude is based on the elements like belief about the product, feelings (affect) about the products based on the belief and the behavioral intention. Attitudes are stored in the long term memory of the consumer and leads to behaviour. Also consumers often do not behave consistently with their attitude due to poor evaluation ability, competing demand for resources, social influence, inaccurate assessment of attitude etc. Implicit attitudes are intrinsic/automatic/involuntary and stored in long term memory of the consumer while the explicit attitudes are more deliberate/prepositional in nature and easier to change. Both the implicit and explicit attitudes vary in their strength of relationship with each other(Hofman etal.2005;Nosek 2005) and can be shifted independently of one another(Baccus, Baldwin & Packer 2004;Gawronski & Strack 2004;Gregg,Seibt & Banaji 2006;Olson & Fazio 2006).When the consumer's behaviour in question is less amenable to conscious control, then implicit attitudes are better predictors of behaviour (Dovidio etal.1997;McConnell & Leibold 2001).The relationship between accessibility of beliefs and the effect of that belief on attitude is provided by attitude representation theory (Lord and Lepper 1999, Sia et al 1999). Depending on the valence of these beliefs, the prevailing attitude could shift in either a positive or negative direction (Ajzen and Sexton 1999). Studies have shown that attitudes are affect- and cognitive-based (Wilson et al 1989). Affect-based attitudes are associated with a strong affective reaction to the attitude object and are easily accessible and automatically activated through mere exposure to the attitude object or its name. They can hardly be changed or established by arguments (Edwards and Von Hippel 1995, Edwards 1990) because affect-based attitudes are not based on cognitive reasons. Prototypical examples are attitudes established through classical conditioning (Staats and Staats 1958) or subliminal priming with pleasant or unpleasant stimuli (Edwards 1990). Cognition-based attitudes, in contrast, result from controlled cognitive processes rather than automatic processes and consist of a set of evaluative beliefs concerning an attitude object rather than an affective reaction. Research by Converse (1970) has shown that the association between an attitude object and its evaluation varies in strength. His findings show that attitudes and non-attitudes lie on a continuum. The stronger the association between attitude object and its evaluation in a customer's long-term memory, the stronger its influence will be on the customer's behavior. Beliefs play a central role in attitude theory because they provide the groundwork upon which attitudes are constructed. When thinking about an attitude object, a person will add new beliefs that tend to be evaluatively consistent with prior beliefs. The greater the similarity between new and old beliefs, the more polarized or extreme an attitude becomes (Judd & Lusk, 1984; Linville and co-workers, 1980, 1982). Thus, beliefs seen as being important and consistent lead to strong attitudes. Attitudes perceived as being important are more likely to be used when processing information, forming intentions, and taking action (Boninger, Krosnick, & Berent, 1995; Fishbein & Ajzen, 1975. The central feature of a beliefs-attitude-intentions hierarchy is that beliefs represent the basis for an attitude toward engaging in a specific behavior. Shavitt and her colleagues (1990, 1992), who have reported that a distinct function of an attitude is to symbolize and express a person's self-image through identification with salient reference groups. In sum, people tend to have favorable attitudes toward issues that are congruent with salient aspects of their own identities deemed to be positive and also support the institutions that embody those identities (Ashforth & Mael, 1989). Fishbein and Ajzen (1975) have argued that the proximal predictor of an intention to act in some way is an attitude toward that behavior. They also note that any effect of beliefs and the perceived importance of those beliefs on intentions is fully mediated by that attitude. Fishbein and Ajzen (1975) also argued that variables external to the basic beliefs-attitude-intentions hierarchy are thought to influence intentions only indirectly through their moderating effects on attitude. However, other research suggests that strong feelings toward some object may act as a heuristic that has a direct impact on consumer behavior (see Fazio, Powell, & Williams, 1989; Nedungadi, 1990). Fishbein and Ajzen (1975) suggest that an attitude to engage in some behavior is directly predicted by a composite variable that incorporates beliefs and their evaluative elements. attitude is thought to be a function of the extent to which a belief about a product is held (its strength) and the importance of that belief to the individual. The Theory of Reasoned Action stipulates that beliefs underlie a person's attitudes and subjective norms, which ultimately determine intentions and behaviour (Fishbein and Ajzen, 1980). Researchers have drawn on attitude-behavior relationship, namely the theory of planned behavior (TPB; Ajzen, 1985), to explain consumer behavior. Consumer's direct experience with an issue or attitude object increases the salience and consequently the potency of that attitude, and the level of consistency between attitude and behavior (Crano). The positive relationship between attitude and behavioral intention has been supported by various other studies (Jaccard 1981, Jaccard and Becker 1985, Pomerantz, Chaiken, and Tordesillas 1995). Pomerantz et al. (1995) showed that attitude commitment positively influenced intentions to act in accordance with this attitude. Ajzen and Fishbein's (1980) theory of reasoned action offers a framework for exploring the relationship among external variables, attitudes, intentions, and behavior. The theory postulates that a consumer's intent to purchase and his or her purchase patterns are influenced by personal and social factors. Moreover, it suggests that a consumer's behavioral intention is derived from two factors: attitude toward the behavior and subjective norms. The theory of reasoned action is an inclusive integration of attitude factors into a conceptual model that is intended to lead to improved understanding and improved predictions of consumer behavior. The theory is comprised of three main elements: a cognitive component, which is a consumer's attitude toward a particular product or brand; the subjective norm component, which reflects referent influence on a consumer's intended behavior; and a conative component, which often is expressed as a consumer's intention to buy (Schiffman, Kanuk, 2004).

INFLUENCING FACTORS

The original TAM of Fred Davis (1989) and the modified TAM2 of Venkatesh& Davis (2000) pertain to the perceived usefulness and ease of use/application of technology products/equipments after purchase which could influence the attitude. The Attitude as per TPB(Ajzen& Madden,1986) has background factors of the consumer like personal-demographics-psychological motive aspects ,psychographics ,the social factors like Family/Ref groups/ sub-cultural aspects and Intervening factors like Situational aspects and Environmental-Market aspects like 4P's. These drive the inter interacting behavioural beliefs, normative beliefs and control beliefs which in turn lead to the ATB,SN and PBC respectively, which sums up to form the behavioural intention to culminate in the consumer behaviour. Thus the accultured individuality of modern consumer is deeply influenced by the personal and social factors. The ATO shaped by the Product aspects like salient product attributes and key benefits sought from the product towards meeting the attitude function/motive influences the ATB apart from the Personal P factors. Obviously the Social S factor driven SN (with NB and MC) and the personal factor driven PBC(with Control beliefs and perceived power) also influences the ATB in addition to the feedback influence path of the behaviour. The Intervening limiting factors are the situational aspects and the Environmental-market aspects. The P factor and S factor together assimilate the changed cultural aspects and directly reflect the acculturation process on the domestic consumption front in the families of modern society leading to the shaping of consumer purchase attitude and behavior. The underlying assumption is that the PBC component of the TPB accounts for lack of volitional control and predicts actual behavioural control; and that ATB predicts BI, and the hidden unconscious consumer motives are ignored in the light of rational nature. Consumer acculturation reflects the component of the total acculturation process relating to the consumption relevant attitudes/values and behaviors. Consumer Acculturation occurs at varying levels depending on the time and degree of interaction with the society. The Triandis model of Attitude (Triandis, 1977) has however bifurcated the ATB as Affect towards behavior and perceived consequences of the behavior which directly influence the BI, with normative influence-social factors; and the Facilitating social situation/conditions and Habit of the Consumer directly influencing the BI. Past Research with this model has shown that though this model has predicted BI and B well, it lacked predictability in consistency, inferior to TRA (Eagly & Chaiken, 1993). Nonetheless, both Affect and Cognition are parts of the Attitude as components, in addition to Conation as per the Tricomponent Attitude model.

Attitudes are evaluations of any aspect of the social world. Often attitudes are ambivalent, the consumer evaluates the product/brand both positively and negatively. Attitudes are often acquired from other persons through social learning. Genetic factors also influence attitudes. Strong attitudes do predict behaviour. The attitudes influencing behaviour is explained by the theory of reasoned action and theory of planned behaviour. The theory of planned action suggests that the decision to engage in a particular behaviour is the result of a rational process in which the behavioural options are considered, consequences or outcomes of each are evaluated, and a decision is reached to act or not to act. That decision is then reflected in behavioural intentions, which strongly influence overt behaviour. The theory of planned action is an extension of above suggesting that in addition to attitudes towards a given behaviour and subjective norms about it, consumers also consider perceived behavioural control (their ability to perform the behaviour).Several factors like attitude towards a given behaviour/subjective norms concerning that behaviour & perceived ability to perform it, determine behavioural intentions concerning the behaviour. Such Intentions in turn are a strong determinant of whether the behaviour is actually performed. The Attitude to behaviour process model (Fazio, 1989, Fazio & Roskos-Ewoldsen, 1994)is a model of how attitudes guide behaviour that emphasizes the influence of both attitudes and memory in an overt behaviour. Several factors affect the strength and relationship between attitudes and behaviour; some of these relate to the situation in which the attitudes are activated and some relate to the aspects of the attitude themselves. The situational constraints may prevent a consumer from expressing his attitudes overtly. Several aspects of attitudes moderate the attitude-behaviour link like, attitude orgins (how attitudes were formed), attitude strength (which includes attitude accessability, knowledge, importance and vested interests) and attitude specificity. Attitude influences behaviour in different ways. When the consumer gives careful thought to his/her attitudes, intentions derived from his/her attitudes strongly predict behaviour. In situations in which the consumer cannot engage in such deliberate thoughts, attitudes influence behaviour by shaping the perceptions of the situation. Attitude change can be effected through credible persuasion methods; however the attitude change depends on strength of arguments in the persuasion messages and the presence of persuasion cues which trigger heuristic processing. Cognitive dissonance is a tool for beneficial changes in behaviour; and when the cognitive dissonance is strong, the attitude change is large.

Research studies have shown that customer's behavioral intention is influenced by their attitude toward that behavior (Ajzen 1991, Ajzen and Fishbein 1980). According to the theory of planned behavior, people act in accordance with their intention and perception of control over the behavior. Intentions, in turn, are influenced by attitudes towards a behavior, subjective norms, and perception of behavioral control. Similarly, customer’s behavioral intention, is influenced by the customers attitude toward the firm, subjective norms (i.e., customers' knowledge and belief about firms), and customers' perceptions or images about the firm. According to the theoretical framework of the TPB (Ajzen 1991), attitudes toward a behavior are determined by relevant internal beliefs. Similarly a customer's attitude toward a firm is determined by that customer's beliefs about the firm. If the customer beliefs that engaging in the firm’s product would be beneficial, then they will have a positive attitude toward the firm. Even the theory of reasoned action (TRA) (Fishbein and Ajzen 1975) proposed that actual behavior is determined by intention to engage in that behavior. In turn, this intention is determined by the subject's attitude toward that behavior. Consumers' negative as well as positive evaluations, will be based mainly on past experience, and will be related to the degree of trust, belief, and knowledge individuals have towards the firm with whom they interact. Fishbein and Ajzen describe attitude toward the behaviour as the learned response toward an object or an act, whether it be favourable or unfavourable. The attitude is the sum of the salient beliefs about the outcomes of performing the behaviour multiplied by the evaluations of whether these outcomes are perceived as favourable or unfavourable. The subjective norm is the normative belief, which is what specific people or groups of people think the person should do, multiplied by the motivation to comply, or how much the person wishes to comply with his or her normative influences. Attitude towards purchase behaviour, subjective norms, and perception behavioral controls are the internal factors for behavioral intentions. That is also individual psychological field territory which is the major effect factor to interfere behavioral intention. For the external factors of Planned Behavior Theory, include population demographics, personality/self image, and situation factors (Ajzen & Madden, 1986). Sutton (1994) argued that, with repeated performance, behaviors might become determined by one's past behavior rather than by cognitions described in the TPB model.

According to Wilkie (1994, p. 287), "a multi-attribute model views an attitude object (brand, store, etc.) as possessing many attributes (characteristics) that provide the basis on which consumers' attitudes will depend. Thus the attitude a consumer has toward a brand, store, etc, will depend on the beliefs that a consumer holds about what the brand, store, etc. has to offer. Each belief pertains to one attribute, thus leading to the designation as a multi-attribute model." The multiplicative relations between importance and beliefs, the summation over all attributes, and the nature of the ratings all suggest that the basic multi-attribute model is a linear compensatory attitude model. A multi-attribute object is viewed as a bundle of attributes leading to costs and benefits of differential desirability to individuals or segments of the market. Overall affect is posited to reflect the net resolution of an individual's cognitions (beliefs) as to the degree to which given objects possess certain attributes weighted by the salience (importance) of each attribute to the individual. The basic purpose of the multi-attribute model is to gain an understanding of purchase predisposition. The multi-attribute model yields attitude scores that are significantly related to measures of purchase or purchase predisposition (Wilkie & Pessemier, 1973). Unlike personality, attitudes are expected to change as a function of experience. Tesser (1993) has argued that hereditary variables may affect attitudes - but believes that they may do so indirectly.

The **Psychographic variables** like lifestyle and personality-self image of a person influences his/her attitude profoundly. **Lifestyle involves** classifying people according to their values, beliefs, opinions, and interests. Lifestyle is a pattern of living that determines how people choose to spend their time, money, and energy and that reflects their values, tastes, and preferences Consumers often choose goods, services and activities that are associated with a certain lifestyle. Analysis of consumer lifestyles is important in producing insights into consumer behaviour/attitude. Lifestyle is also defined as the means by which people live and spend time and money, mirroring a person's activities, interest, and opinions, as well as demographic variables (Blackwell, Miniard, & Engel, 2001). Based on VALS2,the identified self-orientation and the amount of available resources, consumers can then be placed into one of the eight lifestyle categories: actualizers (affluent, successful consumers with a wealth of available resources), fulfilleds (satisfied, comfortable consumers who tend to be practical thinkers and look for functionality), believers (conservative consumers with strong beliefs in established codes and values), achievers (consumers who strive to achieve control in the many aspects of their lives), strivers (consumers that who seek approval of others and the image of success), experiencers (young, impulsive consumers who like risk taking), makers (consumers who focus on independence and live within the context of family and work), and strugglers (consumers with little or no available resources who's goals often involve achieving basic survival needs) (Blackwell et al., 2001). The **personality and self image** of each individual is different and it plays a very crucial role in formation of attitude. Personality is the innate characteristics in an individual that make him or her unique. It is a picture of how a person is looked upon by others around him/her. Each person has personality characteristics that influence his or her buying behavior. Marketers learn which personality characteristics influence specific consumer responses and attempt to appeal to relevant traits inherent in their target group of consumers; even though an individual’s personality may be consistent, consumption behavior often varies considerably because of psychological, socio-cultural, and environmental factors that affect behavior. The degree to which product image coincides with self-concept is referred to as self-congruity (Zinkham & Hong, 1991) which shapes the consumer’s purchase attitude. The results of Aaker's (1999) study demonstrated that both self-concept and consumption situation positively influence consumer attitudes toward a brand. A positive relationship was found in several studies
between self-image/product-image congruity and brand preference (e.g., Malhotra, 1988; Ericksen, 1996), which means consumers tend to choose brands that fit in with their self-concept. The extent to which an individual sees him- or herself as a typical consumer of a product, may play a role in the consumer context, stated as the self identity.

The level of a **consumer’s product knowledge** may affect his/her information and decision-making behavior (Brucks, 1985; Park, Mothersbaugh, & Feick, 1994). The consumer considers each product through a bundle of salient attributes. Also consumers develop a set of brand beliefs about where each brand stands on each attribute/brand image. A consumer is assumed to have a utility for each attribute. The utility function describes how the consumer expects product satisfaction to vary with different levels of each attribute. The consumer arrives at attributes (judgements/preferences) towards the brand alternatives through some evaluation procedure.

The **Consumer Involvement** *is* a determinant of attitude and *is t*he level of perceived personal interest and/or relevance aroused by a stimulus given a particular situation (Zaichkowsky, 1985, Blackwell et al., 2001), typically in the purchase of kitchen appliance. Involvement level follows the motivation scale of the consumer. Consumer Product Involvement is generally understood as referring to the personal relevance of the object based on inherent needs, values and interests (Zaichkowsky, 1985). The degree of consumer involvement reflects the amount of deliberation employed in order to minimize the risks and to maximize the benefits incurred by product purchase and use (Blackwell et al., 2001). A consumer's degree of involvement ranges from high to low. The level of involvement is ascertained by the degree to which a consumer perceives the product or service to be important.

Consumer motive (Attitude function) influences attitudes. According to Duncan (2005), consumer motive is defined as "internal impulses that when simulated initiate some type of response." Consumers are continuously reacting to their internal impulses as well as the external environment. Since internal impulses and the external environment also interact, resulting in psychological motivations to fulfill needs and wants, Kim and Jin (2001) argue that consumer motives are known to be the drivers of behaviour that bring consumers to the retail store. Based on past research, consumer motives can be categorized from four perspectives. Firstly, the social influences on consumer motives such as the culture, sub-culture, social class, reference groups and families (Peter & Donnell, 2007). Secondly, the situational influences on consumer motives such as physical features, social features, time, task features and current conditions (Belk, 1975). Thirdly, psychological influences on consumer motives include product knowledge and product involvement (Peter & Olson, 2005). Finally, the marketing mix influences on consumer motives such as product, price, promotion and place (Peter & Donnell, 2007). . Price is the main motive in buying as illustrated by Gitomer, J. (2005). Morschett, D. et. al. (2005) show that the influence of shopping motive has a much more profound effect on the attitude towards retail stores than towards perception of store attributes. Product-related considerations (eg. assortment and quality) and pricing appear to be the most critical aspects of consumer motives (Kim & Jin, 200l). Stem, Barbara. B. (2001) indicates that knowledge is located between past achievements and future promise. It is not enough to promote a product as filling a functional need; it has to touch the consumer on a deeper level that evokes identification with the product. The consumer needs to feel that they are somehow linked to the product, and that it produces a favorable image of them and who they want to be. This will motivate the consumer to buy, and keep buying a product.

The **social influences** affecting the attitude of a consumer are largely due to the family and the social reference groups. The social reference group influence relative to a brand selected is strong for a public-visible and conspicuous luxury product but weak for private necessities consumed by a family. The purchase behaviour/attitude is influenced by the FLC Stage/needs and the lifestyle adopted. Socialisation of Consumers is a process by which people learn the social roles and behaviors they need to participate effectively in the society(Peterson & Rollins,1987),of which the family is the most powerful socialization influence on the consumer.The Research by both Fishbein&Ajzen(1980) and Triandis(1982) incorporated social factor in their consumer BI model in different perspectives .A person's self-concept is comprised of a number of self-identities, each varying along a continuum ranging from personal identity at one end to social identity at the other. Terry and Hogg (1996) recently reported that social identity with a group moderates the influence of attitudes on intentions such that attitudes had a greater effect on intentions among individuals with lower levels of identification than for those high in group identification. Family core values influence attitudes. Consumers buy key benefits of the products and are based on beliefs leading to attitude formation. For a large size family ,the priority would be on more efficient use of disposable income, perceived risk reduction, higher information search ;While for a higher income family time is the most valuable resource with less information search and lower brand loyalty. Attitudes are affected by situations. The various inhibiting factors for a favourable attitude are high perceived risk, poor confidence level, little frequency of purchase, non availability of the preferred brand even when money is available, not enough money/time available,situational factors like terms of sale unattractive/moods of consumer unfavourable. Attitudes are learnt through interaction with others like the family and the peer groups.

The **post purchase(Past) behaviour** is also important for a consumer .When the perceived performance is greater than the minimum desired expectation, satisfaction(brand loyalty/repeat purchases) results; and when the minimum desired expectation falls short of the perceived performance, dissonance sets in(complaint behaviour). Cognitive dissonance is a post purchase phenomena arising because of the conflicting actions with regard to the self image of the consumer, in a bid to maintain cognitive consistency. Cognitive dissonance influences future attitude owing to the behavioural experience preceding it. Past behavior is a useful addition to TPB a range of behavioural domains (Conner, Warren, Close & Sparks, 1999; Hagger, Chatzisarantis & Biddle, 2002; Norman & Conner, 2006) and a predictor of attitude-intention.

Meanwhile the **dimensions** of attitude may be elaborated as strength, accessability, importance, ambivalence, coherence and complexity. Attitudes can predict behavior when the attitudes are implicit (unconscious), strong and developed from direct personal experience.

The various sources of **attitude formation** are: Internal factors(from direct personal experience/ consumer personality factors-demand for cognition, information & conviction/self perception/needs); External factors (influence of community-family members/social groups/coworkers, other surrounding consumers, information, values etc.,);direct marketing ; and by means of mass media tools like advertising persuasion messages. Attitude conditioned by the external factors often changes. Attitude is formed directly by the following-Attitudes are learned by information exposure, knowledge or experience; attitudes are formed before/after purchase through personal experience/friends/family/mass media; and attitudes are formed through personality factors like information seeking and social status consciousness. Attitudes involve social judgments, Attitudes involve a readiness (or predisposition) to respond, Attitudes vary along dimensions of strength and accessibility. Strong attitudes are very important to the individual and tend to be durable and have a powerful impact on behavior, whereas weak attitudes are not very important and have little impact. Accessible attitudes come to mind quickly, whereas other attitudes may rarely be noticed. Attitudes tend to be stable over time, but a number of factors can cause attitudes to change. The Psychological factors involved in Attitude are Direct Instruction, Operant Conditioning, Classical conditioning, Social (Observational) Learning, Cognitive Dissonance, Unconscious Motivation, and Rational Analysis. Attitudes are not overt behaviors but rather covert or unobservable internal reactions (Kim 2002). It is one of the pervasive notions in all of the Marketing (Gillbert 1995). Formal attitudes are learned predispositions to respond to some object in a consistent way. The response may be favorable or unfavorable (Wallendorf, 1979). Consumers learn these attitudes over time by being exposed to the object directly or through receiving information about the object. The learned attitudes serve as general guides to overt behavior with respect to the attitude object, giving rise to a consistently favorable or unfavorable pattern of response.

Attitude change is possible through persuasion strategies, which are by-changing the basic motivational function, associating the product with an admired group/event, resolving two conflicting attitudes by changing the evaluation, altering the components of the multi-attribute model by change of evaluation of attributes/change of brand beliefs, addition of attributes, change of overall brand rating etc., and changing the consumer belief about the competitor's brands.

TAM (Technology acceptance model)of Davis 1989 has it's roots on TRA(Fishbein & Ajzen,1975) explains PEO and PU on Attitude and BI leading to behavior, mosly applied in IT based studies. PU is the subjective probability that using a specific application system will increase the user's job performance while PEOU refers to the degree to which the user expexts the target system to be free of effort/user friendliness.

SCOPE /NEED FOR STUDY

To assess the purchase attitude, BI and behavior of consumer in line with the TPB and TAM for consumer durables range of products. White goods are the most consumed products with service element also involved, hence complex enough for study. The focus is on Attitude and study of impact of other independent variables of TPB and TAM.

FORMULATION OF HYPOTHESIS

(1)H01:There exist positive relation between pre purchase attitude and subjective norms/social factors;(2)H02:There exist positive relationship between pre purchase attitude and PBC(&Involvement/Importance/Perceived risk level);(3)H03: There exist positive relationship between pre purchase attitude and personal factors;(4)H04:There exist positive relationship between pre purchase attitude and belief on attitude function served;(5) H05:There exist positive relationship between pre purchase attitude and PEOU/PU/Knowledge of the product (6) H06:There exist positive relationship between pre purchase attitude and BI;(7) H07: There exist negative relation between pre purchase attitude and post purchase behavior.

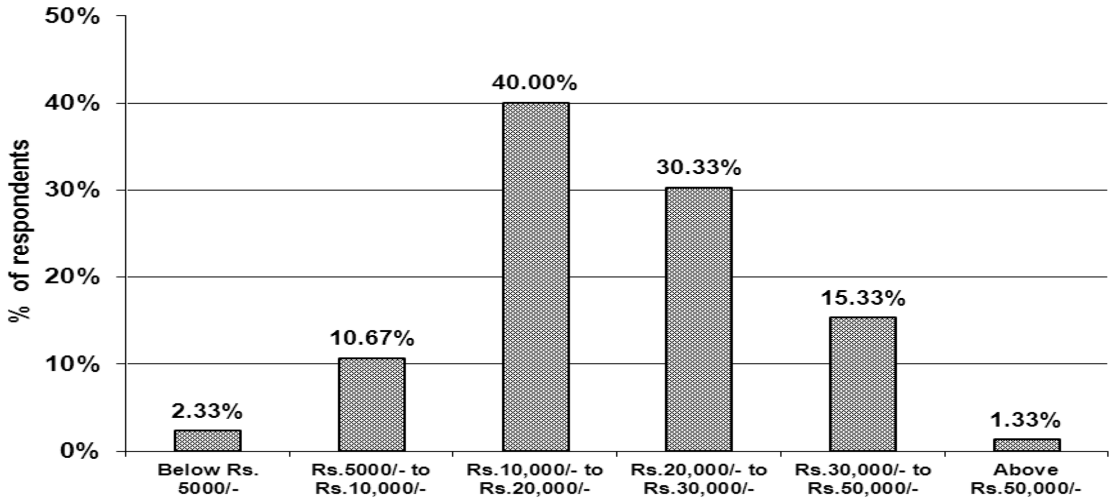
RESEARCH METHODOLOGY

The study investigated the purchase attitude of women in the decision-making of purchasing consumer durables for family utility-White goods/Brown goods. The research instrument used is the combined structured questionnaire and interview schedule addressed on family unit and specific to women with Durables-specifically the MWO as the attitude object. Personal interview using structured questionnaire(5point Likert scale) adopted for primary data collection from a sample size of 520 (out of 750 HHs personally visited)housewives from a population of one lakh HHs of Kochi metro, adopting stratified random sampling on 25 geographical pockets and based on middle class income of HH.

DISCUSSION/FINDINGS

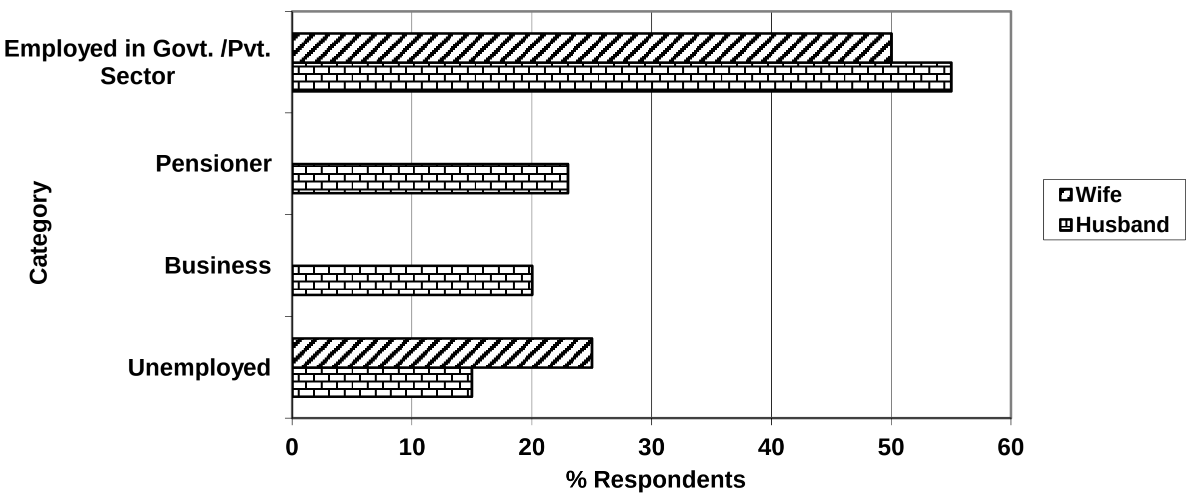
The demographics of the respondent is outlined below vide illustrations/graphs/tables.

CHART 1: AVERAGE MONTHLY DISPOSABLE INCOME PROFILE OF CONSUMER HH SAMPLED



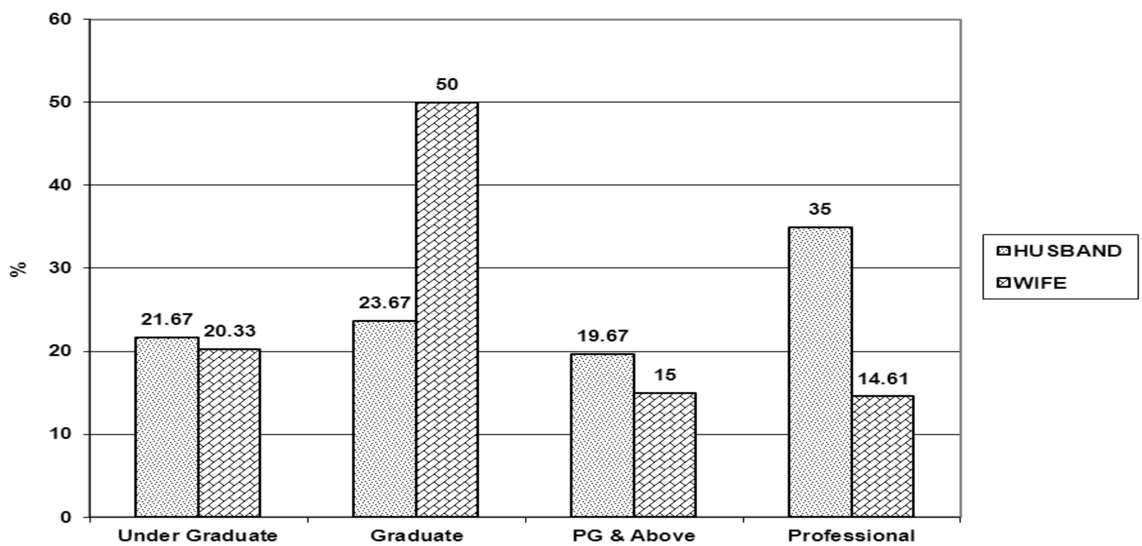
The average monthly disposable income segment is highest at Rs.10,000/- to 20,000/- at 40% followed by Rs.20,000/- to Rs.30000/- at 30.33%.

CHART 2: PROFILE OF OCCUPATION OF HUSBAND/WIFE IN THE SAMPLE



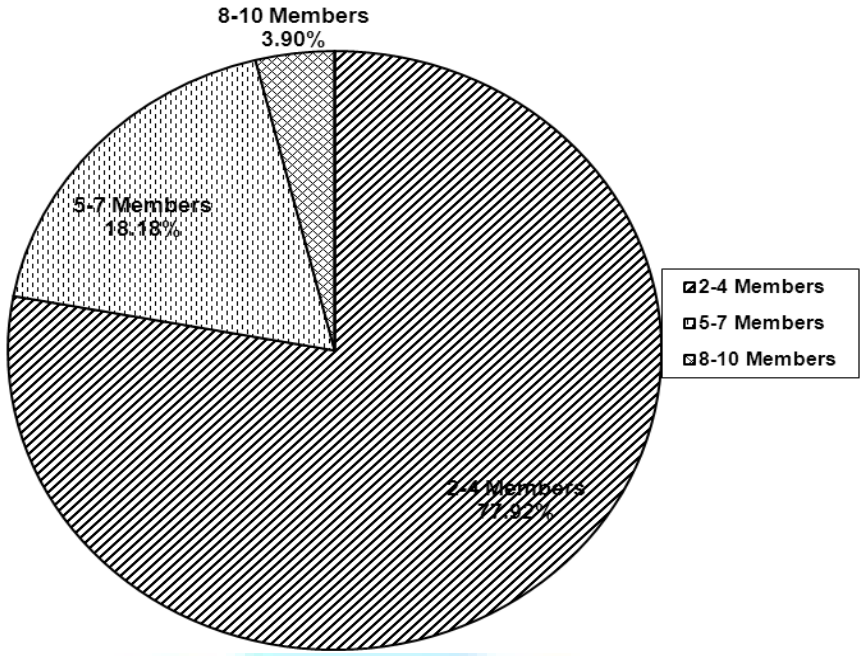
Most of the respondents are employed (more than 50%) in Government sector/private sector.

CHART 3: PROFILE OF EDUCATION LEVEL OF RESPONDENTS IN THE SAMPLE



The wives top(50%) the category in the graduates which is indicative of the high female literacy level while Husbands in the Professional category comes second(35%).

CHART 4: FAMILY SIZE-NO. OF MEMBERS IN FAMILY-HOUSEHOLD SAMPLE

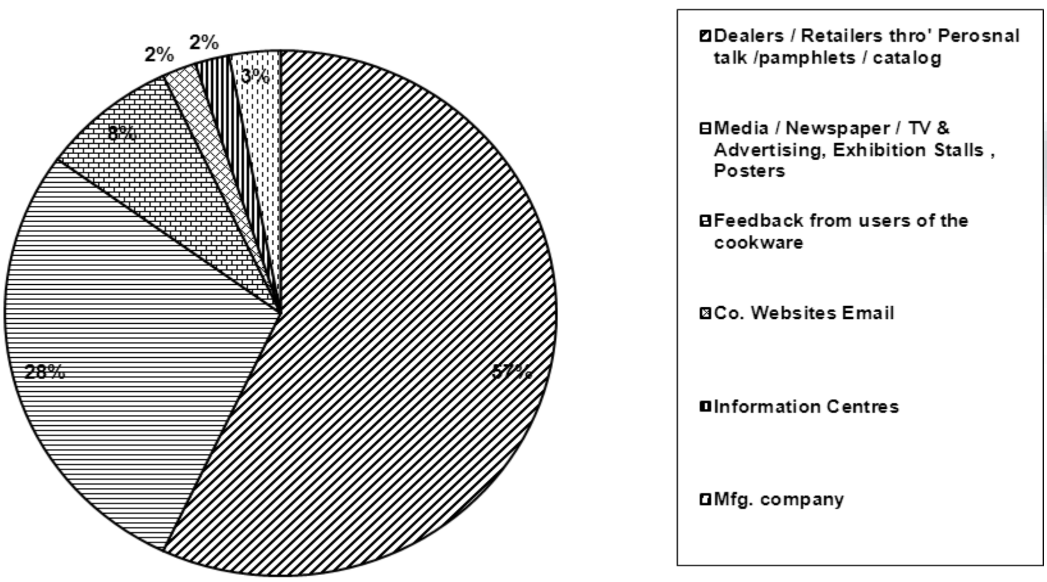


An average of 2-4 members forms the HH, an indication of the nuclear family setup.

CHART 5: AGE PROFILE OF HUSBAND / WIFE IN THE SAMPLE

Most of the Couples are in the 40-50 years age bracket (52% for Husband and 36% Wife)

CHART 6: EXTERNAL INFORMATION SEARCH BEHAVIOUR / SOURCES CONSULTED BY CONSUMERS



From above 28% opted for media related Ads and other sales advertisement drives/campaigns for their information search from external sources.

TABLE 1: INFLUENCES ON PRE PURCHASE ATTITUDE OF CONSUMER

Consumer pre Purchase Attitude Enablers/Disablers	For Durables(in % of sample)		
	+High/Enable	Neutral	-Low/Disable
Cognitive beliefs on Product benefits /Perceived usefulness/ease of use	81.22	1.15	17.63
Affective/Feelings on Product	29.11	9.02	61.87
Attitude function served/motive	86.91	7.95	5.14
Subjective Norms /Social Influence	87.83	5.75	6.42
PBC/Perceived risk/ Importance /Involvement level	85.63	9.39	4.98
Personal characteristics-demographic aspects	80.16	11.26	8.58
Lifestyle and personality/Self Image	81.41	9.97	8.62
Sub Cultural/Religious beliefs/Social norms/Food habits/Nativity	27.93	18.01	54.06
Mass media- Persuasion and Situational Influences	64.37	2.29	33.34
Past behavior/Cognitive dissonance	29.84	27.10	43.06
Behavioral Intention	57.78	2.68	39.54
Overall Attitude towards purchase	68.9	9.96	21.14

The SN and normative influences are accounted for by the social aspects while the PBC involves resources/support/confidence/involvement/importance accorded/ risk perception etc. The personal aspects include the personality and self image as also the Psychographics like Lifestyle and Values. The attitude functions served are the consumption motives driving purchase of the product like MWO.PEO/PU and knowledge enabled beliefs are also influencing the pre purchase attitude. A feedback path of BI and behavior on Attitude is also tested herein .The mean value of Social aspect(4.115) being the highest, followed by Motive(3.978) , PBC(3.782), Personal –Psychographic aspects(3.586) and PEOU-PU/Knowledge of the product/awareness level(3.179).The post purchase aspects like dissonance ,past experience, attribution, complaints reflected in behavior has mean value of 2.385 and the least mean value for BI of 1.638.

TABLE 2: REGRESSION MODEL ON CONSUMER ATTITUDE AND HYPOTHESIS TESTS

Influencing constructs on Pre Purchase attitude of Consumer	Estimate	S.E	C.R	P<	S/NS
Social aspects/Sociographic	0.921	0.268	3.5	0.01	S
PBC/Involvement/Importance	0.827	0.472	3.9	0.01	S
Personal –Psycho Graphic aspects	0.786	0.685	4.1	0.01	S
Attitude function beliefs	0.874	0.493	3.1	0.01	S
PEOU/PU/Knowledge	0.693	0.536	2.8	0.01	S
Intention(BI)	-0.143	0.117	-1.3	0.05	NS
Post purchase Behavior/Dissonance	-0.388	0.424	-1.9	0.01	S

The social aspect, PBC and functions of attitude (motive) are very dominant in the prepurchase attitude formation. The various hypothesis vide (1)H01:There exist positive relation between pre purchase attitude and subjective norms/social factors is significant/supported;(2)H02:There exist positive relationship between pre purchase attitude and PBC(&Involvement/Importance/Perceived risk & confidence level) is significant/supported;(3)H03: There exist positive relationship between pre purchase attitude and personal factors is significant/supported;(4)H04:There exist positive relationship between pre purchase attitude and belief on attitude function served is significant/supported;(5) H05:There exist positive relationship between pre purchase attitude and PEOU/PU/Knowledge of the product is significant/supported;(6) H06:There exist positive relationship between pre purchase attitude and BI is not significant/rejected;(7)H07:There exist negative relation between pre purchase attitude and post purchase behavior is significant/supported. There is negative correlation between BI and attitude at a lower level(estimate of -0.143)though not significant, and for the correlation between post purchase behavior and pre purchase attitude there is strong negative correlation and significant enough(estimate -0.388).This shows discontentment of consumers with the attitude object, the durables and a reflection of cognitive dissonance level. The after care support and market mix variables have to be redefined by marketers to attune to the expectation levels of the consumers regarding white goods like MWO, a product very common now in all middle class kitchens in urban areas of Kerala. The Null hypothesis H01-H05 & H07 are supported while H06 is rejected/statistically insignificant. BI is not significantly influencing pre purchase attitude probably due to the very high influence of others (social aspect) on purchase and overall feedback from post purchase behaviour.

The TPB and TAM are well supported by above findings .The regression equation model can be translated as

Pre purchase attitude (A) = K1 (SN)+K2(PBC)+K3(PPF)+K4(AF)+K5(PEOU/PU)+K6(BI)+K7(PPB)+K0+e1, with the dependent variable as Attitude and the other seven variables as independent and influencing attitude. In above, K6 and K7 are negatively correlated to attitude. This is consistent with the past research models evolved by researchers like Fishbein and Ajzen, 1975; Davis, 1989, and partly with the Extended TAM of Davis and Venkitesh, 2000 on use of the product. Detailed Structural equation modeling on above equation may be applied for an elaborate analysis on the combined model of TPB and TAM2, though not intended in this study due to time limitations. Further scope of work by applying to other high technology products and the timely efficient complaint redressal service/pacifying the high cognitive dissonance level aspect appropriately also can be applied for evolving a general model for durables.

CONCLUSION

The TRA and TPB have been monumental in defining the Attitude-Behaviour consistency of consumers towards purchase of merchandise for domestic consumption even today. That TAM has delineated the post purchase /use aspects, and the cognitive dissonance working through the memory is a perennial aspect which modulates the future attitude change through behavioral route. Of late, the social aspect of the consumer is gaining more importance in the purchases, the normative component in the Attitude leading to the BI. This is attributable to the Knowledge based social patterns emerging in the Indian context, with the onset of 3G spectrum technology in the mobile telephony and online Internet shopping trends practiced by the consumers as per their convenience. That ICT enabled technology systems and information networks have improved the quality of living applies to quantum shift in the shaping of Attitude of the consumers is well known. The Information communication revolution has changed the consumer's priorities, and with high technology products, the decision making is made easier though, in the modern setting of knowledge enabled society, with special reference to India. A short insight into the modern consumer attitude which is cardinal in driving the consumer behavior is germane even in modern times despite the sophistication and volatility of the global consumer market and consumer shift in attitude towards purchase behaviour. Customised Innovative products and services are the solutions to the variegated accultured consumer behavior demand patterns of modern consumers. The consumer dissatisfaction with the durable goods on attributes like quality/after sales care etc has to be addresses by the marketing companies and dissonant behavior has to be translated to consumer delight for the products/brands. Better awareness and assurance/extended warrantee and support schemes to be mooted to erase the dissatisfaction and complaint prevalent among consumers and adversely reflecting in their new purchase attitudes towards durables for domestic consumption.

REFERENCES

1. Ajzen, Icek and Fishbein, Martin,(1980) Understanding attitudes and predicting social behaviour, Prentice Hall Englewood cliffs,NJ.
2. Ajzen, I. (1985). From intentions to actions: A theory of planned behavior. In J. Kuhl & J. Beckman (Eds.), Action control: From cognition to behavior (pp. 11–39). New York: Springer Verlag.
3. Ajzen, I. (1991). The theory of planned behaviour. Organisational Behaviour and Human Decision Processes, 50, 179-211.

4. Ajzen, I., & Driver, B.L. (1991). Prediction of leisure participation from behavioural, normative and control beliefs: An application of the theory of planned behaviour. Leisure Sciences, 13, 185-204.
5. Ajzen, I., & Fishbein, M. (2000). Attitudes and attitude behaviour: Reasoned and automatic processes. In European review of social psychology. W. Stroebe, M. Hewstone, (eds). Wiley, Chichester, England.
6. Ajzen, I., & Timko, C. (1986). Correspondence between health attitudes and behaviour. Journal of Basic and Applied Social Psychology, 7, 259-276.
7. Allport, G.W. (1935). A handbook of social psychology. Clarke University Press, Worcestor, MA. USA.
8. CT.Allen, KA.Machleit and SS.Kliene (1992),"A comparison of attitudes and emotions as predictors of behaviour at diverse level of behavioural experience", Journal of Consumer Research, Vol.18, March PP.493-504.
9. Engel, James.F, Blackweell, Roger.D and Miniard, Paul.W, "Consumer Behaviour", Dryden press.
10. Etzel, Michael J, Walker, Bruce J, and Stamto, William J,(2001),Marketing,12th ed, McGrawhill Irwin.
11. Fishbein.M (1967), Readings in Attitude theory and measurement, A consideration of Beliefs and their role in Attitude measurement, John wiley&sons.
12. Graham, Judy (2004), Critical thinking in Consumer Behaviour: cases & experiential exercises, Pearson-Prentice Hall publishers.
13. Hawkins, Best and Coney (1998), Consumer Behaviour: Building marketing strategy-Ch.12"Attitudes & influencing attitudes",7th ed., Irwin McGrawhill.
14. I.Ajzen (2001),"Nature & operations of Attitudes", Annual Review of Psychology, Vol.52, No.1, PP.27-58.
15. Jain, P.C and Bhatt, Monika, Consumer Behaviour in Indian Context, S.Chand &Co., N.Delhi.
16. KP, Sunny (1994), Changes in consumption behaviour in kerala, International congress on kerala studies, Aug 1994.
17. Mamoria, C.B, Joshi, R.L and Mulla, N.I (2001), Principles and practice of Marketing in India, Kitab Mahal Publishers.
18. Mary, Sarguna.G (2009),"Product purchase decision making process among urban married working women in Trichi District-An analysis", Indian Journal of Marketing, Vol.XXXIX, No.2, PP.17-25.
19. Nair, Suja R, Consumer Behaviour in the Indian Perspective, Himalaya Publishing House
20. Schiffman, L.G and Kanuk, L.L, Consumer Behaviour, Prentice Hall India, N.Delhi
21. Sharma, Kuldeep, Consumer Behaviour, Galgotia Publishers, N.Delhi, 2001

CONSUMPTION PATTERN OF BUYERS OF BAKERY PRODUCTS: A STUDY CONDUCTED IN KERALA

NEMAT SHEEREEN S
RESEARCH SCHOLAR, DEPARTMENT OF APPLIED ECONOMICS, CUSAT, KOCHI; &
LECTURER
MES COLLEGE
MARAMPALLY

ABSTRACT

Bakery products are ready to eat, convenient to use and possess satisfactory nutritional quality. According to various studies it has been revealed that there is a faster growth of bakery products, especially bread and biscuits, in the rural market than in the urban area which fuelled the growth of this sector. This paper explores the impact of the demographic variables in the purchase of bakery products and also analyses the purchase behaviour and influencing factors of customers towards the purchase of bakery products. The Bakery sector has huge market potential and has a wide range of untapped market which can be explored through various promotional activities and also by providing quality bakery products.

KEYWORDS

consumption pattern, bakery products.

INTRODUCTION

Bakery Industry in India is the largest of the food Industries with an annual turnover of about Rs.32000 million and has achieved 3rd position in generating revenue among processed food sector. India is the second largest producer of biscuits after USA (NIIR, 2007). The bakery Industry in India valued at Rs.69 billion and out of this, bread and biscuits hold about 82% of the share. The bakery industry comprises of organized and unorganized sectors. The unorganized sector accounts for about 67% of total biscuit production estimated at 1.3 million tonnes and 80% of the total bread production estimated at 1.5 million tonnes and around 90% of the other bakery products estimated at 0.6 million tonnes, which includes pastries, cakes, buns, rusks and others(NIIR,2007). Though bakery industry in India has been in existence since long, real fillip came only in the later part of 20th century.

A study conducted by the Confederation of Indian Industry reveals that at present Indian's spend half of their household expenditure on food items. With over 1 billion population and 350 million strong urban middle class and changing food habits, the processed food market is promising a huge potential to be tapped. The Centre for Agriculture and rural Development reports that the youth is educated and wants to splunge their earnings on quality stuff. Availability and ease of use are progressively becoming the chief criterion for purchase and the trend of eating out and buying packaged food which is relatively new phenomenon, has witnessed an unprecedented rise. Changing life styles due to increased disposable income in advanced countries led to an increase in demand for processed food (Wilkinson, 1987). Changes in food consumption patterns contribute to the development of food processing Industry (Gopalan C, 1994).

Kerala has always been a leader state in Food Processing sector. The prominence of food sector in Kerala is highlighted by the fact that the state has the highest per capita expenditure on food in the country and 2\3 of Kerala's Total export income comes from processed food. Increased literacy, changing pattern of life style, mass media promotion has all contributed to a change in demand for processed food (Chandrasekharam, 2001). Rapid urbanization, Changing life style and increased awareness amongst consumers on health and safe food led to the growth of bakery Industry. Increased competition and changing consumer choice have made the bakery manufacturer to improve their growth standards. The bakery business in Kerala has been on a growth track for many years. Bakers in Kerala offer unique and wide range of tastes unmatched to any part of the world. The present study analyses the consumption pattern of customers towards bakery product in Ernakulam district, Kerala, India.

BACKGROUND OF THE STUDY

Bakery products still remain the cheapest of the processed ready to eat product in the country. The production of bakery products has increased from 5.19 lakh tonnes in 1975 to 18.95 lakh tonnes in 1990 recording four fold increase in 15 years. The market size for the industry is pegged at US $4.7 billion in 2010 and is expected to reach US $ 7.6 billion by 2015. It is also revealed that the equation between unorganized and organized sector has shifted from 66:34 in 1997 to 60:40 (NIIR, 2007). The bakery products are becoming quite popular in rural areas and about 57% of biscuits are consumed by rural sector. The contributing factors were urbanization, resulting in increased demand for ready-to-eat food at reasonable costs (Goyal, Swati Shrivastava, & Tanweer Alam, 2007). The Central Food Technological Research Institute (CFTRI), Mysore, sees potential in this growing segment. According to the University of Agricultural Sciences (UAS), Bangalore, bakery is a promising sector for growth going by the interest evinced for products like cakes, biscuits, buns, rusks among other for all age groups. The Indian Institute of Management (IIM), Bangalore pointed out that the overall change in consumption patterns, young population willing to experiment on new products, propensity to spend, preferred locations for hangouts for all age groups are the key growth drivers of this sector. Bread market is estimated to be growing at around 7% p.a. in volume terms, whereas the biscuit market has witnessed a higher growth at around 8-10 %.(Goyal, Swati Shrivastava & Tanweer Alam, 2007). India's bakery market at Rs.49.5 billion makes it the third largest market in Asia pacific, only after Japan and Australia (Anon, 2006)

The per capita consumption of bakery products in India is 1 to 2 kg per annum, which is comparatively lower than the advanced countries where consumption is between 10 to 50 kg per annum. Trends in consumer preference suggest increasing demand for bakery products. As per the ministry of Food Processing Industry the bakery products are reserved for the small scale sector out of which 40% is produced in the organized sector and remaining 60% is in the unorganized sector. Taking the market forces such as rising income level and changing consideration it is expected to reach a growth rate from 10% in 2010 to 25% in 2020(RNCOS report-Indian food processing,2006). Increased number of working women, Change in Indian meal pattern, increased disposable income, urbanization etc., has increased the demand for bakery products. It is in this context the proposed study is undertaken.

OBJECTIVE OF THE STUDY

In this study an attempt has been made to analyse the factors that effect the purchase behaviour of customers of bakery product in Ernakulam district, Kerala, India. The specific objectives of the study are:

1. To analyse the familiarity, preference and demand for Bakery products.
2. To study the purchase behaviour, influencing factors and preference of customers towards Bakery products.
3. To find the impact of Demographic variables in purchase of bakery products.

RESEARCH METHODOLOGY

This Study has the specific objective to understand the purchase behaviour of customers of bakery product of Ernakulam district, Kerala, India. The research is purely exploratory in nature. The primary data have been used to supplement the objectives and the sample unit was the customers of bakery products.

POPULATION AND SAMPLE SELECTION

Consumers of bakery products in Kerala have been considered as the population of the study. A sample of 110 consumers was drawn from the population using stratified sampling method.

TOOLS FOR DATA COLLECTION

The data were collected with the help of a semi-structured questionnaire developed by the researcher. The questionnaire consisted of two parts: the first part was related to the customer's opinion and attitudes about the purchase of bakery products and the second part was related to the demographic profile of the respondents. The first part contained questions relating to the use of different types of bakery products and their attitude towards the purchase of bakery products. Under the demographic profile factors taken into account were age, gender, educational qualification etc.

RESEARCH DESIGN

The research design for the study is descriptive in nature. Personal interview was conducted among the target respondent using semi structured questionnaire. Further in-depth and structured observations were also made.

SAMPLE PROFILE

Table 1 shows the profile of the respondents with respect to gender, Residential status, age, education level and their income. Out of 110 respondents 53% of them were male and 47% were female. Information was collected from both urban and rural area, different age group, educational level, occupation and income level.

TABLE 1: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

Sl. No.		Profile factors	Number of Respondents	Percentage (%)
1.	Gender	Male	58	53
		Female	52	47
2.	Residential status	Urban	68	62
		Rural	42	38
3.	Age	10 – 20 years	12	11
		20 – 30 years	50	45
		30 – 40 years	16	15
		Above 40 years	32	29
4.	Occupation	Business	26	24
		Professionals	29	26
		Service	24	22
		Others	31	28
5.	Education	Below Graduation	57	52
		Graduate	24	22
		Post Graduate	29	26
6.	Income p.a (in Rs.)	Less than Rs.1,20,000	31	28
		Rs.1,20,000 – Rs.2,40,000	25	23
		Rs.2,40,000 – Rs.4,80,000	25	23
		Above Rs. 4,80,000	29	26

TOOLS USED FOR ANALYSIS

Percentage analysis and Chi square test were used for analysing the data. Percentage analysis method was used to interpret the data and pie charts were used to present the interpretation.

$X^2 = \sum (O-E)^2 / E$ where, **O** is observed frequency and **E** is expected frequency

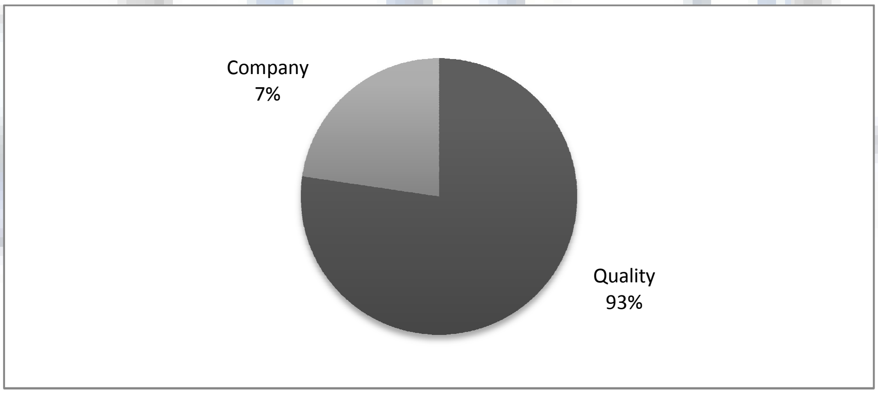
RESEARCH FINDINGS & DISCUSSIONS

Demographic profile of the respondents and Descriptive Statistics: Out of the total sample of 110 respondents selected for the study, 53% were male respondents and 47% were female. It was found that, 11% were below 20 years, 45% were within the age group of 20-30 years, 15% were between 30-40 years of age and 29% were above 40 years of age.

The survey revealed that, out of the total number of respondents the occupation of 24% were business, 26% were professionals, 22% belonged to service sector and 28% belonged to various other occupation(agriculture, daily wages etc) . It was found that 28% of respondents income were below Rs.1,20,000 p.a., 23% earned in between Rs.1,20,000-Rs.2,40,000 p.a., 23% earned between Rs.2,40,000-Rs.4,80,000 p.a., and 26% income were above Rs.4,80,000 p.a. 52% were below graduation and 48% above graduation. As per the study conducted by OMEGA analytics higher income levels, increasing urbanisation and favourable demographics are the key drivers of higher bakery product consumption in India. The present study confirms that the purchase of the bakery products is influenced by the age of the customer whereas occupation and income do not influence the purchase of bakery products.

Factors affecting the choice of bakery products: The increasing desires by customers for products with improvement in nutritional value, Palatability, Safety and Convenience led to the development and improvement of Food Processing Industry (McFarlane, 1988). Bakery products are one of the subsectors of Food Processing Industry. The present study was able to explore the relationship between purchase of bakery products and the reason behind the selection of various products. Quality and brand were considered as the most important influencing factor for purchase of bakery products.

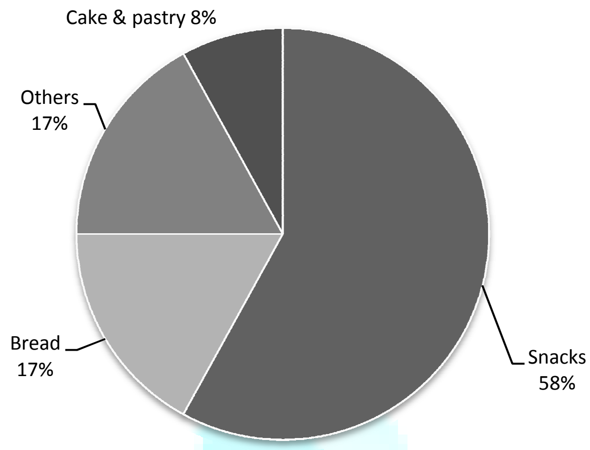
FIGURE 1: FACTORS AFFECTING CHOICE



Ninety three percentage of the respondents were of the opinion that quality of the product determine the choice of the product and 7% of the respondents prefer branded product and only company products are purchased by them.

Favourite among bakery products: Higher consumption of biscuits in rural areas can be attributed to its position as a snack (NIIR, 2007).The shining star of the bakery sector remains the biscuit industry, which is expected to outperform the growth of the overall sector. When discussed with the customers about the various types of bakery products it was revealed that 58% of the respondents liked snack items, 17% of the respondents preferred bread, 8% of the respondents preferred cake & pastry and 17% of respondents preferred other items such as noodles, pasta, pizza etc.

FIGURE 2: FAVOURITE AMONG BAKERY PRODUCTS



From figure 2 it can be seen that snack items were preferred by most users and it can be considered as the favourite among bakery products.

Purpose of purchase of Bakery products: The study revealed that respondents purchased bakery products to meet their refreshment or tea time requirements. Bakery products once considered as sick man's diet have now become essential food items of the vast majority of population (NIIR, 2007).

FIGURE 3: PURPOSE OF PURCHASE

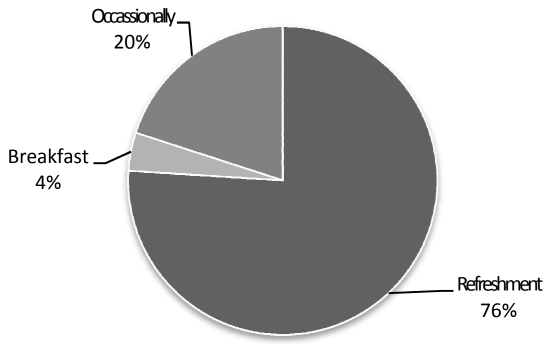


Figure 3 provides a clear insight into the factor that 76% of the respondent makes use of the product during refreshment or tea time. 20% made an occasional purchase and only 4% use the product as breakfast.

Preferred frequency for purchase: Out of the total sample size most of the respondents made a frequent purchase of bakery products. 50% of the respondents made a monthly purchase.

FIGURE 4: FREQUENCY OF PURCHASE

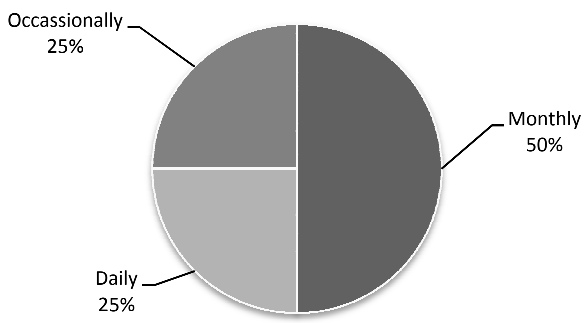


Figure 4 show that customers purchase bakery products frequently. 25% of respondents purchased daily, and 25% of respondents purchased occasionally.

HYPOTHESIS –I

Demand and frequency of purchase of bakery products varies according to the variation of age. Most of the sales promotional activities aim at children and home makers. Here hypothesis is

H1: Purchase of Bakery product is dependant on the age of the customer.

H0: Purchase of Bakery product is not dependant on the age of the customer.

In Table 2 age of the customer is compared with the frequency of purchase of bakery products. The customers of different age group and their nature of purchase of bakery products are displayed in the table. Chi-square test has been used to test the hypothesis.

TABLE 2: INFLUENCE OF AGE ON PURCHASE OF BAKERY PRODUCTS

Age	Purchase		
	Frequently	Occasionally	Total
10 – 20	12	0	12
20 – 30	21	29	50
30 – 40	6	10	16
>40	19	13	32
Total	58	42	110

X^2 = 19.39
Tabulated value = 7.815
Since the calculated value of chi-square is 19.39 which is more than the tabulated value of chi- square at 5% level of significance; **we reject the null hypothesis.** From Table 2 it can be inferred that purchase of bakery product is dependant on age of the customer.

HYPOTHESIS II

H1: Purchase of bakery product is dependant on occupation of customers

H0: Purchase of bakery product is not dependant on occupation of customers

In Table 3 Occupation is compared with the purchase of bakery products. Customers belong to different occupations and their purchase behaviour is taken for analysis.

TABLE 3: INFLUENCE OF OCCUPATION ON PURCHASE OF BAKERY PRODUCTS

Occupation	Purchase		
	Frequently	Occasionally	Total
Business	23	8	31
Profession	17	9	26
Service	23	6	29
Others	14	10	24
Total	77	33	110

X^2 = 3.27
Tabulated value = 7.815
Since the calculated value of chi-square is 3.27 which is less than the tabulated value of chi-square at 5% level of significance; **we accept the null hypothesis**. From Table 3 it can be inferred that there is no significant influence of occupation over the purchase of bakery products.

HYPOTHESIS III

H1: Purchase of bakery product is dependant on income of customer

H0: Purchase of bakery product is not dependant on income of customer

In Table 4 Income of customers of bakery products is compared with purchase of bakery products. The purchase behaviour of customers of different income levels are displayed in the table.

TABLE 4: INFLUENCE OF INCOME ON PURCHASE OF BAKERY PRODUCTS

Income	Purchase		
	Frequently	Occasionally	Total
0-Rs. 1,20,000	23	8	31
Rs.1,20,000-Rs.2,40,000	16	9	25
Rs.2,40,000 –Rs. 4,80,000	20	5	25
Above Rs. 4,80,000	17	12	29
Total	76	34	110

X^2 = 3.56
Tabulated value = 7.815
Since the calculated value of chi-square is 3.56 which is less than the Tabulated value of chi-square at 5% level of significance; **we accept the null hypothesis**. From Table 4 it can be inferred that there is no significant influence of income over the purchase of bakery products.

FINDINGS OF THE STUDY

The main findings of the study are as follows:

1) Quality and brand are the major factors that influence the purchase of bakery product. Quality products are purchased by the customers.
2) Snack items are the most preferred bakery item by the customers.
3) Bakery products are mainly used as a product of refreshment. The respondents use these products during tea time which refresh them when they are at work or such other engagements.
4) Respondents buy bakery products on a monthly basis.
5) Purchase of the bakery product is dependant on the age of the customer.
6) Income does not have a significant influence on the purchase of bakery products.
7) Occupation also does not have a significant influence on the purchase of bakery products.

CONCLUSION

After detailed analysis, it is concluded that there is tremendous demand for the bakery products. According to FPI the Bakery sector is in a growing phase. The study recommends that the units in the organized and unorganized sector should take active measures to capture the unexplored market as most of the customers under this study were a regular purchaser of bakery products. Consumers prefer a particular bakery product on the basis of quality and it plays an essential role over the purchase behaviour of customers. The study revealed that age is a determinant of purchase of bakery products hence advertisement aimed at children and home makers increases the sales of bakery products. Information provided by this study will be helpful in increasing the sales of bakery products and their market share.

REFERENCES

1. Desai, B.M., V.K., Gupta and N.V., Namboodiri (1994),” Food processing industries: Development and Financial performance”, Oxford IBH Publishing House, New Delhi.
2. East, R., (1997),” Consumer behaviour: Advances and Application in marketing”, Prentice Hall, London.
3. Fernanda, A.R. and Johse, E., Oliveria (1999)” Processing Food: Quality optimization and processing Assessment”, CRC press, EU.
4. Gopalan, C., (1994),” Trends in food consumption pattern Impact of development transition in nutrition in the ninetees Biowar”, Oxford University Press, New Delhi.
5. Kumar, Arun and Sharma, Rachana (1988), “Marketing Management”, Atlantic Publishers & Distributors, New Delhi.

6. Kumar, Arun and N., Meenakshi, (2009)" Marketing Management", Vikas Publishing House Pvt Ltd, New Delhi.
7. Rajasenan, D., (2005) "Resource based Industries in Kerala", Directorate of publications and public relations, Cochin, Kerala.
8. Ramaswamy, V.S., Namakumari, S. (2002), "Marketing Management", Macmillan India Ltd, New Delhi.
9. Saxena, Rajan," Marketing Management", (1997), Tata McGraw-Hill publishing Company Ltd, New Delhi.
10. Shirley, J., Vargrade (1992)," Food Preservation and safety: Principles and practice", Mcmillion, New York.
11. Smith, D.S, J.N., Cash and W.K., Nip (1988),"Processing vegetables, Science & Technology", University of California Press, California.
12. Varghese, G.I (1978)," A marketing Approach", Himalaya publishing House, New Delhi.
13. Wilkinson, J.,(1987)," Europe within the world food system", Bio-Technologies and the new strategic options, Brussels.

JOURNALS

14. Anon(2006)," Packaging of bakery products", The Economic Times Polymers, April-May, 2006
15. Chandrasekharam, D., (2001), "USE OF Geothermal energy for food processing Indian Status",GHC Bulletin, Dec. 2001
16. John,F.,Mcfarlane, and David, W.,McDonald(1988),"Research & Development in the Food Processing Industry-current Status and future opportunities", International Journal of Technology Management, Vol.3, No.6, pp.721-734.
17. Kachru, R.P., (2001), "Agro-Processing Industries in India-Growth status and prospectus", Status of Farm mechanization in India, pp.114-126.

WEBSITES

18. http://mofpi.nic.in accessed on Dec.30, 2009
19. www.Bakery Bazar.com (Bakery &Bakery products 2011-Market Research Report, Mar.2011)
20. www.bharat book.com accessed on Jan.10, 2012
21. www.dcmsme.gov.in accessed on Jan.10, 2012
22. www.economy watch.com (business and economy/food processing industry.html, Dec 30, 2009)
23. www.FnBnews.com (accessed on February.11, 2010)
24. www.FnBnews.com(Bakery Industry in India: Riding high on retail chains wave/Jan.20, 2012)
25. www.hindu.com accessed on Jan 29, 2008
26. www.ibef.org(Industry/Food industry.aspx, Dec.30, 2009)
27. www.indianfoodindustry.com accessed on June 5, 2009
28. www.niir.org.(profitable small scale industries accessed on Jan.20, 2012)
29. www.omega Analytics.com accessed on Jan. 20 2012
30. www.pfionline.com (Packaging of Bakery Products, Jan.20, 2012)
31. www.Research and Markets.com/reports/food processing Industry/accessed on January. 1, 2004
32. www.rncos.com(Indian food processing 2006-Market Research Report, Sep. 2006)
33. www.tfpjonline.com(Impluse channels, a window of opportunities for processed foods.htm.Report by CARD& CACL, March.6, 2009)
34. www.thaindian.com accessed on March.11, 2008
35. www.tradechakra.com(Indian-economy/Industries/Food processing.html, Dec.30, 2009)

GLOBAL FINANCIAL CRISIS - PERSPECTIVE 2007 TO DATE & BEYOND (LEADERSHIP OF INDIA'S FINANCIAL SYSTEM)

AMIT GUPTA
RESEARCH SCHOLAR
NATIONAL SCHOOL OF LEADERSHIP
PUNE

ABSTRACT

This article based on secondary research is an attempt to trace the genesis of the global imbalances in the financial and economic system, and how this imbalance is at the very root of the turmoil that the world is experiencing since 2007.Tracing the chronological sequence of events that triggered the global shocks, from the Lehman crisis to the current Euro zone crisis, and transmitted through the financial, trade and confidence channels, the focus is on why, how and to what extent has it manifested itself in the Indian economy, despite the generally held belief about the Indian markets being decoupled from the global economy. The major policy measures, conventional and unconventional, taken by India's central banker and the Government have been studied in terms of the relevance, context and extent to which this has helped to mitigate the adverse impact of the continuing crisis, and contributed to the continuation of the India growth story, notwithstanding the underpinnings of high inflation, lower investment, reduced private final consumption expenditure, growing fiscal deficit, exchange rate volatility, lower business confidence and policy paralysis being the final frontier of the challenges facing the nation. Finally, a bit of crystal gazing in backdrop of current global uncertainty, geo political tensions, slowdown in developed economies, softening of commodity prices on the back of an expected soft (or hard?) landing of Chinese economy, lack of political leadership and will in Europe, all seem to be throwing up more conundrums, rather than innovative solutions to an unprecedented chapter in human history and economics.

KEYWORDS

global imbalances, financial crisis, decoupling, policy measures, leadership, India growth story, economic slowdown, deleveraging.

GENESIS OF GLOBAL FINANCIAL CRISIS

There is something inherently wrong if the richest country in the world (US) needs to live beyond its means, by way of consumption binge, to support global prosperity. That is exactly what seems to be at the very root of the economic turbulence that we seem to be wading through since 2007.

Let us see why and how this is manifested in terms of economic and financial data that needs to be scanned through to understand the underpinnings of this major recessionary trend the world is grappling with.

Mutual interdependency between America, one of the world's largest debtors (95% of GDP) and China, large creditor nation due to burgeoning trade surplus as a result of its export growth led economic model has contributed to this unsustainable reserve currency phenomenon, perpetuating the myth of the American consumer having in satiated spending power to keep the wheels of the global economy running in smooth gear. This vicious cycle of the Middle Kingdom's continued focus on keeping the RMB from appreciating in order to keep their exports cheaper, has resulted in them buying up dollars and investing in US treasury bonds to the extent of almost 35% of US bonds, thus keeping the credit pipes unclogged and at very low prices (interest rates) for the US consumer binge to continue (or so it seemed…) till August 2007 jolted us out of the slumber and forced economists, bankers, credit rating agencies, executives and sovereign states to look deeper into their systems to initiate the immediate root cause analysis.

CHINESE ECONOMY

Any appraisal of China's prospects must begin by admitting that the Middle Kingdom is the most astonishing development success story in the world today.

China is enduring the sort of problems other countries can only dream of. Like everywhere else, GDP has been disappointing of late – but that means a growth rate of 8.9%, rather than 9.1%. Exports are rather under par, too: Beijing estimates the trade surplus dropped to about $160bn. And the big worry is whether Beijing can check overheating to engineer a "soft landing" – as opposed to the crash that hit the west in 2008, whose tremors are still being felt.

But it has been the slump in Europe, the US and Japan that has most dramatically underlined the yawning gap in performance between the world's long-established economic powers and China. In the four years from 2007 to 2011, US national income increased by less than 0.6% (the figure is still being revised down), the EU shrank by 0.3% and Japan declined by 5.2%. In the same period, despite the decline in export markets in those economies, China grew by more than 42%.

But crucially – unlike Britain, the US and the stricken eurozone economies – China has a modest budget deficit of around 2%. Which points to the central reason why China was able to ride out the global crisis of 2007-8 with such dramatic success? China's response was to launch the biggest stimulus programme in the world, investing heavily in infrastructure.

Although the Chinese government does not make public the dollar composition of its FX holdings, many analysts estimate this level to be around 70%.10 U.S. assets have generally been favored by China for its investment needs for a number of reasons. First, in order to maintain the exchange rate effects that lay behind the acquisition of U.S. dollars, those dollars must be invested in dollar-denominated securities. Second, the United States is the world's largest economy and has the biggest capital market. In 2009, the combined value of U.S. private and public debt securities was $31.7 trillion (compared with $11.9 trillion for Japan and $5.7 trillion for Germany) and accounted for 34.4% of global debt securities. Many analysts contend that the U.S. debt securities market is the only global market that is big enough to absorb a big part of China's large and growing FX holdings. U.S. securities have also been favored by China because, historically, they have been considered to be safe and liquid (i.e., easily sold) relative to other types of investments.

The broader issue for China is whether its current unbalanced economic policies, especially those that have contributed to its large savings rate, over-reliance on exports for its economic growth, and accumulation of huge FX reserves, are sustainable in the long-run, especially given economic slowdowns in Europe and the United States.

Some have argued that these factors may induce China to accelerate efforts to boost consumer demand and improve domestic living standards, which could include further appreciation of the RMB against the dollar. Such policies could lessen China's need to buy U.S. securities.

Because of its low savings rate, the United States borrows to finance the federal budget deficit and its private capital needs. It therefore depends on countries with high savings rates, such as China, to invest some of its capital in the United States. Such investments help to keep U.S. interest rates relatively low and enable the United States to consume more than it produces. According to the International Monetary Fund (IMF), in 2009, the United States was the world's largest importer of foreign capital (at 38.2% of global total), while China was the largest exporter of capital (at 24.2%). From FY2001 to FY2010, the amount of U.S. public debt that is privately held grew from $3.3 trillion to $9.0 trillion; as a share of GDP, this level rose from 32.5% to 62.9%. Of the U.S. public debt that is privately held, more than half is held by foreigners. Many analysts argue that heavy U.S. reliance on foreign savings is not sustainable and may undermine U.S. economic interests over time. (Annexure 1 and 2)

CONCERNS OVER CHINA'S LARGE HOLDINGS OF U.S.SECURITIES

The growing U.S. dependency on China to purchase U.S. Treasury securities to help fund the U.S. budget deficit has become a major concern to many U.S. policymakers. Some have raised concerns that China's large holdings may give it leverage over the United States on economic as well as noneconomic issues.

Others have expressed concern that China might lose faith in the ability of the United States to meet its debt obligations, and, thus, might seek to liquidate such assets or significantly cut back on purchases of new securities; a move some contend could damage the U.S. economy. Still others contend that China's purchases of U.S. securities was a major contributing factor to the U.S. sub-prime mortgage crisis and subsequent global economic slowdown because such purchases helped to keep real U.S. interest rates very low and increased global imbalances. Some warn that similar bubbles could occur in the future if imbalances between the United States and China are not addressed.

Chinese officials, on the other hand, have expressed concerns over the safety of their large holdings of U.S. debt, and some have argued that China should either diversify away from U.S. Treasury securities or implement policies that slow the accumulation of FX reserves, which would lessen the need to buy U.S.assets.

WHAT IF CHINA REDUCES ITS HOLDINGS OF U.S.SECURITIES?

As the previous data illustrate, China has accumulated large holdings of U.S. assets in recent years. These accumulations are the result of U.S. borrowing to finance its large trade deficit with China (the gap between U.S. exports and Chinese imports). All else equal, Chinese government purchases of U.S. assets increases the demand for U.S. assets, which reduces U.S. interest rates.

What might happen if China no longer purchased U.S. securities and/or tried to sell a significant share of its dollar holdings?

If China stopped buying U.S. securities, the United States would need other investors (foreign and domestic) to fill in the gap. Such investors would presumably require higher interest rates than those prevailing today to be enticed to buy them. One economist in 2007 estimated that a Chinese move away from long-term U.S. securities could raise U.S. interest rates by as much as 50 basis points. Higher interest rates would cause a decline in investment spending and other interest-sensitive spending. All else equal, the reduction in Chinese Treasury holdings would cause the overall foreign demand for U.S. assets to fall, and this would cause the dollar to depreciate. If the value of the dollar depreciated, the trade deficit would decline, as the price of U.S. exports fell abroad and the price of imports rose in the United States. The magnitude of these effects would depend on how many U.S. securities China sold; modest reductions would have negligible effects on the economy given the large size of U.S. financial markets.

Since China held $1.6 trillion of U.S. securities (largely U.S. Treasury securities) as of June 2010, any reduction in its U.S. holdings could potentially be large. If there were a large reduction in its holdings, the effect on the U.S. economy would still depend on whether the reduction was gradual or sudden. It should be emphasized that economic theory suggests that a *slow decline* in the trade deficit and dollar would not be troublesome for the overall economy. In fact, a slow decline could even have an expansionary effect on the economy, if the decrease in the trade deficit had a more stimulative effect on aggregate demand in the short run than the decrease in investment and other interest-sensitive spending resulting from higher interest rates. Historical experience seems to bear this out—the dollar declined by about 40% in real terms and the trade deficit declined continually in the late 1980s, from 2.8% of GDP in 1986 to nearly zero during the early 1990s. Yet economic growth was strong throughout the late 1980s.

A potentially serious short-term problem would emerge if China decided to *suddenly* reduce their liquid U.S. financial assets significantly. The effect could be compounded if this action triggered a more general financial reaction (or panic), in which all foreigners responded by reducing their holdings of U.S. assets. The initial effect could be a sudden and large depreciation in the value of the dollar, as the supply of dollars on the foreign exchange market increased, and a sudden and large increase in U.S. interest rates, as an important funding source for investment and the budget deficit was withdrawn from the financial markets. The dollar depreciation by itself would not cause a recession since it would ultimately lead to a trade surplus (or smaller deficit), which expands aggregate demand. (Empirical evidence suggests that the full effects of a change in the exchange rate on traded goods take time, so the dollar may have to "overshoot" its eventual depreciation level in order to achieve a significant adjustment in trade flows in the short run.

However, a sudden increase in interest rates could swamp the trade effects and cause (or worsen) a recession. Large increases in interest rates could cause problems for the U.S. economy, as these increases reduce the market value of debt securities, cause prices on the stock market to fall, undermine efficient financial intermediation, and jeopardize the solvency of various debtors and creditors. Resources may not be able to shift quickly enough from interest-sensitive sectors to export sectors to make this transition fluid. The Federal Reserve could mitigate the interest rate spike by reducing short-term interest rates, although this reduction would influence long-term rates only indirectly, and could worsen the dollar depreciation and increase inflation. In March 2007, Federal Reserve Chairman Ben Bernanke reportedly stated in a letter to Senator Shelby that "because foreign holdings of U.S. Treasury securities represent only a small part of total U.S. credit market debt outstanding, U.S. credit markets should be able to absorb without great difficulty any shift of foreign allocations."

U.S. financial markets experienced exceptional turmoil beginning in August 2007. But as the turmoil deepened and spread to the rest of the world in 2008, the value of the dollar began rising. Interest rates on U.S. Treasuries fell close to zero, implying excessive investor demand. Other interest rates also remained low, although access to credit was limited for some. Although comprehensive data will not be available for some time, a "sudden stop" in capital inflows does not appear to have been a feature of the downturn. Problems experienced in U.S. financial markets over the past few years have been widely viewed as "once in a lifetime" events. If these events failed to cause a sudden flight from U.S. assets and an unwinding of the current account deficit by China or other countries, it is hard to imagine what would. Some economists view China's purchases of U.S. securities as a type of subsidy that is transferred from Chinese savers to U.S. consumers in the form of lower-cost Chinese products and lower U.S. interest rates. That subsidy helps to boost U.S. consumption of Chinese products, which supports China's export industries. However, the subsidy is at the expense of Chinese consumers and nonexport industries, largely because China's undervalued RMB makes imports more expensive than they would be if the RMB was a floating currency. The lack of a social safety net forces Chinese workers to save a significant part of their income. That savings is used to finance the Chinese government's purchases of U.S. securities. Chinese purchases and holdings of U.S. securities have reportedly been controversial in China according to some media reports, many of which cite complaints among some Chinese Internet bloggers over low return on Chinese investment of its FX reserves. Many analysts (including some in China) have questioned the wisdom of China's policy of investing a large level of FX reserves in U.S. government securities, which offer a relatively low rate of return, when China has such huge development needs at home. One Chinese blogger reportedly wrote: "Chinese people are working so hard, day in and day out, the economic environment is so good, but people's livelihoods are not so great — turns out it is because the government is tightening people's waist belts to lend money to the United States." Some Chinese analysts have argued that the debt problems in Europe and the United States will decrease their demand for Chinese products, and that a depreciating dollar will lower the value of Chinese dollar assets. Thus, they argue, China will need to accelerate its economic reforms in order to boost domestic consumption (including increased imports), lower its dependency on exporting for economic growth, and slow or reduce China's FX reserves and holdings of U.S. securities. If China consumed more and saved less, it would have less capital to invest overseas, including in the United States. Thus, if the United States did not reduce its dependence on foreign savings for its investment needs, and China reduced its U.S. investments, the United States would need to obtain investment from other countries, and the overall U.S. current account balance would likely remain relatively unchanged but U.S. interest rates would be expected to rise.

CHRONOLOGICAL SEQUENCE OF CATACLYSMIC EVENTS

9 AUGUST 2007

Phase one on 9 August 2007 began with the seizure in the banking system precipitated by BNP Paribas announcing that it was ceasing activity in three hedge funds that specialised in US mortgage debt. This was the moment it became clear that there were tens of trillions of dollars worth of dodgy derivatives swilling round which were worth a lot less than the bankers had previously imagined.Nobody knew how big the losses were or how great the exposure of individual banks actually was, so trust evaporated overnight and banks stopped doing business with each other.We did not recognise a housing bubble that had grown hugely out of line with the fundamentals of the housing market. There was no explanation that passed the laugh test for the fact that house prices had diverged sharply from their long-term trend, and from rents – creating a housing bubble that peaked at more than $8tn. This was recognisable at least as early as 2002.And, it was easy to see that this bubble was driving the economy, both by pushing construction to record levels as a share of GDP and leading to a consumption boom that depressed the saving rate to zero. There was nothing in the Fed's bag of tricks that could replace the 8% of GDP (that was, $1.2tn) of bubble-driven demand that the economy stood to lose when the housing bubble burst.

15 SEPTEMBER 2008

It took a year for the financial crisis to come to a head but it did so on 15 September 2008 when the US government allowed the investment bank Lehman Brothers to go bankrupt. Up to that point, it had been assumed that governments would always step in to bail out any bank that got into serious trouble: the US had done so by finding a buyer for Bear Stearns while the UK had nationalised Northern Rock.When Lehman Brothers went down, the notion that all banks were "too big to fail" no longer held true, with the result that every bank was deemed to be risky. Within a month, the threat of a domino effect through the global financial system forced western governments to inject vast sums of capital into their banks to prevent them collapsing. The banks were rescued in the nick of time, but it was too late to prevent the global economy from going into freefall. Credit flows to the private sector were choked off at the same time as consumer and business confidence collapsed. All this came after a period when high oil prices had persuaded central banks that the priority was to keep interest rates high as a bulwark against inflation rather than to cut them in anticipation of the financial crisis spreading to the real economy.

2 APRIL 2009

The winter of 2008-09 saw co-ordinated action by the newly formed G20 group of developed and developing nations in an attempt to prevent recession turning into a slump. Interest rates were cut to the bone, fiscal stimulus packages of varying sizes announced, and electronic money created through quantitative easing. At the London G20 summit on 2 April 2009, world leaders committed themselves to a $5tn (£3tn) fiscal expansion, an extra $1.1tn of resources to help the International Monetary Fund and other global institutions boost jobs and growth, and to reform of the banks. From this point, when the global economy was on the turn, international co-operation started to disintegrate as individual countries pursued their own agendas.

9 MAY 2010

9 May 2010 marked the point at which the focus of concern switched from the private sector to the public sector. By the time the IMF and the European Union announced they would provide financial help to Greece, the issue was no longer the solvency of banks but the solvency of governments. Budget deficits had ballooned during the recession, mainly as a result of lower tax receipts and higher non-discretionary welfare spending, but also because of the fiscal packages announced in the winter of 2008-09. Greece had unique problems as it covered up the dire state of its public finances and had difficulties in collecting taxes, but other countries started to become nervous about the size of their budget deficits. Austerity became the new watchword, affecting policy decisions in the UK, the eurozone and, most recently in the US, the country that stuck with expansionary fiscal policy the longest.

5 AUGUST 2011

the morphing of a private debt crisis into a sovereign debt crisis was complete when the rating agency, S&P, waited for Wall Street to shut up shop for the weekend before announcing that America's debt would no longer be classed as top-notch triple A. This could hardly have come at a worse time, and not just because last week saw the biggest sell-off in stock markets since late 2008. Policymakers are confronted with a slowing global economy and a systemic crisis in one of its component parts, Europe. And they have yet to tackle the issue that lay behind the 2007 crisis in the first place, the imbalances between the big creditor nations such as China and Germany, and big debtors like the US.In the circumstances, it is hard to be wildly optimistic about how events will play out. Markets are bound to remain highly jittery, although it seems unlikely that American bond yields will rocket as a result of the S&P downgrade. Japan lost its triple A rating long ago and has national debt well in excess of 200% of GDP but its bond yields remain extremely low. The reason for that is simple: Japan's growth prospects are poor. So are America's, which is why bond yields will remain low in what is still, for the time being, the world's biggest economy. The dressing down given to Washington by Beijing following the S&P announcement was, however, telling. Growth rates of close to 10% mean that the moment China overtakes the US is getting closer all the time, and the communists in the east now feel bold enough to tell the capitalists in the west how to run their economies. Whatever it means for financial markets, 5 August 2011 will be remembered as the day when US hegemony was lost.

16 JANUARY 2012

France, Spain, Italy downgraded. Greece likely to default on Euro 200 billion sovereign debt/ with Debt to GDP 180% to target 120% by 2020?? Danger of Euro breaking up.

There is no happy ending to this story. At best there will be a long period of weak growth and high unemployment as individuals and banks pay down the excessive levels of debt accumulated in the bubble years. At worst, the global economy will be plunged back into recession next year as the US goes backwards and the euro comes apart at the seams. The second, gloomier scenario looks a lot more likely now than it did a while ago. Why? Because there is no international co-operation. There are plans for austerity but no plans for growth. Even countries that could borrow money for fiscal stimulus packages reluctant to do so. Europe lacks the political will to force the pace of integration necessary to avoid disintegration of the single currency. Commodity prices are coming down, but that is the only good news. We are less than halfway through the crisis that began on 9 August 2007. That crisis has just entered a dangerous new phase.

FOR GREECE IS DEFAULT THE ONLY OPTION?

The dreadful debt saga will only come to a close when Greece takes charge of its predicament Negotiations to reduce Greek debt have been suspended after no agreement could be reached. At some point in the near future Greece seems certain to default on its obligations. But the drama surrounding the talks in Athens, Berlin and Paris shows that there will be nothing co-operative about Greek default. It is a ruthless contest dominated by the so-called troika: the European Union, the European Central Bank, and the International Monetary Fund.

The troika has accepted that Greek debt must be reduced to sustainable levels; but it also wants the reduction to appear voluntary because, if the lenders were coerced, Greece would be declared in formal default, and banks and financial markets would be thrown into crisis. The troika would also like the reduction to be on terms that would allow immediate fresh loans to Greece – an urgent step if the country is not to stop repayments altogether – and wants Greek debt held by official bodies, including the ECB, to remain intact. Not surprisingly, the circle is proving hard to square. The debt in question is €200bn. About half belongs to Greeks – banks, social security funds and others – who are first in line to bear the costs of reduction (the "haircut"). Less than a quarter belongs to international banks, and a good part of the rest to hedge funds. The deal proposed by the troika is geared to the interests of lenders, particularly international banks. The face value of the debt would be reduced by 50%, and the remaining debt would be replaced by new long-term bonds bearing a low interest rate, perhaps less than 4%. The new bonds would be subject to British law, which favours lenders.

The losses for international banks would be modest. Even so, they are angling for a higher interest rate, although their bargaining power is weakened by reliance on the state for liquidity and capital. The real blow would fall on Greek banks, which would effectively go bankrupt. The Greek state is thus desperately seeking fresh loans to replenish its banks' capital. Much of the expected reduction of its debt would, therefore, be immediately voided. A cruel blow would also fall on Greek social security funds and small bondholders, with losses probably passing on to pensions and savings. Meanwhile, hedge funds have been buying Greek debt at low prices in the hope of being paid at, or near, full value. Since Greece has to make debt repayments of almost €15bn in March, huge amounts of European taxpayers' money could potentially be transferred to these vulture funds. The speculators could possibly be coerced into the deal by applying Greek law, but if the reduction were not voluntary, there could be a chain reaction across financial markets. The worst aspect of the deal is that it is unlikely to benefit Greece long term. The original plan was to bring debt down to 120% of GDP by 2020, but the "rescue" programmes of the past two years have forced the country into a real depression. The IMF now thinks that Greek debt will be on a much higher level by 2020 – clearly unsustainable. It is seeking deeper reductions, but the price would be even harsher cuts in wages, pensions, and public spending. The social repercussions on an already weakened country would be horrendous, quite apart from the political difficulties of introducing further severe austerity. It is clear that Greece has little to expect from a debt-reduction process led by the troika. It should take charge of its own predicament, abandoning the charade of voluntary haircuts. For that, it needs to default in a sovereign and democratic way by immediately declaring a cessation of payments. Greece should then publicly audit its debts to decide what should be paid and how. The objective should be to restart economic growth and to avoid disruption of basic social services. Debt would inevitably be cancelled, including official debt held by the troika, and there should be negotiations with the lenders under full public scrutiny. Only then could this dreadful saga come to a close, allowing Greek society to take the first steps on the long path to recovery.

HOW THE WORLD ECONOMY CAN SOLVE ITS CREDIT CRISIS?

The current situation embodies two narratives that seem contradictory, but are not.

One speaks to the reality that most large companies with access to capital markets have no problem securing new funding. In fact, they have been remarkably successful in lengthening their debt maturities, accumulating cash, and lowering their future interest payments. In sum, they now have "fortress" balance sheets.
The other narrative speaks to an opposing, but equally valid reality. Too many small companies and households still find it difficult to borrow at reasonable terms. This includes those reliant on bank credit, as well as many mortgage holders with very high legacy interest rates and balances that exceed their homes' market value.
From every angle, the extremity of this state of affairs – in which those with access to credit do not need it, and those who do cannot get it – is highly problematic.
If left unattended, it leads to a gradual, and then accelerated, renewed deleveraging of the economic system, with the highest first-round costs – a longer unemployment and growth crisis – borne disproportionately by those least able to suffer them.
In the next round, as the system slowly implodes, even those with healthy balance sheets would be impacted, accelerating their disengagement from a deleveraging world economy.
All of this slows social mobility, tears already-stretched safety nets, worsens inequality, and accentuates genuine concerns about the functioning and sustainability of today's global economic system.
This is not just about socio-economic issues. There is also a political angle. With two competing, yet simultaneously valid narratives, ideological extremes harden. The result is even greater dysfunction in process and content, ruling out any sustained policy attempt to make things better.
The problem has become acute in Europe, whose crisis has been belatedly recognised as reflecting something more than turmoil in the eurozone's weakest countries. It also reflects broad-based contamination, resulting, most recently, in France's loss of its vaunted AAA sovereign credit rating.
In the process, the efficacy of pan-European rescue mechanisms is being undermined. And, as fragilities increase – and as a financial wedge is driven into the eurozone's core (Germany and France) – growth and employment prospects dim.
Central banks have recognised all of this for some time, prompting them to take enormous reputational and operational risks to slow the process. They have implemented a host of "unconventional policies" that previously would have been deemed unthinkable, even outrageous – and that can be seen in the enormous growth in their balance sheets.
In the last four years, the United States Federal Reserve's balance sheet has more than tripled, from under $1 trillion (£645bn) to a mammoth $3tn. The growth relative to the size of the economy is even more stunning – from slightly more than 5% of GDP to 20%. The Bank of England's balance sheet is also at 20% of GDP. And both seem to be itching to do even more.
The European Central Bank is often viewed as a laggard. No longer. Its balance sheet has now doubled, to a whopping 30% of GDP – and it, too, appears set to do even more. Mario Draghi, the ECB's new president, recently said that he expects heavy take-up on the next three-year long-term refinancing operation, a powerful tool to pump cheap liquidity into the banks.

FIVE AREAS WHERE CENTRAL BANKS COULD ACT
Rather than just pumping liquidity into clogged pipes, countries can and should do more to build a more effective network of compensating conduits. In doing so, their main objective (indeed, the test for effectiveness) would be the extent to which new private-sector investment is "crowded in".
- It is high time to move on five fronts, simultaneously:
- Countries such as Spain and the US need to be more forceful in unblocking the housing sector by making overdue decisions on burden sharing, refinancing, and conversion of idle and foreclosed housing stock.
- Countries with excessive debt, such as Greece and Portugal, need to impose sizeable "haircuts" on creditors to have a reasonable chance of restoring medium-term debt sustainability and growth.
- In several western countries, public-private partnerships should be formed to finance urgently needed infrastructure investment.
- Regulators should stop bickering about the future configuration of key financial institutions, and instead set a clearer multi-year vision that is also consistent across borders.
- Finally, governments should inform their electorates explicitly and comprehensively that a few contracts written during the inadvisable "great age" of leverage, debt, and credit entitlements cannot be met, and must be rewritten in a transparent way that strikes a balance between generations, labour and capital, and recipients and taxpayers.

Such policies would allow healthy balance sheets around the world, both public and private, to engage in a ***pro-growth and pro-jobs process.*** They require leadership, focus, and education. Absent that, plumbing problems will become more acute, and the repairs more complex and threatening to virtually everyone – including both the "one percenters" and those who worrisomely are struggling at the margins of society.

GLOBAL JOBS MARKET MUST ABSORB 400M NEW WORKERS OVER NEXT DECADE
The global economy will need to create 600m jobs over the next decade to meet the "urgent challenge" of tackling the legacy of unemployment left by recession and to find work for those entering the labour force, according to the International Labour Organisation.
In its annual report on the state of the global jobs market, the ILO said that three years of "continuous crisis conditions" had left 200m people jobless.
It estimated that a further 400m jobs – 40m a year – would be needed over the next decade to absorb growth in the international labour force.
The Global Employment Trends 2012 report said that 900m workers, mostly in developing countries, were living with their families on less than the $2-a-day global poverty line, half of them surviving below the $1.25-a-day extreme poverty line. The ILO urged policymakers to take steps to create better-paid jobs.
With global growth slowing, the ILO said the pick-up in employment after the deep slump of 2008-09 had been short lived and there were still 27m more people unemployed than at the start of the crisis. The lack of jobs had resulted in some giving up hope of finding work, with 29m fewer people in the global workforce than would have been expected had the pre-crisis rate of employment growth continued. The ILO said that if discouraged workers had been included, the global unemployment total would have been 225m rather than 197m and the jobless rate would have been 6.9% rather than 6%.
Young people continue to be hardest hit by the lack of jobs, with almost 75m of those aged between 15 and 24 out of work in 2011, a 4m increase since 2007. The report added that the under-25s were three times as likely as adults to be unemployed.
Progress in reducing the number of working poor had slowed markedly, the ILO said. Nearly 30% of workers were living with their families on less than $2 a day, up by 55m since the start of the crisis.
The report said that with demand faltering it was important for governments to stimulate their economies further, adding that this could be achieved in a way that did not put the sustainability of public finances at risk.

IMPACT OF THE INTERNATIONAL BANKING CRISIS ON THE INDIAN FINANCIAL SYSTEM
EMERGING ECONOMIES
Contrary to the 'decoupling theory', emerging economies too have been hit by the crisis. The decoupling theory, which was intellectually fashionable even as late as a year ago, held that even if advanced economies went into a downturn, emerging economies will remain unscathed because of their substantial foreign exchange reserves, improved policy framework, robust corporate balance sheets and relatively healthy banking sector.
In a rapidly globalizing world, the 'decoupling theory' was never totally persuasive. Given the evidence of the last few months – capital flow reversals, sharp widening of spreads on sovereign and corporate debt and abrupt currency depreciations - the 'decoupling theory' stands totally invalidated. Reinforcing the notion that in a globalized world no country can be an island, growth prospects of emerging economies have been undermined by the cascading financial crisis with, of course, considerable variation across countries.

QUESTIONS THAT ARE ADDRESSED

India too has been impacted by the crisis – and by much more than it was suspected earlier.

1. Why has India been hit by the crisis?
2. How has India been hit by the crisis?
3. How have we responded to the challenge?
4. What is the outlook for India?
5. How has leadership within India's financial and political system helped it to soften the blow of the financial crisis?

WHY HAS INDIA BEEN HIT BY THE CRISIS?

There is, at least in some quarters, dismay that India has been hit by the crisis. This dismay stems from two arguments.

The Indian banking system has had no direct exposure to the sub-prime mortgage assets or to the failed institutions. It has very limited off-balance sheet activities or securitized assets. In fact, our banks continue to remain safe and healthy. So, the enigma is how can India be caught up in a crisis when it has nothing much to do with any of the maladies that are at the core of the crisis.

The second reason for dismay is that India's recent growth has been driven predominantly by domestic consumption and domestic investment. External demand, as measured by merchandize exports, accounts for less than 15 per cent of our GDP. The question then is, even if there is a global downturn, why should India be affected when its dependence on external demand is so limited?

The answer to both the above frequently-asked questions lies in globalization. First, India's integration into the world economy over the last decade has been remarkably rapid. Integration into the world implies more than just exports. Going by the common measure of globalization, India's two-way trade (merchandize exports plus imports), as a proportion of GDP, grew from 21.2 per cent in 1997-98, the year of the Asian crisis, to 34.7 per cent in 2007-08.(Annexures 3,4,5,6)

Second, India's financial integration with the world has been as deep as India's trade globalization, if not deeper. If we take an expanded measure of globalization, that is the ratio of total external transactions (gross current account flows plus gross capital flows) to GDP, this ratio has more than doubled from 46.8 per cent in 1997-98 to 117.4 per cent in 2007-08.

Importantly, the Indian corporate sector's access to external funding has markedly increased in the last five years. In the five-year period 2003-08, the share of investment in India's GDP rose by 11 percentage points. Corporate savings financed roughly half of this, but a significant portion of the balance financing came from external sources. While funds were available domestically, they were expensive relative to foreign funding. On the other hand, in a global market awash with liquidity and on the promise of India's growth potential, foreign investors were willing to take risks and provide funds at lower cost.

HOW HAS INDIA BEEN HIT BY THE CRISIS?

The contagion of the crisis has spread to India through all the channels –the financial channel, the real channel, and importantly, as happens in all financial crises, the confidence channel.

India's financial markets – equity markets, money markets, forex markets and credit markets - had all come under pressure from a number of directions. First, as a consequence of the global liquidity squeeze, Indian banks and corporates found their overseas financing drying up, forcing corporates to shift their credit demand to the domestic banking sector. Also, in their frantic search for substitute financing, corporates withdrew their investments from domestic money market mutual funds putting redemption pressure on the mutual funds and down the line on non-banking financial companies (NBFCs) where the MFs had invested a significant portion of their funds. This substitution of overseas financing by domestic financing brought both money markets and credit markets under pressure. Second, the forex market came under pressure because of reversal of capital flows as part of the global deleveraging process.

Simultaneously, corporates were converting the funds raised locally into foreign currency to meet their external obligations. Both these factors put downward pressure on the rupee. Third, the Reserve Bank's intervention in the forex market to manage the volatility in the rupee further added to liquidity tightening.

Now the real channel. Here, the transmission of the global cues to the domestic economy has been quite straight forward – through the slump in demand for exports. The United States, European Union and the Middle East, which account for three quarters of India's goods and services trade are in a synchronized down turn. Service export growth is also likely to slow in the near term as the recession deepens and financial services firms – traditionally large users of outsourcing services – are restructured. Remittances from migrant workers too are likely to slow as the Middle East adjusts to lower crude prices and advanced economies go into a recession.

Beyond the financial and real channels of transmission as above, the crisis also spread through the confidence channel. In sharp contrast to global financial markets, which went into a seizure on account of a crisis of confidence, Indian financial markets continued to function in an orderly manner. Nevertheless, the tightened global liquidity situation in the period immediately following the Lehman failure in mid-September 2008, coming as it did on top of a turn in the credit cycle, increased the risk aversion of the financial system and made banks cautious about lending.

HOW HAS INDIAN LEADERSHIP RESPONDED TO THE CHALLENGE?

The failure of Lehman Brothers in mid-September was followed in quick succession by several measures. Both the government and the Reserve Bank of India responded to the challenge in close coordination and consultation. The main plank of the government response was fiscal stimulus while the Reserve Bank's action comprised monetary accommodation.

MONETARY POLICY

The Reserve Bank's policy response was aimed at containing the contagion from the outside - to keep the domestic money and credit markets functioning normally and see that the liquidity stress did not trigger solvency cascades. In particular, three objectives were targeted: first, to maintain a comfortable rupee liquidity position; second, to augment foreign exchange liquidity; and third, to maintain a policy framework that would keep credit delivery on track so as to arrest the moderation in growth. This marked a reversal of Reserve Bank's policy stance from monetary tightening in response to heightened inflationary pressures of the previous period to monetary easing in response to easing inflationary pressures and moderation in growth in the current cycle.

GOVERNMENT'S FISCAL STIMULUS

Over the last five years, both the central and state governments in India have made a serious effort to reverse the fiscal excesses of the past. At the heart of these efforts was the Fiscal Responsibility and Budget Management (FRBM) Act which mandated a calibrated road map to fiscal sustainability. However, recognizing the depth and extraordinary impact of this crisis, the central government invoked the emergency provisions of the FRBM Act to seek relaxation from the fiscal targets and launched two fiscal stimulus packages in December 2008 and January 2009. These fiscal stimulus packages, together amounting to about 3 per cent of GDP, included additional public spending, particularly capital expenditure, government guaranteed funds for infrastructure spending, cuts in indirect taxes, expanded guarantee cover for credit to micro and small enterprises, and additional support to exporters. These stimulus packages came on top of an already announced expanded safety-net for rural poor, a farm loan waiver package and salary increases for government staff, all of which too should stimulate demand.

EVALUATING THE RESPONSE

In evaluating the response to the crisis, it is important to remember that although the origins of the crisis are common around the world, the crisis has impacted different economies differently. Importantly, in advanced economies where it originated, the crisis spread from the financial sector to the real sector.

In emerging economies, the transmission of external shocks to domestic vulnerabilities has typically been from the real sector to the financial sector. Countries have accordingly responded to the crisis depending on their specific country circumstances. Thus, even as policy responses across countries are broadly similar, their precise design, quantum, sequencing and timing have varied. *In particular, while policy responses in advanced economies have had to contend with both the unfolding financial crisis and deepening recession, in India, response has been predominantly driven by the need to arrest moderation in economic growth.*

Over the last five years, India clocked an unprecedented nine per cent growth, driven largely by domestic consumption and investment even as the share of net exports has been rising. True, the benign global environment, easy liquidity and low interest rates helped, but at the heart of India's growth were a growing entrepreneurial spirit, rise in productivity and increasing savings. These fundamental strengths continue to be in place.

Nevertheless, the global crisis will dent India's growth trajectory as investments and exports slow. Clearly, there is a period of painful adjustment ahead. However, once the global economy begins to recover, India's turn around will be sharper and swifter, backed by our strong fundamentals and the untapped growth potential. Meanwhile, the challenge for the government and the RBI is to manage the adjustment with as little pain as possible.

WAY FORWARD-GLOBAL ECONOMY

"The world faces significant and urgent challenges that weigh heavily on prospects for future growth and on the cohesion of our societies," said the statement by the global issues group of the World Economic Forum. It was published ahead of the forum's annual meeting in Davos , amid concerns that 2012 will see the global economy flirt with recession as a result of the eurozone crisis. "Our shared objective is the strengthening of growth, employment and the quality of life in every part of the world," said the statement. "But entering 2012, we worry about: decelerating global growth and rising uncertainty; high unemployment, especially youth unemployment, with all its negative economic and social consequences; potential resort to inward-looking protectionist policies."

In addition to Lagarde, Zoellick and Lamy, the signatories were Mark Carney of the Financial Stability Board, Margaret Chan of the World Health Organization, Angel Gurría of the Organisation for Economic Co-operation and Development, Donald Kaberuka of the African Development Bank, Haruhiko Kuroda of the Asian Development Bank, Luis Alberto Moreno of the Inter-American Development Bank, Josette Sheeran of the United Nations World Food Programme, and Juan Somavia of the International Labour Organisation. The forum said it was the first time the heads of the world's major institutions had come together in such a way. Reflecting the IMF's concern about over-aggressive deficit reduction programmes, the joint statement said governments should "manage fiscal consolidation to promote rather than reduce prospects for growth and employment. It should be applied in a socially responsible manner." The 11-strong group said it wanted to see a comprehensive action plan that could be agreed and implemented at the meeting of the G20 gathering of developed and developing nations in Mexico in June 2012.

"We call on leaders to devote the necessary political energy to deliver concrete actions to exit the crisis and boost growth. Every country, working through its regional economic organisations and development banks and through the international financial and UN institutions, has a role to play."

The World Bank has warned that the crisis in the eurozone will lead to a sharp slowdown in growth in rich and poor countries this year and could spiral into a rerun of the 2008-09 recession.

In its half-yearly health check on the global economy the Washington-based institution said the world had "entered a very difficult phase characterised by significant downside risks and fragility". The bank lowered its forecast for global growth in 2012 from 3.4% to 2.5% but said governments should be preparing for a downturn as bad as that which followed the collapse of Lehman Brothers in 2008.

"An escalation of the crisis would spare no one," said Andrew Burns, manager of global macroeconomics at the World bank and the report's author. "Developed and developing country growth rates could fall by as much or more than in 2008-09. The importance of contingency planning cannot be stressed enough. It is clear that whatever probability is attached to this downside scenario, it has increased since June last year.

"Developing countries should hope for the best and plan for the worst. If these downside risks materialised there is not much developing countries can do to prevent it. But they can prepare for it." He added that such countries should be drawing up list of public spending priorities and stress testing their banks.

The forecasts contained in the half-yearly Global Economic Prospects report reflect the slowdown in the global economy seen in the second half of 2011, which was already evident in weakening trade flows, declining capital flows to developing countries and lower commodity prices. A similar picture is likely to be painted by the bank's sister organisation, the International Monetary Fund, when it releases updated predictions for global growth.

The bank said the eurozone was already in recession and was likely to contract by 0.3% this year. High-income countries would grow by 1.4% as a result of a recovery in Japan from a tsunami-affected 2011 and a slight pickup in activity in the US. Even so, rich countries are expected to grow in 2012 at only half the 2.7% expected when the Bank last published forecasts in June 2011.

It added that there had also been a slackening in the pace of activity in some of the leading developing countries – such as Brazil, India and Turkey – as a result of action taken by governments to tackle inflation. There was a risk, the bank said, of the crisis in the eurozone and weaker growth in developing countries reinforcing each other at a time when the ability of policymakers to respond to a downturn was much diminished compared with three years ago.

"While contained for the moment, the risk of a much broader freezing up of capital markets and a global crisis similar in magnitude to the Lehman crisis remains," the World Bank report said. "In particular, the willingness of markets to finance the deficits and maturing debt of high-income countries cannot be assured. Should more countries find themselves denied such financing, a much wider financial crisis that could engulf private banks and other financial institutions on both sides of the Atlantic cannot be ruled out. The world could be thrown into recession as large as or even larger than that of 2008-09."

A second global downturn would again have its epicentre in high-income countries, it said, but it added that developing countries would feel its effects deeply through trade, commodity prices, remittances, financial pressures and capital flows. Many developing countries would see outright falls in output and overall developing country gross domestic product in 2013 would be more than 4% lower than in the bank's baseline projection.

"In the event of a major crisis, activity is unlikely to bounce back as quickly as it did in 2008-09, in part because high-income countries will not have the fiscal resources to launch as strong a counter-cyclical policy response as in 2008-09 or to offer the same level of support to troubled financial institutions. Developing countries would also have much less fiscal space than in 2008 with which to react to a global slowdown (38% of developing countries are estimated to have a government deficit of 4% or more of GDP in 2011). As a result, if financial conditions deteriorate, many of these countries could be forced to cut spending pro-cyclically, thereby exacerbating the cycle."

The co-ordinated global response to the 2008-09 slump saw interest rates slashed, money created through quantitative easing, public spending increased and taxes cut. "Monetary policy in high-income countries will also not be able to respond as forcibly as in 2008-09, given the already large expansion of central bank balance sheets," the Bank said. "Among developing countries, many countries have tightened monetary policy, and would be able to relax policy (and in some cases already have) if conditions were to deteriorate sharply."

Burns said China had the resources and the political will to mount a counter-cyclical policy, but was unlikely to be able to boost its economy as quickly as it did three years ago. "There was a big response in 2008-09 but it is not obvious that the same mechanisms can be used as effectively as they were in 2008-09. Those parts of the economy that were stimulated in 2008-09 are already over-heating."

WAY FORWARD-INDIAN ECONOMY

- Interest rates expected to soften after March 2012 on the back of reduced food inflation rates. However much depends on evolving growth-inflation dynamics
- Fiscal deficit (1.5 lac crores/ 5.6% GDP due to higher subsidies & lower tax receipts which may continue), current account deficit, disinvestment targets not being met, dampeners to overall scenario
- Depreciation of rupee partly offset by global softening of commodity prices due to moderation of growth across developed and developing markets, including China
- Measures like QFI, FDI policy relaxation, auction of PSU shares, NRI remittances going up are likely to soften the landing
- Dampened investment and growth, coupled with policy paralysis, confidence levels low among industry groups in spite of huge cash reserves. Infosys (USD 6 bn/ RIL USD 25 bn/ Apple Inc USD 97 bn-more than US treasury.RIL cash pile of 1.25 lac cr is close to India's fiscal deficit of 1.5 lac cr. Shows how imbalanced the economies are.
- Second generation of reforms stalled due to political pressures, especially retail, aviation, insurance and pension funds and basic sectors like education, healthcare and infrastructure
- Need for fiscal reforms, like DTC and GST to contain deficits in 2012-13.Fiscal consolidation-public to private debt/ consumption to capital formation required

CONCLUSION

In retrospect, it seems that the Indian financial system and bureaucracy has shown remarkable leadership and vision in charting out a roadmap without excessive risk, and balancing out growth moderation with inflationary expectation and systemic risks in regulatory oversight. While this is being borne out by the fact that India did not bear the full brunt of the financial crisis, it remains to be seen whether we can weather another brewing crisis, if it comes, in terms of deleveraging and painful transition to growth over the next few years.

Having said that, the jury is still out on whether the same regulatory oversight and financial prudence will succeed in not killing the entrepreneurial spirit, innovativeness of the population and lead us to the next trajectory of growth and sustainability.

REFERENCES

1. US Fed Reserve reports since 2007: Alan Greenspan speeches
2. RGE Monitor: A Roubini Global economics service
3. Archives of Financial Times, Economic Times, Bloomberg
4. IHS Global Insight: Global Executive Summary, December 2011
5. US Congressional Research Service, www.crs.gov
6. International Labour Organization Research Reports
7. World Bank Statistics & Reports
8. World Economic Forum, Global Competitiveness Report
9. International Monetary Fund Reports & Surveys
10. United Nations,www.un.org/econcrisissummit/Final Report
11. BIS Papers No 54, Bank of International Settlements
12. RBI Monthly Bulletins
13. Central Statistics Office, Government of India
14. Ministry of Statistics and Programme Implementation, Government of India
15. Planning Commission of India Reports
16. Ministry of Finance, Government of India Reports
17. Mckinsey Global Institute: January 2010, "Debt and deleveraging: The global credit bubble and its economic consequences"
18. Institute for International Finance Reports
19. Institute for International Monetary Affairs Reports

ANNEXURE

Table 1. China's Foreign Exchange Reserves: Totals and as a Percent of GDP, 2001-2010 and as of June 2011

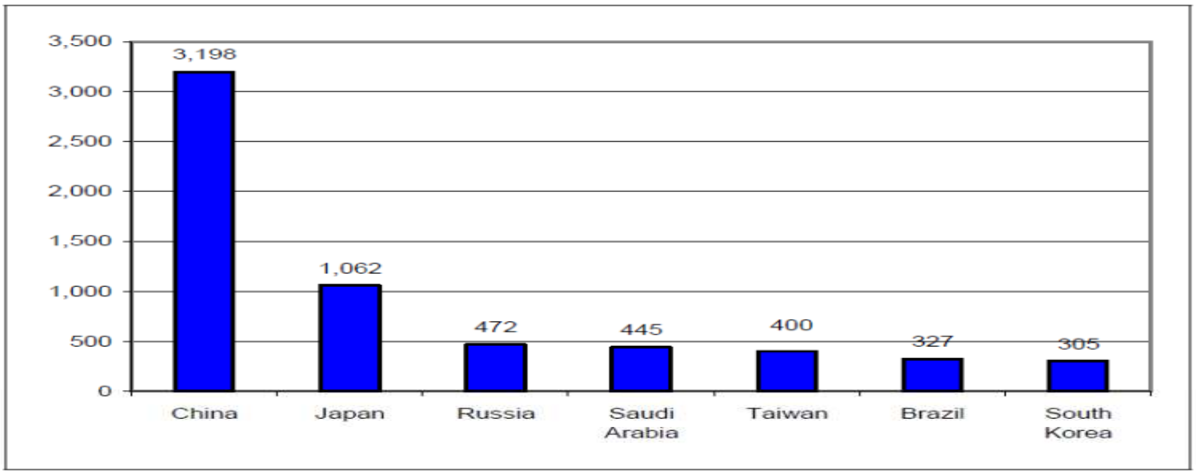
Year	Billions of U.S. Dollars	As a % of Chinese GDP
2001	215.6	16.3
2002	291.1	20.0
2003	403.3	24.6
2004	609.9	31.6
2005	818.9	36.5
2006	1,068.5	40.2
2007	1,528.2	45.2
2008	1,946.0	45.0
2009	2,399.2	48.1
2010	2,847.3	48.4
June 2011	3,197.5	NA

Source: Global Insight and Chinese State Administration of Foreign Exchange.

Note: Year-end or end of month values.

Figure 1. Major Holders of Foreign Exchange Reserves as of June 2011

($ billions)



Sources: IMF International Financial Statistics, and Central Bank of the Republic of China (Taiwan).

Notes: Ranked according to total holdings as of June 2011. Data for Saudi Arabia are through December 2010.

Table 3. China's Year-End Holdings of U.S. Treasury Securities: 2002-2010

($ billions and as a percent of total foreign holdings)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
China's Holdings ($billions)	118.4	159.0	222.9	310.0	396.9	477.6	727.4	894.8	1,160.1
Holdings as a % of Total Foreign Holdings	9.6%	10.4%	12.1%	15.2%	18.9%	20.3%	23.6%	24.2%	26.1%

Source: Department of Treasury, Major Foreign Holders of Treasury Securities Holdings, July18, 2011.

Table 1: Growth Rate of Components of Aggregate Expenditure

(Per cent)

Items/Year	Average		Crisis Period	
	2000-01 to 2009-10	2003-04 to 2007-08	2008-09	2009-10
Private Final Consumption Expenditure	6.2	7.6	6.8	4.3
Government Final Consumption Expenditure	5.8	5.6	16.7	10.5
Gross Capital Formation	9.8	16.8	-1.7	7.1
Exports	14.6	17.9	19.3	-6.7
Imports	13.6	20.1	23.0	-7.3
GDP at market prices	7.1	9.0	5.1	7.7

Source: Central Statistics Office, Government of India.

Table 2: Expenditure Composition of GDP

(Percentage shares of GDP at constant market prices)

Items/Year	Average		Crisis Period	
	2000-01 to 2009-10	2003-04 to 2007-08	2008-09	2009-10
I. Domestic (i+ii+iii)	**103.1**	**103.7**	**106.5**	**104.8**
of which:				
(i) Private Final Consumption Expenditure	60.7	59.5	59.5	57.6
(ii) Government Final Consumption Expenditure	11.3	10.7	11.5	11.8
(iii) Gross Capital Formation	31.1	33.5	35.6	35.4
II. External (iv-v)	-2.4	-2.6	-6.1	-5.1
(iv) Exports	18.5	19.5	24.5	21.3
(v) Imports	20.9	22.1	30.7	26.4
Discrepancies	-0.7	-1.2	-0.4	0.3

Source: Central Statistics Office, Government of India.

Table 3: Fiscal Deficit

(Per cent of GDP)

	Average		2007-08	2008-09	2009-10	2010-11 (Projected)
	2000-01 to 2009-10	2003-04 to 2007-08				
	Gross Fiscal Deficit					
Central Government	4.9	3.6	2.6	6.0	6.7	5.5
State Governments	3.2	2.7	1.5	2.4	3.4	2.9
Combined (Centre plus States)*	7.9	6.3	4.1	8.5	10.0	8.3

*: Deficits of Centre and States may not add up to combined deficit because of netting out of inter-governmental transfers between the Centre and States.

Table 4: Key Monetary Policy Measures in India since the Global Financial Crisis

(Per cent)

Effective since	Reverse Repo Rate	Repo Rate	CRR	SLR
1	2	3	4	5
October 11, 2008	6.00	9.00	6.50 (-2.50)	25.0
October 20, 2008	6.00	8.00 (-1.00)	6.50	25.0
October 25, 2008	6.00	8.00	6.00 (-0.50)	25.0
November 3, 2008	6.00	7.50 (-0.50)	6.00	25.0
November 8, 2008	6.00	7.50	5.50 (-0.50)	24.0
December 8, 2008	5.00 (-1.00)	6.50 (-1.00)	5.50	24.0
January 5, 2009	4.00 (-1.00)	5.50 (-1.00)	5.50	24.0
January 17, 2009	4.00	5.50	5.00 (-0.50)	24.0
March 4, 2009	3.50 (-0.50)	5.00 (-0.50)	5.00	24.0
April 21, 2009	3.25 (-0.25)	4.75 (-0.25)	5.00	24.0
November 7, 2009	3.25	4.75	5.00	25.0
February 13, 2010	3.25	4.75	5.50 (+0.50)	25.0
February 27, 2010	3.25	4.75	5.75 (+0.25)	25.0
March 19, 2010	3.50 (+0.25)	5.00 (+0.25)	5.75	25.0
April 20, 2010	3.75 (+0.25)	5.25 (+0.25)	5.75	25.0
April 24, 2010	3.75	5.25	6.00 (+0.25)	25.0
July 2, 2010	4.00 (+0.25)	5.50 (+0.25)	6.00	25.0
July 27, 2010	4.50 (+0.50)	5.75 (+0.25)	6.00	25.0
September 16, 2010	5.00(+0.50)	6.00(+0.25)	6.00	25.0

Note: 1. Reverse repo rate indicates rate for absorption of liquidity and repo rate indicates rate for injection of liquidity. Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) are per cent of net demand and time liabilities of banks.

2. Figures in parentheses indicate change in policy rates in per cent.

PERFORMANCE APPRAISAL OF INDIAN BANKING SECTOR: A COMPARATIVE STUDY OF SELECTED PUBLIC AND PRIVATE SECTOR BANKS

SAHILA CHAUDHRY
STUDENT
SCHOOL OF MANAGEMENT
ITM UNIVERSITY
GURGAON

ABSTRACT

In the present study, an attempt is made to analyze the performance of selected public and private banks in India on the basis of parameters recommended in CAMEL Model, i.e. C-capital adequacy, A-asset quality, M-management efficiency, E-earnings quality and L-liquidity, which is divided into seven sections. First section includes a brief review of some of the earlier studies. Second section covers the scope, objectives, hypotheses and research methodology of the study. In third, fourth, fifth, sixth and seventh section, an attempt is made to analyze the capital adequacy, asset quality, management efficiency, earnings quality and liquidity of six banks in all selecting 3 banks from each category i.e. State Bank of India (SBI), Punjab National Bank (PNB) and Bank of Baroda (BOB) from public sector and ICICI, HDFC and AXIS from private sector banks in India for a period of 12 years, i.e. 2000 to 2011. To achieve the objectives of the study, the use is made of secondary data collected mainly from the various sources like Report on Trends and Progress of Banking in India, Performance Highlights of Public and Private Banks in India and various journals such RBI Bulletin, IBA Bulletin, Professional Banker, etc. It is found that the ability of the management to meet the need for additional capital is better in BOB and ICICI in their groups as the capital adequacy ratio in these banks is better than other banks. The quality of assets indicates what types of advances the bank has made to generate interest income, which is better in PNB and HDFC in their groups as the ratio of net NPAs to total assets/advances is better in these banks than other banks. Management efficiency is better in SBI and ICICI in their groups as the credit-deposits ratio is better in these banks than other banks. The quality of earnings explains the sustainability and growth in earnings in the future. Therefore, from the investors' point of view, PNB and HDFC are in a better position as their earnings quality is better in their respective groups which is evident from the ratio of operating profits to average working funds. On the other hand, from the depositors' point of view, SBI and ICICI followed by BOB and HDFC are in a better position in their respective groups as is evident from the ratio of liquid assets to total deposits/total assets.

KEYWORDS

Capital adequacy, Asset Quality, Efficiency, Earnings quality, Liquidity.

INTRODUCTION

After the set back of early nineties when the Government of India had to pledge the gold to acquire foreign currency to meet the severe problem of balance of payment temporarily, the Government planned to liberalize the Indian economy and open its door to the foreigners to speed up the development process as a long-term solution for the ailing economy. The economic liberalization move, which was initiated in 1991 when the new government assumed office, has touched all the spheres of national activity. Perhaps one area where the deregulatory policies had the maximum impact was the banking sector. Until 1991, the banking in India was largely traditional. The bankers were prudent and cautious people who seldom took risks and were content with the normal banking activities i.e. accepting of deposits and lending against them. Labeled as "Agents of Social Change", their outlook was rigidly controlled by the policies of the Government, which were centered more on the alleviation of poverty and the upliftment of the downtrodden. The 1969 and 1980's nationalization of banks, bringing private banks under the state control, had the objective of realizing this government dream. Even as late as 1991-92, the profitability was a forbidden word in banking business. The banks were established to fulfill social objectives and their performance was evaluated on their 'task fulfillment' initiatives. Lending to the priority sectors, opening of rural branches, achievements in the implementation of Government sponsored schemes and adherence to the policies and programmes of the Government were the parameters considered for judging the performance of a bank. Indian banking system has made commendable progress in extending its geographical spread and functional reach. The nationalization of banks helped in increasing the number of branches, volume of deposits and ensured wider dispersal of the advances. Despite impressive quantitative achievements in resource mobilization and in extending the credit reach, some deficiencies have, over the years, crept into the financial system such as decline in the productivity and efficiency of the system, erosion of the profitability of the system, directed lending played a critical role in depressing the profits, the directed investments in the form of SLR and CRR hindered income earning capability and potentials, portfolio quality suffered due to political and administrative interference in credit decision-making, increase in cost structure due to technological backwardness, average ratio of capital funds to RWAs remained low which created problems in international operations and the system remained de-linked from sound international banking practices. Realizing all these ill effects, the efforts were made to bring reforms in the financial system of the country. The seed of the reforms in India were sown by the Narasimham Committee appointed by the RBI under the chairmanship of M. Narasimham, the former Governor of RBI, to examine the aspects relating to the structure, organization, functions and procedures of the financial system and suggest remedial measures. The Committee submitted its reports in November 1991 and thus, began a new chapter in Indian banking. The financial system reforms were based on the principles of operational flexibility and functional autonomy so that the efficiency, productivity and profitability of the financial institutions can be enhanced continuously. It also aimed at providing a diversified, efficient and competitive financial system with the ultimate objective of improving the efficiency of available resources, increasing the return on investments so that an accelerated growth of all the sectors of the economy can be promoted. The specific goals of the reforms were the development of transparent and efficient capital and money markets, promotion of competition through free entry/exit in financial sector, improvement in access of financial savings, improvement of financial health of banks by recapitalizing, restructuring etc. of weaker banks, improvement in the managerial competence and quality of human resources, and building the financial institutions and infrastructure to improve the supervision, audit, technology and legal framework.

LITERATURE REVIEW

The articles published on different facets of Indian banking reforms are restrictive in nature and have been found wanting in terms of the assessment of the impact of the reforms on the banking sector. A brief review of some of them is as follows:

Reddy and Yuvaraja (2001) were of the view that the adoption of international capital adequacy standards, deregulation of interest rates and entry of private and foreign banks underlined that the speed and sequencing of the financial sector reforms should be as per the requirements of the Indian economy. **Rao (2002)** concluded that the international regulations are forcing the Indian banks to adopt better operational strategies and upgrade the skills. The system requires new technologies, well-guarded risk and credit appraisal system, treasury management, product diversification, internal control, external regulation as well as skilled human resources to achieve the international excellence and to face the global challenges. **Muniappan (2003)** focused on two areas - firstly, challenges faced by the Indian banks and secondly, the management of these challenges. Every aspect of the banking industry, be it profitability, NPA management, customer service, risk management, HRD etc., has to undergo the process of transformation of aligning with the international best practices. He concluded that the future of Indian banking system needs a long-term strategy, which should cover areas like structural aspects, business strategies, prudential control systems, integration of markets, technology issues, credit delivery mechanism and information sharing, etc. **Ghosh and Das (2005)** highlighted the ways how market forces may motivate banks to select high capital adequacy ratios as a means of lowering their borrowing costs. If the effect of competition among banks is strong, then it may overcome the tendency for bank capitalization. If systemic effects are strong, regulation is required. Empirical tests for the Indian public sector banks during the 1990s demonstrated that better capitalised banks experienced lower borrowing costs. **Mohan (2006)** focused on the changes in efficiency and productivity in Indian banking and stated that the patterns of efficiency and technological change witnessed in Indian banking can be viewed as consistent with expectations in an industry undergoing rapid change in response to the forces of deregulation. In reaction to evolving market prospects, a few pioneering banks might adjust quickly to seize the emerging opportunities, while others respond slowly and cautiously. **Sharma and Nikadio (2007)** presented an analytical review of the capital adequacy regime of the banking sector in India and concluded that in the regime of Basel I, Indian banking system performed reasonably well, with an average CRAR of about 12 per cent, which was higher than the internationally accepted level of 8 per cent as well as India's own minimum regulatory requirement of 9 per cent. **Fred, Stephen and Arthur (2009)** used a multivariate discriminant model to differentiate between low efficiency and high efficiency community banks (less than $1 billion in total assets) based upon the efficiency ratio, a commonly used financial performance measure that relates non-interest expenses to total operating income. The discriminant model was applied using data for 2006-2008 and also included the periods of high performance as well as the deteriorating industry conditions associated with the current financial crisis. The model's classification accuracy ranges approximately from 88-96 per cent for both original and cross-validation data sets. **Dwivedi and Charyulu (2011)** analyzed the impact of various market and regulatory initiatives on efficiency improvements of Indian banks with the help of Data Envelopment Analysis (DEA) and found that national banks, new private banks and foreign banks have showed high efficiency over a period of time than the remaining banks. **Uppal (2011)** analyzed the performance of major banks in terms of productivity and profitability in the pre and post e-banking period and concluded that performance of all the banks under study is much better in post-e-banking period and further foreign banks are at the top position, whereas the performance of the public sector banks is comparatively very poor. **Ghosh and Ghosh (2011)** emphasized on management of non-performing assets in the perspective of the public sector banks in India under strict asset classification norms, use of latest technological platform, recovery procedures and other bank specific indicators in the context of stringent regulatory framework of the Reserve Bank of India and concluded that the reduction of non-performing asset is necessary for improving the profitability of banks and to comply with the capital adequacy norms as per the Basel Accord(s). **Thiagarajan, Ayyappan and Ramachandran (2011)** analysed the role of market discipline on the behaviour of commercial banks with respect to their capital adequacy and concluded that the commercial banks are well capitalized and the ratio is well over the regulatory minimum requirement. The private sector banks show a higher percentage of tier-I capital over the public sector banks. However the public sector banks show a higher level of tier-II capital. The study also indicated that market forces influenced the banks' behaviour to keep their capital adequacy well above the regulatory norms. The Non-Performing Assets influenced the cost of deposits for both public and private sector banks in a significant manner. The return on equity had a significant positive influence on the cost of deposits for private sector banks. The public sector banks can reduce the cost of deposits by increasing their Tier-I capital.

Induced by the forgoing revelations, an attempt is made to analyze the performance of selected public and private banks in India on the basis of parameters recommended in CAMEL Model, i.e. C-capital adequacy, A-asset quality, M-management efficiency, E-earnings quality and L-liquidity, which is divided into four sections. First section includes a brief review of some of the earlier studies. Second section covers the scope, objectives, hypotheses and research methodology of the study. In third, fourth, fifth, sixth and seventh section, an attempt is made to analyze the capital adequacy, asset quality, management efficiency, earnings quality and liquidity of six banks in all selecting 3 banks from each category i.e. State Bank of India (SBI), Punjab National Bank (PNB) and Bank of Baroda (BOB) from public sector and ICICI, HDFC and AXIS from private sector banks in India.

OBJECTIVES, HYPOTHESES AND METHODOLOGY

OBJECTIVES OF THE STUDY

The present study is conducted to achieve the following objectives:

1. To study the present position of capital adequacy of selected public and private sector banks in India.
2. To analyze the asset quality of selected public and private sector banks in India.
3. To appraise the management efficiency of selected public and private sector banks in India.
4. To examine the earnings quality of selected public and private sector banks in India.
5. To analyze the liquidity of selected public and private sector banks in India.

RESEARCH HYPOTHESES

To achieve the above objective of the study, the following hypotheses are formulated and tested:

1. There is no significant difference in the bank/group-wise capital adequacy of the selected public and private sector banks in India.
2. There is no significant difference in the bank/group-wise asset quality of selected public and private sector banks in India.
3. There is no significant difference in the bank/group-wise management efficiency of selected public and private sector banks in India.
4. There is no significant difference in the bank/group-wise earnings quality of selected public and private sector banks in India.
5. There is no significant difference in the bank/group-wise liquidity of selected public and private sector banks in India.

RESEARCH METHODOLOGY

The present study covers the performance analysis of selected public (State Bank of India, Punjab National Bank and Bank of Baroda) and private (ICICI, HDFC and AXIS Bank) for a period of 12 years, i.e. 2000 to 2011. To achieve the objectives of the study, the use is made of secondary data which were collected from the various sources like Report on Trends and Progress of Banking in India, Performance Highlights of Public and Private Banks in India, various journals such RBI Bulletin, IBA Bulletin, Professional Banker, ICFAI Journal of Bank Management. To test the statistical significance of the results, one-way ANOVA technique has been used.

MANAGEMENT OF CAPITAL ADEQUACY

It is important for a bank to maintain depositors' confidence and preventing the bank from bankruptcy. Capital may be taken as a cushion to protect depositors and promote the stability and efficiency of financial system of any country. Capital adequacy reflects the overall financial condition of the banks and also the ability of the management to meet the need for additional capital whenever required. It also indicates whether the bank has enough capital to absorb the unexpected losses or not. Capital Adequacy Ratios act as indicators of bank leverage. The following ratio measures the Capital Adequacy:

CAPITAL ADEQUACY RATIO

The banks are required to maintain the Capital Adequacy Ratio (CAR) as specified by RBI from time to time. As per the latest RBI norms, the banks in India should have a CAR of 9 per cent. It is arrived at by dividing the sum of Tier-I and Tier-II capital by aggregate of Risk Weighted Assets (RWAs). The higher the CAR, the stronger is a bank as it ensures high safety against bankruptcy. Tier-I Capital includes equity capital and free reserves. Tier-II Capital comprises of subordinate debt of 5-7 years tenure revaluation reserves, general provisions and loss reserves, hybrid debt capital instruments and undisclosed reserves and cumulative perpetual preference shares. As is evident from the Table-3.1, average capital adequacy ratio is highest in BOB and ICICI in public and private sector banks respectively. There is no significant difference in the average capital adequacy ratio of selected public and private banks individually and when all the banks are taken together as the calculated value is less than the critical value in all the cases during the period under study.

ADVANCES TO TOTAL ASSETS

The ratio of the advances to total assets indicates a bank's aggressiveness in lending, which ultimately results in better profitability. Higher ratio of advances to total assets is preferred to a lower one. Total advances also include receivables. The value of total assets is excluding the revaluation of all the assets. As is evident from Table-3.2, average ratio of advances to total assets is highest in BOB and ICICI in public and private sector banks respectively. There is no significant difference in the average ratio of advances to total assets in selected public and private sector banks individually and when all the banks are taken together as the calculated value is less than the critical value in all the cases during the period under study.

GOVERNMENT SECURITIES TO TOTAL INVESTMENTS

The percentage of investment in government securities to total investments is a very important indicator, which shows the risk-taking ability of the bank. It indicates a bank's strategy as being high profit-high risk or low profits–low risk. It also gives a view as to the availability of alternative investment opportunities. Government securities are generally considered as the most safe debt instrument, which as a result, carries the lowest return. Since government securities are risk-free, the higher the G-Securities to investment ratio, the lower the risk involved in a bank's investments. As is evident from Table-3.3, average ratio of government securities to total investments is highest in SBI and ICICI in public and private sector banks respectively. There is no significant difference in the average ratio of government securities to total investments in selected public and private sector banks. However, there is a significant difference in the average ratio of government securities to total investments in selected public and foreign banks at 5 per cent level when all the banks are taken together during the period under study.

From the above analysis, it is concluded that there is no significant difference in the capital adequacy ratio of selected public and private sector banks. However, a significant difference is found in average ratio of advances to total assets and government securities to total investments when all the individual banks are considered together. Therefore, the null hypothesis i.e. there is no significant difference in the bank/group-wise capital adequacy of the selected public and private sector banks in India can be partially accepted.

MANAGEMENT OF ASSET QUALITY

The quality of assets is an important parameter to gauge the strength of bank. The prime motto behind measuring the assets quality is to ascertain the component of net NPAs as percentage to total assets/net advances. This indicates what types of advances the bank has made to generate interest income. Thus, assets quality indicates the type of the debtors the bank is having.

GROSS NPAS TO TOTAL ADVANCES

This ratio is arrived at by dividing the gross NPAs by total advances. Lower the ratio better is the performance of the bank. As is evident from the Table-4.2, average ratio of gross NPAs to total advances is lowest in PNB and HDFC in public and private sector banks respectively. There is no significant difference in the average ratio of gross NPAs to total advances in selected public and private sector banks. As a whole, there is a significant difference in the average ratio of gross NPAs to total advances in selected public and private sector banks at 5 per cent level when all the individual banks are considered together during the period under study.

NET NPAS TO TOTAL ASSETS

This ratio indicates the efficiency of the bank in assessing credit risk and, to an extent, recovering the debts. This ratio is arrived at by dividing the net NPAs by total assets. Total assets are considered net of revaluation reserves. Lower the ratio, better is the performance of the bank. As is evident from the Table-4.2, average ratio of net NPAs to total assets is lowest in PNB and HDFC in public and private sector banks respectively. There is no significant difference in the average ratio of net NPAs to total assets in selected public sector banks. However, the difference between the average ratios of net NPAs to total assets in selected private sector banks is found significant at 5 percent level of significance. As a whole, there is a significant difference in the average ratio of net NPAs to total assets in selected public and private sector banks at 5 per cent level when all the individual banks are considered together during the period under study.

NET NPAS TO NET ADVANCES

It is the most standard measure of assets quality. In this ratio, Net NPAs are measured as a percentage of net advances. Net NPAs are gross NPAs net of provisions on NPAs. As is evident from the Table-4.3, average ratio of net NPAs to net advances is lowest in PNB and HDFC in public and private sector banks respectively. There is no significant difference in the average ratio of net NPAs to net advances in selected public sector banks. However, the difference between the average ratios of net NPAs to net advances in selected private sector banks is found significant at 5 percent level of significance. As a whole, there is a significant difference in the average ratio of net NPAs to net advances in selected public and private sector banks at 5 per cent level when all the individual banks are considered together during the period under study.

From the above analysis, it is concluded that there is no significant difference in the asset quality of selected public sector banks. However it is found significant in private sector banks and when all the individual banks are considered together during the period under study. Therefore, the null hypothesis i.e. there is no significant difference in the bank/group-wise asset quality of the selected public and private sector banks in India can be partially accepted.

MANAGEMENT OF EFFICIENCY

Management efficiency is another important element of the CAMEL Model. The ratio in this segment involves subjective analysis to measure the efficiency and effectiveness of management. The management of the bank takes crucial decisions depending on its risk perception. It sets vision and goals for the organization and sees that it achieves them. This parameter is used to evaluate management efficiency as to assign premium to better quality banks and discount poorly managed ones. The ratio used to evaluate management efficiency is described as under:

TOTAL ADVANCES TO TOTAL DEPOSITS (CREDIT-DEPOSITS RATIO)

This ratio measures the efficiency and ability of the bank's management in converting the deposits available with the bank (excluding other funds like equity capital, etc.) into high earning advances. Total deposits include demand deposits, savings deposits, term deposits and deposits of other banks. Total advances also include the receivables. As is evident from Table-5.1, average ratio of total advances to total deposits is highest in SBI and ICICI in public and private sector banks respectively. There is no significant difference in the average credit-deposits ratio of selected public sector banks. However, the difference between the average credit-deposits ratio in selected private sector banks is found significant at 5 percent level of significance. As a whole, there is a significant difference in the average credit-deposits ratio of selected public and private sector banks at 5 per cent level when all the individual banks are considered together during the period under study.

BUSINESS PER EMPLOYEE

This ratio shows the productivity of human resource of the bank. It is used as a tool to measure the efficiency of all the employees of a bank in generating business for the bank. It is arrived at by dividing the total business by total number of employees. Higher the ratio, the better it is for the bank. By business, we mean the sum of total deposits and total advances in a particular year. As is evident from Table-5.2, average business per employee is highest in BOB and AXIS in public and private sector banks respectively. There is no significant difference in the average business per employee of selected public sector banks. However, the difference between the average business per employee in selected private sector banks is found significant at 5 percent level of significance. As a whole, there is a significant difference in the average business per employee of selected public and private sector banks at 5 per cent level when all the individual banks are considered together during the period under study.

PROFITS PER EMPLOYEE

This ratio shows the surplus earned per employee. It is arrived at by dividing the Profit after Tax earned by the bank by the total number of employees. Higher the ratio better is the efficiency of the management. As is evident from Table-5.3, average profits per employee are highest in BOB and ICICI in public and private sector banks respectively. There is no significant difference in the average profits per employee of selected public sector banks. However, the difference between the average profits per employee in selected private sector banks is found significant at 5 percent level of significance. As a whole, there is a significant difference in the average profits per employee of selected public and private sector banks at 5 per cent level when all the individual banks are considered together during the period under study.

From the above analysis, it is concluded that there is no significant difference in the management efficiency of selected public sector banks. However it is found significant in private sector banks and all the individual banks when considered together during the period under study. Therefore, the null hypothesis i.e. there is no significant difference in the bank/group-wise management efficiency of the selected public and private sector banks in India can be partially accepted.

MANAGEMENT OF EARNINGS QUALITY

The quality of earnings is a very important criterion that determines the ability of a bank to earn consistently, going into the future. It basically determines the profitability of the banks. It also explains the sustainability and growth in earnings in the future. This parameter gains importance in the light of the argument that much of a bank's income is earned through non-core activities like investments, treasury operations, and corporate advisory services and so on. The following ratios try to assess the quality of income in terms of income generated by core activity- income from lending operations:

OPERATING PROFITS TO AVERAGE WORKING FUNDS

This ratio indicates how much a bank can earn from its operations net of the operating expenses for every rupee spent on working funds. This is arrived at by dividing the operating profits by average working funds. Average Working Funds are the total resources (total assets or liabilities) employed by a bank. It is the daily average of the total assets/liabilities during a year. The higher the ratio, the better it is. This ratio determines the operating profits generated out of working funds employed. The better utilization of funds will result in higher operating profits. Thus, this ratio will indicate how a bank has employed its working funds in generating profits. Banks which use their assets efficiently will tend to have a better average than the industry average. As is evident from Table-6.1, average ratio of operating profits to average working funds is highest in PNB and AXIS in public and private sector banks respectively. There is no significant difference in the average ratio of profits to average working funds of selected public sector banks. However, the difference between average ratio of profits to average working funds in selected private sector banks is found significant at 5 percent level of significance. As a whole, there is a significant difference in the average ratio of profits to average working funds of selected public and private sector banks at 5 per cent level when all the individual banks are considered together during the period under study.

SPREAD OR NET INTEREST MARGIN (NIM) TO TOTAL ASSETS

NIM, being the difference between the interest income and the interest expended, as a percentage of total assets shows the ability of the bank to keep the interest on deposits low and interest on advances high. It is an important measure of a bank's core income (income from lending operations). The interest income includes dividend income and interest expended includes interest paid on deposits, loan from the RBI, and other short term and long term loans. As is evident from Table-6.2, average ratio of spread to total assets is highest in PNB and HDFC in public and private sector banks respectively. There is a significant difference in the average ratio of net interest margin to total assets of selected public and private sector banks. As a whole, there is also a significant difference in the average ratio of net interest margin to total assets of selected public and private sector banks at 5 per cent level when all the individual banks are considered together during the period under study.

NON-INTEREST INCOME TO TOTAL INCOME

Fee-based income accounts for a major portion of a bank's other income. The bank generates higher fee income through innovative products and adapting the technology for sustained service levels. This stream of revenue is not dependent on the bank's capital adequacy and consequent potential to generate income is immense. Thus, this ratio measures the income from operations, other than lending, as a percentage of the total income. Non-interest income is the income earned by the banks excluding income on advances and deposits with the RBI. The higher ratio of non-interest income to total income indicates the fee-based income. As is evident from Table-6.3, average ratio of non-interest income to total income is highest in SBI and ICICI in public and private sector banks respectively. There is no significant difference in the average ratio of non-interest income to total income of selected public sector banks. However, the difference between the average ratios of non-interest income to total income in selected private sector banks is found significant at 5 percent level of significance. As a whole, there is a significant difference in the average ratio of non-interest income to total income of selected public and private sector banks at 5 per cent level when all the individual banks are considered together during the period under study.

NET PROFITS TO TOTAL INCOME

This ratio is calculated by dividing the net profits by total income, which includes interest income and other income. As is evident from table 6.4, average ratio of net profits to total income is highest in PNB and AXIS in public and private sector banks respectively. There is no significant difference in the average ratio of net profits to total income of selected public sector banks. However, the difference between the average ratios of net profits to total income in selected private sector banks is found significant at 5 percent level of significance. As a whole, there is a significant difference in the average ratio of net profits to total income of selected public and private sector banks at 5 per cent level when all the individual banks are considered together during the period under study.

From the above analysis, it is concluded that there is no significant difference in the earnings quality of selected public sector banks except in case of spread to total assets, where the difference is considered significant. On the other hand, the difference is found significant in case of operating profits to average working funds and spread to total assets in private sector banks and when all the individual banks are considered together during the period under study. Therefore, the null hypothesis i.e. there is no significant difference in the bank/group-wise earnings quality of the selected public and private sector banks in India can be partially accepted.

MANAGEMENT OF LIQUIDITY

Liquidity is very important for any organization dealing with money. Banks have to take proper care in hedging liquidity risk while at the same time ensuring that a good percentage of funds are invested in higher return generating investments so that banks can generate profit while at the same time provide liquidity to the depositors. Among a bank's assets, cash investments are the most liquid. The ratios used to measure the liquidity are as follows:

LIQUID ASSETS TO TOTAL ASSETS

Liquid Assets include cash in hand, balance with the RBI, balance with other banks (both in India and abroad), and money at call and short notice. Total assets include the revaluations of all the assets. The proportion of liquid assets to total assets indicates the overall liquidity position of the bank. As is evident from table 7.1, average ratio of liquid assets to total assets is highest in BOB and HDFC in public and private sector banks respectively. There is no significant difference in the average ratio of liquid assets to total assets of selected public and private sector banks group-wise and when all the individual banks are considered together during the period under study.

LIQUID ASSETS TO TOTAL DEPOSITS

This ratio measures the liquidity available to the depositors of the bank. Total deposits include demand deposits, savings deposits, term deposits, and deposits of other financial institutions. Liquid assets include cash in hand, balance with the RBI, balance with other banks (both in India and abroad), and money at call and short notice. As is evident from table 7.2, average ratio of liquid assets to total deposits is highest in SBI and ICICI in public and private sector banks respectively. There is no significant difference in the average ratio of liquid assets to total deposits of selected public and private banks. However, the difference between the average ratios of liquid assets to total deposits in selected public and private sector banks group-wise and when all the individual banks are considered together during the period under study.

From the above analysis, it is concluded that there is no significant difference in the management of liquidity of selected public and private sector banks individually and group-wise. Therefore, the null hypothesis i.e. there is no significant difference in the bank/group-wise liquidity of the selected public and private banks can be accepted.

CONCLUSION

As a whole, it is concluded that overall financial condition and also the ability of the management to meet the need for additional capital is better in BOB and ICICI in their groups as the capital adequacy ratio in these banks is better than other banks. The quality of assets indicates what types of advances the bank has made to generate interest income, which is better in PNB and HDFC in their groups as the ratio of net NPAs to total assets/advances is better in these banks than other banks. The management of the bank takes crucial decisions depending on its risk perception. It sets vision and goals for the organization and sees that it achieves them. This parameter is used to evaluate management efficiency as to assign premium to better quality banks and discount poorly managed ones. Management efficiency is better in SBI and ICICI in their groups as the credit-deposits ratio is better in these banks than other banks. The quality of earnings is a very important criterion that determines the ability of a bank to earn consistently, going into the future. It basically determines the profitability of the banks. It also explains the sustainability and growth in earnings in the future. Therefore, from the investors' point of view, PNB and HDFC are in a better position as their earnings quality is better in their respective groups which is evident from the ratio of operating profits to average working funds. On the other hand, banks have to take proper care in hedging liquidity risk while at the same time ensuring that a good percentage of funds are invested in higher return generating investments so that banks can generate profit while at the same time provide sufficient liquidity to the depositors. Therefore, from the depositors' point of view, SBI and ICICI followed by BOB and HDFC are in a better position in their respective groups as is evident from the ratio of liquid assets to total deposits/total assets.

SIGNIFICANCE AND LIMITATIONS

The results obtained from the present study will be helpful to the policy makers, depositors, investors and other stakeholders to take decisions about the capital adequacy, asset quality, management efficiency, earnings quality and liquidity of the selected public and private sector banks in India. As the present study covers the performance analysis of selected public and private sector banks (only three banks from each category) for a period of 12 years only, therefore results drawn cannot be applied to the banking sector as whole for the entire period especially after the reforms. Availability of time and lack of experience on the part of the researcher may be considered a stumbling block in achieving the objectives of the study.

REFERENCES

1. **Dwivedi, Amit Kumar and Charyulu, D. Kumara (2011)**, "Efficiency of Indian Banking Industry in the Post-Reform Era" IIMA, Ahmadabad, W.P. No. 2011-03-01.
2. **Fred H. Hays, Stephen A. De Lurgio and Arthur H. Gilbert (2009),** "Efficiency Ratios and Community Bank Performance", Journal of Finance and Accountancy, pp.1-15.
3. **Ghosh, Debarshi and Ghosh, Sukanya (2011)** "Management of Non-Performing Assets in Public Sector Banks: Evidence from India" International Conference on Management, pp. 750-760.
4. **Ghosh, S. and A. Das (2005)** "Market discipline, capital adequacy and bank behaviour." Economic and Political weekly, Vol. 40, pp. 1210 -1215.
5. **Mohan, Rakesh (2006)** "Reforms, productivity and efficiency in banking: The Indian experience." Reserve Bank of India Bulletin, Vol.60, Issue-3, Mar 2006, pp.279-293.
6. **Muniappan, G. P. (2003),** "Management of Challenges in Banks", NIBM Annual Day Celebration, Pune.
7. **Rao, D. Nageswara (2002),** "Indian Banking in the New Scenario", Front Line, October-November 2002.
8. **Reddy, B. Ram Chandra and Yuvaraja, B. (2001),** "Some Aspects of Financial Sector Reforms", Banking theory and financial system, 2002, Kalyani publication, p. 208-215, Ludhiana.
9. **Sharma,** Mandira and **Nikaido,** Yuko **(2007)** "Capital adequacy regime in India: An overview." Indian Council for Research on International Economic Relations, Working Paper No. 196.
10. **Thiagarajan, Somanadevi & Ayyappan, S. and Ramachandran, A. (2011)** "Market Discipline, Behavior and Capital Adequacy of Public and Private Sector Banks in India" European Journal of Social Sciences, Vol. 23, Number 1, pp. 109-115.
11. **Uppal, R. K. (2011),** "E-Age Technology - New Face of Indian Banking Industry: Emerging Challenges and New Potentials" Journal of Social and Development Sciences**,** Vol. 1, No. 3, pp. 115-129, April.

TABLES

TABLE 3.1: CAPITAL ADEQUACY RATIO (Percent)

Years	Public Sector Banks			Private Sector Banks		
	SBI	PNB	BOB	ICICI	HDFC	AXIS
2000	11.49	10.31	12.10	19.64	12.19	11.37
2001	12.79	10.24	12.80	11.57	11.09	9.00
2002	13.35	10.70	11.32	11.44	13.93	10.65
2003	13.50	12.02	12.65	11.10	11.12	10.90
2004	13.53	13.10	13.91	10.36	11.66	11.21
2005	12.45	14.78	12.61	11.78	12.16	12.66
2006	11.88	11.95	13.65	13.35	11.41	11.08
2007	12.34	12.29	11.80	11.69	13.08	11.57
2008	13.54	12.96	12.91	14.92	13.60	13.73
2009	12.97	12.59	12.88	15.92	15.09	13.69
2010	12.00	12.97	12.84	19.14	16.45	15.80
2011	10.69	11.76	13.02	17.63	15.32	12.65
Average	12.54	12.14	12.70	14.04	13.09	12.02
ANOVA	1.01 (Critical Value-3.28)			2.10 (Critical Value-3.28)		
Overall ANOVA	1.924 (Critical Value -2.35)					

Note: Axis Bank was renamed in 2006 before that it was UTI Bank.
Source: Data Compiled from the Performance highlights of Various Banks.

TABLE: 3.2 - ADVANCES TO TOTAL ASSETS (Percent)

e	Public Sector Banks			Private Sector Banks		
	SBI	PNB	BOB	ICICI	HDFC	AXIS
2000	37.51	41.7	41.61	30.29	29.51	52.58
2001	35.99	44.15	43.3	35.63	29.69	44.62
2002	34.66	47.09	47.47	44.02	28.61	37.22
2003	37.65	54.13	67.30	39.23	38.56	41.51
2004	38.70	46.13	41.83	48.60	41.87	38.77
2005	44.01	47.84	45.85	52.83	49.64	41.28
2006	52.99	51.37	52.83	58.14	47.69	44.86
2007	59.54	59.47	58.41	56.82	51.45	50.34
2008	57.76	60.04	59.41	56.43	47.62	54.45
2009	56.25	62.65	63.31	57.56	53.95	55.21
2010	59.99	62.91	62.89	49.86	56.56	57.76
2011	61.84	63.99	63.80	57.26	57.68	58.67
Average	48.07	53.45	54.00	48.89	44.40	48.10
ANOVA	1.40 (Critical Value-3.28)			0.78 (Critical Value-3.28)		
Overall ANOVA	1.77 (Critical Value -2.35)					

*Significant at 5 percent level of significance.
Note: Axis Bank was renamed in 2006 before that it was UTI Bank.
Source: Data Compiled from the Performance highlights of Various Banks.

TABLE: 3.3 - GOVERNMENT SECURITIES TO TOTAL INVESTMENTS (Percent)

Years	Public Sector Banks			Private Sector Banks		
	SBI	PNB	BOB	ICICI	HDFC	AXIS
2000	74.08	72.81	62.09	63.73	55.92	66.22
2001	78.47	73.4	60.69	49.72	47.76	57.89
2002	80.83	68.46	64.46	63.31	44.11	64.26
2003	88.36	99.99	86.67	80.58	47.48	48.14
2004	85.06	78.52	73.88	68.84	59.52	64.88
2005	87.24	81.30	78.24	68.31	58.02	50.1
2006	85.60	81.41	78.35	76.18	69.14	54.77
2007	82.11	81.06	81.16	77.65	73.76	62.39
2008	76.35	82.23	83.22	71.70	74.69	60.97
2009	83.95	86.87	82.58	67.79	88.67	60.88
2010	78.84	85.66	85.89	61.20	87.17	61.84
2011	80.79	84.39	87.62	51.18	75.73	61.82
Average	81.81	81.34	77.07	66.68	65.16	59.51
ANOVA	1.375 (Critical Value-3.28)			1.436 (Critical Value-3.28)		
Overall ANOVA	11.82*(Critical Value -2.35)					

*Significant at 5 percent level of significance.

Note: Axis Bank was renamed in 2006 before that it was UTI Bank.

Source: Data Compiled from the Performance highlights of Various Banks.

TABLE: 4.1-GROSS NPAs TO TOTAL ADVANCES (Percent)

Years	Public Sector Banks			Private Sector Banks		
	SBI	PNB	BOB	ICICI	HDFC	AXIS
2000	15.54	13.85	15.98	2.58	3.52	5.52
2001	13.98	12.34	15.26	5.82	3.17	4.68
2002	12.82	12.05	13.34	10.85	3.27	5.27
2003	8.57	4.79	1.04	5.31	2.26	17.38
2004	8.02	9.89	11.18	4.97	1.89	2.93
2005	6.15	6.19	7.65	3.11	1.72	1.99
2006	3.67	4.21	3.99	1.52	1.45	1.69
2007	2.96	3.51	2.50	2.11	1.40	1.08
2008	3.08	2.78	1.86	3.36	1.43	0.82
2009	2.87	1.79	1.28	4.42	2.01	1.10
2010	3.09	1.72	1.37	5.23	1.44	1.26
2011	3.35	1.81	1.38	4.64	1.06	1.12
Average	7.07	6.24	6.40	4.49	2.05	3.73
ANOVA	0.074 (Critical Value-3.28)			2.004 (Critical Value-3.28)		
Overall ANOVA	2.44*(Critical Value -2.35)					

*Significant at 5 percent level of significance.

Note: Axis Bank was renamed in 2006 before that it was UTI Bank.

Source: Data Compiled from the Performance highlights of Various Banks.

TABLE-4.2: NET NPAs TO TOTAL ASSETS (Percent)

Years	Public Sector Banks			Private Sector Banks		
	SBI	PNB	BOB	ICICI	HDFC	AXIS
2000	0.48	0.35	0.53	0.52	0.32	0.13
2001	0.44	0.49	0.72	0.29	0.13	0.14
2002	1.95	2.48	2.69	N.A	0.14	1.29
2003	1.64	1.77	2.22	0.4	0.14	0.83
2004	1.33	0.44	2.07	1.09	0.07	0.46
2005	1.16	0.09	0.65	0.89	0.12	0.57
2006	0.99	0.14	0.46	0.42	0.21	0.44
2007	0.93	0.45	0.35	0.58	0.22	0.36
2008	1.03	0.38	0.27	0.87	0.23	0.23
2009	0.99	0.10	0.20	1.20	0.34	0.22
2010	1.03	0.33	0.22	1.05	0.18	0.23
2011	1.00	0.54	0.22	0.59	0.10	0.16
Average	1.08	0.63	0.88	0.66	0.18	0.42
ANOVA	1.21 (Critical Value-3.28)			7.90* (Critical Value-3.28)		
Overall ANOVA	4.143*(Critical Value -2.35)					

*Significant at 5 percent level of significance.

Note: Axis Bank was renamed in 2006 before that it was UTI Bank.

Source: Data Compiled from the Performance highlights of Various Banks.

TABLE: 4.3 - NET NPAs TO NET ADVANCES (Percent)

Years	Public Sector Banks			Private Sector Banks		
	SBI	PNB	BOB	ICICI	HDFC	AXIS
2000	6.41	8.52	6.95	1.53	1.09	4.54
2001	6.03	6.69	6.77	2.19	0.45	3.43
2002	5.63	5.32	4.98	5.48	0.50	2.74
2003	4.50	3.86	3.72	5.21	0.37	2.30
2004	3.48	0.98	2.99	5.21	0.37	2.39
2005	2.65	0.20	1.45	2.21	0.16	1.29
2006	1.88	0.29	0.87	0.72	0.44	0.98
2007	1.56	0.76	0.60	1.02	0.43	0.72
2008	1.78	0.64	0.47	1.55	0.47	0.42
2009	1.76	0.17	0.31	2.09	0.63	0.40
2010	1.72	0.53	0.34	2.12	0.31	0.40
2011	1.63	0.85	0.35	1.11	0.19	0.29
Average	3.25	2.40	2.48	2.54	0.45	1.65
ANOVA	0.42 (Critical Value-3.28)			7.83* (Critical Value-3.28)		
Overall ANOVA	2.833*(Critical Value -2.35)					

* Significant at 5 percent level of significance.

Note: Axis Bank was renamed in 2006 before that it was UTI Bank.

Source: Data Compiled from the Performance highlights of Various Banks.

TABLE-5.1: TOTAL ADVANCES TO TOTAL DEPOSITS (Percent)

Years	Public Sector Banks			Private Sector Banks		
	SBI	PNB	BOB	ICICI	HDFC	AXIS
2000	49.84	47.54	47.57	37.07	41.08	61.30
2001	46.78	49.93	50.79	42.93	39.77	53.02
2002	44.65	53.60	54.47	146.59	38.60	43.56
2003	46.52	53.06	53.26	110.61	52.53	42.32
2004	49.57	53.72	48.79	91.17	58.35	44.68
2005	55.14	58.56	53.36	91.57	70.33	49.20
2006	68.89	62.35	63.97	88.54	62.84	55.63
2007	77.46	69.07	66.94	84.97	68.74	62.73
2008	77.55	71.79	70.18	62.94	92.30	68.09
2009	73.11	73.75	74.84	69.24	99.98	69.48
2010	78.58	74.84	72.55	89.70	75.17	73.84
2011	81.03	77.38	74.87	95.91	76.70	75.25
Average	62.43	62.13	60.96	84.27	64.70	58.26
ANOVA	0.048 (Critical Value-3.28)			4.72* (Critical Value-3.28)		
Overall ANOVA	3.483*(Critical Value -2.35)					

* Significant at 5 percent level of significance.

Note: Axis Bank was renamed in 2006 before that it was UTI Bank.

Source: Data Compiled from the Performance highlights of Various Banks.

TABLE: 5.2 - BUSINESS PER EMPLOYEE (Rs. in Lakhs)

Years	Public Sector Banks			Private Sector Banks		
	SBI	PNB	BOB	ICICI	HDFC	AXIS
2000	111.20	106.48	142.82	829.52	922.00	1101.00
2001	136.58	141.95	166.11	815.22	643.00	959.00
2002	173.01	167.76	222.76	486.49	778.00	896.00
2003	190.77	195.64	237.67	1120.00	856.00	926.00
2004	210.56	228.22	252.51	1010.00	866.00	808.00
2005	243.08	276.87	310.37	880.00	806.00	895.00
2006	299.23	330.92	396.00	905.00	758.00	1020.00
2007	357.00	407.41	555.00	1027.00	607.00	1024.00
2008	456.00	504.52	710.00	1008.00	506.00	1117.00
2009	556.00	654.92	914.00	1154.00	446.00	1060.00
2010	636.00	809.85	981.00	765.00	590.00	1111.00
2011	704.00	1017.80	1333.00	735.00	653.00	1366.00
Average	339.45	403.53	518.44	894.60	702.58	1023.58
ANOVA	1.082 (Critical Value-3.28)			11.94*(Critical Value-3.28)		
Overall ANOVA	15.40*(Critical Value -2.35)					

* Significant at 5 percent level of significance.

Note: Axis Bank was renamed in 2006 before that it was UTI Bank.

Source: Data Compiled from the Performance highlights of Various Banks.

TABLE: 5.3 - PROFITS PER EMPLOYEE (Rs. in Lakhs)

Years	Public Sector Banks			Private Sector Banks		
	SBI	PNB	BOB	ICICI	HDFC	AXIS
2000	0.87	0.45	1.07	10.92	9.60	6.91
2001	0.70	0.63	0.59	10.45	8.61	7.27
2002	1.16	0.97	1.40	5.00	9.75	7.79
2003	1.48	1.43	1.92	11.00	10.09	8.22
2004	1.77	1.88	2.43	12.00	9.39	8.07
2005	2.08	2.42	1.71	11.00	8.80	7.03
2006	2.17	2.48	2.13	10.00	7.39	8.69
2007	2.37	2.68	2.73	9.00	6.13	7.59
2008	3.73	3.66	3.94	10.00	4.94	8.39
2009	4.74	5.64	6.05	11.00	4.18	10.02
2010	5.34	7.31	8.00	9.00	5.98	12.00
2011	6.44	8.35	11.00	10.00	7.37	14.00
Average	2.74	3.16	3.58	9.95	7.68	8.83
ANOVA	0.312 (Critical Value-3.28)			3.883* (Critical Value-3.28)		
Overall ANOVA	22.723*(Critical Value -2.35)					

* Significant at 5 percent level of significance.

Note: Axis Bank was renamed in 2006 before that it was UTI Bank.

Source: Data Compiled from the Performance highlights of Various Banks.

TABLE: 6.1 - OPERATING PROFITS TO AVERAGE WORKING FUNDS (Percent)

Years	Public Sector Banks			Private Sector Banks		
	SBI	PNB	BOB	ICICI	HDFC	AXIS
2000	1.55	1.61	1.79	2.81	4.18	2.60
2001	1.33	1.59	1.64	2.35	2.83	1.50
2002	1.83	2.11	1.84	2.14	2.61	3.46
2003	2.27	2.87	2.25	2.49	2.58	2.50
2004	2.50	3.26	3.00	2.09	2.58	3.49
2005	2.61	2.25	2.45	2.18	2.56	2.04
2006	2.27	2.18	1.92	1.98	2.75	2.43
2007	1.86	2.15	1.94	2.05	2.98	2.27
2008	1.87	2.25	1.96	2.14	3.13	2.57
2009	1.99	2.59	2.22	2.33	2.94	2.95
2010	1.75	2.69	2.03	2.72	3.33	3.48
2011	2.17	2.72	2.22	2.37	3.12	3.17
Average	2.00	2.35	2.10	2.30	2.96	2.70
ANOVA	2.32 (Critical Value-3.28)			5.975* (Critical Value-3.28)		
Overall ANOVA	8.14*(Critical Value -2.35)					

* Significant at 5 percent level of significance.

Note: Axis Bank was renamed in 2006 before that it was UTI Bank.

Source: Data Compiled from the Performance highlights of Various Banks.

TABLE: 6.2 - SPREAD TO TOTAL ASSETS (Percent)

Years	Public Sector Banks			Private Sector Banks		
	SBI	PNB	BOB	ICICI	HDFC	AXIS
2000	2.65	2.99	2.85	1.54	2.60	1.36
2001	2.61	3.21	3.06	2.05	3.24	0.91
2002	2.61	3.15	2.65	0.57	2.65	1.39
2003	2.65	3.62	2.75	1.33	2.73	1.64
2004	2.74	3.54	3.02	1.50	3.16	2.39
2005	3.03	3.17	3.15	1.69	3.46	1.94
2006	3.16	3.21	2.80	1.87	3.46	2.17
2007	2.83	3.40	2.64	1.93	4.07	2.14
2008	2.17	2.78	2.18	1.83	3.93	2.36
2009	2.21	2.85	2.25	2.21	4.05	2.50
2010	2.25	2.87	2.13	2.23	3.77	2.77
2011	2.66	3.12	2.46	2.22	3.80	2.70
Average	2.63	3.15	2.66	1.75	3.41	2.02
ANOVA	11.17*(Critical Value3.28)			33.33*(Critical Value-3.28)		
Overall ANOVA	25.667*(Critical Value -2.35)					

* Significant at 5 percent level of significance.

Note: Axis Bank was renamed in 2006 before that it was UTI Bank.

Source: Data Compiled from the Performance highlights of Various Banks.

TABLE: 6.3 NON-INTEREST INCOME TO TOTAL INCOME (Percent)

Years	Public Sector Banks			Private Sector Banks		
	SBI	PNB	BOB	ICICI	HDFC	AXIS
2000	13.85	12.37	11.65	18.54	15.57	15.87
2001	13.38	11.72	10.93	15.05	12.84	15.49
2002	12.28	12.82	14.29	21.08	16.37	26.07
2003	15.59	14.31	17.14	25.22	18.95	21.89
2004	19.99	19.35	21.85	25.63	18.78	21.89
2005	18.00	16.53	16.87	26.63	15.85	25.40
2006	11.77	11.73	13.79	22.62	20.07	20.16
2007	10.25	8.29	11.30	23.24	17.98	17.78
2008	12.60	12.28	14.79	22.25	18.42	20.40
2009	12.53	13.12	15.45	19.65	16.77	21.10
2010	17.41	14.24	14.39	22.53	19.76	25.32
2011	16.28	11.81	11.38	20.38	17.87	23.41
Average	14.49	13.21	14.48	21.90	17.43	21.23
ANOVA	0.748 (Critical Value-3.28)			7.615* (Critical Value-3.28)		
Overall ANOVA	18.55*(Critical Value -2.35)					

* Significant at 5 percent level of significance.

Note: Axis Bank was renamed in 2006 before that it was UTI Bank.

Source: Data Compiled from the Performance highlights of Various Banks.

TABLE: 6.4 -NET PROFITS TO TOTAL INCOME (Percent)

Years	Public Sector Banks			Private Sector Banks		
	SBI	PNB	BOB	ICICI	HDFC	AXIS
2000	7.96	6.94	8.58	10.06	14.90	8.87
2001	5.34	6.98	4.25	11.02	14.54	8.18
2002	7.16	7.37	7.86	9.47	14.59	8.41
2003	8.43	9.64	10.50	9.63	15.53	10.25
2004	9.67	11.49	12.29	13.57	16.82	13.01
2005	10.88	13.91	8.75	15.63	17.77	14.30
2006	10.15	13.25	10.11	13.74	15.55	13.40
2007	10.03	12.24	9.88	10.75	13.58	11.83
2008	11.67	12.60	10.35	10.50	12.83	12.17
2009	11.93	13.89	12.48	9.71	11.44	13.22
2010	10.66	15.60	15.68	12.13	14.63	16.13
2011	8.50	14.49	17.18	15.79	16.18	17.12
Average	9.36	11.53	10.65	11.83	14.86	12.24
ANOVA	1.7007 (Critical Value-3.28)			5.822*(Critical Value-3.28)		
Overall ANOVA	5.794*(Critical Value -2.35)					

*Significant at 5 percent level of significance.

Note: Axis Bank was renamed in 2006 before that it was UTI Bank.

Source: Data Compiled from the Performance highlights of Various Banks.

TABLE: 7.1 - LIQUID ASSETS TO TOTAL ASSETS (Percent)

Years	Public Sector Banks			Private Sector Banks		
	SBI	PNB	BOB	ICICI	HDFC	AXIS
2000	18.03	11.51	21.28	28.29	16.14	13.39
2001	19.23	9.55	19.64	18.21	19.59	11.57
2002	18.63	8.77	12.62	12.18	16.22	18.8
2003	10.68	8.62	8.54	6.07	10.41	23.45
2004	9.91	18.6	8.53	6.76	11.36	8.14
2005	8.55	8.78	9.78	7.68	8.70	11.91
2006	9.02	17.06	11.87	6.76	9.41	7.32
2007	9.17	9.63	12.77	10.77	10.03	9.44
2008	9.35	9.46	12.41	9.51	11.09	11.41
2009	10.82	8.67	10.59	7.90	9.55	10.16
2010	8.18	7.91	12.74	10.70	13.46	8.42
2011	10.04	7.85	13.93	8.39	10.70	8.82
Average	11.80	10.53	12.89	11.10	12.22	11.90
ANOVA	1.09 (Critical Value3.28)			0.161 (Critical Value-3.28)		
Overall ANOVA	0.413 (Critical Value -2.35)					

*Significant at 5 percent level of significance.

Note: Axis Bank was renamed in 2006 before that it was UTI Bank.

Source: Data Compiled from the Performance highlights of Various Banks.

TABLE: 7.2 - LIQUID ASSETS TO TOTAL DEPOSITS (Percent)

Years	Public Sector Banks			Private Sector Banks		
	SBI	**PNB**	**BOB**	**ICICI**	**HDFC**	**AXIS**
2000	23.95	13.12	24.33	34.62	22.47	15.61
2001	25.00	10.81	23.00	21.94	26.24	13.75
2002	24.00	10.65	14.48	39.85	21.89	22.00
2003	13.43	20.81	9.66	9.23	15.48	9.41
2004	13.67	10.03	9.96	12.44	11.93	27.03
2005	10.71	10.75	11.38	12.95	12.33	14.20
2006	11.72	20.71	14.37	10.32	12.42	9.08
2007	11.93	11.19	14.63	16.10	13.40	11.77
2008	12.55	11.31	14.67	15.56	14.66	14.27
2009	14.07	10.21	12.52	13.72	12.26	12.79
2010	10.72	9.41	14.70	19.24	17.88	10.76
2011	13.16	9.49	16.35	15.11	14.23	11.31
Average	15.41	12.37	15.01	18.42	16.26	14.33
ANOVA	1.459 (Critical Value3.28)			1.067 (Critical Value-3.28)		
Overall ANOVA	1.402 (Critical Value -2.35)					

*Significant at 5 percent level of significance.

Note: Axis Bank was renamed in 2006 before that it was UTI Bank.

Source: Data Compiled from the Performance highlights of Various Banks.

A STUDY ON INTERACTIVE MEDIA'S INFLUENCE ON PURCHASE DECISION OF YOUTH

JATIN PANDEY
STUDENT
SRI JAYACHAMARAJENDRA COLLEGE OF ENGINEERING
MYSORE

ABSTRACT

The major factors influencing buying decision of youth with the advent of interactive media were considered and variables were listed down. A conceptual model was developed which described the impact of each of these variables on the buying behavior of the youth. A structured questionnaire was developed to ensure that the details required to understand the factors influencing are studied. The questionnaire was designed on the basis of 3 variables which were measured by sub variables, the following are the variables and its measures Usage which is measured by Presence in interactive media, Activities on interactive media, Number of online purchases, the second variable is suggestions by friends which is measured by Brand awareness, Product reviews, Experience sharing and the final variable taken in to consideration is Quality of information which is measured by Accuracy of information, Completeness of information, Alternatives. Totally 40 questions were prepared in a 5 point liked scale and few dichotomies scale among which 4 questions for each sub variables and 4 questions for dependent variable (Influence of interactive media). The data was collected by distributing the questionnaire prepared among a sample size of 90. The results suggest Usage of social media does not influence the purchasing behavior. However, good quality of information and recommendation of friends have a positive impact on purchasing behavior.

KEYWORDS
Social Media, buying decision, Use of interactive Media, Quality of information

INTRODUCTION

Interactive media is the integration of digital media including combinations of electronic text, graphics, moving images, and sound, into a structured digital computerized environment that allows people to interact with the data for appropriate purposes. The digital environment can include the Internet, telecoms and interactive digital television[1].

The nature of communication has undergone a substantial change in the past 20 years—and the change is not over. Email has had a profound effect on the way people keep in touch. Communications are shorter and more frequent than when letters were the norm; response time has greatly diminished; we are even surprised if someone we wish to contact does not have an email address. Although there are still a few people who print out their emails in order to read and respond to them, most of us are accustomed to the daily duty of reading and answering emails that have arrived since we turned off the computer the night before, and to keeping up with them as they trickle (or flood) in during the day.

From the advent of email, bulletin board systems, to current social networking sites, technology has been integrated with communication to become a prominent focus of the new digital age. In the last decade or so internet has evolved from being a privilege of a few to a ubiquitous tool. As the speed and availability of internet has evolved do has the ways of people using it. It has moved from email interaction to a place where family, friends and people with similar and dissimilar interest meet discuss on personal, political, sports and news related issues.

As a result interactive and social media has become the place for people to spread significant part of their daily interaction as people have moved to interactive media. Companies and brands have followed them.

Since their introduction, social network sites (SNSs) such as MySpace, Facebook, Cyworld, and Bebo have attracted millions of users, many of whom have integrated these sites into their daily practices. As of this writing, there are hundreds of SNSs, with various technological affordances, supporting a wide range of interests and practices. While their key technological features are fairly consistent, the cultures that emerge around SNSs are varied. Most sites support the maintenance of pre-existing social networks, but others help strangers connect based on shared interests, political views, or activities. Some sites cater to diverse audiences, while others attract people based on common language or shared racial, sexual, religious, or nationality-based identities. Sites also vary in the extent to which they incorporate new information and communication tools, such as mobile connectivity, blogging, and photo/video-sharing. Scholars from disparate fields have examined SNSs in order to understand the practices, implications, culture, and meaning of the sites, as well as users' engagement with them.

Many companies have started using interactive media as a major tool to get connected with the customers, as reaching the customers and interacting with them is stared becoming very much essential. To have a cutting edge over the business it is very much necessary to attain customer satisfaction and being responsive to the needs and issues of customers. The interactive media helps to do this efficiently. The tool is also very vital in marketing the products to the customers and help buying decision making of the customers. In order to influence customers buying decision making it is a great essential to know the factors that would influence the customer buying decision making.

As more and more companies establish their presence on interactive media establish imperative for more than to understand the results of their actions in this new world and the companies are trying to understand how their actions are translating into more revenue and sales for the company.

This study aims to understand the factors influencing buying decision making with the arrival of interactive media.

LITERATURE REVIEW

The interactive media is the new tool to satisfy the needs of customers but the tool should be used effectively in order to achieve the organizational objectives the companies should influence the buying decision making of the individual to determine this the usage, suggestion and the quality of information in interactive media has to be taken in to consideration and the relationship among them has to be observed. The literature is, however, inconclusive on whether the usage, suggestion and quality of information have significant impact on buying decision making.

Alexandru M. Degeratu, Arvind Rangaswamy and Jianan Wu, one of the paper discusses are brand names more valuable online or in traditional supermarkets? Does the increasing availability of comparative price information online make consumers more price-sensitive? The paper addresses the related questions by first conceptualizing how different store environments (online and traditional stores) can differentially affect consumer choices. The hypotheses and the empirical results from our choice models indicate that: (1) Brand names become more important online in some categories but not in others depending on the extent of information available to consumers – brand names are more valuable when information on fewer attributes is available online, (2) Sensory search attributes, particularly visual cues about the product, have lower impact on choices online, and factual information have higher impact on choices online (3) Price sensitivity is higher online, but this is due to online promotions being stronger signals of price discounts. The combined effect of price and promotion on choice is weaker online than offline[2].

---

[1] Elaine England and Andy Finney ATSF January 2002 ... updated 2011 ATSF White Paper—Interactive Media UK—©2002/2011 ATSF

[2] Alexandru M. Degeratu,Arvind Rangaswamy and Jianan Wu, "Consumer Choice Behaviour in Online and Traditional Supermarkets: The Effects of Brand Name, Price, and other Search Attributes"

Irena Pletikosa Cvijikj, Goekmen Cetin, Stephan Karpischek, Florian Michahelles, describes a system for evaluating the behavioural impact of Facebook on the decision making process. We have developed Thing Book, a prototype Facebook application for creating repositories of things and sharing opinions with friends. The paper describes initial results obtained from an online survey. These results confirm the existing statements from sociologists that people see their friends as the most reliable source of information[3].

Another study empirically examines these issues. Do friends influence purchases of users in an online social network; which users are more influenced by this social pressure; and can we quantify this social influence in terms of increase in sales and revenue. The results showed that there are three distinct groups of users with very different behaviour. The low-status group (48% of users) are not well connected, show limited interaction with other members and are unaffected by social pressure. The middle-status group (40%users) is moderately connected, show reasonable non-purchase activity on the site and have a strong and positive effect due to friends' purchases. On average, their revenue increases by 5% due to this social influence. The high-status group (12% users) is well connected and very active on the site, and shows a significant negative effect due to friends' purchases. In other words, this group differentiates itself from others by lowering their purchase and strongly pursuing non-purchase related activities. This social influence leads to almost 14% drop in the revenue of this group[4].

Deborah Cowles and Lawrence A. Crosby This studied the number of factors that could influence consumer acceptance of interactive information systems in complex service marketing situations. Further, it investigates the potential relevance of various theoretical perspectives to research involving new communication media such as videotex and teletext. Technical characteristics of the medium, which determine its degree of interactivity, are found to affect user perceptions of the medium's 'personalness' or 'social presence'. Characteristics of both the medium and the user are found to affect consumer acceptance of an interactive medium in a financial services setting[5].

Helen Streck did a two-fold: research 1) to provide the reader with the information collected and reviewed by the researcher, and 2) to begin, in earnest, the discussion by records and information professionals about what they can, will, and cannot do with the records and information created on, distributed by or displayed on Social Networks[6].

Christopher G. Gooley James M. Lattin formulated a unique procedure to exploit the benefits of interactive media. We study the general problem of a marketer whose objective is to maximize expected return (e.g., response rate) over the course of a direct response marketing campaign. The marketer has the ability to dynamically allocate two or more unique marketing messages (e.g., ads, Web pages) to achieve this objective. Consumer response to a particular message may depend on a set of covariates (e.g., demographic characteristics). In ignorance of the true relationship between response and the covariates, the marketer can use regression techniques to learn about the parameters of the response functions. Moreover, because the marketer can continually update the parameter estimates, he can also continually adapt the decision of message selection[7].

Sheila l. Sasser, Scott Koslo, Edward A. Riorda examined IMC media use by advertising agencies from a perspective of how creative and media implementation effects impact the scope of media selected for campaigns. The study was based upon a quantitative analysis of 872 advertising campaigns from 309 respondents from the largest advertising agencies in New York and Detroit. Overall, campaigns contain more integrated media when there is solid consumer research, formal advertising testing, diverse media experience, agency industry specialization, and high agency motivation. Oreativity is positively correlated with wider IMC media use, showing that integrated interactive media campaigns using a broader media palette can be highly creative. However, neither the presence of strategy in the client's brief nor the perception of the campaign being "on strategy" has any effect on the scope or number of media used[8].

From the literature review, we can conclude that the buying decision through interactive media happens with the number of users of interactive media, recommendation of friends on interactive media can be considered for the study and quality of information about the product through interactive media is very much essential for the study. Hence, the following study considers usage, recommendation and quality of information as the factors that would influence the buying decision.

RESEARCH METHODOLOGY

PROBLEM STATEMENT

In the past decade or so technology has taken a drastic turn, the organizations has to change accordingly and capitalize on the changing technology. The customer has to so much to choose with to make a decision. With the introduction of interactive media online buying has started becoming a trend; it now boils down on what factors customers make a buying decision which would help the organizations to cash on.

SCOPE OF THE STUDY

The scope of the study is to know the factors influencing the buying decision making among the youth with the advent of Interactive media and to know the relationship among the variables considered.

IMPORTANCE OF THE STUDY

With technology creeping day after day the companies must understand there is a necessary to be equipped with the necessary tools and analyze what would be the factors that would influence the youth to make a buy online. With the emergence of interactive media like Facebook, Youtube, eBay, Amazon.com and similar such media vehicles which when utilized effectively will turn out to be an opportunity but if not utilized effectively can turn out to be a threat in the competitive business world. The study concentrates on what would be the factors that would influence the consumers in making a buying decision.

OBJECTIVE OF THE STUDY

- To know the factors affecting the buying decision making of youth with the advent of interactive media.
- To determine the significance of these variable on buying decision making through interactive media.

STUDY METHODOLOGY

QUESTIONNAIRE DESIGN AND DATA COLLECTION

The major factors influencing buying decision of youth with the advent of interactive media were considered and variables were listed down. A conceptual model was developed which described the impact of each of these variables on the buying behavior of the youth. A structured questionnaire was developed to ensure that the details required understanding the factors influencing are studied.

The questionnaire was designed on the basis of 3 variables which were measured by sub variables, the following are the variables and its measures Usage which is measured by Presence in interactive media, Activities on interactive media, Number of online purchases, the second variable is suggestions by friends which is measured by Brand awareness, Product reviews, Experience sharing and the final variable taken in to consideration is Quality of information which is measured by Accuracy of information, Completeness of information, Alternatives. Totally 40 questions were prepared in a 5 point liked scale and few dichotomies scale among which 4 questions for each sub variables and 4 questions for dependent variable (Influence of interactive media). The data was collected by distributing the questionnaire prepared among a sample size of 90.

DATA ANALYSIS PLAN

A survey among the youth was conducted using the questionnaire. The following tests were made to check the hypothesis, firstly the reliability was checked through Crobach's alpha, the validity was established through discussion with marketing experts, later regression was done to test the validity and the reliability

[3]Irena Pletikosa Cvijikj, Goekmen Cetin, Stephan Karpischek, Florian Michahelles, "Influence of Facebook on Purchase Decision Making".

[4] Raghuram Iyengar, Sangman Han, Sunil Gupta" Do Friends Influence Purchases in a Social Network?"

[5]Consumer Acceptance of Interactive Media in Service Marketing Encounters; Deborah Cowles and Lawrence A. Crosby

[6]Helen Streck President/CEO, Kaizen InfoSource LLC "Social Networks and their Impact on Records and Information management." Date: January 25, 2011

[7]Christopher G. Gooley James M. Lattin "Dynamic Customization of Marketing Messages in Interactive Media" April, 1998 Revised, October 2000

[8]Sheila l. Sasser, Scott Koslo, Edward A. Riorda "Creative and Interactive Media Use by Agencies: Engaging an IMC Media Palette for Implementing Advertising Campaign"

among the dependent and independent variables, finally a correlation was done to check if there was any relationship that existed among the independent variables.

HYPOTHESIS

H1: Majority of youth do not spend significant amount of time on interactive media.

H2: There is no significant role of friend's recommendation on buying decision making through interactive media.

H3: Interactive media do not provide quality information required to make a buying decision.

VARIABLES

INDEPENDENT VARIABLES

VAR1 - Use of interactive Media

- Var1a-Presence in interactive Media
- Var1b-Acitivities in interactive Media
- Var1c-Number of online purchases

VAR2 - Recommendation of friends

- Var2a- Brand awareness
- Var2b-Product reviews
- Var2c-Experience Sharing

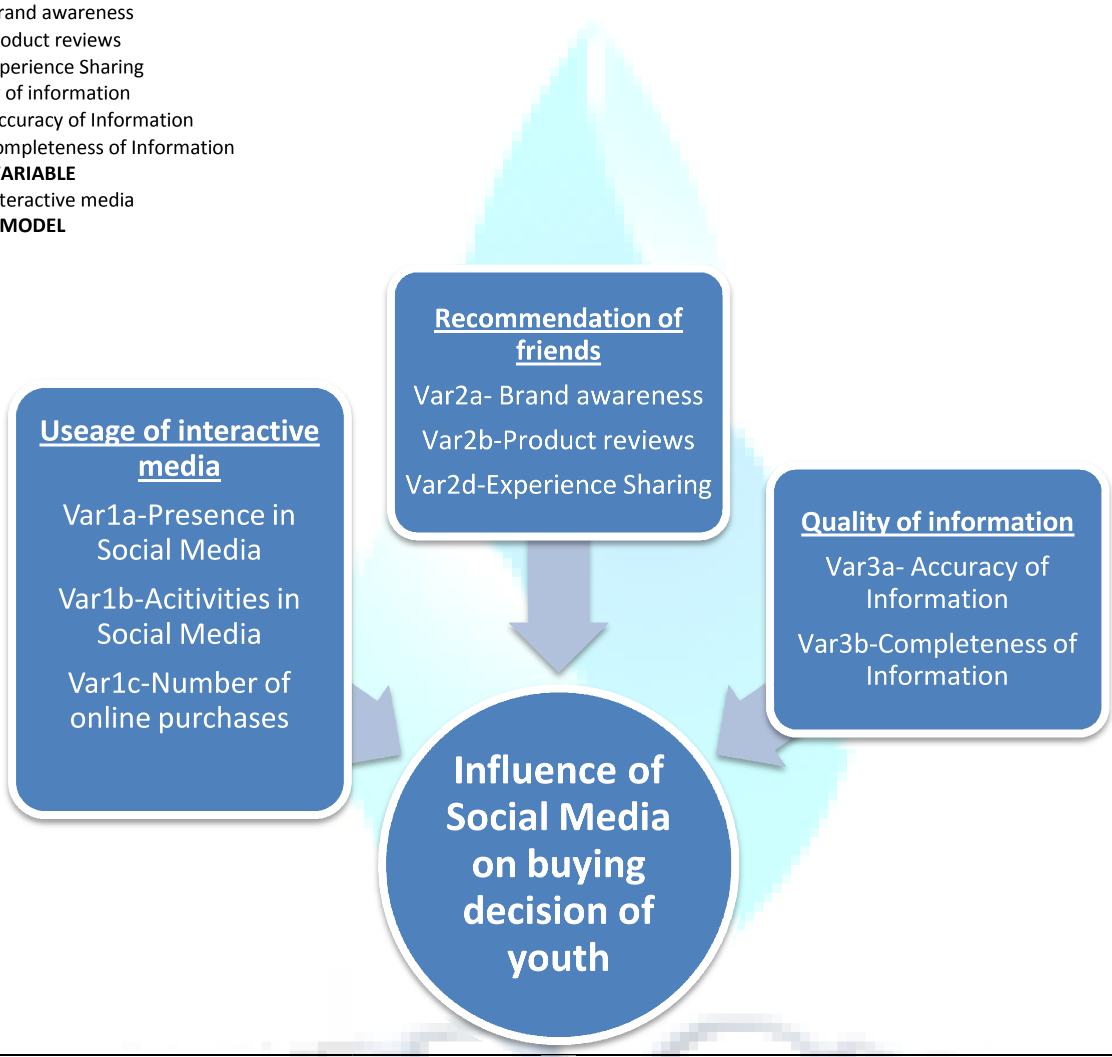
VAR3 - Quality of information

- Var3a- Accuracy of Information
- Var3b-Completeness of Information

DEPENDENT VARIABLE

Influence of interactive media

CONCEPTUAL MODEL



ANALYSIS AND INTERPRETATION

TABLE 1: RELIABILITY

Table 1.1: VAR1 - Use of interactive Media

TABLE 1.1.1: VAR1A-PRESENCE IN INTERACTIVE MEDIA

SlNo	Questions	Cronbach's Alpha	No of Items
1)	I use interactive media to connect with family and friends.	.816	4
2)	How often you make more than one online purchase every month.		
3)	Number of hours I spend on interactive media.		
4)	I use interactive Media for information on my purchasing process.		

TABLE 1.1.2: VAR1B-ACITIVITIES IN INTERACTIVE MEDIA

SlNo	Questions	Cronbach's Alpha	No of Items
1)	I use interactive media to upload photos and videos of me and my friends.	.817	2
2)	I use interactive Media to further my academic knowledge and career development		

TABLE 1.1.3:VAR1C-NUMBER OF ONLINE PURCHASES

SlNo	Questions	Cronbach's Alpha	No of Items
1)	How much did you spend making online purchases in the last 1 year?		
2)	How many on line purchases do you make in a year?	.657	2

TABLE 1.2: VAR2 - RECOMMENDATION OF FRIENDS

TABLE 1.2.1:VAR2A- BRAND AWARENESS

SlNo	Questions	Cronbach's Alpha	No of Items
1)	I share my experience of interacting while purchasing a product with my online contacts	.719	3
2)	I know where to find my favourite brands on interactive media.		
3)	I think the product reviews from my friends on the interactive media are helpful		

TABLE 1.2.2:VAR2B-PRODUCT REVIEWS

SlNo	Questions	Cronbach's Alpha	No of Items
1)	I always provide reviews after purchasing the product	.714	3
2)	I think the experience of buying a product is not as important as the quality of the product.		
3)	I follow experts who provide pre-launch reviews for a product		

TABLE 1.2.3:VAR2C-EXPERIENCE SHARING

SlNo	Questions	Cronbach's Alpha	No of Items
1)	I still continue purchasing online even if my contacts express a negative experience of purchasing a product.	.689	2
2)	I like to hear the latest information about new releases from my favourite brands		

TABLE 1.3:VAR3 - QUALITY OF INFORMATION

TABLE 1.3.1:VAR3A- ACCURACY OF INFORMATION

SlNo	Questions	Cronbach's Alpha	No of Items
1)	I think social media provides me with the alternatives in buying a product	.895	5
2)	I feel I have a more open and informed conversation about products because of interactive media		
3)	I think it is easier to compare products using interactive media than in-store shopping		
4)	I believe my friends provide more accurate information of product than other experts		
5)	I feel that I can get access to the positives and negatives of products because of interactive media.		

TABLE 1.3.2:VAR3B-COMPLETENESS OF INFORMATION

SlNo	Questions	Cronbach's Alpha	No of Items
1)	I know where to find accurate information of product on interactive media	.694	3
2)	I am more aware of substitute and complementary products because of interactive media than efore		
3)	Forums and blogs provide me the ability to understand how to use the product once I purchase it.		

INTERPRETATION

From the tables above it can seen that the questions under different components are found to be reliable.

REGRESSION

The study focuses on the three predictors, whether they are statistically significant and, if so, the direction of the relationship.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.672[a]	.451	.432	.75373133

INTERPRETATION

The results indicate the correlation (.672[a]) and R Square shows 45.1% variation. The overall model is fit.

COEFFICIENTS

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.835E-17	.079		.000	1.000
	Quality of Information	.513	.104	.513	4.953	.000
	Recommendation	.244	.111	.244	2.205	.030
	Usage	-.131	.087	-.131	-1.505	.136

- The quality of information (b=0.513) is significant (p=0.000), which proves that quality of information has a significant impact on purchase decision making which is what we would expect.
- Next, the effect of recommendation (b=.244, p=.030) seems to be insignificant to the purchase decision making. This result is somewhat unexpected.
- The usage (b=-.131) is insignificant (p=0.136) to the purchase decision making.

CORRELATION

		Quality of Information	Recommendation	Usage
Quality of Information	Pearson Correlation	1	.630**	.161
	Sig. (2-tailed)		.000	.128
	N	90	90	90
Recommendation	Pearson Correlation	.630**	1	.384**
	Sig. (2-tailed)	.000		.000
	N	90	90	90
Usage	Pearson Correlation	.161	.384**	1
	Sig. (2-tailed)	.128	.000	
	N	90	90	90

**. Correlation is significant at the 0.01 level (2-tailed).

INTERPRETATION

- Quality of information has a relationship with recommendation as the value seen is 0.630** which proves that it is significant at 99%confidence level.
- There exists a significant relationship between recommendation and usage (.630**) it also shows that there is a significant relationship between recommendation and quality of information .384** at 99% confidence level.
- There exists a significant relationship between usage and recommendation (.384**)

FINDINGS

- Usage of social media does not influence the purchasing behavior. However, good quality of information and recommendation of friends have a positive impact on purchasing behavior.
- There is a positive correlation between the quality of Information available to the impact of recommendation of friends meaning that a better quality information would lead to a higher impact of the recommendation
- There is a positive correlation between the usage of interactive media to the impact of recommendation of friends and usage and quality of information.
- The rotated component matrix shows that among 12 questions considered for each variable only 8 questions of each variable can be taken in to further analysis.

✓ This study finally proves that there is no significant relationship between usage and buying decision making. Hence hypothesis is proved.
✓ There is a significant role of friend's recommendation on buying decision making through interactive media. Hence alternative hypothesis is proved.
✓ There is a significant role of quality information on buying decision making through interactive media. Hence alternative hypothesis is proved.

CONCLUSION

Interactive media is a market that companies have to capitalize on. Many companies are moving to interactive media as an important platform for product design to promotion. Hence it is important for companies to understand the influence of interactive media. This study found that only usage is not sufficient to influence buying decision making. The quality of information and recommendation play a pivotal role in influencing the buying decision making. The challenge for the marketers is to convert the users of interactive media in to potential buyers, by ensuring quality of information is high and influencing buyers to provide recommendation to friends and networks about the purchased products and services.

REFERENCES

1. Alexandru M. Degeratu,Arvind Rangaswamy and Jianan Wu, "Consumer Choice Behaviour in Online and Traditional Supermarkets: The Effects of Brand Name, Price, and other Search Attributes"
2. Christopher G. Gooley James M. Lattin "Dynamic Customization of Marketing Messages in Interactive Media" April, 1998 Revised, October 2000
3. Consumer Acceptance of Interactive Media in Service Marketing Encounters; Deborah Cowles and Lawrence A. Crosby
4. Elaine England and Andy Finney ATSF January 2002 ... updated 2011 ATSF White Paper—Interactive Media UK—©2002/2011 ATSF
5. Irena Pletikosa Cvijikj, Goekmen Cetin, Stephan Karpischek, Florian Michahelles, "Influence of Facebook on Purchase Decision Making".
6. len Streck President/CEO, Kaizen InfoSource LLC "Social Networks and their Impact on Records and Information management." Date: January 25, 2011
7. Raghuram Iyengar, Sangman Han, Sunil Gupta" Do Friends Influence Purchases in a Social Network?"
8. Sheila l. Sasser, Scott Koslo, Edward A. Riorda "Creative and Interactive Media Use by Agencies: Engaging an IMC Media Palette for Implementing Advertising Campaign"

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce and Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to request you to supply your critical comments and suggestions about the material published in this issue as well as on the journal as a whole, on our E-mails i.e. **infoijrcm@gmail.com** or **info@ijrcm.org.in** for further improvements in the interest of research.

If you have any queries please feel free to contact us on our E-mail infoijrcm@gmail.com.

I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-

Co-ordinator

ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals