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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

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   ACKNOWLEDGMENTS

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   APPENDIX/ANNEXURE

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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.

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

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.

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

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THE CONTRIBUTION OF FINANCIAL MANAGEMENT PRACTICES TO FINANCIAL CHALLENGES FACING LOCAL AUTHORITIES IN SERVICE DELIVERY IN KENYA

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ABSTRACT

The paper assesses the contribution of financial management practices to the financial distress faced by local authorities in Kenya. The presence of financial challenges in local authorities leads to poor service delivery and makes a local authority not to meet its mandate as stipulated in Cap 265 of our laws. Poor service delivery has its consequences which include a growing dissatisfaction of the community, suppliers, employees and all internal and external stakeholders. Financial challenges in local authorities exist in various forms. For instance local authorities are often unable to pay current liabilities such as salaries and short term obligation to creditors. In order to meet their short term financial obligations they are forced to operate on overdrafts with high interest rates hence compounding the problem. The study draws attention to financial management practices that may contribute to financial challenges in local authorities in Kenya. The population of the study comprises of 175 local authorities.A sample of 20 Local Authorities was selected using a stratified systematic sampling technique. A questionnaire was used to collect data from both the LAs officers and customers to these local authorities. Thecollected data was analyzed using descriptive statistics such as frequencies, mean, standard deviation. Ordinary Least Squares (OLS) was employed to study the causal relationships among all the variables in the model. In order to identify whether significant difference exist among the three categories of financially distressed local authorities, Analysis of Variance (ANOVA) was used. Qualitative responses were analyzed using content analysis.Results indicated that the local authorities were financially distressed. In addition, financial management practices of local authorities were found to be poor and this may have led to the state of financial distress. The study recommended that best practices in the area of financial management such as proper internal controls, institution and adherence to budgets, regular and accurate financial reporting are crucial in averting or reversing the trend of fiscal distress in local authorities.

KEYWORDS
Service delivery, financial management, financial challenges.

INTRODUCTION
1.1 BACKGROUND OF THE STUDY
The terms Local Governments and Local Authorities are used interchangeably in this thesis proposal so as to avoid being bogged down by terminological quagmires. By definition, local government means an intra-sovereign governmental unit within the sovereign state dealing mainly with local affairs, administered by local authorities and subordinate to the state government (Khan and Ara, 2006, Jahan, 1997).
The formation of local government may have been motivated by the need to reduce bureaucracy and the growth of institutional power to the detriment of the citizens. This is exemplified by the quote from a letter from Thomas Jefferson to J. Cabell, 1816.
"The way to have good and safe government is not to trust it all to one, but to divide it among the many, distributing to everyone exactly the function he is competent to. Let the National Government be entrusted with the defense of the nation and its foreign and federal relations; the State governments with the civil rights, laws, police, and administration of what concerns the State generally; the counties with the local concerns of the counties, and each ward direct the interests within itself." --Thomas Jefferson to J. Cabell, 1816, Writings 14:421--423
1.1.0 MANDATE OF LOCAL AUTHORITIES
The mandate of local authorities is to bring governance closer to the people as advocated by the decentralization theorem which states that each public service should be provided by the jurisdiction having control over the minimum geographic area that would internalize benefits and costs of such provision (Oates, 1972). They provide cultural; educational; management, research, commerce and political services. They also do offer employment, best health facilities and boost the country's economy (UN-HABITAT, 2004). For instance, the City Council of Nairobi, the largest Local Authority in Kenya, produces more than half of the country's Gross Domestic Product (IEA, 2009).
The Cities Alliance Report (Menkveld, and Cobbett, 2007) and Local Authority services (Cap 265, chapter 3 section 5), describes Local Government as providing platforms for productivity, entrepreneurship and economic modernization, poverty reduction and practicing good governance. Local authorities also are mandated to enable administrative convenience and expediency as advocated by Stigler's menu theorem. The presence of financial challenges in local authorities leads to poor service delivery and makes a local authority not to meet its mandate (Freire and Polese, 2003). Poor service delivery has its consequences which include a growing dissatisfaction of the community to the point that they form local associations to voice their concerns; a good example is

the Karengata Resident Association (Omamo, 1995). On the extreme side, residents may withhold the rates owed to the local authorities as a measure to enforce compliance with service delivery (IEA, 2009).

1.1.2 LOCAL AUTHORITIES IN DEVELOPING COUNTRIES

Schoeman (2011) investigated fiscal performance in terms of own-revenue collection and sustainability of local municipalities in South Africa. This study noted that a large number of municipalities do not comply with the requirement that a “reasonable” amount of current expenditures be financed by means of own resources. Furthermore, local governments finances are featured by substantial variance as far as collection of own income is concerned.

Fjelstad,Henjewele,Mwambe, Ngalewa, Nygaard(2004) attempted to analyze changes in Tanzanian local authorities’ capacity for financial management and revenue enhancement, and changes relating to governance, including accountability and responsiveness of the local government. The study concluded that there is a causal relationship between financial management of local authorities and governance. Another study by Sennoga (2004) on relationship between local government revenues and expenditures in Uganda noted that increases in revenues lead to less than proportionate increases in local government expenditures which then lead to credence of the flypaper effect.

Jonga and Chirisa (2009) observed that it was lamentable that the messy reality of governance in Zimbabwe and the economic meltdown in the country has rendered most of the councils un-creditworthy to local and international banks, leaving the borrowing powers by urban councils in the hands of central government to the detriment of rapid decision-making let alone service delivery. The researcher further asserted that almost all towns and cities in Zimbabwe have been grappling with raising sufficient revenues for capital and recurrent expenditures.

De Visser, Steytler and Machingauta (2010) assert that given Zimbabwe’s overall perilous financial state, local governments have not been spared. Furthermore, almost all local authorities have faced insurmountable challenges in raising enough funding to ensure effective service delivery ever since independence. He further shows that most of the challenges revolve around the failure to ensure effective financial management systems resulting in levying sub-economic tariffs, the failure to ensure cost recovery on essential services, the failure to recover debts in a hyper-inflation environment, and the lack of skilled staff.

However, Miring’uh and Mwakio (2006) assert that there is overwhelming evidence that recent reform measures, including RRI have failed to stop immense hemorrhage of revenue at the City Hall. A recent damning forensic report by the Kenya Anti-Corruption Commission, states that City Hall continues to lose a huge portion of parking fees, land rates or rent to corrupt officials exploiting weak financial management systems (KACC, 2007). According to KACC (2007) says perpetrators of the rip-off at the Council had devised a complex system to block evidence of unremitted money estimated to be worth millions of shillings. Key to the racket is concealment of the paper work involving such money, including bouncing cheques, tempering with the numbering of parking fees receipts and the filing of fraudulent expenditure claims at the council’s cash office (Osiche (2007), (Adero, 2007) , (KACC, 2007)

1.2 STATEMENT OF THE PROBLEM

Financial challenges in local authorities exist in various forms. For instance local authorities are often unable to pay current liabilities such as salaries and short term obligation to creditors (Omamo, 1995). In order to meet their short term financial obligations they are forced to operate on overdrafts with high interest rates. Local authorities are also unable to meet long term liabilities such as bank loans. An example of such financial challenges include those currently being experienced by Mombasa City council which is staggering under heavy borrowing as it owes the creditors a whooping Ksh 1.9 billion (Mombasa City Council Budget, 2011) while Nairobi City Council owes its creditors Kshs 5.3 billion (CCN Budget, 2011), just to mention but a few.

Furthermore financial challenges exist in the form of revenue deficits forcing the authorities to always rely on the central government for fiscal transfers such as Local Authority Transfer Fund- LATF (Omamo, 1995). Also Mcluskey and Fransen, (2005), Gachuru and Olima (1998) and (Muia, 2005) noted that the deficits in Local Authorities in Kenya were growing and that there was urgent need to arrest the situation.

Financial challenges in Kenyan local authorities have been a persistent phenomenon. For example, it was recorded in the Kenya Parliamentary sessions that local authorities were facing financial challenges due to a weak financial base (Hansard 2001). This led to the introduction of Local Authority Transfer Fund (LATF) as a move to strengthen the financial base. However, these policy instruments together with internal source of revenue have not mitigated the occurrence of financial challenges in local authorities. The persistence of this problem is exemplified in the quote from the Kenya Parliamentary session by Hansard (2000) which went on to record that;

“Mr. Speaker Sir, the Nairobi City Council is in a state of chronic financial distress. It has been spending beyond its means, and it has debt payments arrears that exceed its annual income, before even taking into account its large future debt repayment obligations”. Kenya Parliamentary Hansard 15th June 2000, pg.1095.

The financial health of local authorities in local government is crucial in ensuring the sustainable delivery of services to the community (Capalbo et al, 2010). The Presence of financial challenges in LA’s such as inability to pay salaries leads to staff demotivation (IEA, 2009); Muganda and Belle, 2009). This is manifested through shirking, laziness and corruption among the staff. This manifestation negatively affects the revenue collection which further compounds the problem of financial deficits (IEA, 2009).

However, studies on local authority financial challenges (for instance, IEA report (2009),Omamo (1995),Mcluskey and Fransen, (2005), Gachuru and Olima (1998) Ekwubi (2010)) in developing countries in general and Kenya in particular are inadequate because they do not exhaustively address the contribution of financial distress in local authorities. In addition, such studies are lacking in depth assessment and give generalized conclusions as far as a causal relationship between financial management practices and financial distress. In fact no adequate studies have been conducted specifically to establish the contribution of financial m,anagment practices to financial challenges facing local authorities in Kenya. This study therefore sought to bridge this evident research gap by investigating the contribution of financial challenges facing LA’s in Kenya.

1.3 OBJECTIVES

1.3.1: GENERAL OBJECTIVE

This study seeks to establish the contribution of financial management practices to financial challenges facing local authorities in Kenya

1.3.2: SPECIFIC OBJECTIVES

To investigate whether financial management practices such as

a) internal control processes
b) financial governance
c) financial reporting/ tracking
d) control systems
e) capital budgeting and the annual budgeting process ,leads to financial challenges facing local authorities in Kenya.

1.4 RESEARCH QUESTIONS

Do financial management practices contribute to financial challenges facing local authorities in Kenya?

2.1 THEORETICAL REVIEW

2.1.1 FINANCIAL DISTRESS THEORY

The term financial challenges and financial distress will be used interchangeably because they share the same connotation. According to Baldwin and Scott (1983, p. 505), ``when a firm's business deteriorates to the point where it cannot meet its financial obligations, the firm is said to have entered the state of financial distress. The first signals of distress are usually violations of debt covenants coupled with the omission or reduction of dividends''. Beaver (1966) defined financial distress as any of the following events: bankruptcy, bond default, bank account overdrawn, or nonpayment of a preferred stock dividend. On the other hand, Lau (1987) classified a firm into a five-state financial distress, that is, state 0: financial stability; state 1: omitting or reducing dividend payments more than 40% below previous year; state 2: technical default and default on loan payments; state 3: protection under the Bankruptcy Act; and state 4: bankruptcy and insolvency.

Financial distress theory asserts that financial distress can be subdivided into four sub-intervals: deterioration of performance, failure, insolvency, and default. Whereas deterioration and failure affect the profitability of the company, insolvency and default are rooted in its liquidity. Theoretically, the outcome of each interval can be positive, implying that the company breaks the downward trend, or negative indicating the continuing deterioration of the firm value and a movement downwards from one sub-interval of the spiral to another. In many real cases, when entering financial distress, the company traverses all the stages of decline (Mueller, 1986). The theory of financial distress may be useful in explaining the causes of financial challenges facing local authorities. In addition, it may be used to give indicators of financial distress in local authorities and how the challenges can be resolved.

2.2: CONCEPTUAL FRAMEWORK

The current study considered several conceptual frameworks by other scholars on the causes of financial distress in local authorizes. The reviewed conceptual frameworks were critiqued and various variables were incorporated in the conceptual framework of the current study while others were discarded. The first model was from Park (2004). According to Parker (2004) internal causes of municipal bankruptcy include; internal fiscal mismanagement, political mismanagement, internal lack of structural leadership and internal lack of culture of inefficiency. The external contributors of fiscal distress according to Parkers Model Include; demographic changes, structural recessions, tax revolt, structural service demand, political pressure from creditors, interest group demand, judgment awards, and abrupt economic changes.

The second reviewed model that was from Capalbo et al (2010).**C**apalbo et al (2010) noted that the main causes of financial distress could be grouped in to two approaches, the social economic decline approach and the local management approach. The social economic decline approach assumes that causes of financial distress are external to local authorities and that they are beyond the control of local government officials. Such causes include: contraction of economic growth, movement of city dwellers to outskirts of the major cities, demographic changes such as increase in population, reduction in local business activity, unemployment and tax base erosion, bureaucracy and poor legislation. The local government approach assumes that incorrect managerial practices such as poor accounting and budgeting methods, incompetence and corruption among local officials, division of local governments in terms of political size and procedures and vulnerability of special interest groups. In conclusion, capalbo et al (2010) argues that financial distress does not arise because of one set of factors but arises due to a mix of both external and internal factors.

Carmeli (2011) shows that the sources of fiscal distress of local governments in Israel, may be classified into three major groups: structural or fixed (consists of local authorities' size, residents' socioeconomic status, and governmental resource allocation), organizational (consists of performance evaluation, transparency, and the role of the local government's management), and hybrid (consists of the relationship between the central and the local governments) factors. Incorporating the variables of Park (2004),Capalbo et al (2010) and Carmeli (2011), the current study came up with the below conceptual framework (figure 2.1).

Independent variables Dependent Variables

Source: Researcher (2011).

2.2.1 INDICATORS OF FINANCIAL CHALLENGES (DISTRESS)

The FRSB (2005) advanced a quadrilateral set of key financial indicators 'for assessing a council's financial sustainability'. These indicators were: (a) net financial liabilities as the 'key indicator of the council's indebtedness to other sectors of the economy'; (b) operating surplus or deficit as the 'key indicator of the intergenerational equity of the funding of the council's operations'; (c) net outlays on the renewal or replacement of existing assets as the 'key indicator of the intergenerational equity of the funding of the council's infrastructure renewal or replacement activities'; and (d) net borrowing or lending as the 'key indicator of the impact of the council's annual transactions – both operating and capital – upon the council's indebtedness to other sectors of the economy'.

A study by Boex and Muga (2004) used the following measures of financial performance to indicate the level of financial health of Tanzania Local Authorities; a) expenditure outrun ratio (or budget performance ratio), b) The annual audit opinion that is issued by the National Audit Office for each local government, c) the percentage of expenditures questioned by the NAO during the audit process. This study concluded that one can hypothesize that local authorities' financial management performance in Tanzania is a positive function of local administrative and managerial practices. For the purpose of the current study, the Key Performance Indicators identified by Boex and Muga (2004) shall be used to measure financial challenges facing local authorities in Kenya.

Given a likert scale of 1 to 5, local authorities scoring a mean of 0 to 1.65 were rated as lowly distressed LAs, those scoring above 1. 65 to 3.335 were termed as moderately distressed Las while those Las with a mean score of over 3.335 were described as highly distressed. However, the magnitude of the demarcation/classifications may change according to the weighting system.

2.2.2. FINANCIAL MANAGEMENT PRACTICES

Financial management is found in both private sector and public sector as it is an important activity in the management and sustainability of an institution. The definition of financial management depends on the type of institution and varies depending on whether it is a donor, the government or the private sector. However, the majority for the activities and the objectives of financial management appear to cut across all organizations. According to Lee, A.C., Lee, J.C. and Lee, C. (2009), there are two possible approaches in defining financial management, a descriptive one; and an analytical and operational one. From a descriptive standpoint, financial management is composed of three of the major policies of a firm: its investment, financing, and dividend policies. However, from an operational standpoint, financial management includes both short term financial management and long term financial management. Short term financial management includes the management of working capital items such as cash management, inventory management, accounts receivable management and the like (Lee et al , 2009). On the other hand, long term financial management is defined as financial management that encompasses essentially all decision making that has an impact over a period of one year or more(Lee et al, 2009).

Boex and Muga (2009) asserted that Local financial management practices are measured based on assessments of the local budgeting system, strategic planning system, fall-back system, accounting/reporting system, internal control system, and the local financial leadership system. The studies by Capalbo et al (2010), Carmeli (2008), Deal (2007), Frank and Dluhy (2003), Kloha, Weissert, and Kleine (2005) , Watson, Handley and Hassett (2005) confirmed that financial mismanagement contributes to financial distress in local authorities.

The current study attempted to adopt the following variables of financial management in local authorities that may lead to financial distress. These includes internal control processes, financial governance, financial reporting/ tracking and control systems, capital budgeting and the annual budgeting process.

3.0 RESEARCH METHODOLOGY

3.1. RESEARCH DESIGN

Research design refers to how data collection and analysis are structured in order to meet the research objectives through empirical evidence economically (Chandran, 2004; Cooper and Schindler,2007). Social science research approaches are classified as descriptive, exploratory or explanatory (Kothari, 2004). The current study took a descriptive design, which required analysis of the financial management practices contributing to financial challenges facing local authorities in Kenya. Descriptive research, also known as statistical research, describes data and characteristics about a population of phenomenon being studied. It answers research questions who, what, where, when and how is the problem.

3.2 POPULATION

Population is a large collection of individuals or objects that is the main focus of a scientific query(Mugenda&Mugenda, 2003; Hyndman, 2008; Castilo, 2009). In this study there are two types of population. These are target population and accessible population. For the purpose of this study the target population comprised of all 175 local authorities in Kenya, which included 3 cities, 43 Municipal Councils, 67 County Councils, and 62 Town Councils. Due to considerations in time and money a representative sample was selected from which conclusions were drawn was known as the accessible population (Mugenda&Mugenda, 2003). The accessible population was determined by the sampling frame and discussion with the researcher's supervisor.

3.3 SAMPLE AND SAMPLING TECHNIQUE

A sample is a subset of a population (Hyndman, 2008, Marczyk, DeMatteo, Festinger,2005). The study selected a sample of 20 local authorities. For each selected LA, 10 questionnaires was distributed to the relevant departments such as Administration, Treasurer, Audit, Human Resource Management, Works, ICT, Accounts and Public Relations depending on the council's establishment.

3.4 SAMPLING TECHNIQUE

This study used probabilistic sampling techniques, specifically both stratified random sampling and simple random sampling. The study used lottery method recommended by Kothari, (2004) to pick ten percent of Local Authorities in every category. Stratified random sampling was preferred because; the population to be sampled wasdivided into homogenous groups based on characteristicsconsidered important to the indicators being measured. Since the number of local authorities are scattered all over the country, this presented the study with a logistical problem. The study therefore used a sample of 20 LAs selected as follows;

TABLE: 3. 1: POPULATION SAMPLE

tLocal Authority	Total Number	Sample	Sample Percentage
City Councils	3	3	100%
Municipal Councils	43	4	10%
County Councils	67	7	10%
Town Councils	62	6	10%
Grand Total	175	20	

To select the sample of 20 LAs, stratified systematic sampling was used to select the 10^{th} LA in every Stratum. The study targeted the town clerk of each of the 20 Local Authorities. The study also incorporated the views of middle level management from five departments in each local authority namely; 1) Treasury 2) Social Services, housing and public health 3) works/engineering 4) Environment 5) Others. The choice of middle level management was to act as a control for the response of the town clerks and because of their perceived lack of bias, impartiality in answering the study questions. In addition, they were more preferred than junior officers, since junior officers are perceived to be unaware of the pertinent issues affecting the Local Authorities.

The local authority customers were also included in the study to give a customer oriented perspective of the financial challenges facing local authorities. Six of the largest customers were picked from the list of customers provided by every local authority. The criterion for selecting the six customers per local authority was on the basis of customers visiting the local authority on the day. Therefore, such an approach was to yield 120 customers drawn from the 20 local authorities.

TABLE: 3.2: POPULATION SAMPLING FRAME

tLocal Authority Department		Total Number
i.	Town clerk	20
ii.	Treasury (middle managers)	20
iii.	Social Services, housing and public health(middle managers)	20
iv.	Works/Engineering(middle managers)	20
v.	Environment(middle managers)	20
vi.	Others (middle managers)	100
vii.	Customers	120
Grand Total		320

3.5 INSTRUMENTS

The instruments of data collection were through both open-ended and close-ended questionnaires.

3.6 PILOT TEST

To maximise reliability of the instrument used, the survey was constructed as follows: 1) a pilot survey was conducted to ensure the reliability of the questionnaire; 2) each question was framed succinctly to reduce ambiguity and minimize bias, thereby ensuring the high statistical value of the data; and, 3) each participant in the pilot survey was asked to state their job position to make sure participation was at senior-manager level. In short, the pilot test sought to demonstrate convergent and indiscriminate validity for all the constructs and reveal that all the scales meet or exceed the reliability thresholds for more established research (Castillo, 2009). 2 LA's participated in the pilot study (Kiambu and Ruiru LAs).

The current study pilot tested the questionnaire on two local authorities namely Kiambu county council and Ruiru municipal council. A total of 21 questionaires (11 from Kiambu county council and 10 from Ruiru municipal council) were obtained. Reliability results for the financial management practices constructs representing the independent and dependent variables attracted a cronbach alpha statistics of more than 0.7. A cronbach alpha of 0.7 indicated that the data collection instrument is reliable. The reliability statistics are presented in table 3.2.

TABLE 3.3:RELIABILITYSTATISTICS

Section	Numberofquestionnares	Numberof items(questions)	Cronbach alpha	Comment
Financial management practices	21	10	0.834	Reliable

Descriptive statistics and Ordinary Least Squares (OLS) regression model prescribed by Faraway (2002), Cohen, West & Aiken, (2003) were used. OLS is useful in showing linear elasticity/sensitivity between independent and dependent variables (Cohen, West & Aiken, (2003). For instance, the current study would like to know the percentage by which responses on financial distress increases or decreases when responses on financial management practices change by 1 percent. Furthermore, OLS was useful in showing whether the identified linear relationship is significant or not.

$$Y = \alpha + \beta_1 X_1 + \varepsilon$$

Where Y= Financial Distress

α = constant (intercept)

β = slope (gradient) showing rate dependent variable is changing for each unit change of the independent variable.

X_1= Financial Management practices

Creech (2011) asserts that one-factor ANOVA, also called one-way ANOVA is used when the study involves 3 or more levels of a single dependent variable. One factor Anova is preferred because the current study has three levels of financial distress (dependent variable) which requires and assessment of whether the means of the independent variables differ across the three levels of financial distress exhibited by local authorities. This made Anova gain superiority to Ordinary

Least Squares Regression because OLS does not compare means. In addition, Anova, unlike other parametric tests such as student's tests, is quite robust against some deviation from the assumptions in parametric analysis. Specifically, Anova is robust against the parametric assumption that 1) the residuals (deviations from group means) have a normal distribution, 2) the variation is the same in each group.

In the current study, financial distress was decomposed into three levels a) severely distressed LAs/low financial health b) moderately distressed /moderate health LAs c) weakly distressed/high financial health. Given a likert scale of 1 to 5, local authorities scoring a mean of 0 to 1.65 were rated as lowly distressed LAs, those scoring above 1. 65 to 3.335 were termed as moderately distressed LA's while those LAs with a mean score of over 3.335 were described as highly distressed. However, the magnitude of the demarcation/classifications changed according to the weighting system.

The study expectations were that highly distressed/low financial health LAs may exhibit low scores of financial management practices. The expectations of the study are that lowly distressed/high financial health LAs may also exhibit high scores for financial management, practices. Therefore, to achieve the objective, the sign of the regression coefficient of financial management practices (X_1)was checked whether it is consistently negative as expected in the study. The significance of the coefficient was also verified by checking the calculated p value against the conventional p value of 0.05 (Castillo, 2009).

A p value of less than 0.05 indicated that the independent variables (financial management practices (X_1) are significant determinants of financial challenges facing LAs. To support the finding, Analysis of Variance (ANOVA) was conducted to check whether the mean response for the independent variables significantly differed across the three categories of financially distressed Local Authorities. If they did, then the study checked whether the means are largest for lowly distressed Local Authorities and least for severely distressed Local Authorities. Content analysis was also used to address the qualitative information obtained from both officers and customers.

4.0 DATA ANALYSIS

The number of questionnaires that were administered was 320 in number. Out of these, 200 were administered to officers/employees and 120 were administered to customers. A total of 295 questionnaires were properly filled and returned, which included 188 questionnaires from the officers and 107 questionnaires from the customers. This represented an overall successful response rate of 92%.

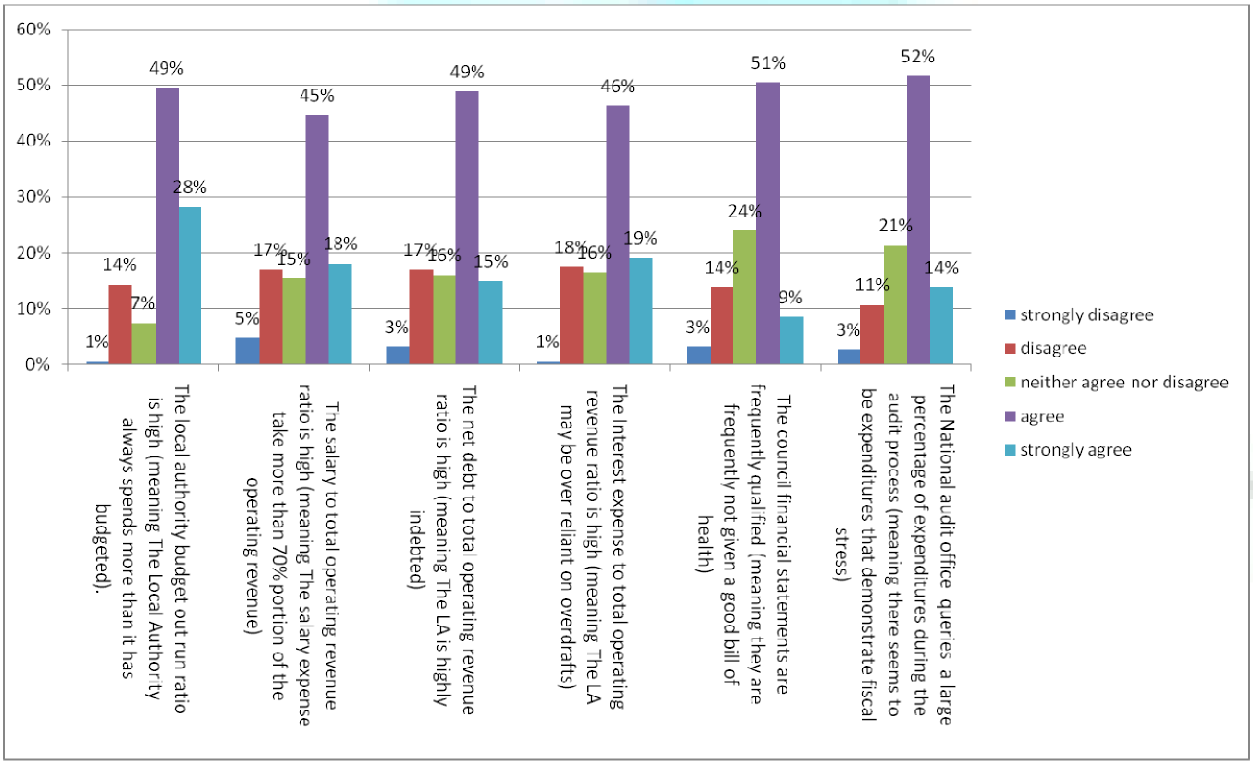
TABLE 4.1: RESPONSE RATE

	Successful	Unsuccessful	Total
Officers/Employees	188 (94%)	12(6%)	200
Customers	107 (89%)	13(11%)	120
Total	295 (92%)	25(8%)	320

4. 1: FINANCIAL DISTRESS IN LOCAL AUTHORITIES

The study attempted to confirm whether local authorities were under financial distress. Results in figure 4.1 reveal that the majority (49%)of respondents from the officers category agreed with the statement that the local authority budget out run ratio is high (meaning that the Local Authority always spends more than it has budgeted), the salary to total operating revenue ratio is high (meaning that the salary expense take more than 70% portion of the operating revenue)(45%), the net debt to total operating revenue ratio is high (meaning the Local Authority is highly indebted)(49%), the interest expense to total operating revenue ratio is high (meaning that the Local Authority may be over reliant on overdrafts)(46%), the council financial statements are frequently qualified (meaning that they are frequently not given a good bill of health)(51%),The National Audit Office queries a large percentage of expenditures during the audit process (meaning that there seems to be expenditures that demonstrate fiscal stress)(52%). These findings imply that local authorities are in a state of financial distress since majority of the local authorities' scores highly on the measures of financial distress. Figure 4.5 presents the detailed findings.

FIGURE 4.1: FINANCIAL DISTRESS IN LOCAL AUTHORITIES



4. 2: FINANCIAL DISTRESS AND CATEGORY OF LOCAL AUTHORITY

Descriptive results in table 4.2 revealed that municipal councils have the highest level of distress (11.758) followed by city councils (11.578), county councils (10.896) and town councils (9.815). However, as indicated by table 4.3, there is no significant difference in levels of distress among the different types of councils (F=1.589, P value =0.194). The finding implies that financial distress is not a preserve of a specific category of local authority but crosscuts across all categories of local authorities. Table 4.4 which shows multiple comparison between categories indicated that municipal councils have a significantly higher level of distress compared to town councils (p value =0.04).

TABLE 4.2: DESCRIPTIVE STATISTICS FOR DISTRESS ACROSS LOCAL AUTHORITY CATEGORIES

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
City Councils	22	11.5788	3.68200	.78500	9.9463	13.2113	3.35	16.68
Municipal Councils	91	11.7583	4.05012	.42457	10.9148	12.6018	1.59	21.32
County Councils	42	10.8960	4.60582	.71069	9.4608	12.3313	3.29	19.38
Town Councils	25	9.8151	4.17826	.83565	8.0904	11.5398	1.59	17.66
Total	180	11.2653	4.18320	.31180	10.6500	11.8805	1.59	21.32

TABLE 4.3: ANOVA FOR DISTRESS ACROSS CATEGORIES OF LOCAL AUTHORITIES

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	82.584	3	27.528	1.589	.194
Within Groups	3049.760	176	17.328		
Total	3132.344	179			

TABLE 4.4: MULTIPLE COMPARISONS OF DISTRESS

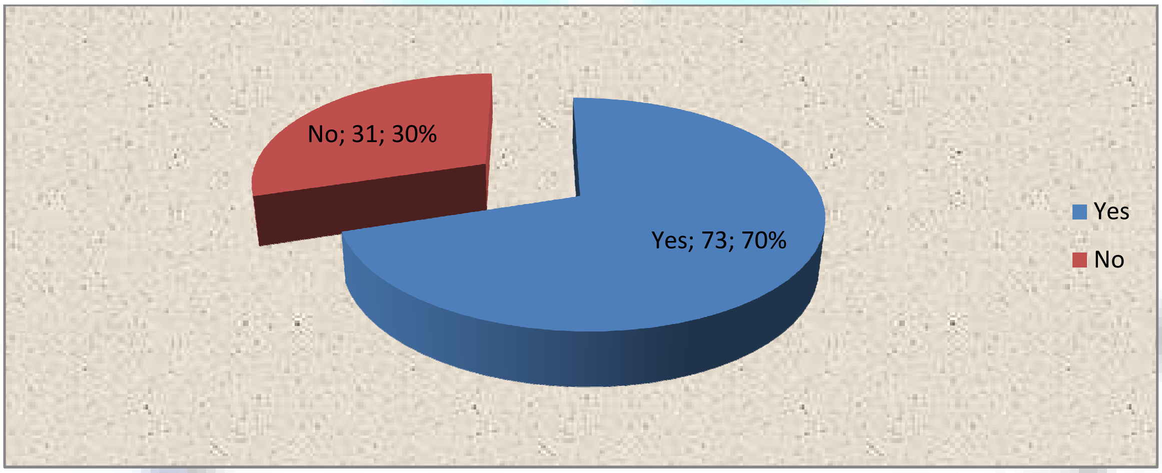
(I) Category type	(J) Category type	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
City Councills	Municipal Councils	-.17952	.98897	.856	-2.1313	1.7723
	County Councils	.68272	1.09555	.534	-1.4794	2.8448
	Town Councils	1.76370	1.21687	.149	-.6378	4.1652
Municipal Councils	City Councills	.17952	.98897	.856	-1.7723	2.1313
	County Councils	.86224	.77653	.268	-.6703	2.3947
	Town Councils	1.94322*	.93997	.040	.0882	3.7983
County Councils	City Councills	-.68272	1.09555	.534	-2.8448	1.4794
	Municipal Councils	-.86224	.77653	.268	-2.3947	.6703
	Town Councils	1.08098	1.05152	.305	-.9942	3.1562
Town Councils	City Councills	-1.76370	1.21687	.149	-4.1652	.6378
	Municipal Councils	-1.94322*	.93997	.040	-3.7983	-.0882
	County Councils	-1.08098	1.05152	.305	-3.1562	.9942

*. The mean difference is significant at the 0.05 level.

4.3: CUSTOMERS AWARENESS THAT LOCAL AUTHORITIES SUFFER FROM FINANCIAL CHALLENGES

As illustrated in Figure 4.2, customers for local authorities were also asked to express their opinion on whether they were aware that local authorities were suffering from financial distress. A majority of customers (70%) indicated that they were aware that local authorities were facing financial challenges.

FIGURE 4.2: CUSTOMERS AWARENESS THAT LOCAL AUTHORITIES SUFFER FROM FINANCIAL CHALLENGES



The results from officers and customers of local authorities indicate that local authorities in Kenya suffer from financial distress. The findings are consistent with those in Dollery (2009),PriceWaterhouseCoopers Report (2006),Boex and Muga (2004),Capalbo, Grossi, Ianni, Sargiacomo (2010), Carmeli (2008), Deal (2007), Frank and Dluhy (2003), Kloha, Weissert, and Kleine (2005), Watson, Handley and Hassett (2005), Honadle (2006), Wunsch (2008),Institute of Economic Affairs (2009), Schoeman (2011),Jonga and Chirisa (2009) and Sennoga (2004). The above studies found that local authorities of the countries under study suffered from financial distress.

4.4. FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL DISTRESS

One of the objectives of this study was to determine if financial management practices contributed to the financial distress of local authorities. In order, to achieve this objective, descriptive statistics were carried out followed by a regression equation. Analysis of Variance (Anova) was also carried in order to support the study findings. Furthermore, the results of Local Authorities officials were contrasted and compared with those of customers in order to give a clear view of the relationship. Results in figure 4.3 indicated that a majority (39%) of officers agreed with the statement that local authorities suffer from ineffective systems for detecting fraud. Twenty three percent (23%) of respondents in the officer's category also strongly agreed to the statement that local authorities suffer from ineffective systems for detecting fraud. This brought to a total of 62% who agreed or strongly agreed with that statement.

Results in figure 4.3 further indicated that a majority (37%) of respondents in the officers category agreed with the statement that local authorities have insufficient and inappropriate internal controls in place. Seventeen percent (17%) of the respondents strongly agreed to the statement, bringing to a total of 54% of those officers who agreed or strongly agreed with the statement that authorities have insufficient and inappropriate internal controls in place.

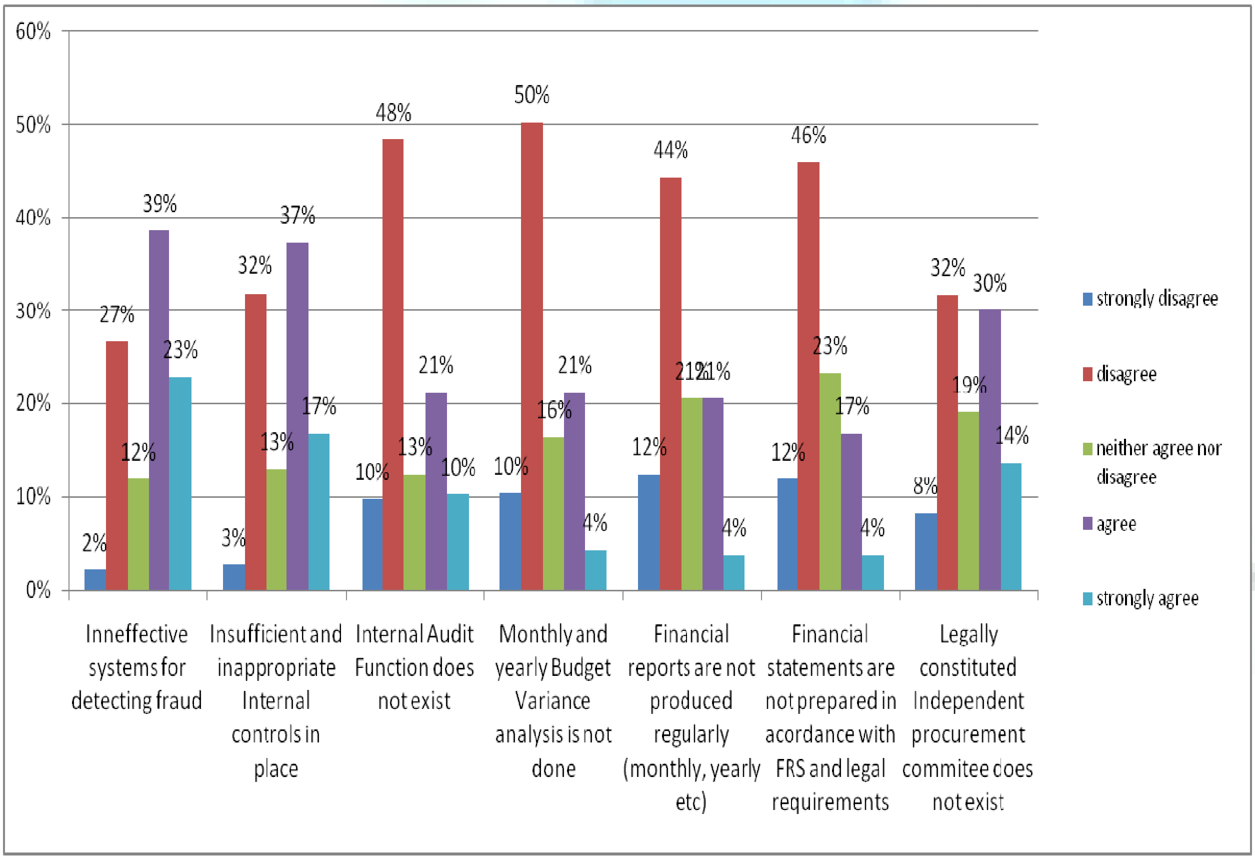
The finding implies that local authorities have not put in place effective systems and internal controls in place to detect and prevent fraud and this may have had led to the resultant financial distress being witnessed in many local authorities. The findings agree with those of Miring'uh and Mwakio (2006) who asserted that there is overwhelming evidence that recent reform measures, including Rapid Results Initiative have failed to stop immense hemorrhage of revenue at the City Hall. The study results also compare well with that of a recent damning forensic report by the Kenya Anti-Corruption Commission (KACC), which stated that City Hall continues to lose a huge portion of parking fees, land rates or rent to corrupt officials exploiting weak financial management systems. According to KACC (2007), perpetrators of the rip-off at the Council had devised a complex system to block evidence of unremitted money estimated to be worth millions of shillings. Furthermore, KACC (2007) asserted that key to the racket is concealment of the paper work involving such money, including bouncing cheques, tempering with the numbering of parking fees receipts and the filing of fraudulent expenditure claims at the council's cash office.

Results also indicated that while 30% of the officers agreed to the statement that legally constituted procurement committees do not exist, another 14% strongly agreed to the statement bringing to a total of 44% of those officers who agreed or strongly agreed that local authorizes do not have legally constituted procurement committees. The finding implies that local authority's award tenders arbitrarily without adhering to the Public Procurement Act 2005. The Public Procurement Act 2005 part IV section 29 subsection 1 to 4 stipulates that for each procurement, the procuring entity shall use open tendering under Part V or an alternative procurement procedure under Part VI, subsection 2 states that a procuring entity may use an alternative procurement procedure only if that procedure is allowed under Part VI, subsection 3 states that a procuring entity may use restricted tendering or direct procurement as an alternative procurement procedure only if, before using that procedure, the procuring entity ; (a) obtains the written approval of its tender committee; and (b) records in writing the reasons for using the alternative procurement procedure. Subsection 4 states that a procuring entity shall use such standard tender documents as may be prescribed.

Part IV section 40 subsection 1 also stipulates that no person, agent or employee shall be involved in any corrupt practice in any procurement proceeding. Furthermore Part IV section 42 subsection 1 stipulates that no person shall collude or attempt to collude with any other person to make any proposed price higher than would otherwise have been the case; to have that other person refrain from submitting a tender, proposal or quotation or withdraw or change a tender, proposal or quotation; or, to submit a tender, proposal or quotation with a specified price or with any specified inclusions or exclusions. Failure to comply with Procurement Act may have resulted into inflation of tender prices, the rising cost of service delivery and corruption. The rising cost of service delivery may partly explain the financial distress in most local authorities.

Results in figure 4.3 indicate that a majority of respondents in the officers category disagreed with the statement that the internal audit function does not exist (48%), monthly and yearly budget analysis is not done (50%), financial reports are not produced regularly (44%) and financial statements are not prepared in accordance with IFRS and legal requirements (46%). However, the study also observed that a total of 31%, 26%, 26%, and 21% agreed to the statements which sends doubt as to the effectiveness of the financial management practices. For instance, the internal audit function may exist but that would not mean that it is effective in curbing financial malpractices such as frauds and irregular procurement. Monthly and yearly budget analysis may be done but a question of whether the variances are investigated and an action plan for remedying variances drafted arise. Financial reports may be produced regularly but the question of whether they are accurate and relevant abounds. Financial statement may be prepared in line with international financial reporting standards (IFRS) and legal requirements, but it remains to be seen whether the figures in the financial statements represent reality and the actual position of the local authority.

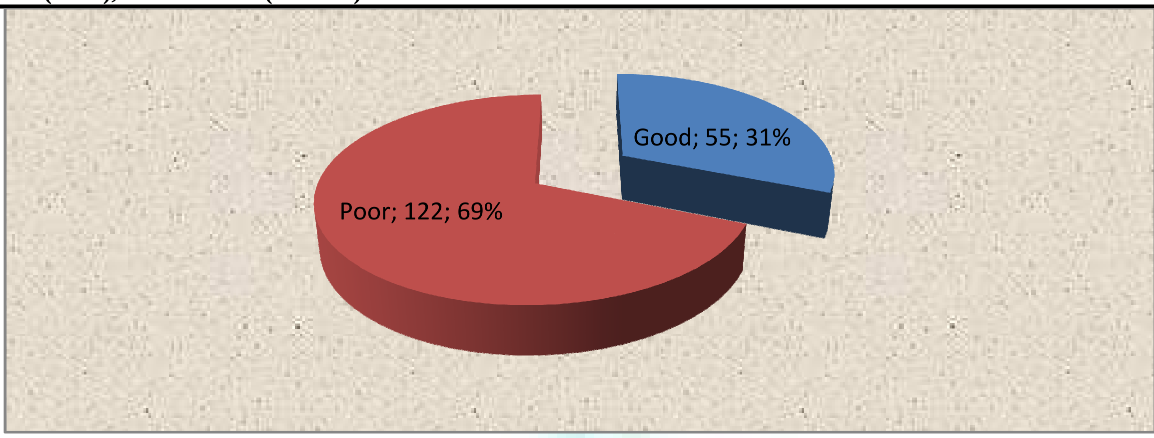
FIGURE 4.3: FINANCIAL MANAGEMENT PRACTICES



4.4.1: OFFICERS RATING THE FINANCIAL MANAGEMENT PRACTICES IN THE LOCAL AUTHORITY

Respondents from the officer's category were asked how they would rate the financial management practices in the local authority. Results in figure 4.4 indicated that a strong majority(69%) of respondents in the officers category rated the financial management practices as poor. This response supported other findings in this study that show that local authorities have poor financial management practices.

FIGURE 4.4: RATING THE FINANCIAL MANAGEMENT PRACTICES IN THE LOCAL AUTHORITY

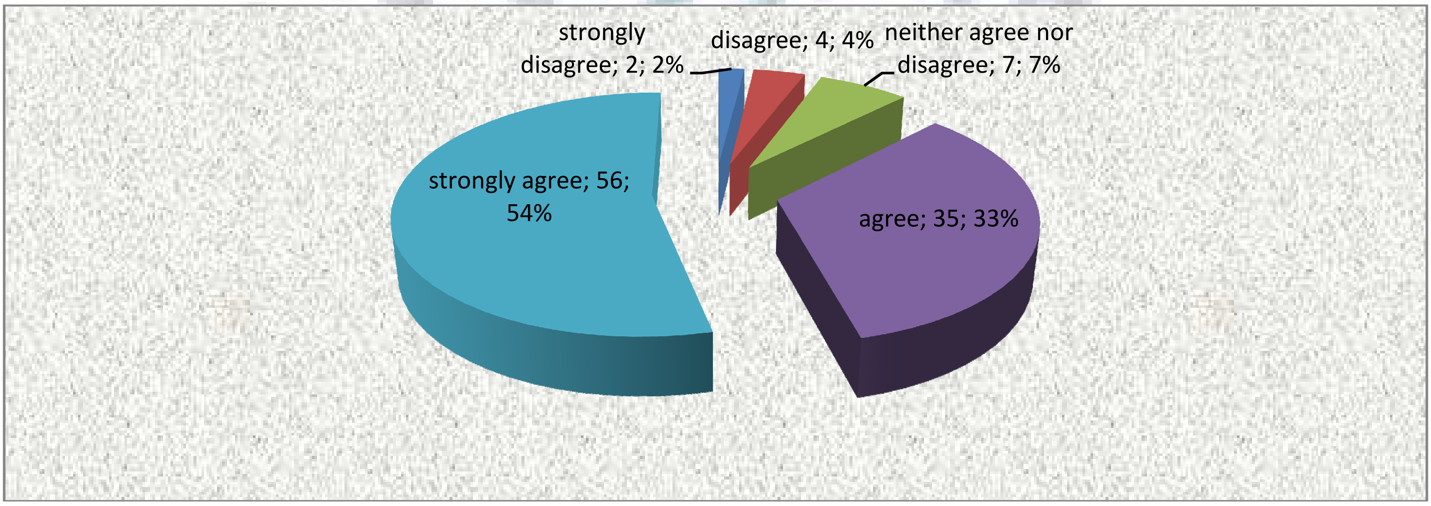


Local authority officers were also asked to explain why they rated financial management practices poorly. Some of the responses include;
"Funds are expended without adherence to the budget"," Some chief officers do not adhere to approved budget for the fly. "There is no proper management", "Because some of staffs dont have enough skills and experience", "Political interference, no independence", "Due to political interference", "Because they are not effective", "Because sometimes they dont give the financial in weekly or daily "," Its poor because of there way of collecting the taxes", "No proper control and record keeping", "Audit Department is always Compromised", "Most of the funds Collected dont reach the office"," A lot of Audit Queries", "High Level of Corruption"," Corruption is high"," No Transparency"," No Capacities", "No Professionalism", "Delay in Salary payment and remunerations", "interference by political wing makes system fail"," "some audit procedures are not followed", "the councilors should keep away from management"" the practice in finance dept is very corrupt"," lack of proper budgeting and reporting", "the official work only under pressure" "the systems are down and cannot detect fraud"," disinterested chief officers and susceptibility to political whims"," financial books and records are not properly kept"," clerks have autonomous powers".
Content analysis indicate that most of the officers rated the financial management poorly because of lack of internal controls, the ineffectiveness and the lack of independence of the audit department, corruption, lack of independence and political interference from political wing, poor budgeting and lack of adherence to already set budgets, lack of capacity, skills and competence of finance officers, laxity in financial reporting among others.
The local authority officers were requested to suggest recommendations for improvement of local authorities' financial management practices. Some of the suggested recommendations included;
"I recommend that all local authorities to be absorbed by county government to come up with a very strong internal control system"," Decentralization."," Institute a strong financial system for monitoring the funds i.e input & output of resources"," Having and implementing Sufficient Controls within each department in the local Authorities", "Adequate Measures Should be taken to help detect fraud."," Funds collected by local authorities should be controlled by people who are not thirsty."," To automate services through LAFOMS."," All Local Authorities Computerise their systems and connect to the website for transparency", "Periodic Audits Spot Checks, quarterly Financial Reports, and use of LAIFOMS(Local Authority Intergrated Financial Management Systems)"," I would Recommend for Systems Financial Management for example LAIFOMS on a full blast."," Ensure LAIFOMS are installed in all L.A." Deployment of more staff in internal audit and account department."," Constituted Independent strong Audit Department.",' The people with financial management should have trained in the discipline, so as to have good financial management practice.", "To employ staffs who are qualified in financial management."," People Collecting funds Should be taught Something about money"" ," improve means of collecting revenues ", Councils to be free from civic wing", "Effective and disciplined principals."," I will recommend that, they should check on qualifications", "They should invite Auditors from outside for proper checks and balances.", "To make and improve their budgets effectively in every Step they forecast each and every year".
Content analysis indicates that the most frequently suggested recommendations for improvements of financial management practices include decentralization and devolution, institution of strong internal controls, address capacity and independence of audit and financial department through training, qualifications based hiring and resistance to interference from councilors who are in political wings. Furthermore, the officers frequently suggested that automation of financial processes and the implementation of LAIFOMS would help to improve financial management practices. In addition, revenue collection methods should be improved and so should the budget practices.

4.4.2: CUSTOMER'S OPINION ON WHETHER FINANCIAL DISTRESS COULD BE ATTRIBUTED TO POOR FINANCIAL MANAGEMENT PRACTICES

Customers were also requested to give an opinion on whether poor financial management practices contributed to the financial distress of local authorities. Results in figure 4.5 indicated that a majority (54%) of customers strongly agreed with the statement that poor financial management practices such as lack of internal controls, budgeting and reporting contributed to the financial challenges local authorities. The results also indicated that 33% of customers agreed with the statement that poor financial management practices such as lack of internal controls, budgeting and reporting contributed to the financial challenges local authorities, bringing to a total of overwhelming majority 87% of the customers who agreed or strongly agreed with the statement.

FIGURE 4.5: POOR FINANCIAL MANAGEMENT PRACTICES SUCH AS LACK OF INTERNAL CONTROLS, BUDGETING AND REPORTING ARE TO BLAME FOR THE FINANCIAL CHALLENGES OF LOCAL AUTHORITIES



4.4.3: RELATIONSHIP BETWEEN FINANCIAL MANAGEMENT PRACTICE AND FINANCIAL DISTRESS

Regression analysis was conducted to empirically determine whether financial management practices were a significant determinant of financial distress in local authorities. Regression results in table 4.5 indicated the goodness of fit for the regression between financial management practices and financial distress is satisfactory. An R squared of 0.977 indicates that 97.7% of the variances in the financial distress are explained by the variances in the financial management practices. The relationship between financial management practices is negative and significant (b1=-0.916, p value, 0.000). This implies that an increase in the effectiveness of financial management practices by 1 unit leads to a decrease in financial distress by 0.916. The regression equation is as follows;

Financial Distress = 22.995 - 0.916* Financial Management Practices

TABLE 4. 5: MODEL SUMMARY AND PARAMETER ESTIMATES

Equation	Model Summary					Parameter Estimates	
	R Square	F	df1	df2	Sig.	Constant	b1
Linear	.977	7.994E3	1	186	.000	22.995	-.916

FIGURE 4.6: LINEAR RELATIONSHIP BETWEEN FINANCIAL DISTRESS AND FINANCIAL MANAGEMENT PRACTICES

Anova results in table 4.6 indicated that there exists a significant difference in financial management practices between the three categories of financially distressed local authorities (F=378.79, P value=0.000). Group statistics in table 4.7 indicated that highly distressed local authorities have a significantly lower mean score on financial management practices (7.74). Moderately distressed local authorities have a mean score of 12.68 for financial management practices while lowly distressed local authorities have the highest mean score for financial management practices (17.95). Table 4.8 indicated that financial management practices differed significantly across the three levels of distressed local authorities. The findings imply that financial management practices contribute to financial distress.

TABLE 4.6: DESCRIPTIVE FOR FINANCIAL MANAGEMENT PRACTICES

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Lowly Distressed	61	17.95	2.281	.292	17.36	18.53	15	23
Moderately Distressed	64	12.68	1.677	.210	12.26	13.10	9	15
Highly Distressed	63	7.74	2.198	.277	7.18	8.29	1	11
Total	188	12.73	4.637	.338	12.07	13.40	1	23

TABLE 4.7: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3231.173	2	1615.586	378.790	.000
Within Groups	789.048	185	4.265		
Total	4020.221	187			

TABLE 4.8: MULTIPLE COMPARISONS

(I) Distress_Category	(J) Distress_Category	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Lowly Distressed	Moderately Distressed	5.266*	.370	.000	4.54	5.99
	Highly Distressed	10.210*	.371	.000	9.48	10.94
Moderately Distressed	Lowly Distressed	-5.266*	.370	.000	-5.99	-4.54
	Highly Distressed	4.944*	.367	.000	4.22	5.67
Highly Distressed	Lowly Distressed	-10.210*	.371	.000	-10.94	-9.48
	Moderately Distressed	-4.944*	.367	.000	-5.67	-4.22
*. The mean difference is significant at the 0.05 level.						

The results from the descriptive statistics, regression analysis and Anova indicate that financial management is a significant determinant of financial distress in local authorities. The findings are consistent with those of Boex and Muga (2009) Capalbo et al (2010), Carmeli (2008), Deal (2007), Frank and Dluhy (2003), Kloha, Weissert, and Kleine (2005),Watson, Handley and Hassett (2005) who confirmed that financial mismanagement contributes to financial distress in local authorities.

5.0 SUMMARY, CONCLUSIONS AND RECCOMMENDATIONS

5.1: SUMMARY OF THE FINDINGS

The study investigated the state of financial distress in local authorities and concluded that local authorities were highly distressed since majority of the local authorities' scores highly on the indicators of financial distress. Specifically, the study found out that the local authorities always spend more than budgeted and salaries took more than 70% of the operating revenue. Furthermore, the local authorities were highly indebted and relied heavily on over drafts. It was also observed that the financial statements of local authorizes are rarely given a good bill of health by auditors. Auditors also questioned a large percentage of the expenditures, an indication that the local authorities were under fiscal stress.

The finding indicated that local authorities had ineffective financial management practices. This observation was arrived at since the local authorities did not have effective systems to detect and prevent fraud. In addition, local authorities had poor internal controls, poor budgeting practices, poor procurement practices and poor financial reporting practices. Results further indicated that ineffective financial management practices had contributed to the financial distress of local authorities.

5.2: CONCLUSIONS OF THE STUDY

5.2.1: FINANCIAL DISTRESS IN LOCAL AUTHORITIES

It was possible to conclude from the study findings that local authorities in Kenya face financial distress. The conclusion was arrived at since majority of the local authorities scored highly on the six measures of financial distress. The study also concludes that financial distress crosscuts across the four categories of local authorities. It can be inferred from the study findings that the local authorities in Kenya suffer from a high budget out run ratio. Hence, Local Authorities in Kenya spend more than what is stipulated in the budget. It is also not uncommon to see cases of local authorities whose salary to total operating revenue ratio is high. Such Local authorities have a salary expense that takes take more than 70% portion of the operating revenue.

The net debt to total operating revenue ratio for majority of the local Authorities in Kenya is high which a sign of local authority high indebtedness. The Interest expense to total operating revenue ratio for majority of local authorities is high which signifies that local authorities may be over reliant on overdrafts. It is possible to conclude that the local authority financial statements are frequently qualified since they are not frequently given a good bill of health. It is possible to infer from this study that the National audit office queries a large percentage of expenditures during the audit process since the expenditures demonstrate fiscal stress.

5.2.2: CONTRIBUTION OF FINANCIAL MANAGEMENT PRACTICES TO FINANCIAL DISTRESS

The study concludes that the financial management practices of local authorities are poor and ineffective.This is because local authorities have not put in place effective systems and internal controls in place to detect and prevent fraud and this had led to the resultant financial distress being witnessed in many local authorities. It was also possible to conclude that local authority's award tenders arbitrarily since legally constituted procurement committees do not exist.

The study concludes that there exists a significant difference in financial management practices between the three categories of financially distressed local authorities with highly distressed local authorities having a significantly lower mean score on financial management practices compared to moderately distressed local .Lowly distressed local authorities have the highest mean score for financial management practices and this findings imply that financial management practices contribute to financial distress. There exists a negative significant relationship between financial management practices and the financial distress of local authorities. Given the regression and anova results, the study concludes that poor financial management practices may have been responsible fro the financial distress of local authorities.

5.3: RECOMMENDATIONS OF THE STUDY

The study recommendations are in line with the objectives, findings and conclusions of the study. Both the recommendations from the officers and from the customers were taken in to account in formulation the specific recommendations that would inform decision making.

5.3.1: RECOMMENDATIONS FOR IMPROVEMENT OF FINANCIAL MANAGEMENT PRACTICES

Local authority officers recommended that various measures need to be put in place to in order to improve financial management practices. Some of the recommendations included;

i) Decentralization and devolution of financial and operational services.
ii) Institution of strong internal controls,
iii) Address capacity and independence of audit and financial department through training,
iv) Qualifications based hiring and resistance to interference from councilors who are in political wings.
v) Automation of financial processes and the implementation of LAIFOMS would help to improve financial management practices.
vi) In addition, revenue collection methods should be improved.

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QUESTIONNAIRE

QUESTIONNAIRE FOR LOCAL AUTHORITY OFFICERS

This questionnaire is concerned with assessing the determinants of financial management challenges faced by local authorities in Kenya.

SECTION A: DEMOGRAPHIC INFORMATION

i) LOCAL AUTHORITY INFORMATION

1. Name of the L.A (Optional) …………………………….
2. Category type (please tick as appropriate)
   a) City Councils
   b) Municipal Councils
   c) County Councils
   d) Town Councils

RESPONDENTS PARTICULARS

3. Gender: Male Female
4. Age Bracket
   i. 10-20
   ii. 21-30
   iii. 31-40
   iv. 41-50
   v. Over 50
5. Department
   a. Treasury
   b. Social Services, housing and public health
   c. Works/Engineering
   d. Environment
   e. Others
6. How long have you worked with this local authority (tick as appropriate)
   a. Less than 1 yr
   b. Btw 1-5 yrs
   c. Btw 5-10 yrs
   d. Over 10 yrs

SECTION B: FINANCIAL MANAGEMENT

This Section is concerned with assessing whether financial management practices affects financial distress faced by local authorities in Kenya. Please mark (x) in the box which best describes your agreement or disagreement on each of the following statements.

Statement	Strongly disagree	Disagree	Neither agree not disagree	Agree	Strongly agree
	1	2	3	4	5
1. The Local Authority systems are not effective at detecting fraud					
2. The Local Authority do not have appropriate and sufficient internal controls in place					
3. Local Authority internal audit functions does not exist					
4. The Local Authority does not conduct monthly and yearly budget variance analysis					
5. The Local Authority does not produce daily, weekly, monthly, quarterly and yearly financial reports					
6. The Local Authorities financial statements are not prepared in accordance with IFRs, IAS, and other relevant Government requirements					
7. The local authority has not constituted an independent procurement committee in accordance with government requirements					

8. How would you rate the financial management practices in the local authority?

a) Good b) Poor .

In consideration of the rating above, please Explain why;

____

9. What measures would you recommend for the improvement financial management practices in the local authority?

……………………………………………………………………………………

SECTION C: FINANCIAL DISTRESS/CHALLENGES

This Section is concerned with assessing the level of financial distress faced by local authorities in Kenya. Please mark (x) in the box which best describes your agreement or disagreement on each of the following statements.

Statement	Strongly disagree	Disagree	Neither agree not disagree	Agree	Strongly agree
	1	2	3	4	5
1. The local authority budget out run ratio is high (meaning The Local Authority always spends more than it has budgeted).					
2. The salary to total operating revenue ratio is high (meaning The salary expense take more than 70% portion of the operating revenue)					
3. The net debt to total operating revenue ratio is high (meaning The LA is highly indebted)					
4. The Interest expense to total operating revenue ratio is high (meaning The LA may be over reliant on overdrafts)					
5. The council financial statements are frequently qualified (meaning they are frequently not given a good bill of health)					
6. The National audit office queries a large percentage of expenditures during the audit process (meaning there seems to be expenditures that demonstrate fiscal stress)					

1. To what would you attribute financial distress in the Council?

i.____

ii.____

iii.____

2. How do you think the challenges of financial distress can be addressed?

   i. ____
   ii. ____
   iii. ____

QUESTIONNAIRE FOR CUSTOMERS

This questionnaire is designed with the purpose of generating collaborative evidence in relation to the responses obtained from Local Authority officers.

1. Are you aware that Local Authorities face financial challenges/distress?
   a) Yes
   b) No

Financial challenges are caused by;	Strongly disagree	Disagree	Neither agree not disagree	Agree	Strongly agree
	1	2	3	4	5
1. Poor financial management practices such as lack of internal controls, budgeting and reporting					
2. Poor human resource management practices such as hiring incompetent staff, failure to train staff , failure to compensate and motivate staff					
3. Poor governance practices such as lack of accountability, transparency, corruption, failure to adhere to service delivery charter					
4. Poor government regulation					
5. Lack of automation in record keeping					
6. Poor services that they offer to customers					

2. What do you attribute the financial challenges to? Please tick appropriately.

3. Are residents satisfied with the services that the Local Authority is offering to the residents?.
   a) Yes
   b) No

Explain your answer...

4. If residents are not satisfied with the services, did that influence their willingness to pay bills, rents and rates to the Local Authority?
   a) Yes
   b) No
5. Do customers contribute to the financial distress of Local Authorities?
   a) Yes
   b) No
6. To what extent do you agree that customers contribute to Local Authorities financial challenges in the following way;

Customers contribute to Local Authority financial challenges through;	Strongly disagree	Disagree	Neither agree not disagree	Agree	Strongly agree
	1	2	3	4	5
1. Failure to pay land rates, fees, rent and parking fees					
2. Colluding with Local Authority officers to defraud the Local Authority of its licensing revenue , parking revenue, land rate revenue among others					
3. Failure to use the resources of the city properly, for instance littering and releasing waste on the highway					
4. Vandalism of the Local Authority property such as seats, cabling and street lights					

1. What reasons make residents to collude with Local Authority officials and refuse to meet their obligations towards the Local Authorities?...
2. What would it take to motivate residents to stop colluding and also motivate them to meet their obligations to Local Authorities?....................................
3. What are your suggestions towards how the financial challenges of Local Authorities can be addressed?..

OUTBOUND INDIAN TOURIST'S PERCEPTION OF SINGAPORE TOURISM : A LESSON FOR INDIAN TOURISM

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ABSTRACT
The India outbound market has grown slowly but steadily over the past few years. Intra-regional travel as in between the countries of South Asia is on the rise and at times economical too. In view of the intense competition in the Indian tourism sector with rapid corporatization of tourism services tourist satisfaction and services quality has been considered as essential requirement for survival. The present study examines the outbound Indian tourist's perception of Singapore Tourism from divergent angles. The study highlights the Indian tourist's perception and other factors, which can be used by Indian tourism sector for enhancement. 150 outbound Indian tourists were included in the study. The results of the analysis would enable Indian tourism sector to further recognize the tourist's preferences for better satisfaction which ultimately leads to tourist loyalty and portability.

KEYWORDS
Tourist's perceiption, Singapore tourism, Indian tourism.

INTRODUCTION
Tourism is one of the world's most rapidly growing industries. Much of its growth is due to higher disposable incomes, increased leisure time, falling costs of travel, development of airports, and automation of tourism industry through Internet. This new trend has made the tourism job very challenging. Tourism today is much more than just developing products. It is more about quality, insightful thinking and ability to have global information about technology, partners, contacts and responding quickly to global and regional trends.

International Tourism is a big business. Because of huge economic value of the tourism industry, the policy makers have a great interest in identifying the determining factors which act as a basis for distributing economic surplus among the countries that is, the basis upon which countries compete in this global industry. It seems obvious that all other factors remaining constant, countries which attract more investments and tourists are likely to command greater share of the industry than countries which attract fewer investments and tourists.

The popularity of tourism destinations can be enhanced by a combination of the factors of competitiveness and attractiveness. The competitiveness elements are derived from the supply side i.e. from the destination perspective and the attractiveness from the demand side of tourism i.e. from the tourist perspective. The purpose of combining these perspectives is to come up with a holistic understanding of the destination popularity dynamics. The destination competitiveness can be enhanced by the combined effect of two kinds of resources: *core resources* and *supporting resources*.

The core resources are classified as endowed resources which may either be natural or heritage ones and created resources which includes tourism infrastructure, special events, range of available activities, entertainment and shopping - whereas the core resources and attractors of a destination constitute the primary motivators for inbound tourism, supporting factors and resources exert more of a secondary effect by providing a foundation upon which a successful tourism industry can be established. These include general infrastructure, quality of service, and accessibility of destination, hospitality and market. The demand conditions also increase the competitiveness which comprises of three main elements-awareness, perception and preferences.

The destination management factors are those that can enhance the appeal of the core resources and attractors, strengthen the quality and effectiveness of the supporting factors and resources and best adapt to the constraints imposed by situational conditions which are the forces in the wider external environment.

These relate to economical, social, cultural, demographic, environmental, political, legal, government, regulatory, technological and competitive trends and events. The destination competitiveness finally leads to socio-economic prosperity and well being of the residents which is indicated by macroeconomic variables including productivity levels in the economy, aggregate employment levels, per-capita incomes, rate of economic growth and so on.

Tourism attractiveness reflects the feelings and opinions of visitors about tourism products. This is perception of a tourist regarding the ability of destination to satisfy his needs. The ability of attractiveness can be enhanced by upgrading attributes of the destination. For the purpose of this paper .We not only refer to attractiveness as a quality in the narrow sense that evokes mere sentiment of attraction but in a wider sense that in addition of evoking interest it encourages international tourist to visit the destination .A destination can be said to be competitive, if its market share measured in terms of visitor number and financial returns are increasing.

REVIEW OF LITERATURE
Academic literature on the tourism industry in India has spanned across several disciplines from the regional as well as the national perspective. As the largest country in terms of size and population in the South Asian region, India has a large influence on the regional tourism industry. India featured prominently in the work on policy choices for South Asian tourism development by Richter and Richter (1985), who looked at government tourism initiatives and experiences of seven South Asian countries. In a similar vein, Brown (1988) had examined South Asia's policy responses to accommodating tourists from Europe, but limited his study to Bhutan, India and the Maldives. At a national level, the tourism sector in India has been examined externally through the perception of foreign visitors as well as from within India.

"Reorienting HRD strategies for tourists' satisfaction"- a study by Nageshwar Rao and R.P. Das (2002) sought to highlight how the Indian Tourism Industry can reorient its HRD strategies in order to satisfy and delight its customers to survive in the global competition. With a better qualified younger workforce occupying the positions in the future and with tremendous opportunities opening for them elsewhere, the key task before the policy makers in organizations is to keep the tourist contact employees satisfied.

Joaquin Alegra Marin and JaumeGaranTaberner's study "satisfaction and dissatisfaction with destination attributes, influence on overall satisfaction and the intention to return" point to the need to reconsider the usual structure of tourist satisfaction surveys. The results of this study illustrate that tourists evaluate the attributes of a destination differently depending on whether the survey elicits an opinion relating to a dimension of dissatisfaction.

"International Tourist satisfaction and destination Loyalty : Bangkok, Thailand"(2010)- a study conducted by SiripornMcDowall tried to compare the demographic characteristics between first time and repeat international tourists in Bangkok and found that overall, international tourists were satisfied with their visit to Bangkok. First time tourists were more satisfied with the visit repeaters as their mean score was higher but there is no statistical difference between these two groups.

"Travelers' Perception of Malaysia as their next holiday destination"- a study by Anon Abdul basah Kamil (2010) sought to have information and data on knowledge and perceptions of potential tourists about Malaysia to formulate appropriate and effective marketing and promotional strategies. This study found that knowledge is the most significant factor in determining tourists decision to visit Malaysia except for African , West Asian and South/ Central American tourists.

"Tourist satisfaction with Mauritius as a holiday destination"(2008- a research work by Perunjodi Ladsawut used the expectancy – disconfirmation model to study the tourist satisfaction across 18 destination attributes as well as overall satisfaction with the destination. Tourists satisfaction with individual destination attributes revealed that 13 attributes were positively disconfirmed whereas 5 attributes were negatively disconfirmed.

"Tourist satisfaction in Singapore- a perspective from Indonesian tourists"- a study by Theresia A. Pawitra and Kay C. Tan (2001); analyzed the Indonesian tourists' satisfaction scores about Singapore and showed that from the 'Indonesian tourists' point of view , Singapore Tourism Board was successful in promoting and maintaining the performance of the local tourism industry.

"Factors influencing choice of tourist destinations: A study of North India" (2009) is a research paper by Neeraj Kaushik, Jyoti Kaushik, Priyanka Sharma and Savita Rani. This paper attempted to determine the factors responsible for determining the attractiveness of a tourist destination in North India and found that there are seven factors which are considered important by the tourists while selecting their destinations. These factors are- communication, objectivity, basic facilities, attraction, support services, distinctive local features and psychological and physical environment.

David Fister's paper "The customer's perception of Tourism Accreditation " sought to know the level of awareness among consumer of the tourism accreditation system in Australia and found that a lot of work needs to be done before we can be confident that consumers are aware of the existence of the tourism accreditation system. It has also demonstrated that even when tourists are aware of accreditation, there is confusion about what it actually means.

"Foreign Visitor's evaluation on tourism environment"(2010)- a study by Takeshi Kurihara, and Naohisa Okamoto sought to understand the relative importance of the items that define the tourism environment and how foreign visitors evaluate Japan's tourism environment. It discussed the tourism environment evaluation from the viewpoint of the qualitative approach given by the foreign visitor's evaluation & the quantitative approach which is calculated by the principal component analysis based on the objective data.

RATIONALE OF STUDY

The World Economic Forum has identified 14 pillars under Travel & Tourism Competitiveness Index (TTCI) viz. *Policy Rules and Regulations, Environmental Sustainability, Safety and Security, Health and Hygiene, Prioritization of Travel and Tourism, Air Transport Infrastructure, Ground Transport Infrastructure, Tourism Infrastructure, Information and Communications Technology Infrastructure, Price Competitiveness in T&T Industry, Human Resources, Affinity for Travel & Tourism, Natural Resources,* and *Cultural Resources* that makes a tourist destination's attractive.

According to TTCI Index (2011) Singapore holds a dominant global position as a tourist destination. It tops on the factor of policy rules and regulations and bags 2nd position at ground transport infrastructure and human resources. In the hierarchy of nations having affinity for travel and tourism it ranks 12th.Singapore is the 13th most safe and secured and 14th best air transport infrastructure nation of the world. All the above facts highlight that Singapore has a great potential in the years to come to enhance its ranking globally as a competitive tourist destination.

According to Tourism Statistics (2011), Singapore merely occupies .0006% area (693 Sq Km) on the globe but it shares 1.24% (935 millions) of the international tourist arrivals and 2.05% of the international tourism earnings. Further, according to World economic forum's TTCI (Travel and Tourism Competitiveness Index) Singapore is among top 20 destinations all over world and has shown its position year by year from 16th in 2008 to 8th in 2010. Similarly, Singapore ranks at top in the Asia –Pacific region.

According to Ministry of Tourism, Government of India, Singapore is among the top 10 international destinations preferred by Indian tourists and according to Singapore Tourism Board (STB) India was the 4th largest source of tourists for Singapore in the year 2011.

Hence, the current study was a systematic attempt to analyze diverse dimensions of Indian tourists' perception of Singapore as an international tourist destination.

RESEARCH METHODOLOGY

OBJECTIVES

- To evaluate Indian tourists' perception of Singapore as an international tourist destination.
- To bring forth the factors where India lacks behind Singapore as an international tourist destination so that corrective actions can be employed for the same.

HYPOTHESIS

- Ho_1 : There is no significant difference in the perception of Indian outbound tourist demography (males and females, Age) regarding different attributes of Singapore tourism.
- Ho_2 : There is no significant difference in the perception of people visiting Singapore for different purposes regarding different attributes of Singapore tourism.
- Ho_3 : There is no significant difference in the rating of attributes of Indian tourism amongst people visited Singapore on the basis of Gender and Age.

TYPE OF RESEARCH

The research was exploratory cum descriptive in nature. Both primary and secondary sources of data collection were used. Primary data was collected through structured questionnaires.

SAMPLE TECHNIQUES

The selection of the units was made on the basis of random convenience sampling. In the present study the researcher approached only those prospective respondents who have no previous experience related to tourist services offered by Singapore toursim.

Sample Size : Total 150 Indian residents who have visited Singapore were approached personally and through e-mail during the period from 21st May 2012 to 30th June 2012 and data was collected through structured questionnaire. 131 responses were received from the respondents and after detail examination 31 questionnaires were found outlier.

SURVEY RESPONSE RATE

EXHIBIT NO. 1.0

Sample Size	Total Response Received	Usable Response Received	Response Rate (%)
150	131	100	87.33%

RESPONDENTS DISTRIBUTION

Out of 131 responses received, 100 (76.33%) were usable responses and of which 54 (54%) were males and 46 (46%) were females; 24 (24%) surveyed policy holders belong to 0-34 years, 36 (36%) belong to 34 - 45 years, and 40 (40%) belong to 45 years and above age group; 90 (90%) of usable respondents were married and 10 (10%) were unmarried; 93 (93%) respondents visited Singapore for the purpose of leisure and recreation 6 (6%) visited for business purposes and only 1 (1%) respondent visited Singapore to meet friend and relatives; 4 (4%) respondents belongs to students category ,9 (9%) respondents were unemployed, 20 (20%) belongs to business class, 50 (50%) were servicemen and 8 (8%) respondents belongs to other occupational category.

DATA ANALYSIS APPROACH

In the present study, responses from respondents were coded and tabulated in PASW 18.0. For analyzing the data, statistical tests like Comparative Mean, Mean Plots, Standard Deviation, Reliability Test, ANOVA, POST HOC and Paired Sample t-Test etc. were used. A five point Likert scale was used also used. The respondents were asked to rate the variables, using five point Likert scale, which ranged from extremely poor (1) to excellent (5).

FINDING AND DISCUSSION

Before applying any tests, Cronbach Alpha test was carried out to calculated and check the reliability of data. The overall value of Cronbach Alpha is more than 0.67 (Exhibit No. 2.0) that clearly depicted that the collected data is reliable and useful for the present research.

CRONBACH'S ALPHA

EXHIBIT NO. 2.0

Attributes of Singapore Tourism	Variables in the Attributes	Cronbach Alpha
(a) Safety and security	Law and order of country, safety of luggage, safety of family, safety of females, handling of tourist grievances, discipline in the country, political stability	0.727
(b) Maintenance and cleanliness	General cleanliness and sanitation, clean drinking water, air water and noise pollution, availability of healthy and hygienic food, ambience	0.761
(c) Information and communication	Communication with local people ,visa formalities, mobile phone networking, information about destinations through websites	0.721
(d) Infrastructure	Airport ambience,airportfacilities,roadtransport,railtransport,connectivity to neighboring countries, connectivity to local tourist places	0.760
(e) Prices	Prices of general commodities, airfarecharges, price of local transport, accommodation charges, food/other commodity prices at tourist spots, fee charged to see tourist spots, tour package for neighboring countries	0.714
(f) Facilities	Banking and financial system ,accommodation quality, medical facilities in country, easy availability of desired food	0.640
(g) Attractions	Shopping opportunities, climate and weather conditions, attraction of festivals, historical monuments and attractions, art exhibitions and attractions, games and activities, multi-cultural heritage, nightlife, potential to be international destination, overall infrastructural facilities	0.695
(h) Behaviour of country residents	Behaviour of government officials, behaviour of taxi/auto rickshaw drivers, friendliness /behavior of local people, general hospitality, openness In society, level of education and training of service providers at tourist places	0.870
(i) Factors affecting the purpose of visit	Natural resources, tourism infrastructure, accessibility to tourist spots	0.663
(j) other factors	Begging and cheating in the country, terrorism, general corruption level	0.683
(k)	Attributes of Indian Tourism in comparison to Singapore Tourism	0.814
Overall Cronbach Alpha		0.834

Further, composite score of the different variables of the above mentioned attributes have been calculated (Exhibit No. 3.0) on the basis of respondents response and results are as follows:

COMPOSITE SCORE OF ATTRIBUTES

EXHIBIT NO. 3.0

SAFETY AND SECURITY

(Exhibit No. 3.1)

Variables in the attribute	Composite Score
Safety of females	0.902
Law and order of Singapore	0.799
Safety of family	0.740
Safety of Luggage	0.590
Political stability	0.533
Discipline in Singapore	0.437
Handling of tourist grievances	0.279

MAINTENANCE AND CLEANLINESS

(Exhibit No. 3.2)

Variables in the attribute	Composite Score
Clean drinking water	0.787
General cleanliness and sanitation	0.749
Availability of healthy & hygienic food	0.725
Ambience	0.676
Air, water, noise pollution	0.630

INFORMATION AND COMMUNICATION

(Exhibit No. 3.3)

Variables in the attribute	Composite Score
Mobile phone networking	0.898
Visa formalities	0.782
Communication with local people	0.688
Information about destinations through Websites	0.643

INFRASTRUCTURE

(Exhibit No. 3.4)

Variables in the attribute	Composite Score
Airport facilities	0.816
Airport ambience	0.713
Connectivity to neighboring countries	0.685
Connectivity to local tourist places	0.663
Road transport	0.655
Rail transport	0.565

PRICES

(Exhibit No. 3.5)

Variables in the attribute	Composite Score
Prices of general commodities	0.847
Tour package for neighboring countries	0.761
Price of local transport	0.652
Accommodation charges	0.564
Fee charged to see tourists spots	0.551
Airfare charges	0.544
Food and other commodity prices at tourists spots	0.288

FACILITIES

(Exhibit No. 3.6)

Variables in the attribute	Composite Score
Medical facilities in the country	0.876
Banking and financial system	0.788
Accommodation quality	0.655
Easy availability of desired food	0.474

ATTRACTIONS

(Exhibit No. 3.7)

Variables in the attribute	Composite Score
Night life	0.893
Games and activities multicultural heritage	**0.804**
Potential to be international destination	**0.730**
Overall infrastructure facilitates	**0.716**
Climate & weather conditions	**0.604**
Art exhibitions & attractions	**0.459**
Historical monuments & attractions	**0.319**
Shopping opportunities	**0.108**
Attraction of festivals	**0.038**

BEHAVIOR OF COUNTRY RESIDENTS

(Exhibit No. 3.8)

Variables in the attribute	Composite Score
Taxi drivers behaviors	0.823
General hospitality	0.806
Openness in society	0.795
Local people behavior	0.783
Govt. official behavior	0.779
Level of education & training of service providers at tourist places	0.708

PURPOSE OF VISIT

(Exhibit No. 3.9)

Variables in the attribute	Composite Score
Tourism infrastructure	0.885
Accessibility to tourist spots	0.812
Natural resources	0.679

OTHER FACTORS

(Exhibit No. 3.10)

Variables in the attribute	Composite Score
General corruption level	0.886
Begging and cheating in the country	0.795
Terrorism	0.666

INDIAN TOURISM IN COMPARISON TO SINGAPORE TOURISM

(Exhibit No. 3.11)

Variables in the attribute	Composite Score
Tourism facilities in India	0.879
Infrastructure in India	0.877
Information & communication in India	0.877
Safety and security in India	0.819
Behavior of Indian residents	0.796
Maintenance & cleanliness in India	0.783
Price level in India	0.578
Natural attractions in India	0.343
Man-made attractions in India	0.058

It is clearly evident from Exhibit No. 3.1, Safety of Females has been considered prime important factor and handling of tourist grievances considered least important by Indian outbound tourist under Safety and Security category. Exhibit No. 3.2 reveled that availability of clean drinking water has been considered most important factor and Air, Water and Noise pollution considered least important factor under Maintenance and Cleanliness category.

Under Information and Communication Category (Exhibit No. 3.3), Mobile Phone Networking has been given highest rank and information about destinations through websites has been given last rank. It is depicted from Exhibit No. 3.4, airport facilities considered most important and rail transport least important factor under Infrastructure category. The prices of general commodities has been considered most important factor and Food & other commodity prices at tourists spots has been considered least important factor under Price category (Exhibit No. 3.5). Indian outbound tourist ranked medical facilities in the country as the most important variable and easy availability of desired food as the least important variable under facilities category. (Exhibit No. 3.6).

Exhibit No. 3.7 portray that night life and Attraction of festivals has been ranked first and last under Attractions category, respectively. Taxi driver's behavior and level of education & training of service providers at tourist places considered prime important and last important factor under Behaviour of Country residents category, respectively (Exhibit No. 3.8). The Exhibit No. 3.9 shows that tourism infrastructure and natural resources considered as most important and least important factors by the outbound Indian tourist under the purpose of visit category. The Exhibit No. 3.10 depicts that general corruption level matters the most and terrorism matters least to the respondents. Under Indian v/s. Singapore Tourism Comparison category the respondents considered tourism facilities most important and Man-made attractions in India least important (Exhibit No. 3.11).

Further, One way Anova has been applied to test and analyze the hypothesis.

Ho_1 : There is no significant difference in the perception of Indian outbound tourist demography (males and females, Age) regarding different attributes of Singapore tourism.

One way ANOVA has been applied to test the **Ho_1**. Attributes were taken as dependent variables and Gender, Age has been considered as independent factor.

ANOVA : GENDER VS. ATTRIBUTES

EXHIBIT NO. 4.0

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
safety&security in India	Between Groups	.232	1	.232	1.816	.182
	Within Groups	8.425	66	.128		
	Total	8.657	67			
maintainence &cleanliness in India	Between Groups	.048	1	.048	.265	.609
	Within Groups	12.081	66	.183		
	Total	12.129	67			
information &communication in India	Between Groups	.001	1	.001	.003	.958
	Within Groups	14.944	66	.226		
	Total	14.945	67			
infrastructure in india	Between Groups	.006	1	.006	.043	.837
	Within Groups	9.620	66	.146		
	Total	9.626	67			
price level of India	Between Groups	.137	1	.137	.870	.354
	Within Groups	10.423	66	.158		
	Total	10.560	67			
tourism facilities in India	Between Groups	.196	1	.196	1.034	.313
	Within Groups	12.524	66	.190		
	Total	12.721	67			
man made attractions in india	Between Groups	.002	1	.002	.011	.916
	Within Groups	9.259	66	.140		
	Total	9.261	67			
natural attractions in India	Between Groups	.651	1	.651	2.107	.151
	Within Groups	20.403	66	.309		
	Total	21.054	67			
behaviour of indian residents	Between Groups	.091	1	.091	.377	.541
	Within Groups	15.943	66	.242		
	Total	16.034	67			
otther factors	Between Groups	.007	1	.007	.074	.787
	Within Groups	6.556	66	.099		
	Total	6.563	67			

ANOVA : AGE VS. ATTRIBUTES

EXHIBIT NO. 4.1

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
safety&security in India	Between Groups	.082	3	.027	.194	.900
	Within Groups	9.271	66	.140		
	Total	9.353	69			
maintainence &cleanliness in India	Between Groups	.472	3	.157	.838	.478
	Within Groups	12.399	66	.188		
	Total	12.871	69			
information &communication in India	Between Groups	.411	3	.137	.601	.617
	Within Groups	15.039	66	.228		
	Total	15.450	69			
infrastructure in india	Between Groups	.716	3	.239	1.680	.180
	Within Groups	9.378	66	.142		
	Total	10.094	69			
price level of India	Between Groups	.337	3	.112	.689	.562
	Within Groups	10.777	66	.163		
	Total	11.114	69			
tourism facilities in India	Between Groups	.401	3	.134	.646	.589
	Within Groups	13.670	66	.207		
	Total	14.071	69			
man made attractions in india	Between Groups	.229	3	.076	.553	.648
	Within Groups	9.120	66	.138		
	Total	9.349	69			
natural attractions in India	Between Groups	2.135	3	.712	2.452	.071
	Within Groups	19.157	66	.290		
	Total	21.292	69			
behaviour of indian residents	Between Groups	1.703	3	.568	2.526	.065
	Within Groups	14.833	66	.225		
	Total	16.537	69			
otther factors	Between Groups	.160	3	.053	.543	.654
	Within Groups	6.462	66	.098		
	Total	6.622	69			

It is clear for the results (Exhibit No. 4.0 and 4.1) that in none of the attributes, significant difference was observed among the mean scores of attributes on the basis of Gender and Age meaning thereby all respondents perceive and respond to all factors in the same manner. Hence, the Null Hypothesis (**Ho_1**) is accepted.

Ho_2 : There is no significant difference in the perception of people visiting Singapore for different purposes regarding different attributes of Singapore tourism.

ANOVA : PURPOSE VS. ATTRIBUTES

EXHIBIT NO. 5.0

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
safety&security in India	Between Groups	.378	2	.189	1.377	.260
	Within Groups	8.928	65	.137		
	Total	9.306	67			
maintainence &cleanliness in India	Between Groups	.065	2	.032	.169	.845
	Within Groups	12.436	65	.191		
	Total	12.501	67			
information &communication in India	Between Groups	1.290	2	.645	2.980	.058
	Within Groups	14.066	65	.216		
	Total	15.356	67			
infrastructure in india	Between Groups	.029	2	.014	.093	.911
	Within Groups	10.039	65	.154		
	Total	10.068	67			
price level of India	Between Groups	.720	2	.360	2.402	.099
	Within Groups	9.736	65	.150		
	Total	10.455	67			
tourism facilities in India	Between Groups	.132	2	.066	.308	.736
	Within Groups	13.916	65	.214		
	Total	14.048	67			
man made attractions in india	Between Groups	.228	2	.114	.835	.438
	Within Groups	8.873	65	.137		
	Total	9.101	67			
natural attractions in India	Between Groups	.258	2	.129	.403	.670
	Within Groups	20.800	65	.320		
	Total	21.058	67			
behaviour of indian residents	Between Groups	1.948	2	.974	4.525	**.014**
	Within Groups	13.994	65	.215		
	Total	15.942	67			
otther factors	Between Groups	.971	2	.486	5.639	**.006**
	Within Groups	5.596	65	.086		
	Total	6.567	67			

Purpose of the visit has been taken as Independent factor and attributes has been taken as dependent factors. It is evident from Exhibit No. 5.0 that in most of the attributes no significant difference was observed among the mean scores of attributes except *'Behavior of Indian Residents (0.14)'* and *'other factors' (.006).* Meaning thereby there is no significant difference in the satisfaction level of Indians who have visited Singapore for different purposes except in case of 'Behavior of Indian Residents' and 'other factors'. Hence, the Null Hypothesis (**Ho_2**) is accepted in most of cases and **Ho_2** is rejected in case of 'Behavior of Indian Residents' and 'other factors'.

Ho_3 : There is no significant difference in the rating of attributes of Indian tourism amongst people visited Singapore on the basis of Gender and Age.

ANOVA : GENDER VS. INDIAN TOURISM ATTRIBUTES

EXHIBIT NO. 6.0

		Sum of Squares	df	Mean Square	F	Sig.
safety & security in India	Between Groups	.232	1	.232	1.816	.182
	Within Groups	8.425	66	.128		
	Total	8.657	67			
maintenance & cleanliness in India	Between Groups	.048	1	.048	.265	.609
	Within Groups	12.081	66	.183		
	Total	12.129	67			
information & communication in India	Between Groups	.001	1	.001	.003	.958
	Within Groups	14.944	66	.226		
	Total	14.945	67			
infrastructure in India	Between Groups	.006	1	.006	.043	.837
	Within Groups	9.620	66	.146		
	Total	9.626	67			
price level of India	Between Groups	.137	1	.137	.870	.354
	Within Groups	10.423	66	.158		
	Total	10.560	67			
tourism facilities in India	Between Groups	.196	1	.196	1.034	.313
	Within Groups	12.524	66	.190		
	Total	12.721	67			
man made attractions in India	Between Groups	.002	1	.002	.011	.916
	Within Groups	9.259	66	.140		
	Total	9.261	67			
natural attractions in India	Between Groups	.651	1	.651	2.107	.151
	Within Groups	20.403	66	.309		
	Total	21.054	67			
behavior of Indian residents	Between Groups	.091	1	.091	.377	.541
	Within Groups	15.943	66	.242		
	Total	16.034	67			
other factors	Between Groups	.007	1	.007	.074	.787
	Within Groups	6.556	66	.099		
	Total	6.563	67			

ANOVA : GENDER VS. INDIAN TOURISM ATTRIBUTES

EXHIBIT NO. 6.1

		Sum of Squares	df	Mean Square	F	Sig.
safety & security in India	Between Groups	4.773	30	.159	1.555	.107
	Within Groups	3.479	34	.102		
	Total	8.252	64			
maintenance & cleanliness in India	Between Groups	5.910	30	.197	1.201	.301
	Within Groups	5.576	34	.164		
	Total	11.486	64			
information & communication in India	Between Groups	7.049	30	.235	1.025	.470
	Within Groups	7.797	34	.229		
	Total	14.846	64			
infrastructure in India	Between Groups	6.330	30	.211	2.384	**.008**
	Within Groups	3.009	34	.089		
	Total	9.340	64			
price level of India	Between Groups	3.268	30	.109	.540	.955
	Within Groups	6.861	34	.202		
	Total	10.129	64			
tourism facilities in India	Between Groups	6.651	30	.222	1.247	.265
	Within Groups	6.045	34	.178		
	Total	12.696	64			
man made attractions in India	Between Groups	4.711	30	.157	1.323	.214
	Within Groups	4.036	34	.119		
	Total	8.748	64			
natural attractions in India	Between Groups	14.737	30	.491	2.714	**.003**
	Within Groups	6.153	34	.181		
	Total	20.890	64			
behaviour of Indian residents	Between Groups	8.161	30	.272	1.279	.242
	Within Groups	7.229	34	.213		
	Total	15.390	64			
other factors	Between Groups	2.070	30	.069	.634	.896
	Within Groups	3.700	34	.109		
	Total	5.770	64			

Demographic characteristics viz. Gender, Age have been taken as independent factors and attributes related to Indian tourism has been taken as dependent factors to test the **Ho_3**.

It is clearly evident from Exhibit No. 6.0 that in none of the attributes, significant difference was observed among the mean scores of attributes on the basis of Gender. Meaning thereby there is no significant difference in the satisfaction level of outbound Indian tourist regarding attributes related to Indian Tourism services. Hence, the Null Hypothesis (**Ho_3**) is accepted.

It is depicted from Exhibit No. 6.1 that in none of the attributes, significant difference was observed among the mean scores of attributes on the basis of Age except '*Natural attractions in India (.003)*' and '*Infrastructure in India (.008)*'. Meaning thereby there is no significant difference in the satisfaction level of outbound Indian tourist regarding attributes related to Indian Tourism services except in case of 'Natural attractions in India' and 'Infrastructure in India'. Hence, the Null Hypothesis (**Ho_3**) is accepted in most of cases and **Ho_3** is rejected in case of 'Natural attractions in India' and 'Infrastructure in India'.

CONLUSION

The empirical study conducted by the researchers clearly indicates that in the opinion of Indians who have visited Singapore India is lacking far behind Singapore in the tourism segment. There is no statistically significant difference in the opinion of the respondents although they are of different demographic profiles and have visited Singapore for different purposes. The analysis depicts that Indians are satisfied with the different attributes of Singapore tourism and more or less dissatisfied with the attributes of Indian tourism. This disclosure is of prime importance to the Indian tourism industry because it highlights the need to improve the different attributes of Indian tourism industry. Indian tourists are feeling satisfied with all the attributes of Singapore tourism particularly the attributes of safety &security, maintenance & cleanliness, information & communication and infrastructure. It is a matter of serious concern for the Indian tourism that India is lacking in all these attributes. Hence the Indian tourism Ministry is advised to build more tourism infrastructure, ensure the safe, secured and clean environment for the tourists and to properly maintain all the tourism facilities to attract more &more tourists form domestic as well as international market. Singapore with a very small geographical area &with very less cultural &natural advantages is gaining a good share of the international tourism receipts. India should learn a lesson from Singapore tourism industry and try to improve its own by optimally utilizing the resources available with it. No doubt that the efforts of the Indian government to boost up its tourism industry are also applaud able but we can surely learn from the hardwork of Singapore Tourism Board to enhance India's ranking as a global tourist destination.

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EVALUATION OF PRODUCTIVITY AND PROFITABILITY OF SELECT SCHEDULED COMMERCIAL BANKS IN INDIA

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ABSTRACT
Banks occupy the pride of place in any financial system by virtue of the significant role they play in spurring economic growth by undertaking maturity transformation and supporting the critical payment systems. The protection of depositors' interests and ensuring financial stability are two of the major drivers for putting in place an effective system of supervision of banks. In the wake of recurring bank failures and consequent financial crises over the last two decades, there have been resolute attempts by bank supervisors across the globe to limit the impacts of bank failure and contagion through 'safety nets' in the form of deposit insurance and liquidity support by Central Banks/ Governments. An effective supervisory system is, however, critical for preventing bank failures by ensuring the safety and soundness of banks. The present study is an attempt to evaluate the productivity and profitability of 67 scheduled commercial banks in India using CAMEL supervisory model covering the ten years period of 2002-03 to 2011-12. The banks were judged on five different components under the acronym C-A-M-E-L: Capital adequacy, Asset quality, Management, Earnings and Liquidity. The findings of the study revealed that foreign banks positioned first in terms of their management efficiency, earnings quality and liquidity. Private sector banks ranked second followed by Nationalised banks and SBI and its associates positioned at last.

KEYWORDS
Asset quality Capital adequacy, Earnings, Liquidity, Management.

INTRODUCTION
Banks play a major role in all the economic and financial activities in modern society. All trade and commerce would slow down badly if the banks were not there to handle their financial transactions (Ramachandran N, 1992). The developments of banking have a profound effect on the growth of a country. Enhancing profitability, maintaining liquidity and improving growth performance of commercial banks have key objectives of economic reforms in India and as well as other countries.

Against this backdrop the research paper evaluates the productivity and profitability of select scheduled commercial banks in India using the CAMEL model. It is basically a ratio based model for evaluating the performance of banks. The CAMEL Methodology has been developed and practiced by the North American bank regulators in the 1970s to provide a convenient summary of bank condition at the time of its on-site examination. CAMEL rating is a subjective model which indicates financial strength of a bank, where as CAMEL ranking indicates the banks relative position with reference to other banks.

OBJECTIVES OF THE STUDY
To study the Productivity and Profitability of Scheduled Commercial Banks in India on the basis Management Efficiency, Earnings quality and Liquidity parameters.

RESEARCH METHODOLOGY
The study evaluates the productivity and profitability of select scheduled commercial banks in India using CAMEL model. Productivity is measured on the parameter of Management efficiency and profitability is measured on the parameters of Earnings quality and Liquidity. The sample for the study consists of 67 commercial including 26 public sector banks, 18 private sector banks and 23 foreign banks. The study is based on secondary data as it is obtained from the published reports of Reserve bank of India and "PROWESS" database of Centre for Monitoring Indian Economy (CMIE). Average of each ratio is calculated and the banks were first individually ranked based on the sub-parameters of each parameter. The sum of these ranks was taken to arrive at the group average of individual banks for each parameter. Finally the composite rankings for the banks were arrived at after computing the average of these group averages. Banks were ranked in the ascending/descending order based on the individual sub-parameter. The time period of the study is ten years ranging from 2002-03 to 2011-12.

PARAMETERS USED

Productivity and profitability of the selected banks has been studied on the basis of the following parameters.

S. No	Parameter	Variable
1	Management Efficiency	1. Profit per employee 2. Business per employee 3. Return on Net worth 4. Total advances to total deposits
2	Earnings Quality	1. Net Interest Income to Total Assets 2. Burden to working fund 3. Operating profit to total assets 4. Return on Assets
3	Liquidity	1. Liquid Assets to Total Assets 2. Liquid Assets to Demand Deposits 3. Liquid Assets to Total Deposits 4. Cash deposit ratio

REVIEW OF LITERATURE

Rajagopalan (1993) has given a general view on productivity in banks. He opined that profitability and productivity depend on various factors like reduction of costs, recovery of overdue, work reorganization, introduction of computers, etc. He has also identified that establishment expenses play a key role in determining the level of profit. Therefore, attention should be paid on the staffing pattern, he viewed.

Kapil (2005) examined the relationship between the CAMEL ratings and the bank stock performance. The viability of the banks was analyzed on the basis of the Offsite Supervisory Exam Model-CAMEL Model. The M for Management was not considered in this paper because all Public Sector Banks, (PSBs) were government regulated, and also because all other four components—C, A, E and L—reflect management quality. The remaining four components were analyzed and rated to judge the composite rating.

Sanjay Bhayani (2006) in his study analysed the performance of new private sector banks through the help of the CAMEL model. For the purpose, four leading private sector banks – ICICI, HDFC, UTI and IDBI have been taken as sample. After making an analysis of the CAMEL parameters, the author has assigned ranks to all the banks according to their performance in various parameters of CAMEL, and then he assigns them overall ranking. For the purpose of CAMEL analysis, the data of five years i.e, from 2001-01 to 2004-05, has been used. The findings of the study reveal that the aggregate performance of IDBI is the best among all the banks, followed by UTI.

THEORITICAL FRAMEWORK

The parameters used to evaluate the productivity and profitability of scheduled commercial banks in India is briefly described as under:

MANAGEMENT EFFICIENCY

The management of bank takes crucial decisions depending on its risk perception. The ratios used to evaluate management efficiency are described as:

- **Profit per employee**

It shows the surplus earned per employee. It is calculated by dividing the profit after tax earned by the bank by the total number of employees. The higher the ratio, higher is the efficiency of the management. It is more realistic measure of managerial capability in the sense it reflects the use of efficiency of the human resources and also the operational efficiency of the management.

- **Business per employee**

Business per employee shows the productivity of human force of bank. It is used as a tool to measure the efficiency of employees of a bank in generating business for the bank. The higher ratio signifies better managerial capability and the better financial performance of the bank. It is arrived at by dividing the total business by total number of employees. By business, we mean the sum of total deposits and total advances in a particular year.

- **Return on net worth**

It is a measure of the profitability of a bank. It is calculated by profit after tax divided by net worth. Net worth includes capital and reserves.

- **Total advances to total deposits**

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 higher earning advances. Total deposits include demand deposits, savings deposits, term deposits and deposits of other banks. Total advances also include the receivables.

EARNINGS QUALITY

The quality of earnings is very important criterion that determines the ability of a bank to earn consistently. It basically determines the profitability of bank and explains its sustainability and growth in earnings in future. The following ratios explain the quality of income generation.

- **Net Interest Income to Total Asset**

Net interest income is defined as the difference between interest earned and interest expended as a proportion of average total assets. It is the ratio between spread and total assets. This ratio shows how much a bank can earn for every rupee of investments made in assets. The higher the ratio the better will be the performance of the bank.

- **Burden to working fund**

Burden to working funds ratio is calculated by comparing the non-interest expenditure and non-interest income divided by working funds.

OPERATING PROFIT TO TOTAL ASSETS

This ratio indicates how much a bank can earn from its operations after meeting operating expenses for every rupee of investments made in assets. This is arrived at by dividing the operating profit by total assets. The better utilization of funds will result in higher operating profit. The higher the ratio the better will be the performance of the bank.

- **Return on Assets**

It is the ratio of net profit after tax and total assets. Higher return on assets means greater returns earned on assets deployed by the bank.

LIQUIDITY RATIO

Bank has to take a proper care to hedge the liquidity risk; at the same time ensuring good percentage of funds are invested in high return generating securities, so that it is in a position to generate profit with provision liquidity to the depositors. The following ratios are used to measure the liquidity:

- **Liquid Assets to Total Assets**

The proportion of liquid assets to total assets indicates the overall liquidity position of the bank. The liquid assets include cash in hand, Balances with RBI, Balances with banks in India and outside India and money at call and short notice. This ratio is arrived by dividing liquid assets by total assets.

- **Liquid Assets to Demand Deposits**

This ratio measures the ability of bank to meet the demand from depositors in a particular year. To offer higher liquidity for them, bank has to invest these funds in highly liquid form. This ratio is arrived by dividing liquid assets by demand deposits.

- **Liquid Assets to Total Deposits**

This ratio measures the liquidity available to the depositors of the bank. This ratio is considered more important as it ensures higher credibility in the minds of depositors. This ratio is arrived by dividing liquid assets by total deposits.

- **Cash deposit ratio**

In order to understand the liquidity position by considering cash in hand, balance with RBI in current accounts, balance with banks in India and money at call and short notice against total deposits.

RESULTS AND DISCUSSION

The results and discussions of the study are described under the following heads:

- Management Efficiency
- Earnings Quality and
- Liquidity

The profit per employee of the selected banks for the purpose of the study is presented in table no: 1.

TABLE 1: PROFIT PER EMPLOYEE (In lakhs)

Year	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
2002-03	1.80	1.90	2.31	8.28	14.87
2003-04	3.02	2.78	2.88	9.09	24.45
2004-05	2.09	2.57	1.23	5.24	9.92
2005-06	2.31	2.76	2.23	4.13	24.85
2006-07	2.94	3.26	2.81	5.15	22.47
2007-08	3.53	4.19	3.78	5.59	32.12
2008-09	4.39	4.78	4.45	4.93	27.78
2009-10	4.82	5.75	4.60	5.70	24.02
2010-11	5.82	6.99	5.20	8.12	31.48
2011-12	5.50	6.99	5.82	8.72	44.82
Mean	3.6223	4.1971	3.5302	6.4952	25.6773
Rank	4	3	5	2	1

Source: Data compiled and calculated from Statistical Tables Relating to Banks in India, R.B.I., Mumbai, Issues of relevant years.

SBI and its associate banks – 6 , Nationalised banks- 20, New private sector banks -5, Old private sector banks – 13 and Foreign banks -23. Total banks selected – 67. List of banks given in Annexure -1.

By comparing the various ratios on the basis of the mean value of ratios for the period, it has been noted that the profit per employee is very high in case of foreign banks, as the mean value is 25.67 and is thus ranked first. Next is the place of new private sector banks as it is 6.49 and it is lowest in place of state bank of India and its associates as it is 3.62.

TABLE 2 EXHIBITS THE BUSINESS PER EMPLOYEE OF THE SELECTED BANKS DURING THE PERIOD OF 2002-03 TO 2011-12.

TABLE 2: BUSINESS PER EMPLOYEE (In lakhs)

Year	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
2002-03	195.56	245.48	248.61	931.61	932.30
2003-04	230.97	297.23	273.24	848.79	971.67
2004-05	285.68	371.86	319.26	806.96	954.06
2005-06	359.09	436.36	370.45	790.64	1023.72
2006-07	448.37	518.11	426.58	817.75	1068.65
2007-08	552.33	657.70	499.04	829.53	1325.86
2008-09	686.91	811.43	561.59	775.00	1265.14
2009-10	713.75	966.73	633.58	763.69	1562.26
2010-11	855.44	1148.67	744.17	817.80	1760.54
2011-12	965.80	1274.27	821.12	788.08	2105.74
Mean	529.3900	672.7833	489.7636	816.9850	1296.9950
Rank	4	3	5	2	1

Source: Data compiled and calculated from Statistical Tables Relating to Banks in India, R.B.I., Mumbai, Issues of relevant years.

By comparing the ratio of business per employee of various banks on the basis of the mean value of ratios for the period, it has been noted that the business per employee is very high in case of foreign banks, as the mean value is 1296.99. It exhibits the management ability to optimize the use of its human resources. Next is the place of new private sector banks whose mean value is 816.98 and it is lowest in old private sector banks as it is 489.76 which is lower than the overall mean of 761.18.

The ratio of return on net worth for the various group of banks are given in table no 3.

TABLE 3: RETURN ON NET WORTH (Per cent)

Year	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
2002-03	23.00	18.85	19.89	16.74	7.65
2003-04	25.05	21.67	19.74	20.33	10.34
2004-05	18.52	15.93	4.65	-8.34	8.62
2005-06	17.10	12.91	10.21	-0.64	5.68
2006-07	18.31	15.23	12.15	11.67	7.33
2007-08	18.95	16.06	13.43	10.19	10.30
2008-09	18.91	15.72	14.23	4.86	10.78
2009-10	17.92	16.70	11.60	68.11	6.04
2010-11	17.42	15.04	12.07	12.07	7.06
2011-12	14.78	18.73	11.94	13.98	8.05
Mean	18.9963	16.6832	12.9919	14.8973	8.1843
Rank	1	2	4	3	5

Source: Data compiled and calculated from Statistical Tables Relating to Banks in India, R.B.I., Mumbai, Issues of relevant years.

This ratio is useful to measure how well a bank is utilizing the shareholders investment to create returns for them, and can be used for comparison purposes with competitors in the same industry. The above table shows that the mean value of ratio of return on net worth is very high in case of state bank of India and its associates and it is positioned at first rank as the mean value is 18.99 and it is lowest in foreign banks as it is 8.18 and it is ranked as last.

The ratio of total advances to total deposits of various bank groups for the period of 2002-03 to 2010-11 is exhibited in table no 4.

TABLE 4 : TOTAL ADVANCES TO TOTAL DEPOSITS (Per cent)

Year	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
2002-03	53.45	51.57	52.05	67.14	98.27
2003-04	54.13	51.93	52.91	62.78	104.94
2004-05	59.38	68.14	59.22	66.22	114.07
2005-06	68.91	70.44	64.53	65.76	113.89
2006-07	74.24	70.96	66.91	67.89	106.39
2007-08	75.62	71.37	65.89	71.50	105.89
2008-09	74.54	71.06	64.48	76.10	111.30
2009-10	75.12	68.36	67.24	77.58	107.47
2010-11	77.34	105.75	71.86	80.03	154.94
2011-12	79.53	68.67	73.18	84.37	159.76
Mean	69.2264	69.8255	63.8280	71.9383	117.6910
Rank	4	3	5	2	1

Source: Data compiled and calculated from Statistical Tables Relating to Banks in India, R.B.I., Mumbai, Issues of relevant years.

The average total advances to total deposit ratio of the selected bank groups over the study period is 78.50. Foreign bank groups exhibited a highest mean value of 117.69 and it is ranked first. New private sector banks and nationalized banks occupied the second and third position respectively. Old private sector banks occupied a last position as its mean value of ratio of total advances to total deposits is 63.82.

The ratio of net interest income to total assets for various bank groups is given in table no 5.

TABLE 5: NET INTEREST INCOME TO TOTAL ASSETS (Per cent)

Year	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
2002-03	3.29	3.13	2.78	1.96	3.00
2003-04	3.29	3.29	3.11	2.47	2.94
2004-05	3.42	3.10	3.14	2.44	3.14
2005-06	3.23	2.89	3.22	2.50	2.95
2006-07	2.78	2.74	3.23	2.58	3.48
2007-08	2.28	2.36	2.95	2.78	3.75
2008-09	2.32	2.31	2.92	2.89	4.00
2009-10	2.43	2.28	2.62	2.91	3.33
2010-11	2.96	2.75	3.08	3.17	3.46
2011-12	2.90	2.58	2.96	3.12	3.99
Mean	2.8885	2.7431	3.0021	2.6818	3.4040
Rank	3	4	2	5	1

Source: Data compiled and calculated from Statistical Tables Relating to Banks in India, R.B.I., Mumbai, Issues of relevant years.

Net interest income (spread) is defined as the difference between interest income earned and interest expended. It is an important indicator of efficiency of the banks. By comparing the mean value of ratios for the period, it has been noted that the net interest income to total assets is very high in case of foreign banks, as the mean value is 3.40 and it is ranked first. New private sector banks are ranked last as its mean value is 2.68. The net interest income of public sector banks shows declining trend from 2002-03 to 2011-12. The net interest income of new private sector banks and foreign banks shows increasing trend from 2002-03 to 2011-12.

The ratio of burden to assets for various bank groups is given table no 6.

TABLE 6: BURDEN TO TOTAL ASSETS (Per cent)

Year	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
2002-03	0.36	0.70	-0.14	-0.46	-0.02
2003-04	-0.10	0.43	0.15	-0.05	-0.83
2004-05	0.59	0.86	1.20	0.59	-0.32
2005-06	0.95	1.04	1.34	0.86	-0.62
2006-07	0.75	0.94	1.19	0.84	-0.07
2007-08	0.50	0.54	0.85	0.67	-0.03
2008-09	0.39	0.46	0.63	0.68	-0.76
2009-10	0.52	0.43	0.74	0.50	-0.16
2010-11	0.79	0.80	1.19	0.69	-0.30
2011-12	0.83	0.70	1.08	0.76	-0.35
Mean	0.5570	0.6883	0.8225	0.5092	-0.3460
Rank	3	2	1	4	5

Source: Data compiled and calculated from Statistical Tables Relating to Banks in India, R.B.I., Mumbai, Issues of relevant years.

By comparing the ratios on the basis of the mean value of ratios from the period, it has been noted that the burden to total assets is very high in case of old private sector banks and positioned first as the mean value is 0.50. Foreign banks are occupied last position as it is -0.34 and it is lower than the overall mean value of 0.44.

The ratio of operating profit to total assets for various bank groups is given in table 7.

TABLE 7: OPERATING PROFIT TO TOTAL ASSETS (Per cent)

Year	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
2002-03	2.93	2.43	2.93	2.42	3.02
2003-04	3.40	2.86	2.96	2.52	3.73
2004-05	2.83	2.25	1.94	1.85	2.92
2005-06	2.28	1.96	1.89	1.71	3.57
2006-07	2.03	1.95	2.04	1.79	3.56
2007-08	1.78	1.78	2.12	2.11	3.77
2008-09	1.93	1.85	2.28	2.20	4.76
2009-10	1.94	1.83	1.87	2.40	3.49
2010-11	2.17	1.94	1.89	2.48	3.76
2011-12	2.08	1.88	1.88	2.36	4.34
Mean	2.3353	2.0729	2.1778	2.1844	3.6918
Rank	2	5	4	3	1

Source: Data compiled and calculated from Statistical Tables Relating to Banks in India, R.B.I., Mumbai, Issues of relevant years.

The results of the above table shows that the mean value of the ratio of operating profit to total assets of foreign banks (3.69) is more than the overall mean value of 2.49 and it is ranked first. The mean value of ratio of operating profit to total assets of nationalised banks is 2.07 which is lower than the mean value of all other banks and is ranked last. The operating profit to total assets of all the scheduled commercial banks except foreign banks are declined in 2011-12 when compared to the base year of 2002-03. It shows foreign banks are managing its funds effectively to obtain more profit.

The return on assets for various bank groups is given in table no 8.

TABLE 8: RETURN ON ASSETS (Per cent)

Year	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
2002-03	1.13	1.01	1.30	1.12	1.42
2003-04	1.31	1.26	1.34	1.26	1.79
2004-05	0.96	0.95	0.47	0.46	0.41
2005-06	0.90	0.85	0.82	0.41	1.54
2006-07	0.97	0.94	0.95	0.91	1.79
2007-08	0.96	1.03	1.17	0.92	2.48
2008-09	0.92	0.98	1.25	0.61	2.91
2009-10	0.94	0.97	1.01	0.83	1.96
2010-11	0.96	0.97	1.05	1.27	1.93
2011-12	0.92	0.85	1.10	1.44	2.36
Mean	0.9984	0.9811	1.0454	0.9236	1.8596
Rank	3	4	2	5	1

Source: Data compiled and calculated from Statistical Tables Relating to Banks in India, R.B.I., Mumbai, Issues of relevant years.

Return on assets is an indicator of efficiency with which banks deploy their assets. The average return on assets ratio of all the selected banks for the purpose of the study is 1.16 and foreign banks (1.85) show more than this and ranked first. The mean value of ratio of return on assets of new private sector banks is 0.92 which is lowest among the selected bank groups and is ranked last.

The ratio of liquid assets to total assets is given in table no 9.

TABLE 9: LIQUID ASSETS TO TOTAL ASSETS (Per cent)

Year	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
2002-03	8.75	8.49	10.83	11.09	18.72
2003-04	7.96	9.39	10.65	12.62	21.96
2004-05	8.61	8.79	11.46	9.37	20.26
2005-06	7.41	9.22	10.72	7.97	24.65
2006-07	9.25	9.88	12.43	10.31	27.60
2007-08	9.32	9.94	13.50	11.08	22.02
2008-09	7.78	9.25	12.65	9.12	22.98
2009-10	7.61	8.90	10.50	9.07	19.76
2010-11	8.23	8.18	8.54	8.67	19.97
2011-12	6.49	10.40	7.38	6.72	18.58
Mean	8.1405	9.2445	10.8670	9.6014	21.6495
Rank	5	4	2	3	1

Source: Data compiled and calculated from Statistical Tables Relating to Banks in India, R.B.I., Mumbai, Issues of relevant years.

The mean value of ratio of liquid assets to total assets of all the bank groups selected for the purpose of the study is 11.90. High liquid assets to total assets ratio signifies better liquidity position of the bank. Thus on the parameter the foreign banks ranked first as its mean value of ratio of liquid assets to total assets is 21.64 which is higher than the mean value of other bank groups and state bank of India and its associates ranked last as its mean value is 0.87.

The ratio of liquid assets to demand is exhibited in table no 10.

TABLE 10: LIQUID ASSETS TO DEMAND DEPOSITS (Per cent)

Year	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
2002-03	87.10	98.64	155.50	134.33	281.84
2003-04	82.25	111.34	141.84	132.28	332.76
2004-05	98.86	108.72	145.13	93.81	484.70
2005-06	83.88	107.73	134.38	78.36	1134.90
2006-07	126.49	116.93	151.72	104.22	1204.70
2007-08	121.07	123.60	166.37	111.19	259.81
2008-09	110.59	129.05	191.35	84.66	235.33
2009-10	119.24	121.71	156.73	71.03	200.76
2010-11	131.77	124.28	136.48	67.81	247.94
2011-12	140.14	122.32	142.86	63.96	201.75
Mean	110.1387	116.4313	152.2360	94.1638	458.4484
Rank	4	3	2	5	1

Source: Data compiled and calculated from Statistical Tables Relating to Banks in India, R.B.I., Mumbai, Issues of relevant years.

The mean value of the ratio of liquid assets of demand deposits of all the scheduled commercial banks shows that 186.28 and foreign banks shows the mean value of 458.44 which is highest amongst the other bank groups and ranked first. New private sector shows lowest mean value of 94.16 and is ranked last.

The ratio of liquid assets to total deposits of various banks is shown in table no 11.

TABLE 11: LIQUID ASSETS TO TOTAL DEPOSITS (Per cent)

Year	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
2002-03	11.07	9.84	12.49	14.62	43.00
2003-04	10.00	10.99	12.17	16.55	57.67
2004-05	10.46	10.89	13.01	12.32	58.11
2005-06	9.16	11.46	12.33	10.23	66.20
2006-07	11.32	11.88	14.55	13.32	63.00
2007-08	11.55	11.83	16.07	14.68	49.83
2008-09	9.49	10.81	14.82	12.31	49.59
2009-10	9.17	10.04	12.34	12.92	39.67
2010-11	10.04	14.31	10.28	12.21	48.47
2011-12	7.89	8.46	8.85	9.86	44.68
Mean	10.0153	11.0515	12.6916	12.9003	52.0220
Rank	5	4	3	2	1

Source: Data compiled and calculated from Statistical Tables Relating to Banks in India, R.B.I., Mumbai, Issues of relevant years.

The liquid assets to total deposits show the ability of the bank to meet its short term liability requirement and higher the ratios better the liquidity management of the bank. The mean value of the ratio of liquid assets to total deposits of the selected banks during the period of study shows that 19.73. Foreign banks have liquid assets to total deposit ratio of 52.02 which is highest amongst the other bank groups and thus ranked first. The mean value of ratio of liquid assets to total deposits of state bank of India and its associate is 10.01 and is thus ranked last position.

The cash deposit ratio is exhibited in table no 12.

TABLE 12. CASH DEPOSIT RATIO (Per cent)

Year	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
2002-03	6.13	6.84	6.05	8.41	5.90
2003-04	6.28	7.58	6.52	10.49	8.73
2004-05	6.01	7.34	6.84	7.01	9.14
2005-06	5.62	7.04	6.33	5.52	10.07
2006-07	8.26	7.31	7.16	7.35	8.74
2007-08	9.99	9.57	9.21	10.39	13.29
2008-09	7.06	7.52	6.84	7.42	8.47
2009-10	7.13	7.47	7.84	8.70	10.49
2010-11	8.24	7.36	7.05	8.60	9.52
2011-12	6.62	5.69	5.53	6.45	9.99
Mean	7.1302	7.3717	6.9372	8.0328	9.4344
Rank	4	3	5	2	1

Source: Data compiled and calculated from Statistical Tables Relating to Banks in India, R.B.I., Mumbai, Issues of relevant years.

The above table shows the cash deposit ratio of five bank groups for the period of 2002-03 to 2011-12. Cash deposit ratio is calculated to understand the liquidity position of the bank by considering cash in hand, balance with RBI in current accounts, balance with banks in India and money at call and short notice against total deposits. The mean value of the cash deposit ratio of foreign banks is 9.43 which highest amongst the other bank groups and is ranked first.

The group ranking of the selected bank groups on the basis of management efficiency is given in table 13.

TABLE 13. GROUP RANKING OF THE SELECTED BANK GROUPS ON THE BASIS OF MANAGEMENT EFFICIENCY

Ratio	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
Profit per employee	4	3	5	2	1
Business per employee	4	3	5	2	1
Return on net worth	1	2	4	3	5
Total advances to total deposits	4	3	5	2	1
Average	3.25	2.75	4.75	2.25	2.00
Rank	4	3	5	2	1

Foreign banks show excellent managerial capability and are thus ranked first on the basis of management efficiency. New private sector banks and nationalized banks occupied second and third position respectively. Fourth and fifth positions on the basis of management efficiency are occupied by State bank of India and its associates and old private sector banks.

The group rankings of the selected bank groups on the basis of earnings quality is given in table 14.

TABLE 14. GROUP RANKING OF THE SELECTED BANK GROUPS ON THE BASIS OF EARNINGS QUALITY

Ratio	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
Net interest income to total assets	3	4	2	5	1
Burden to total assets	3	2	1	4	5
Operating profit to total assets	2	5	4	3	1
Return on assets	3	4	2	5	1
Average	2.75	3.75	2.25	4.25	2.00
Rank	3	4	2	5	1

Foreign banks are at the top position and old private sector banks ranked second. State bank of India and its associates and nationalised banks placed in third and fourth position respectively. The last position is occupied by new private sector banks.

The group ranking of the selected bank groups on the basis of liquidity is given in table 14.

TABLE 15. GROUP RANKING OF THE SELECTED BANK GROUPS ON THE BASIS OF LIQUIDITY

Ratio	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
Liquid assets to deposits	5	4	2	3	1
Liquid assets to demand deposits	4	3	2	5	1
Liquid assets to total deposits	5	4	3	2	1
Cash deposit ratio	4	3	5	2	1
Average	4.50	3.50	3.00	3.00	1.00
Rank	5	4	2	2	1

The result of the above table shows that foreign banks have effective liquidity management and it is ranked first amongst the selected bank groups. New and old private sector banks shared the second position whereas fourth and fifth positions are occupied by nationalised banks and State bank of India and its associates.

The overall ranking of the selected bank groups on the basis of management efficiency, earnings quality and liquidity for the period of 2002-03 to 2011-12 is given in table no 16.

TABLE 16. COMPOSITE RANKING OF THE SELECTED BANKS ON THE BASIS OF MANAGEMENT EFFICIENCY, EARNINGS QUALITY AND LIQUIDITY

Ratio	State Bank of India & its associates	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks
Management Efficiency	4	3	5	2	1
Earnings Quality	3	4	2	5	1
Liquidity	5	4	2	2	1
Average	4.00	3.67	3.00	3.00	1.00
Rank	5	4	2	2	1

The composite rankings for the selected bank groups were arrived at after computing the average of the group rankings. Foreign banks ranked first on the parameters of management efficiency, earnings quality and liquidity. New and Old private sector banks ranked second followed by nationalised banks. State bank of India and its associates occupied last position amongst all the selected bank groups during the period of study.

CONCLUSION

CAMEL approach is significant tool to assess the relative financial strength of a bank and to suggest necessary measures to improve weaknesses of a bank. In India, RBI adopted this approach in 1996 followed on the recommendations of Padmanabhan Working Group (1995) committee. The present study has been conducted to examine the productivity and profitability of scheduled commercial banks in India on the CAMEL parameters of Management efficiency, Earnings quality and Liquidity. It is found that foreign banks stood at top position in terms of productivity and profitability. Private sector banks ranked second followed by Nationalised banks and SBI and its associates positioned at last.

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CHARACTERISTICS OF LAISSEZ-FAIRE LEADERSHIP STYLE: A CASE STUDY

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ABSTRACT

Laissez-faire leadership style provides little or no direction and gives employees as much freedom as possible such that all authority is given to the employees and they must determine goals, make decisions, and resolve problems on their own. The study attempts to explore and analyze the characteristics of laissez-faire leadership styles in the practices of leadership. The study is exploratory and for the purpose 25 leaders of the state Manipur, India are considered. The sample is drawn from organizations in both the private and government sector. Survey technique is employed and the primary data are collected using interview cum questionnaire method from the top executives of the selected organizations and from two immediate subordinates of the sampled executives. The responses of the followers become essential component as they highlight how subordinates perceive about their leaders' laissez-faire leadership characteristics and thus, their responses crosscheck the practices of the leaders.

KEYWORDS

Leadership, Laissez-faire style, Flexibility, Capability, Decision making

CHARACTERISTICS OF LAISSEZ-FAIRE LEADERSHIP STYLE: A CASE STUDY

The Laissez-Faire leadership style is also known as the "hands-off" style. It is one in which the leader provides little or no direction and gives employees as much freedom as possible. All authority is given to the employees and they must determine goals, make decisions, and resolve problems on their own. According to Robbins et al. (2007) laissez-fair style is abdicating responsibilities and avoiding making decisions. It is difficult to imaging the practicability and advantages of laissez-fair leadership style without having subordinates who are experts and well motivated. Leaders let group members make all decision" (Mondy & Premeaux, 1995). They are encouraged to plan their own activities, set their own targets. However, the subordinates will be accountable for all their decisions and actions. The hall mark of laissez-faire leadership style is independence and capability. The role of the leaders becomes facilitators.

In general, this approach leaves the employees floundering with little direction or motivation. This is an effective style to use when the employees are highly skilled, experienced, educated and trustworthy. In fact, there is no effort on the part of the leader to motivate followers, or to recognize and satisfy their needs (Bass & Avolio, 1997)

The study attempts to explore and analyze the characteristics of laissez-faire leadership styles in the practices of leadership and for the purpose 25 leaders of the state Manipur, India are considered. The sample is drawn from organizations in both the private and government sector. Eighteen departmental heads including six deputy commissioners of six different districts of the state cover the government sector, and in the private sector, seven organizations are selected for the study, and the organizations are based on the number of employees and profitability. Survey technique is employed and the primary data are collected using interview cum questionnaire method from the top executives of the selected organizations and from two immediate subordinates of the sampled executives. The responses of the followers become essential component as they highlight how subordinates perceive about their leaders' laissez-faire leadership characteristics and thus, their responses crosscheck the practices of the leaders. The required data for the study is mainly based on the primary sources supplemented by secondary. The paper assesses style of the sampled leaders with reference to laissez faire style of leadership.

In the light of the above discussion, the study has designed to assess the sampled leaders in terms of Laissez-Faire style. Eight statements were used for the purpose. The statements were based on following factors:

(i) Decision making
(ii) Planning and plans
(iii) Routine feedback
(iv) Employees freedom
(v) Capability
(vi) Flexibility
(vii) Sharing power
(viii) Leadership experience

The scores on the leader's table provide information about leaders' laissez-faire leadership characteristics and the scores of the followers highlight how subordinates perceive about their leaders' laissez-faire leadership characteristics. A brief detail for each parameter and analysis thereof are shown with the help of tables. The Table (1) highlights the results of the analysis.

DECISION MAKING

The laissez-faire leader exercise little control over his employees. He feels that his employees are skilled, experienced and educated. He encourages people to take decision; he feels that they are equally capable of taking decision and are not required to consult him for taking decision.

The respondents' opinions regarding decision making is shown in Table (1). The sample leader feels that they occasionally encourage people to take decision. The follower observed that they were given this opportunity frequently. So the followers perceive that the leaders trust their capabilities. They are empowered. As shown in the above table there is a gap between the two medians. According to the sampled followers their leaders have slightly underrated on this parameter -- 'decision making'.

PLANNING AND PLANS

The Laissez-faire leader is quite hands-off, letting the wisdom of his people deliver solutions. He or she assigns task equally among employees so that plans are developed by the employees themselves. This is frequently true for both the sample leader and the follower (Table (1)). The sampled leaders have constantly divided the planning task among the employees, so that plans are developed together.

ROUTINE FEEDBACK

The laissez-faire leader has complete confidence and trust in his employees' skills and performance. Leader of this style does not keep a routine feedback of progresses for activities of their employees as he feels that employees must be accomplishing it. Table (1) shows the responses and analysis thereof for the sampled leaders and their followers regarding the parameter -- 'routine feedback'. The sample leaders provide feedback; do not leave everything to the employees. It is because they do not have complete trust and confidence in the employees' skills and performance.

This result infers that the sampled kept routine feedback of progress for activities of their employees. The sampled followers also assent to their leaders' view point (Table (1)).

EMPLOYEES FREEDOM

Leaders practicing laissez-faire style respect their employees. They feel that employees have pride in their work and drive to do it successfully on their own.

The Laissez-faire leadership style is also called the free-range style as it supports complete freedom for the employees. As a matter of fact, the researcher has designed to assess the leadership style of the sampled leaders with reference to the parameter -- 'employees' freedom'.

The opinions of the sampled leaders and their followers concerning the parameter 'employees freedom' is shown in Table (1). The sample leader occasionally gives freedom to the employees to decide by themselves what needs to be done and how to do it. The sample followers observe that frequently they are given the opportunities. So the followers feel that they receive more than what was given by the leader. It is difference in perception. What might be challenging to the follower might be less challenging to the leader. It is because of the difference in the outlook.

CAPABILITY

The laissez-faire leadership style is usually appropriate when leading a team of highly motivated, skilled and mature people, who have produced excellent work in the past. In other words, leaders of this style consider that their employees are as capable of leading as they are. The opinions of the sampled leaders on the parameter "capability" are shown in Table (1).

It has been found out from the table that the median score of the sampled leaders corresponds to the third highest scale of response category- Occasionally True (3). This result highlights that the sampled leaders occasionally thought that their employees are as capable of leading as they are. In the case of the followers also, the rating is the same – 'Occasionally True'. So there is agreement about the leadership practices on the aspects of capability.

FLEXIBILITY

Flexibility is one quality of Laissez-faire leaders which make them able to adapt to changes. They provide flexibility and freedom in taking decision. Laissez-faire leaders believe that innovation and creativity come when employees are given more freedom and flexible.

The responses of the sampled leaders and the followers regarding 'flexibility' are shown in Table (1). It is observed from the table that the median score for both the sampled leaders and their followers correspond to third highest scale of response category -- Occasionally True (3). This result shows that the sampled leaders are of the employees have concern for flexibility and freedom in taking decision. The sampled followers have supported the opinion of their leaders at the same scale.

SHARE POWER

Power is the capacity that a leader has to influence the behavior of his followers. In case of laissez-faire leadership style, the leader has given all the authority to the employees. In order to assess style of the sampled leaders, the researcher has served a statement regarding "share power" to the respondents. The respondents' opinions on this parameter are shown in Table (1). It has been observed from the table that the median score for the sampled leaders falls at the second highest scale of response category- Frequently True (4). This result highlights that the sampled leaders frequently share their power with subordinates.

The sampled followers have rated about their leaders in this category. The median score for the sampled followers corresponds to fourth highest rating of response category – Seldom true (2). There is a gap between the two median scores. According to the score of the sampled followers, their leaders have overrated their response on this parameter- 'share power'. Followers observed that the leaders did not share power with them that often.

LEADERSHIP EXPERIENCE

It is true that everyone has leadership experience in life -- may be at home, in group or outside, organizations, politics or in any walks of life.

Table (1) shows the opinions of the sampled leaders regarding the statement "Everyone has leadership experience in life". The median score for the sampled leaders corresponds to the highest rating of responds category-Almost Always True (5). This result has inferred that the sampled leaders have highly endured the statement "Everyone has leadership experience in life". The sampled followers were excluded from this parameter.

OVER-VIEW

The table above shows the overall score of the sample leaders with reference to laissez-faire style in their leadership practices. It is found from the Table (2) that the median score for the sampled leaders' falls at the third highest rating of the response category -- Occasionally True (3). This result highlights that the sampled leaders have sporadically exercised laissez-faire style in their leadership practices.

One of the factors contributing to this style is that some of the sampled leaders are from health care and higher educational sectors. These sampled leaders were highly professional and expertise in their areas. They delegated authorities and responsibilities to their employees who were either doctors or professors. They have confidence on the capability of their peers and subordinates.

TABLE (1): LAISSEZ-FAIRE LEADERSHIP STYLE

Sl. No	Parameters	Median score	
		Leaders (Scale)	Followers (Scale)
1.	Decision making	Occasionally True (3)	Frequently True (4)
2.	Planning and plans	Frequently True (4)	Frequently True(4)
3.	Routine feedback	Seldom True(2)	Seldom True(2)
4.	Employees' freedom	Occasionally True(3)	Frequently True (4)
5.	Capability	Occasionally True(3)	Occasionally True (3)
6.	Flexibility	Occasionally True (3)	Occasionally True(3)
7.	Share power	Frequently True(4)	Seldom True(2)
8.	Leadership experience	Almost Never True(1)	Not Applicable

TABLE (2): OVERALL SCORE OF LAISSEZ-FAIRE LEADERSHIP STYLE

Leader				Follower			
Response category	*No. of respondents*	*Cumulative frequency*	*Median score*	*Response category*	*No. of respondents*	*Cumulative frequency*	*Median score*
Almost always true	48	48		Almost always true	21	21	
Frequently true	45	93		Frequently true	56	77	
Occasionally true	46	139	*Occasionally true*	Occasionally true	63	140	*Occasionally true*
Seldom true	36	175		Seldom true	67	207	
Almost never true	25	200		Almost never true	33	240	
Total	200	**200**		Total	**240**	**240**	

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TOTAL QUALITY MANAGEMENT AND CREATIVE THINKING IN THE HEALTH CARE INDUSTRY

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ABSTRACT

When it comes to excellence in health care, are there any relationship between clinical decisions and customer service? Can patient's perception of the care providing institution affect his/her degree of satisfaction and recovery? Are there new paradigms in total quality management that can enhance the quality of health care delivery? In the last four decades, numerous studies have been conducted around total quality management practices and applications in different organizational settings, private and public. But not much has been done specifically on the dimensions of TQM in the health care industry. Many questions are yet to be asked and many answers are yet to be found. While this research is not intended to address all these issues, a particular commitment is made here to explore new paradigms. This is done through a thorough literature review of resent scholarly works in the area and a direct probe of practitioner's opinions. An attempt has been made to recognize the relationship between, creative thinking, interpersonal skills and quality health Care delivery. The purpose is to empirically elucidate the new paradigms in the principles and practices of TQM and continuous quality improvement as applied to health care industry.

KEYWORDS

TQM, Creative Thinking, Interpersonal Skills, Dimensions of Quality Care, New Paradigms and Patient Perceptions.

INTRODUCTION

This paper put forward an empirical explanation as to how some health care providers continued to achieve increasing successes in patients' perception ot their quality of Care even during the global financial crisis. Hypothesizing that creative thinking is a reflection of knowledge management, effective interpersonal skills and efficient total quality management as an organizational cultures It examined the relationship between patient satisfaction, and organizational effort in emphasizing creative thinking and interpersonal skills as new dimensions of total quality management culture. The Competing Values Framework devised by Robert Quinn and John Rohrbaugh (1983) was used to diagnose the dominant organizational culture and TQM priorities. Likert scale was used to measure the dimensions of creative thinking and interpersonal skills. The implications of this study can be of significant value to health care providing institutions experiencing various challenges and crises between their clinical excellence and sustainability as a business.. The findings could help organizations assess how their staffs and leadership interpersonal skills and creativity could be impeding or enabling their competitive advantage and ultimately their organizational success and effectiveness.

CASE BACKGROUND

Prior to the financial crisis of 2008-2010 many businesses in the health care industry have become complacent with their total quality management efforts. Their emphases have shifted from customer based quality management culture to regulations and best practice compliance standards. Since then there has been a clear paradigm shift from patient care quality orientation to defensive medicine and business oriented health care delivery. With the after math of the global crunch and the more and more regulations in the industrial TQM is once again being widely recognized as a competitive advantage and many organizations have incorporated the creative thinking and interpersonal skills (knowledge management) strategy (Marshall et al, 1996; Inkpen, 1996; Buckley & Carter, 1999; Armbrecht et al., 2001; Bell DeTienne & Jackson, 2001). Brannen and Salk (2000) cited many researchers who stated that there is a significant link between strong TQM cultures and effective organizational outcomes. Moore (1998) also stated that fostering a creative thinking, interpersonal skill and customer satisfaction oriented culture is the most important critical success factor for business sustainability efforts. Kim and Mauborgne (1999) further stated that the systemic use of creative thinking and interpersonal skills ideas are infinite economic goods that can generate increasing returns especially in the health care industry where clinical knowledge is no longer enough to establish and maintain a positive impression and positioning.

With this in mind this research questions,

- When it comes to excellence in health care, are there any relationship between clinical decisions and customer service?
- Can patient's perception of the care providing institution affect his/her degree of satisfaction and recovery?
- Are there new paradigms in total quality management that can enhance the quality of health care delivery?

METHODOLOGY

This research focused on the following questions;

1. Are there any positive correlation between Clinical decisions, creative thinking, Interpersonal skills, leadership /TQM efforts and Patient's degree of satisfaction and institutional perception?
2. Are there new paradigms in total quality management that can enhance the quality of health care delivery and business sustainability?

This research was both a correlational and a causal study. This is in an effort to determine the relationship between creative thinking and interpersonal skills and later using the two as variables intervening in the perception of quality of care delivered by a care provider. The research used a one-time survey to obtain research data. Data consisted of three major sets of information,

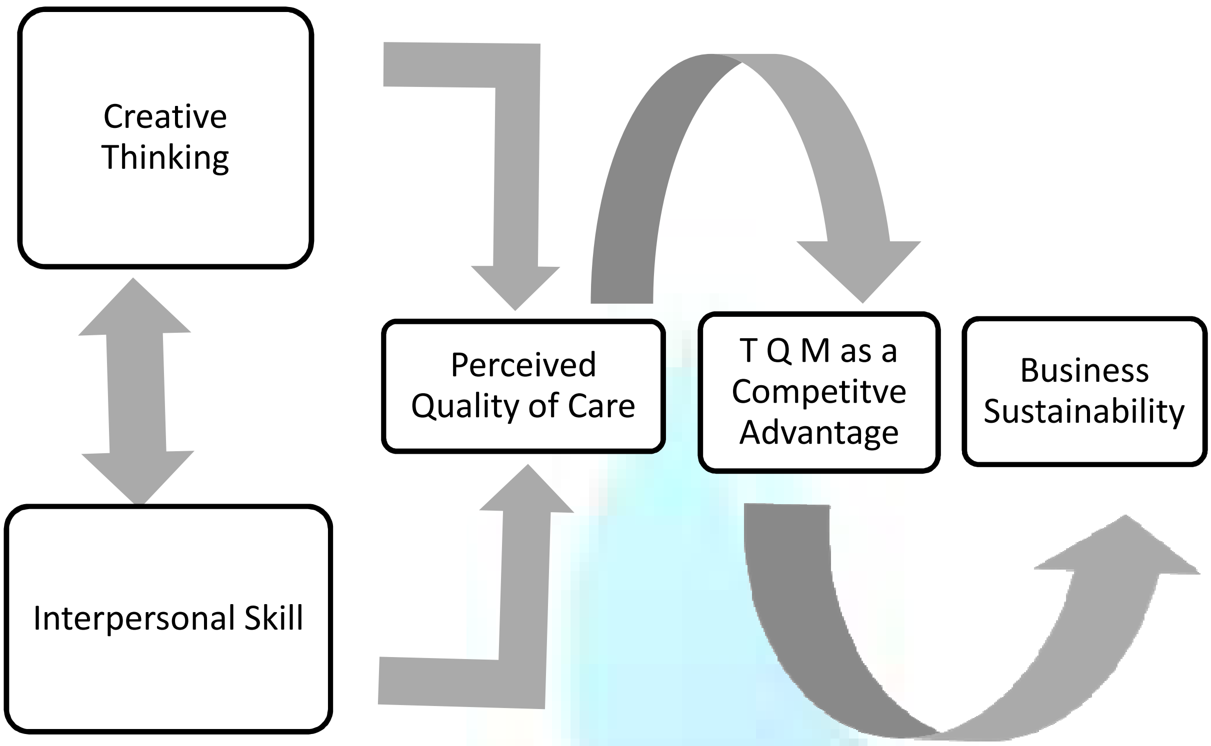
Firstly different types of organizational TQM orientations,

Secondly dimensions of Creative Thinking skills, and lastly the dimensions of Interpersonal skills.

Each of the three sets of dimensions was calculated to give the dependent variable of TQM strategic or philosophic orientation of a care providing institution.

The existence of a significant relationship was use to permit prediction.

The remaining part of this research was based of secondary data from a wide spectrum of current literature and scholarly works on changing paradigms of TQM principles mostly six sigma perspectives.



RESEARCH MODULE

The research foundation was constructed from a strong literature review and theoretical framework. These previous works suggested that there could be a relationship between creative thinking, interpersonal skills, perceived quality of care delivered by a provider of serving institution, TQM as a competitive advantage and business sustainability

- Creative Thinking= A way of looking at problems or situations from a fresh perspective that suggests unorthodox solutions (which may look unsettling at first). Creative thinking can be stimulated both by an unstructured process such as brainstorming, and by a structured process such as lateral thinking.
- Interpersonal Skill= The skills used by a person to properly interact with others. In the business domain, the term generally refers to an employee's ability to get along with others while getting the job done. Interpersonal skills include everything from communication and listening skills to attitude and deportment. Good interpersonal skills are a prerequisite for many positions in an organization. The term "interpersonal skills" is somewhat of a misnomer, because it refers to character traits possessed by an individual rather than skills that can be taught in a classroom. Within an organization, employees with good interpersonal skills are likely be more productive than those with poor interpersonal skills, because of their propensity to project a positive attitude and look for solutions to problems.
- Perceived quality of care= The Institute of Medicine defines healthcare quality as the extent to which health services provided to individuals and patient populations improve desired health outcomes. The care should be based on the strongest clinical evidence and provided in a technically and culturally competent manner with good communication and shared decision making. Total quality is best defined as an attitude, an orientation that permeates an entire organization, and the way in which that organization performs its internal and external business. People who work in organizations dedicated to the concept of total quality constantly strive for excellence and continuous quality improvement in all that they do.
- TQM= an integrative philosophy of management for continuously improving the quality of products and processes. This is based on the premise that the quality of products and processes is the responsibility of everyone involved with the creation or consumption of the products or services offered by an organization, requiring the involvement of management, workforce, suppliers, and customers, to meet or exceed customer expectations.

LITERATURE

A simple definition is that creativity is the ability to imagine or invent something new. As we will see below, creativity is not the ability to create out of nothing, but the ability to generate new ideas by combining, changing, or reapplying existing ideas. Some creative ideas are astonishing and brilliant, while others are just simple, good, practical ideas that no one seems to have thought of yet.

Believe it or not, everyone has substantial creative ability. Just look at how creative children are. In adults, creativity has too often been suppressed through education, but it is still there and can be reawakened. Often all that's needed to be creative is to make a commitment to creativity and to take the time for it.

The ability to accept change and newness, a willingness to play with ideas and possibilities, a flexibility of outlook, the habit of enjoying the good, while looking for ways to improve it, is creativity.

Creative people work hard and continually to improve ideas and solutions, by making gradual alterations and refinements to their works. Contrary to the mythology surrounding creativity, very few works of creative excellence are produced with a single stroke of brilliance or in a frenzy of rapid activity. Much closer to the real truth are the stories of companies who had to take the invention away from the inventor in order to market it because the inventor would have kept on tweaking it and fiddling with it, always trying to make it a little better. A creative person knows that there is always room for improvement.

THEORIES

Theory Concept	Characteristics
Honing Theory: Honing theory posits that creativity arises due to the self-organizing, self-mending nature of a worldview, and that it is by way of the creative process the individual hones an integrated worldview.	Honing theory can account for many phenomena that are not readily explained by other theories of creativity. For example, creativity was commonly thought to be fostered by a supportive, nurturing, trustworthy environment conducive to self-actualization. However, research shows that creativity is actually associated with childhood adversity, which would stimulate honing. Honing theory also makes several predictions that differ from what would be predicted by other theories. For example, empirical support has been obtained using analogy problem solving experiments for the proposal that midway through the creative process one's mind is in a potentiality state. Other experiments show that different works by the same creator exhibit a recognizable style or 'voice', and that this same recognizable quality even comes through in different creative outlets. This is not predicted by theories of creativity that emphasize chance processes or the accumulation of expertise, but it is predicted by honing theory, according to which personal style reflects the creator's uniquely structured worldview.

Theory Concept	Characteristics
Wallis Model of Creativity: Researcher Graham Wallis, many years ago, set down a description of what happens as people approach problems with the objective of coming up with creative solutions. He described his four-stage process as follows:	• Preparation. The person expecting to gain new insights must know his field of study and be well prepared. This seems to fit what we have experienced 0 people get inventive ideas mainly in their own fields - poets in poetry; scientists, in science. • Incubation - Wallas noticed many great ideas came only a period of time spent away from the problem. This was certainly the experience of Archimedes when he got his idea in the public bath. Many ideas come to us when we are away from the problem, usually after actively engaging with the problem. • Illumination. The "click" or "flash" of a new idea. It's a mysterious phase. Resting the mind by doing other activities was the only suggestion Wallas could offer about how creative ideas form. • Verification. In this final step, efforts are made to see if the "happy idea" actually solves the problem. Since "great" ideas don't always work out in actual practice, this final step is vitally important to the success of any project.

We know that invention comes only in a person's field of specialization. Wallas is right when he says there must first be a Preparation stage: people have to become knowledgeable in some field before they may expect ideas to "dawn" on them in that area. Probably the more we know, the more apt we are to get new ideas. Novel ideas seem to come from a fortunate scrambling of information we already have, and yet, certain threshold level of knowledge seems necessary for creativity, creative breakthroughs are not always the product of the most expert thinkers in a discipline.

Theory Concept	Characteristics
Theories of Creative Thinking: Three Perspectives Can be divided into three categories: a) Supernatural Perspective: • The supernatural perspective is a traditional view of creative thinking. • In this perspective, people are born with creativity and are not made it through training b) Rational Perspective: • Rationalism presents the creative process in terms of natural consequences resulting from the application of universal principles. • This view holds that all activities of our world complement one another c)Developmental Perspective: • Developmental appears to present an overall view of how creative thinking develops as an individual grows to maturity. • The creative growth stages includes the world, the egos and the others, is one of energy transformation from one level of growth to the next stage of development to adulthood.	• Each of us has creative talents that reflect our individual personality and experiences in pursuing creativity. • Most often people who believe that they are creative will achieve success in their career. • In order to achieve creativity, we must be able to think positively and have a good attitude for example willing to learn new things to improve your level of knowledge and educational. • A positive attitude and mindset for beneficial change guides your brain and energy toward getting the results your desire.

Theory Concept	Characteristics
Teresa Amabile Theory of Creativity: In Amabile's theory of creativity, three important components: • Domain-relevant skills. • Creativity-relevant mental processes. • Task motivation.	• Breaking sets that break out of old patterns of thinking about something. • Breaking out of scripts, which is much the same thing, • Perceiving freshly that is, changing one’s old ways.

Amabile summarizes her views on creativity in the context of a discussion of how to increase the chances of raising children who can think creativity. She presents the some of the thinking styles that are often observed in creative adults. A number of researchers have stated the belief that situations which demand creative thinking are so novel that one’s past experience cannot be applied to them without large scale modifications.

BUSINESS SUSTAINABILITY

Theory Concept	Characteristics
3-legged stool model:	The 3-legged stool metaphor reinforces the three dimensions that are required for us to enjoy a high quality of life and shows that society is unstable if one of them is weak. The downside of this metaphor is that the economic, environmental, and social legs look separate and equal.

Theory Concept	Characteristics
3-overlapping-circles model:	The overlapping-circles model of sustainability acknowledges the intersection of economic, environmental, and social factors. Depending on our mindset, we re-size the circles to show that one factor is more dominant than the other two. Unfortunately, this model implies that the economy can exist independently of society and the environment that the part of the red circle that does not overlap with the blue and green circles has an existence of its own. This large incongruity leads us to the next, more accurate model.

Theory Concept	Characteristics
3-nested-dependencies model:	It's the people in societies who decide how they will exchange goods and services. That is, they decide what economic model they will use. Because they create their economies, they can change them if they find their current economic models are not working to improve their quality of life. He proposed that , the society-economy relationship is symbiotic. During the recent recession, the economic downturn had a significant impact on people's quality of life. Good jobs are so important to a vibrant modern-day society that sustainability champions who portray the economy as subservient to society are sometimes accused of being naive about how the "real world" works.

Dr.Matthew Tueth, . reiterates the ideas put forward by authors such as Paul Hawken (The Ecology of Commerce and Natural Capitalism), Bill McDonough and Michael Braungart, and Janine Benyus when he proposes that a mature and authentic sustainable business contains six essential characteristics.

- Triple top-line value production (TTL):

"The TTL Establishes three simultaneous requirements of sustainable business activities, financial benefits for the company, natural world betterment, and social advantages for employees and members of the local community with each of these three components recognized as equal in status." Whereas many businesses use the Tripple Bottom Line, "triple top line" stresses the importance of initial design and is a term attributable to McDonough and Braungart in their book Cradle to Cradle.

- Nature-based knowledge and technology:

"This principal involves the conscious emulation of natural-world genius in terms of growing our food, harnessing our energy, constructing things, conducting business healing ourselves, processing information and designing our communities"

- Products of service to products of consumption:

"Products of service are durable goods routinely leased by the customer that are made of technical materials and are returned to the manufacturer and re-processed into a new generation of products when they are worn out. These products are mostly non-toxic to human and environmental health but toxic materials that are used will be kept within a closed loop type system and not be able to escape into the environment. Products of consumption are shorter lived items made only of biodegradable materials. They are broken down by the detritus organisms after the products lose their usefulness. These are also non-hazardous to human or environmental health. This principal requires that we manufacture only these two types of products and necessitates the gradual but continual reductions of products of service and their replacement with products of consumption as technological advancements allow.

- Solar, wind, geothermal and ocean energy:

"This principal advocates employing only sustainable energy technology like solar, wind, and ocean and geothermal, that can meet our energy needs indefinitely without negative effects for life on earth." Other authors, such as Paul Hawken, have referred to this as utilizing current solar income.

- Local-based organizations and economies:

"This ingredient includes durable, beautiful and healthy communities with locally owned and operated businesses and locally managed non-profit organizations, along with regional corporations and shareholders working together in a dense web of partnerships and collaborations."

- Continuous improvement process:

"Operational processes inside successful organizations include provisions for constant advancements and upgrade as the company does its business. The continuous process of monitoring, analyzing, redesigning and implementing is used to intensify TTL value production as conditions change and new opportunities emerge.

FINDINGS AND DISCUSSIONS

Most health care providing institutions like hospitals , clinics, hospice homes etc., do not interpreted TQM in the way that other services based industries like hotels, educational institutions, air lines just to mention but a few. This observation is not limited to public sectors only but also in the private. This research observed with interest that health care providers are more concerned with the quality and results of their clinical decisions than the entire customer satisfaction as a business philosophy.

Health care providers focus their TQM efforts on the patient rather on the entire families and relatives of patients who are in one way or the other involved in judging how well or not the institution is. The notion that quality of care is only about Doctors and Nurses undermines the fact that patients and their relatives spent more time in contact in the hospital with none clinical staff than they do with clinical staff and as such if their perception and impression of the non-clinical staff is negative it affects their entire perception of the institution, regardless of the quality of clinical interventions

The aspect of management concerned with quality policy and an organization's production
Function, including, for example, mechanisms for producing products to specifications,
Designing products that customers desire, and producing the technologies that expand
what can be produced (product technology) and how well it can be produced (process technology), and mechanisms for improving quality management

According to Anderson EA, Zwelling LA. Quality management is one of the most important and most debated topics within the service sector. This is especially true for health care, as the controversy rages on how the existing American system should be restructured. Health care efficiency and sustainability aimed at reducing costs and ensuring access to all. No one wants to jeopardize the quality of care. As such, total quality management (TQM) has become a vital ingredient to strategic planning within the health care domain. At the heart of any such quality improvement effort is the issue of business sustainability and competitiveness. TQM cannot be effectively utilized as a competitive weapon unless quality can be accurately defined, measured, evaluated, and monitored over time. Through such analysis a hospital can elect how to expend its limited resources toward those quality improvement projects which will impact customer perceptions of service quality the most. Thus, the perception of the quality of care by the patient becomes crucial in directing the actions of management

As Conclusion, in today's leading organizations recognize that sustainability is an essential aspect of their business strategies. A broader, more creative plan for sustainability can only drive efficiency and innovation across the enterprise to satisfy customer needs in the competitive markets. We believe that developing sustainable business solutions should be easy, affordable and create measurable economic, ecological and social values Creative thinking can be the method to obtain this Sustainable business solution. Business sustainability starts with innovation that needs three components that is creative thinking skills, expertise and motivation.

Expertise in sustainability is required as to enable the best decisions to be made. Within a sustainability context, people often fear that an innovation developed today may create bigger problems in the future if everything about it is not clearly understood at the present time. Creative thinking skills and motivation come hand in hand. They are enhanced through better incentives and rewards. It is increasingly argued that people respond better to non-financial incentives such as the feeling of personal satisfaction, self-esteem building and reputation. Creative thinking skills are also driven by dynamic organizational structures which are less rigid, and less hierarchical than non-dynamic ones where roles are less well defined and people are free to move through the organization. It's also important to consider the implications of framing sustainability within a human wellbeing context for creativity and motivation.

Finally it's important to remember that the components all influence each other and work together to create the right mix for sustainable innovation. Increased motivation encourages the quest for expertise and creative thinking skills through increasing desire to find new ways of solving problems. A creative thinking skill increases motivation as people like being creative and will encourage the search for new paths to expertise.

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IMPACT OF CSR INITIATIVES ON CONSUMER BEHAVIOR

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ABSTRACT

Corporate social responsibility (CSR) is a form of corporate self-regulation integrated into a business model. The primary objective of CSR activities is to create a positive impact on the environment, community, employees, customers, suppliers and other members who impact and are impacted by business. The present study focusses specifically on consumer attitudes towards CSR. This study has been conducted on a sample group of 100 consumers, male and female, who belong to different age groups and who are at different stages in their life cycle. It tries to throw light on consumer awareness of this concept, their expectations from businesses, the role CSR plays in their buying decision, the negative activities that consumers consider unacceptable and may resort to boycotting products, the need for communication CSR initiatives by companies to their current and prospective consumers and even consumer skepticism towards CSR oriented companies. In this age of superior technology where information travels like the speed of light, it is important for companies to adopt the right business practice that increases their reputation and credibility in the eyes of the most important stakeholder – the customer. CSR practices become a point of differentiation for company and enable it to position itself right in its target market segment.

KEYWORDS

Corporate Social Responsibility, Stakeholder Theory, Triple Bottom Line, Differentiation Strategy.

INTRODUCTION

In the words of Peter Drucker, “The 21st century will be the century of the Social Sector Organization. The more economy, money and information become global, the more the community will matter.” The term "Corporate Social Responsibility" (CSR) came in to common use in the late 1960's and early 1970's, after many multinational corporations formed. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, CSR-focused businesses would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. A business succeeds on innovative ideas, good decisions and implementation of the above. CSR encourages companies to carry out these basic business practices keeping in mind the protection and promotion of international human rights, labor and environmental standards and legal and ethical requirements. While obligations to these stakeholders are sometimes considered to be motivated by organizational self-interest, the ethical perspective asserts the rightness or wrongness of specific firm actions independently of any social or stakeholder obligations. Customers are key stakeholders that help establish the firm's reputation and identification. Among all the market stakeholders who assist a business in providing goods and services are consumers who are vital to the very existence of a business.

LITERATURE REVIEW

According to the EU Commission [(2002) “…CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.” There are two schools of thought on CSR, the Shareholder Concept and the Stakeholder Concept. According to the Shareholder Concept, management‘s only social responsibility is to maximize profits. Milton Friedman (1962) maintains that there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud. The Stakeholder Concept emphasizes that all stakeholders – groups that affect and are affected by an organization’s policies, decisions and operations – interests must be considered for long term sustainability. The term stakeholder came into practice only after it was popularized by Edward Freeman (1984). As demonstrated in Carroll and Buchholtz’s (1996) Pyramid for Social Responsibility, there are four responsibilities that every business is expected to fulfill – Economic, Legal, Ethical and Discretionary from bottom-up in that order. Firms performed really well if they voluntary developed social responsibility measures instead of being forced by law (Bryan Husted and Jose de Jesus Salazar, 2006). More recently, recognition of CSR initiatives has increased dramatically. Companies today are adopting CSR practices to an extent of it being a fad (Guthey, Langer, & Morsing, 2006). The pharmaceutical giant Bristol Myers Squibb has been ranked no. 1 in the Corporate Responsibility Magazine’s list of the “100 Best Corporate Citizens” for the year 2012, not to mention that it has consistently figured in the top 10 in the past 5 years. Companies like IBM, Nike and Johnson Controls figure in the top 10. It may be remembered that Nike had been embroiled in cases of child labor in its overseas factories in Asia. Hence there a theory that CSR is being used by companies in order to cover up their flaws or past mistakes.

STATEMENT OF THE PROBLEM

Even though CSR has attained great popularity heights in recent times, there is not enough research to suggest the positive response that consumers are willing to give it. Unless CSR initiatives have a positive impact on consumers chances are that organizations would not take proactive measures to design and implement policies and programs relating to it. Hence it is imperative to find whether consumers are self-centred and are looking for the usual price, quality and personal benefits from goods and services or whether they are willing to go the extra mile and look at how the organisation impacts other facets of society.

SCOPE OF STUDY

The study is limited to Indian expatriates who are residents in Dubai, which is the commercial capital of the United Arab Emirates. Respondents are from both genders, age groups from 15 to 50+ and catering to earning family income of Dhs. 240,000 and above p.a.

OBJECTIVES OF THE STUDY

- To assess the awareness of consumers about CSR
- To assess the importance consumers give to CSR in their purchase decisions
- To assess the negative corporate practices that lead consumers to alienate themselves from such companies and impose sanctions.
- To assess if consumers are interested are knowing about CSR initiatives that their favourite brands and companies are involved in

METHODOLOGY

The data that is needed for this research have been taken from both primary and secondary sources. Questionnaire is the instrument that is used to collect information from 100 respondents. Journals, magazines, corporate websites and management books have been sources of secondary data. The information has been analysed qualitative and quantitatively through charts and graphs to arrive at the findings and recommendations.

SURVEY RESULTS AND ANALYSIS

The effect of the usefulness of CSR activities can be understood only if it is used strategically for business development purposes. Some companies have very little CSR initiatives but their proper marketing strategies give them a significant boost compared to some other companies who involve themselves in many socially responsible practices but fail to make their consumers aware about it. Today's market is a very consumer-oriented one. The consumer is rightly known as the king of the market. Hence, for an organization to succeed it is extremely important that it understands the needs, wants, likes, dislikes, motivation and factors that affect the overall purchase behavior of its consumer base. It is essential that a business corporation understands the effect its business practices has on consumers and stakeholders. Similarly when CSR is used as a business development strategy, it is vital to comprehend its effect on consumers. Hence, a questionnaire targeted for a convenience sample group has been framed and the findings and analysis of the survey would be evaluated below. The sole purpose of this survey is to investigate the missing link between consumer perception of a company's socially responsible practices and their intentions to buy products marketed by that company. To test this hypothesis, a survey was conducted among a group of people, majority of which were either clients of retail chains or FMCG (Fast Moving Consumer Goods) stores. For the purpose of the survey the sample group was divided into various groups based on demography and occupation.

SAMPLE SIZE AND DEMOGRAPHICS

The total sample size for the survey is 100 Indian expatriates – 40 males and 60 females - who are residents of Dubai. The entire sample group had been divided into four distinct age groups as different ages and stages in life cycle bring about different perspectives in the minds of a consumer. It is clear from the graph below that majority of the sample population (65%) consisted of students and young professionals between the ages of 15-25. The number of people within the age group of 25-35 and those in the 50+ age group are the same (15%). The least sample size (5%) is of that group of people whose ages lie between 35-50 years.

TABLE 1: DEMOGRAPHIC DISTRIBUTION OF SURVEY TAKERS

Age group	Percentage
50+	15%
35-50	5%
25-35	15%
15-25	65%

CSR AWARENESS

In order to understand whether an organization's CSR activities has an impact on the consumers purchasing behavior it is mandatory to know whether the consumers are aware of what CSR stands for, hence the question about general awareness of corporate social responsibility initiatives and the source of their knowledge. Those who were aware of CSR initiatives were then further asked where they came across the term. The sources could be print media, television, Management journals, books, company literature etc. The graph in Fig 2 indicates that around 75% of the sample population is aware of the term CSR. It is vital for businesses to know whether their potential consumers are aware of what CSR initiatives actually mean. CSR can be effectively used by a company as a business development tool only if it is marketed well to their consumers and stakeholders such that it creates a positive impact on them. It increases their faith for the brand. Hence, if customers are not aware of effective CSR measures then companies need to do the needful. Survey again shows that ¾ (75%) of male population is aware of CSR initiatives while 2/3 (roughly 66%) of females are aware of the term CSR. Hence, companies can effectively take measures to improve CSR awareness among females. This can be done more so by companies producing products that are likely to catch female attention like beauty products, cooking accessories, food articles etc. Figure 3 is a column graph indicating that the awareness of CSR initiatives is optimum (almost 100%) in the age group of 35-50 years. A valid reason for this can be that people within this age group are well settled. Many of them may even be part shareholders of some companies and hence, they would know of the CSR initiatives associated with that particular organization through company literature or AGMs (Annual General Meetings). Following that is the sample population within the age group of 25-35 years (84.61%). This age group mainly consists of students and fresh graduates. Today students and young adults are socially aware about their environment not just through academics but also through social media.

TABLE 2: DEMOGRAPHIC DISTRIBUTION OF THOSE AWARE OF CSR INITIATIVES

	Age group	Percentage	Gender	Number of respondents	Percentage
Aware of the meaning of CSR	50+	64%	Male	30 out of 40	75%
	35-50	100%	Female	40 out of 60	66%
	25-35	44%	Male	10 out of 40	25%
	15-25	84.6%	Female	20 out of 60	34%

OUTSTANDING CSR INITIATIVES MENTIONED BY RESPONDENTS

An open-ended question wherein respondents were asked to mention pioneering CSR initiatives by local and international organizations elicited considerable response. Case studies of such exemplary CSR initiatives give top management a chance to see what strategies competitors' adopt and what strategies would suit their own corporate goals. In today's highly competitive and dynamic market it is important to understand competitor strategies and change our course of action accordingly. A few cases are:

- Commercial Bank of Dubai (CBD) extends its helping hand in spreading public awareness about benefits of recycling. CBD supports events like 'Clean up UAE' to create awareness about the indiscriminate use of resources and irresponsible disposal of waste material. It was the main sponsor of the 'Clean up UAE' campaign held in Abu Dhabi on 12th December, 2010 by the Emirates Environmental Group.
- Emirates National Oil Company (ENOC) in Dubai continues to promote Go Green, a waterless car wash initiative wherein cars are cleaned and shined without using a single drop of water, thereby saving precious resources and preventing detergents from polluting the environment.
- The TATA group puts special emphasis on environment and the ecology. A trust fund, among other things, supports activities like conservation of natural resources, conservation of forest and sanctuaries. The TCCI (Tata Council for Community Initiatives) undertake community development programs involved

in health, education, woman-child welfare, income generation and other initiatives that is communicated to stakeholders through 'Code of honor', a special edition of the TATA Review.

- Wipro has three thrust areas in CSR: Education, Environment and Energy Efficiency through Wipro Cares and Eco-Eye
- Coca-Cola had combined with World Wildlife Fund yet again to protect polar bears in the Arctic region apart from continuing to support improvement of water resources across the world.
- Starbucks Coffee places special emphasis to ethical sourcing i.e. doing fair trade of coffee by making fair payments to coffee growers while also carrying out commercial recycling of wastes.

CONSUMER PURCHASE BEHAVIOR

To get a smooth start on the survey the consumers were initially asked about their shopping preferences. This was a necessary question for two reasons. Companies get a rough estimate as to what products consumers like to buy. Hence, they can effectively use their CSR strategies specifically on those products to further improve their appeal. For e.g. fancy stationary is a favorite among school-going children. ITC's notebooks are a big attraction to kids due to their paper quality and neatly bound covers. At the same time its price is a little higher compared to regular brand notebooks. But ITC has a conditional donation policy. On the purchase of every ITC notebook Rs. 1/- goes to an Indian NGO organization CRY (Child Relief and You) which primarily secures the basic rights of Indian unprivileged children. Hence, parents may decide on paying a slightly higher price for the notebook if it is attached to such a noble cause.

For this particular survey consumers were asked to give their preferences in five different categories. They are grocery, clothes and apparel, electronic gadgets, automobiles and Furnishings and art. The results of the table (Fig 3) show that majority of the sample population is interested in buying clothes and apparel. The second position is secured by electronic gadgets. Automobile, groceries as well as furnishings and art items are clearly not consumer favorites and have the same percentage in the table below.

TABLE 3: CONSUMER PURCHASE BEHAVIOR DISTRIBUTION

	Preference in purchasing	Weekly / Fortnightly	Monthly / Bimonthly	Yearly	Further than a year
Grocery	5%	66%	32%	4%	-
Clothes and apparel	45%	14%	55%	9%	-
Electronic gadgets	40%	2%	24%	50%	24%
Automobiles	5%	-	-	-	100%
Furnishings and Art	5%	-	-	12%	88%

Following this an analysis is done in order to find out the frequency of these purchases. As mentioned earlier, frequency of purchases gives organizations a hint about products or services that should be concentrated on while devising CSR policies. Moreover an estimate of product purchase frequency prior and post of the launch of a major CSR initiative by a big brand also helps companies to evaluate the impact of this initiative on their customers. But change in purchase behavior can be influenced by various other factors. Hence, they should not completely rely on these statistics for evaluating the effectiveness of their CSR program. Fig 5 shows that although electronic gadgets are one of the most sought after items, most people prefer to buy them at a less frequent rate. Half of them have selected 'once a month option' while the others have gone for the once a year option. This can be due to difference in earning capacities of different people. More so it can also be attributed to the longetivity and the price of certain gadgets that does not allow purchase on a frequent basis. A majority of people prefer the purchase of clothes and apparel on a monthly basis (55.55%) and then followed by fewer people (22.22%) who purchase it once a fortnight. This indicates that the textile industry can efficiently plan their social responsibility goals. They can include measures such as donating a certain percentage of the product price for charity. Companies can come up with more innovative ideas such as producing certain clothes from ways which are environmentally favorable. And more so they should be able to attract a specific consumer group who is ready to pay a higher price to buy such products just because they are produced in an environmentally friendly manner. From the survey it is seen that not many people enjoy grocery shopping. It seems more like a chore. Also, groceries fulfill our daily needs. Hence, most people would prefer buying goods and services that are superior in quality, lower in price, easy to access etc. Not much attention would be given to the corresponding CSR initiatives of the brand. The other two commodities including automobiles and furnishing and arts are commodities that are not purchased at a very regular frequency. Hence whenever they purchase consumers would be less interested in looking at the corporate social responsibility matrix of the brand. Yet, the automobile industry has a huge scope for environmentally conscious business practices. Demand for automobiles with lower emissions, electric vehicles (those not running on combustion engines), hybrid vehicles etc. is constantly rising over the years. Tesla, a US- electric car manufacturer has come up with a new car model called the 'Roadster'. Tesla's Roadster has a very high price tag compared to other cars. But at the same time it has a US Environmental Protection Agency (EPA) rating of 135 which makes it atleast three times more efficient than usual hybrid cars.

ASSESSMENT OF CRITERIA AFFECTING PURCHASE DECISION

While seeking a particular product or service consumers consider a lot of factors. A product can be ranked good or bad based on a number of criteria like quality, price, reliability, availability etc. Also, the ranking differs from person to person. The primary purpose of this survey is to find out whether socially responsible business practices have an impact on consumers or not. Hence, one more factor was added to the ones mentioned above, namely, CSR initiative by the respective company. It is necessary to know the importance that CSR initiatives get in comparison to other factors like price, quality, reliability, physical appearance etc. As shown in Fig. 4, 75% of the sample population gives maximum importance to product quality and reliability. Around 40% of people consider physical appearance the most important factor in their purchase decisions. It is then followed by price. 35% of the sample population considers price as a very important deciding factor. Around 30% of the sample population is more brands conscious and have given maximum importance to brand value. It is very clear from the graph that CSR initiatives are hardly given any importance in comparison to other factors. Only 5% of the sample population feels that the social responsibility initiatives can also be an important criterion for product selection.

TABLE 4: DISTRIBUTION OF DIFFERENT FACTORS CONSIDERED WHILE PURCHASING A PRODUCT

Company Brand Value	30%
Price	35%
Product Quality & reliability	75%
Aesthetic appearance	40%
CSR initiatives by the company	5%

Following this analysis, further analysis was made of the varying importance level of CSR itself. Survey takers were asked to compulsorily consider CSR as a factor in their purchase decision. They were then asked to rate the level of importance they give to corporate social initiatives while purchasing products/services of the brands of which they are regular clients. The rating was done on a scale of 1 to 5(1 being most important and 5 being the least). The results can thus be displayed in the form shown below. Out of the entire sample population only 5% thinks that corporate social initiatives is the most essential parameter in purchasing decisions. Around 20% think it is more important than many other factors and greatly influences purchase behavior. Majority of people (40%) think that it is important but there are other factors which have greater significance. 25 % of the sample population thinks that it is not an important factor and they give it lowest priority while purchasing goods and services. And finally, the remaining 10% sample population gives it least importance. They do not think of considering CSR initiatives at all in their purchasing criteria.

BOYCOTTING GOODS AND SERVICES

As important as it is for companies to identify criteria that motivate consumers to opt for a brand, it is equally important, if not more, for companies to identify what activities they should avoid so as not to incur wrath of consumers. Respondents were asked as to which of the following activities clash with their ideals and hence would instigate them to boycott the company's products.

TABLE 5: PRIORITIZING ACTIVITIES THAT FORCE CONSUMERS TO ALIENATE THEMSELVES FROM BRANDS

	First priority	Second priority	Third priority
False and misleading advertisements or information	13%	19%	45%
Incompatibility between price and quality of products	31%	41%	22%
Unethical work practices in supply chain	-	8%	4%
Infringement on consumer privacy	-	5%	16%
Instances of violation of law	56%	28%	13%

Fig 5 indicates that consumers give top priority to adhering legal rules and regulations and would not tolerate companies that break law. Wherever companies charge high products that do not offer value for money, it signals the end for the company's products. It is a question of providing satisfaction by delivering whatever is being promised and meeting consumer expectations. If a accompany defaults in this aspects, consumers may not willing to forgive easily. Consumers consider misleading information and false advertisements as a demotivating factor for supporting an organization's products. Even though there are legal regulations that a consumer can turn to for assistance, it is not every consumer who turns to consumer courts and Consumer Protection Act for recourse. They would rather boycott the goods and services of a company or bad mouth the company which would permanently damage the credibility and reputation of a company. The relatively low priority given to unethical practices in supply chain and infringement on consumer privacy may be due to the fact that consumers are unaware of the implication of such practices or reporting of such practices is uncommon in the sample group circle. In the US, consumer groups had boycotted Nike's products because of child labor and other unethical practices that Nike's manufacturing units in China were involved in.

In addition to this 66% of consumers have responded that they will boycott good and services of a manufacturer who is involved in even one of the above mentioned activities, 27% will boycott if their company of interest is involved in two of these activities, and 7% feel that three or more activity involvement may force them to apply sanctions to the company products.

WHAT IF CSR COMES AT A HIGHER PRICE?

One question in the survey was targeted at knowing how consumers react to high price tags on their favorite products/services simply because their respective brands are involved in socially responsible practices. For this they were given a hypothetical situation. They were asked to consider two companies, Company A and Company B, both marketing the same product of the same quality. Company A is involved in CSR activities and charges a little bit higher for its product. While company B is not involved in any such activities and provides its product for a cheaper price. Customers had to then select the company that they would approach. The results of this question would explain whether consumers would be willing to pay a higher price for the fulfillment of CSR initiatives or not. 45% of the sample population is willing to pay a higher price for social initiatives. This can be considered a very positive sign. Generally, there can be many other parameters that consumers would consider before paying extra for it. Sometimes the decision is best in the present circumstances but may not hold for long term. For e.g. a consumer who is very loyal to a particular company may pay a bit higher or even be involved in philanthropy if the company is willing to provide some monetary help for the development of Tsunami – struck Japan. But if the company starts charging a higher amount on a regular basis for on- going CSR initiatives then the consumer would not be willing to pay an extra amount when he can get the same services at cheaper rates from other brands.

CONSUMER SUPPORT FOR VARIOUS TYPES OF CSR ACTIVITIES

The next question in the questionnaire was about the kinds of corporate social initiatives. It was a multiple choice question wherein consumers had to select one CSR activity that they would support the most. The various choices included were as follows:

TABLE 6: BREAKUP OF CONSUMER SUPPORT FOR VARIOUS ACTIVITIES

Activities catering to employees security and welfare	15%
Activities having a positive impact on the environment and community	11%
Supporting causes like HIV, Polio and natural disasters like Tsunamis, earthquakes etc.	12%
Adopting a code of business ethics across organizational functions	18%
Providing information for consumers to take educated and Protecting consumer interests and privacy in the digital age	32%
Adopting principles of good corporate governance	12%

This gives an indication to companies on the kind of CSR initiatives that would help them generate publicity.

CONSUMER WILLINGNESS TO LEARN ABOUT CSR

It was observed that many consumers who were loyal to a particular brand for its products/services were unaware of the fact that their favorite brand is involved in many sorts of socially responsible business practices. It is not common practice among most companies to communicate their CSR practices to their stakeholders, especially consumers. Hence, participants were asked if they would be interested in knowing about these initiatives or they would consider it as spam mail. The result indicates that 85% of the sample population would be interested in knowing about such activities while 15% would not be willing to get informed.

As a corollary to the above question, participants were then further questioned about the impact of awareness of these activities on them. It is necessary to know the manner in which consumers are affected once they are aware about the social initiatives that their most desired brands are involved in. The aim of including this question was to find out if this information brought any change in their purchase decisions. Majority of them included one of the following responses in their answer:

- It would bring a positive change in attitude towards the company
- Increase in the purchase of products and services.
- Increase faith in the brand.
- Skeptical of the effectiveness of the program and the motive.

IMPACT OF SURVEY ON INDIVIDUAL'S PERCEPTION OF CSR

The sole purpose of including this question was to assess if the survey made consumers more vigilant about CSR and if it would bring about any change in their purchasing behavior. The results of this question are shown in the graph below. Around 90% of the population replied affirmatively. But out of those who replied positively only 45% agreed that the survey would bring about a change in their purchase pattern. Out of the remaining 10%, half of them required more information on corporate social responsibility to make any changes. And the rest 5% were indifferent to the survey. The survey made no difference to their purchasing decisions.

TABLE 7: ASSESSMENT OF RESPONDENT'S PERCEPTION AFTER SURVEY

90% gave their verdict that the survey had increased vigilance towards CSR	Will have a positive effect on consumer behavior	45%
	Will have a positive effect but not much change in purchase pattern	30%
	More information required about CSR to incorporate changes in buying pattern	10%
	Survey made no difference	5%

KEY FINDINGS

- Majority of the consumers across age and gender are aware of the term CSR.
- Consumers consider other factors like quality, company/brand value, physical appearance, reliability etc. much more important than corporate social responsibility measures.
- A particular segment of knowledgeable consumers may even be willing to pay a higher price for products/services because of the company's ethical policies or involvement with CSR initiatives.
- Majority of consumers support activities that have a positive impact on the environment and community.
- Most consumers are willing to know more about CSR initiatives of their preferred brands/companies.
- Few consumers are intelligent enough to question the motives of companies that back CSR.
- A sizeable number of consumers know about local and international companies that are involved in CSR and age old philanthropy practices.

RECOMMENDATIONS

Corporations must accept their consumer as an important and primary stakeholder who plays a major role in improving sales and in turn the company's bottom-line.
Corporations must align their CSR practices with their overall corporate goals and business strategies.
Corporations need to associate themselves with the right kind of NGOs that help to channelize their resources effectively and efficiently.
Companies must communicate their CSR initiatives to their consumers, among other stakeholders, through every possible way.
Companies must not resort to CSR gimmicks as consumers tend to see through them which will affect their credibility in the long run.

CONCLUSION

Corporate social responsibility is a regulatory mechanism wherein companies go beyond their main aim of making profit. In a crowded marketplace, a company's unique selling proposition that can differentiate it from competition in the minds of consumers is CSR. CSR can play a major role in building customer loyalty based on distinctive ethical values. Among all the external stakeholders it is customers who wield power over an organization by deciding to buy or boycott the company's goods and services which in turn affects the organization's survival and growth. Several major brands, such as The Co-operative Group, The Body Shop and American Apparel are built on ethical values. Business service organizations can benefit too from building a reputation for integrity and best practice. Companies need to continuously innovate and formulate various business strategies in order to survive and grow and one proven model is through CSR. This survey is an attempt to assess consumer opinions and ideas about CSR to enable companies to formulate effective business strategy. The present survey can be extended to other groups of stakeholders such as employees, potential investors, creditors etc. All across the world social expectations are changing. People expect business to not just make profits but are also keen to know the methodology adopted by a business in making these profits. Business is expected to be on the right side of law and balance its social, legal and economic obligations to multiple stakeholders. The key to business survival is this ability to adapt effectively to changing conditions in the external environment.

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CAPITAL STRUCTURE (DEBT-EQUITY) OF INDIAN REAL-ESTATE INDUSTRY (IREI): A STUDY

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ABSTRACT

In this paper, an attempt has been made to study the "Capital Structure (Debt-Equity) of Indian Real-Estate Industry (IREI)". To this end, 6 Real-Estate companies have been chosen basing on the value of fixed assets of Rs. 10,000 millions and above. An analysis of long-term solvency, impact of financial leverage on the shareholders' earnings and justification for the use of debt by the Indian Real-Estate industry through the application of ratio analysis, trend analysis and statistical test has been undertaken. From the study, it is found that Indian Real-Estate Industry depended on equity financing. The debt-equity mix of IREI tended to be pro-equity. The degree of financial leverage did not alter the earnings of the shareholders un-favourably in IREI. The interest coverage has been sufficient in IREI and therefore, justification for the use of debt is valid.

KEYWORDS

Debt-Equity Ratio, Financial Leverage, Indian Real-Estate Industry (IREI), Interest Coverage Ratio.

INTRODUCTION

One of the most critical areas of the finance function is to make decisions about the firm's capital structure. Capital is required to finance investments in plant and machinery, inventory, accounts receivable and so on. The term 'Financial Structure' refers to a firm's total liabilities. The current liabilities, funded debt and net worth including surplus and the various kinds of stock constitute the financial structure (Burtchett, F.F., and Hicks). The items on the liabilities side are of two kinds - those representing claims of creditors and those representing the claims of equity owners (Guthmann, H.G1976). The meaning of "Capital Structure" is sought to be limited to long-term sources of funds, viz., share capital, retained earnings and long-term borrowings. The term 'Capital Structure', therefore, has been generally defined to include only long term debt and total shareholders' investment (Walker, E.W, 1976).

It's necessary that companies should have optimal capital structure that can maximize the price of the company's stocks. Companies can choose a mix of financing options to finance its assets but it is very necessary that they choose the financing options that maximize its overall value. When companies don't have debt in their capital structure, then they are unlevered while on the other hand if the companies have debt in their capital structure then they are called leveraged firms. Unlevered company's total assets are always equal to total equity and it is the total value of the company. Proper planning of capital structure also helps companies to enlarge their area for getting funds as well as creates the mobility of sources of the funds.

OBJECTIVES

In order to study the capital structure of IREI, it is proposed to cover the following:

- Assessment of Long-term Solvency through debt-equity ratio.
- Impact of financial leverage on the earnings of shareholders.
- Justification for the use of debt through interest coverage ratio.

METHODOLOGY

A multi-stage purposive sampling technique is adopted in selecting the sample companies for the present study. In the first stage, 36 Indian Real-Estate Companies which are listed in the Bombay Stock Exchange are considered as universe for the study. In the second stage 16 companies whose turnover is Rs. 10,000 millions or more are identified. In the third and final stage, 6 companies are selected based on Return on Capital Employed (ROCE) as sample for the present study.

ASSESSMENT OF LONG-TERM SOLVENCY

The long term solvency of a firm can be judged by using leverage or capital structure ratios. The relationship between borrowed funds and owners' funds is a popular measure of the long term financial solvency of a company. This relationship is shown by the debt-equity ratio. This is a vital ratio to determine the efficiency of the financial management of a business undertaking (Choudhary, A.B.R, 1970). This can be expressed as:

$$\textbf{Debt–Equity Ratio} = \frac{\textbf{Long Term Debt (LTD)}}{\textbf{Shareholders' Equity}}$$

DEBT-EQUITY RATIO (DER) OF SAMPLE COMPANIES OF IREI

The Debt-equity ratio is a financial ratio indicating the relative proportion of debt and shareholders' equity used to finance a company's assets. The two components are often taken from the firm's balance sheet or statement of financial position. A high debt-equity ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of the additional interest expense. A low debt-equity ratio usually means that a company has been friendly in financing its growth with debt and more aggressive in financing its growth with equity. A relatively high debt-equity ratio is observed in case of Omaxe with an average of 1.29, DLF with 0.96 and Sobha with 0.90 which are above the industry average of 0.74 times. A low debt-equity ratio is observed in Indiabulls and Vascon with 0.10 and 0.18 times respectively. Brigade with 0.74 times resembled in the industry average. The CV of debt-equity ratio of Omaxe and Brigade are standing at 56.53 and 62.18 in the order which are less than the CV of the Industry. It shows more consistency in employing the debt in their capital structure. Lower variability in the debt-equity ratio of these two companies indicates stable management of debt-equity. A high CV is found in Indiabulls with 150.90 implying less consistency.

TABLE – 1: DEBT-EQUITY (LTD ONLY) RATIO OF SAMPLE COMPANIES OF IREI

Year	DEBT-EQUITY RATIO (DER)						
	DLF	VASCON	SOBHA	OMAXE	BRIGADE	INDIABULLS	INDUSTRY
2006-07	2.59	0.05	0.67	2.60	1.63	0.00	1.68
2007-08	0.41	0.03	1.46	1.38	0.32	0.00	0.43
2008-09	0.55	0.27	1.73	1.30	0.43	0.01	0.52
2009-10	0.63	0.27	0.85	1.11	0.64	0.00	0.52
2010-11	0.85	0.37	0.67	0.87	0.69	0.28	0.70
2011-12	0.70	0.08	0.02	0.45	0.77	0.28	0.57
Mean	**0.96**	**0.18**	**0.90**	**1.29**	**0.75**	**0.10**	**0.74**
Standard Deviation	**0.81**	**0.14**	**0.61**	**0.73**	**0.46**	**0.14**	**0.47**
C.V	**85.27**	**79.97**	**68.23**	**56.53**	**62.18**	**150.90**	**63.87**

TESTING OF HYPOTHESIS OF DEBT - EQUITY RATIO

Null Hypothesis : There is no significant difference between the DER of select companies and IREI.
Alt. Hypothesis : There is significant difference between the DER of select companies and IREI.

TEST STATISTICS

Name	Mean	Industry Mean	t - Value	Sig (2 tailed)	P - Value
DLF	0.96	0.74	1.5504^{NS}	2.5705	0.1817^{NS}
VASCON	0.18	0.74	2.568^{NS}	2.5705	0.0502^{NS}
SOBHA	0.9	0.74	0.4590^{NS}	2.5705	0.6654^{NS}
OMAXE	1.29	0.74	3.0900*	2.5705	0.0271*
BRIGADE	0.75	0.74	0.1979^{NS}	2.5705	0.8509^{NS}
INDIABULLS	0.1	0.74	3.0499*	2.5705	0.0284*

*significant at the 0.05 level (2 – tailed)

After testing the statistical hypothesis, it is confirmed that, the null hypothesis that there is no significant difference between the DER of sample companies and the industry is accepted for DLF, Vascon, Sobha and Brigade and the alternate hypothesis for Omaxe and Indiabulls.

DEBT–EQUITY RATIO [LONG TERM DEBT (LTD) + SHORT TERM DEBT (STD)]

Another method to express the debt-equity ratio is to relate the total debt i.e., long term and short term borrowed funds to the shareholders' equity. This can be expressed as:

$$\textbf{Debt–Equity Ratio} = \frac{\textbf{Total Debt}}{\textbf{Shareholders' Equity}}$$

DEBT – EQUITY RATIO (LTD+STD) OF THE SELECT COMPANIES OF IREI

The debt-equity ratio (LTD+STD) is a financial ratio indicating the relative proportion of debt and shareholders' equity used to finance a company's assets. When compared with the industry average of 1.43 times, this ratio is above in DLF, Sobha, Omaxe and Brigade. A high debt-equity ratio is observed in Omaxe with 2.27 times which means Omaxe is aggressive in financing its growth with debt. The lowest ratio of 0.70 times is observed in Indiabulls followed by Vascon with 1.10 times which indicates that these two companies are friendly in financing their growth with debt. The CV of the industry is 52.02. When compared with the industry, the CV of Vascon is registered at 18.55 which shows more consistency in the debt financing with the inclusion of short term debt, the CV of Brigade in the highest unlike when long term debt alone was considered. Lower variability in the debt-equity ratio of Vascon indicates stable management of its debt.

TABLE – 2: DEBT-EQUITY (LTD+STD) RATIO OF THE SAMPLE COMPANIES OF IREI

Years	Debt-Equity Ratio (LTD + STD)						
	DLF	VASCON	SOBHA	OMAXE	BRIGADE	INDIABULLS	INDUSTRY
2006-07	4.10	0.93	1.49	4.24	3.86	0.66	2.92
2007-08	1.15	1.46	2.41	2.03	0.76	0.92	1.20
2008-09	1.03	1.19	2.36	1.83	0.93	0.50	1.02
2009-10	1.03	0.92	1.27	1.73	1.12	0.44	0.94
2010-11	1.43	1.02	1.11	1.72	1.35	0.98	1.32
2011-12	1.23	1.06	1.11	2.06	1.38	0.69	1.17
Mean	**1.66**	**1.10**	**1.63**	**2.27**	**1.57**	**0.70**	**1.43**
Standard Deviation	**1.20**	**0.20**	**0.61**	**0.98**	**1.15**	**0.22**	**0.74**
C.V	**72.44**	**18.55**	**37.24**	**43.06**	**73.32**	**31.12**	**52.02**

TESTING OF HYPOTHESIS OF DER (LTD+STD) RATIO

Null Hypothesis: There is no significant difference between the DER (LTD + STD) of the select companies and that of IREI.
Alt. Hypothesis: There is significant difference between the DER (LTD + STD) of the select companies and that of IREI.

TEST STATISTICS

Name	Mean	Industry Mean	t - Value	Sig (2 tailed)	P- Value
DLF	1.66	1.43	1.22^{NS}	2.5705	0.28^{NS}
VASCON	1.10	1.43	0.97^{NS}	2.5705	0.38^{NS}
SOBHA	1.63	1.43	0.47^{NS}	2.5705	0.66^{NS}
OMAXE	2.27	1.43	7.02**	2.5705	0.00**
BRIGADE	1.57	1.43	0.74^{NS}	2.5705	0.49^{NS}
INDIABULLS	0.70	1.43	2.37^{NS}	2.5705	0.60^{NS}

*significant at the 0.05 level (2 – tailed)

After testing the statistical hypothesis, it is confirmed that the null hypothesis, that there is no significant difference between the DER (LTD+STD) of sample companies and the industry is accepted with the exception of Omaxe.

EFFECT OF FINANCIAL LEVERAGE ON THE SHAREHOLDERS' EARNINGS

The primary motive of a company in using financial leverage is to magnify the shareholders earnings under favourable economic conditions. The role of financial leverage in magnifying the earnings of shareholders is based on the assumption that the fixed charges funds (debt carrying fixed rates of interest) can be obtained at a cost lower than the company's rate of return on its assets. Thus, 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, they get additional earnings without increasing their own investments. Consequently, the earnings per share or the rate of return on the common shareholders' equity increases. However, earnings per share (EPS) or the rate of return on equity will fall if the company obtains the fixed charges funds at a cost higher than the rate of return on the company's assets. The earnings per share and the rate of return on equity are important figures for analyzing the impact of financial leverage. [I.M.Pandey 1979]

DEGREE OF FINANCIAL LEVERAGE (DFL) IN THE SAMPLE COMPANIES OF IREI

The DFL at a particular EBIT (Earnings before Interest and Taxes) level is measured by the percentage change in (EPS) relative to the per cent change in EBIT. The following equation can be used to determine the degree of financial leverage.

$$DFL = \frac{EBIT}{EBT}$$

FAVOURABLE AND UNFAVOURABLE FINANCIAL LEVERAGE

The effect of financial leverage may be favourable or unfavourable. Positive or favourable leverage occurs when the earnings per share increases due to the use of debt in the capital structure and vice versa.

The impact of financial leverage on earnings per share as well as, return on equity of all the sample companies and industry are shown in Table 5.17. The trends in the degree of financial leverage of the industry has shown an uptrend from 100 to 196, but the trends in the ROE fell a steeply from 100 to 9. Similarly, the trend in EPS also has declined from 100 to 49 during the study period. Hence, it is therefore, evident that the increase in the degree of financial leverage has not impacted favourably either the ROE or EPS.

The trends in the degree of financial leverage of DLF and Vascon have moved up from 100 to 216, and 100 to 223, whereas the trends in ROE slided down from 100 to 8 and 100 to 10 respectively. Similarly EPS also has fallen from 100 to 50 and 100 to 21 in both the companies during the study period. It is a clear indication that the degree of financial leverage could neither increase the ROE nor EPS in these two companies which means that the impact of financial leverage is unfavourable.

The inclination in the degree of financial leverage in Sobha, Omaxe and Brigade has advanced from 100 to 109, 100 to 193, and 100 to 164, where as the trends in ROE declined from 100 to 53, 100 to 9 and 100 to 12 in the order. Similarly, EPS has fallen from 100 to 87, 100 to 31 and 100 to 12 with fluactions in between. Therefore, there is no favourable impact of financial leverage in these three companies also.

The trend in the DFL of Indiabulls has shown a fluctuating trend, which however, raised from 100 to 165. But, the trends in ROE reported an increase from 100 to 260, EPS also has depicted a similar trend. The DFL though has shown a favourable impact on ROE and EPS, may expose the stakeholders to the higher degree of risk in this company, in view of volatility in EPS.

TABLE – 3: TRENDS IN THE DEGREE OF FINANCIAL LEVERAGE, RETURN ON EQUITY AND EARNIGS PER SHARE

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	DLF					
DFL (%)	112.12	103.25	110.79	144.12	185.20	242.22
Trends	(100)	(92)	(99)	(129)	(165)	(216)
ROE (%)	54.36	39.68	18.50	5.96	5.86	4.44
Trends	(100)	(73)	(34)	(11)	(11)	(8)
EPS (Rs.)	12.75	46.98	26.24	10.13	9.66	7.07
Trends	(100)	(368)	(206)	(79)	(76)	(55)
	VASCON					
DFL (%)	105.40	115.99	182.08	130.65	129.13	234.66
Trends	(100)	(110)	(173)	(124)	(123)	(223)
ROE (%)	20.34	19.89	5.49	7.90	8.93	2.12
Trends	(100)	(98)	(27)	(39)	(44)	(10)
EPS (Rs.)	7.06	8.71	4.50	6.71	7.20	1.49
Trends	(100)	(123)	(64)	(95)	(102)	(21)
	SOBHA					
DFL (%)	125.76	122.02	171.55	141.82	117.64	136.68
Trends	(100)	(97)	(136)	(113)	(94)	(109)
ROE (%)	19.81	23.36	10.11	8.12	9.97	10.50
Trends	(100)	(118)	(51)	(41)	(50)	(53)
EPS (Rs.)	24.26	31.29	15.07	14.63	18.49	21.00
Trends	(100)	(129)	(62)	(60)	(76)	(87)
	OMAXE					
DFL (%)	109.22	109.53	313.54	198.73	181.71	210.46
Trends	(100)	(100)	(287)	(182)	(166)	(193)
ROE (%)	54.99	33.38	2.80	7.12	5.53	5.11
Trends	(100)	(61)	(5)	(13)	(10)	(9)
EPS (Rs.)	16.63	28.23	2.38	6.48	5.34	5.21
Trends	(100)	(170)	(14)	(39)	(32)	(31)
	BRIGADE					
DFL (%)	115.40	102.74	105.61	119.20	113.57	189.76
Trends	(100)	(89)	(92)	(103)	(98)	(164)
ROE (%)	41.92	10.97	3.83	4.53	7.27	4.90
Trends	(100)	(26)	(9)	(11)	(17)	(12)
EPS (Rs.)	27.77	10.31	3.42	4.22	10.74	5.07
Trends	(100)	(37)	(12)	(15)	(39)	(18)
	INDIABULLS					
DFL (%)	121.11	109.22	117.57	123.93	119.87	199.54
Trends	(100)	(90)	(97)	(102)	(99)	(165)
ROE (%)	0.90	9.55	1.24	0.07	1.93	2.34
Trends	(100)	(1,061)	(138)	(8)	(214)	(260)
EPS (Rs.)	0.03	17.24	0.16	(0.87)	3.75	3.73
Trends	(100)	(57,467)	(533)	2,900	(12,500)	(12,433)
	INDUSTRY					
DFL (%)	112.65	104.46	114.78	144.88	167.52	220.49
Trends	(100)	(93)	(102)	(129)	(149)	(196)
ROE (%)	69.95	46.15	19.66	7.13	8.14	6.43
Trends	(100)	(66)	(28)	(10)	(12)	(9)
EPS (Rs.)	14.75	23.79	8.63	6.88	9.20	7.26
Trends	(100)	(161)	(58)	(47)	(62)	(49)

Note: **DFL** : Degree of Financial Leverage
ROE : Return on Equity
EPS : Earnings per Share

Source: (i) Appendices I & II & (ii) Annual Reports of Select Companies

The use of debt in any business undertaking is justified, provided the coverage of fixed interest charges is adequate. The ICR is used to determine how comfortably a company can pay interest on outstanding debt. The ICR is calculated by dividing a company's earnings before interest and taxes of one period by the company's interest expenses of the same period. The lower the ratio, the more the company is burdened by debt expenses. When a company's ICR is lower its ability to meet interest expenses becomes questionable and it indicates that the company is not generating sufficient revenues to satisfy the interest expenses. The ICR is a measure of the number of times a company could make the interest payments on its debt with its earnings before interest and taxes. The lower the ICR, higher is the company's debt burden, and the greater the possibility of bankruptcy or default. The higher the coverage, the better will be the position of debenture holders or loan creditors regarding their fixed payment of interest, the greater will be the profitability and the better will be management efficiency ([S.K.R.Paul 2002]). The universal standard for ICR is around 7 to 8 times.

INTEREST COVERAGE RATIO OF SAMPLE COMPANIES OF IREI

An analysis of the contents of the Table - 4 reveals that the ICR of Brigade and DLF exceeded the norm of 7-8 times and also and industry average of 7.94 times. Therefore, these two companies are comfortable with regard to the discharge of fixed interest charges. The creditors of these companies are safely placed. Further, it implies that these two sample firms have shown better managerial efficiency. The rest of the sample enterprises recorded a lower ICR as against the universal standard and also industry average. But, these enterprises too are able to pay off their fixed obligations well. However, an improvement in the ICR of these firms is desirable. The CV of ICR of DLF and Vascon is more than the CV of the industry indicating less consistency in using the debt in these two companies.

TABLE – 4: TIMES

Year	INTEREST COVERAGE RATIO						
	DLF	VASCON	SOBHA	OMAXE	BRIGADE	INDIABULLS	INDUSTRY
2006-07	9.25	19.51	4.88	11.84	7.49	5.74	8.90
2007-08	31.81	7.25	5.54	11.49	37.53	11.84	23.41
2008-09	10.27	2.22	2.40	1.47	18.82	6.69	7.76
2009-10	3.27	4.26	3.39	2.01	6.21	5.18	3.23
2010-11	2.17	4.43	6.67	2.22	8.37	6.03	2.48
2011-12	1.70	1.74	3.73	1.91	2.11	2.00	1.83
Mean	**9.75**	**6.57**	**4.44**	**5.16**	**13.42**	**6.25**	**7.94**
Standard Deviation	**11.41**	**6.63**	**1.56**	**5.05**	**13.05**	**3.19**	**8.12**
C.V	**117.13**	**101.01**	**35.14**	**97.90**	**97.20**	**51.11**	**102.32**

TESTING OF HYPOTHESIS OF INTEREST COVERAGE RATIO

Null Hypothesis: There is no significant difference between the ICR of the sample companies and the Industry.
Alt. Hypothesis : There is significant difference between the ICR of the sample companies and the Industry.

TEST STATISTICS

Name	Mean	Industry Mean	t - Value	Sig (2 tailed)	P - Value
DLF	**9.75**	**7.94**	**1.31**^{NS}	**2.7505**	**0.25**^{NS}
VASCON	**6.57**	**7.94**	**0.38**^{NS}	**2.7505**	**0.72**^{NS}
SOBHA	**4.44**	**7.94**	**1.09**^{NS}	**2.7505**	**0.33**^{NS}
OMAXE	**5.16**	**7.94**	**1.26**^{NS}	**2.7505**	**0.26**^{NS}
BRIGADE	**13.42**	**7.94**	**2.20**^{NS}	**2.7505**	**0.08**^{NS}
INDIABULLS	**6.25**	**7.94**	**0.77**^{NS}	**2.7505**	**0.48**^{NS}

*significant at the 0.05 level (2 – tailed)

After testing the hypothesis, it is concluded that for the sample companies the null hypothesis is accepted. Hence, there is no significant difference between the ICR of sample companies and the industry.

CONCLUSION

Long term funds constitute the major source of financing the investments in the Indian Real-Estate Industry. Owners' funds are more significant than the long term borrowed funds. Equity base of the industry is enlarged primarily because of substantial retention of profits. The improvement in the internally generated funds shows a move towards self reliance of the industry. Long term funds are sufficient to finance entire fixed assets component as these assets on an average formed only 36.81 per cent of total assets. In other words, long term funds are adequate to finance the fixed assets and also a major chunk of current assets. The interest of long term creditors is well protected because the size of ownership funds is large enough and even if the assets value decline by cent per cent, creditors need not worry. The industry in spite of its efforts could not improve the profits to the desired level. The increase in the degree of financial leverage has not favourably impacted either the ROE or EPS of the industry

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CONSUMER BEHAVIOR, ATTITUDE & COGNITIVE DISSONANCE TOWARDS MWO: AN EMPIRICAL STUDY WITH SPECIFIC RELEVANCE TO URBAN MIDDLE CLASS OF KOCHI

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ABSTRACT
CB has attitudes acting both as an obstacle and an advantage to a marketer. Choosing to discount, modify or ignore the consumers' attitude to a particular product or service, while developing a marketing strategy to leverage their understanding of attitude to predict the behavior of consumers is the need of modern marketers, in the consumer durables industry, owing to both product and service aspects involved in durables purchase and usage. Consumer attitude is a relatively global and enduring evaluation of an object of consumption, issue, person or an act. Attitudes guide one's thoughts, influences feelings and affects behaviors. Changes in behavioral 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 attitudes 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 behavior nexus conditioned by the consumer related factors, social factors and the cognitive dissonance factors are discussed herein, based on an attitude focused study on MWO in 300 urban HHs of Kochi metro. 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. The assumptions of TRA & TPB are applicable in this study.

KEYWORDS
MWO, Consumer behavior(CB), Consumer Attitude, TRA,TPB,TAM,SN,PBC,SN, Beliefs, Salient attributes/benefits, Cognitive dissonance, Socio economic Demographic Variables(SED)

INTRODUCTION
CB has three elements which are most cardinal as per TRA and TPB, which are the Attitude, SN and PBC. In this instance, the attitude is most dominant towards durable goods purchase for a family. Hence the need to explore the same in detail. An attitude in marketing terms has been defined as a general evaluation of a product or service formed over time (Solomon, 2008). An attitude satisfies a personal motive—and at the same time, affects the shopping and buying habits of consumers. Dr. Lars Perner (2010) defined consumer attitude simply as a composite of a consumer's beliefs, feelings, and behavioral intentions toward some object within the context of marketing. A consumer can hold negative or positive beliefs or feelings toward a product or service. A behavioral intention is defined by the consumer's belief or feeling with respect to the product or service. Perhaps the attitude is formed as the result of a positive or negative personal experience. Maybe outside influences of other individuals persuaded the consumer's opinion of a product or service. Attitudes are relatively enduring (Oskamp & Schultz, 2005). Attitudes are a learned predisposition to proceed in favor of or opposed to a given object. In the context of marketing, an attitude is the filter to which every product and service is scrutinized.. Today, the consistency of Attitude-Behavior 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 of space, though post purchase influence like dissonance has been discussed in detail.

ELEMENTS OF TPB
The Consumer Attitude is a learnt predisposition to respond in a consistently favorable or unfavorable 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 behavioral intention and to actual purchase behavior. 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 behavior, 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 / favorable or unfavorable 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 favorably or unfavorably 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 behavior 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 and 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 behavior 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 behavior coherently. Schiffman and Kanuk (2004) state that attitude could be regarded as permanent if consumer behavior 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.

CONSUMER ATTITUDE AS CORE OF TPB

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 behavior coherently. Attitude can be regarded as permanent if consumer behavior 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 behavioral intentions was proposed by Ajzen & Fishbein(1980).Attitudes is a psychological tendency that is expressed by evaluating a particular entity with some degree of favor/disfavor (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 behavior. Attitudes lead to purchase intention which in turn leads to behavior. Attitudes are antecedent to behavioral 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 behavior. 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(Hoffman 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 behavior in question is less amenable to conscious control, then implicit attitudes are better predictors of behavior (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 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 by evaluation, 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 behavior (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).

FORMATION OF CONSUMER ATTITUDE

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/equipment 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 behavioral beliefs, normative beliefs and control beliefs which in turn lead to the ATB,SN and PBC respectively, which sums up to form the behavioral intention to culminate in the consumer behavior. Thus the acculturated 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 behavior. 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 behavioral 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 occur 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 Tri component 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 behavior. The attitudes influencing behavior is explained by the theory of reasoned action and theory of planned behavior. The theory of planned action suggests that the decision to engage in a particular behavior is the result of a rational process in which the behavioral 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 behavioral intentions, which strongly influence overt behavior. The theory of planned action is an extension of above suggesting that in addition to attitudes towards a given behavior and subjective norms about it, consumers also consider perceived behavioral control(their ability to perform the behavior).Several factors like attitude towards a given behavior/subjective norms concerning that behavior & perceived ability to perform it, determine behavioral intentions concerning the behavior. Such Intentions in turn are a strong determinant of whether the behavior is actually performed. The Attitude to behavior process model(Fazio,1989,Fazio&Roskos-Ewoldsen,1994)is a model of how attitudes guide behavior that emphasizes the influence of both attitudes and memory in an overt behavior. Several factors affect the strength and relationship between attitudes and behavior; 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-behavior link like, attitude origins(how attitudes were formed),attitude strength(which includes attitude accessability, knowledge, importance and vested interests)and attitude specificity. Attitude influences behavior in different ways. When the consumer gives careful thought to his/her attitudes, intentions derived from his/her attitudes strongly predict behavior. In situations in which the consumer cannot engage in such deliberate thoughts, attitudes influence behavior 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 behavior; and when the cognitive dissonance is strong, the attitude change is large.

POST PURCHASE(PAST) BEHAVIORAL EXPERIENCE & COGNITIVE DISSONANCE

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 behavior). 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 behavioral experience preceding it. Past behavior is a useful addition to TPB a range of behavioral 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. Cognitive dissonance is a psychological state that occurs when there exists a psychological discrepancy between what a person believes and behavior(Festinger,1957).This discomfort triggers a mental recovery process in the affected person to maintain consistency, to find additional information in support of a decision made or to change the belief. Cognitive dissonance is basically a cognitive entity is more experienced through psychological anxiety(Elliot and Devine,1994) and hence is emotive. Several models of Cognitive dissonance like the Self consistency(Aronson,1992),self affirmation(Steele,1988),New look perspective(Cooper & Fazio,1984).The moments immediately after a purchase triggers a set of thoughts in the consumer. Kassarjian and Cohen(1965) have stated that the positive and negative aspects of the gained alternative in a purchase decision join together and generate mental instability to make the consumer doubt his purchase decision. Consequent to a purchase, most buyers tend to think cognitive consistency is compromised due to marketing stimuli(Bell,1967;Cummings & Venkatesan,1976).Persons have different thresholds for dissonance and it is not necessary that all purchases should lead to cognitive dissonance(Sweeney etal,2000).Culture mends arousal of dissonance(Hoshino-Browne etal,2005).The time spent in information search and processing of the information & alternatives is an index of cognitive dissonance(Koller and Salzberger,2007).

TAM (Technology acceptance model)of Davis 1989 has it's roots on TRA(Fishbein & Ajzen,1975) explains PEOU(Salient Product attributes) and PU (Key Product benefits sought/derived)on Attitude and BI leading to behavior, mostly 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 expects the target system to be free of effort/user friendliness. The ELM of persuasion defines the attitude change strategy.

MWO: Micro wave oven has been very popular in the Kitchens of the Urban Middle class families of Kerala for long. Though traditionally confined to the upper class home ware, now it has found a place in the Kitchen of almost 77% middle class urban families in Kochi. Solo, Grill, Convection and Combo are the various types of MWO used. The secret behind tasty food lies in the just use of the right heat in cooking. Inverter technology is also advised today to increase heat intensity and add flexibility in the cooking so as to preserve nutrients. Thus MWO facilitates better cooking with better technology. Temperature modulation and fine timer control with power savings are some of the attributes prevailing in MWO now. This along with higher cooking space, variety of preset menu, ease of cleaning/swiping, efficient turntable-magnetron system enables easier cooking of more items in the shortest time. The salient search attributes could be better temperature control, better energy efficiency, auto cook menu, auto defrost, fermentation, humidity control ,Stainless steel or metallic silver or black/red color, express cooking, easy operation, Stainless steel cavity, free accessories like glass/ceramic tray, rotisserie, wire rack, no. of menus, quick start to facilitate cooking magic in the modern modular Kitchen. MWO and OTG as well as Induction cookers are electric driven and very popular in any modular urban kitchens today.

NEED-IMPORTANCE OF STUDY

To Assess the purchase beliefs, importance/evaluation, attitude, BI and behavior of consumer in line with the TPB and TAM elements and cognitive dissonance for consumer durables range of products. White goods like MWO are the most consumed popular products like the Induction cooker ,with service element also involved, and hence sought for this study. Kochi has been selected since the sales of the durables is the highest in the Central Kerala like Kochi. The focus is on Attitude/functional changes through Ad induced sales promotions ,cognitive dissonance construct and study of impact of other independent/external variables of TPB and TAM. Cognitive dissonance acting as attitude changing variable in post purchase scenario is also focused in this study.

STATEMENT OF THE PROBLEM

The consumer behavior towards durables with specific emphasis on consumer attitude and cognitive dissonance is worthy of study, blending the TPB and TAM. The attitude object considered is the durables for domestic common utility like the white goods, specifically the familiar MWO used in modern urban kitchens of Kochi. The various TPB & background variables are explored in this study on the pre purchase and post purchase dissonance basis.

OBJECTIVES OF RESEARCH

The following specific objectives are to be addressed through this study.

1) To understand the elements of TPB and consumer behavior in the purchase of durables
2) Understand relationship between Attitude, SN,PBC,PEOU/PU,BI in purchase behavior of durables
3) Identify the post purchase behavioral influence-cognitive dissonance impact on purchase attitude of durables
4) Understand the characteristics of cognitive dissonance behavior and their influence on purchase of durables
5) Verify the influence of SED Variables on Purchase attitude-behavior towards durables

HYPOTHESIS

H01:There exist positive relation between pre purchase attitude and subjective norms/social factors;
H02:There exist positive relationship between pre purchase attitude and PBC(&Involvement/Importance/Perceived risk level);
H03: There exist positive relationship between pre purchase attitude and personal factors;
H04:There exist positive relationship between pre purchase attitude and belief on attitude function served;
H05:There exist positive relationship between pre purchase attitude and PEOU/PU/Knowledge of the product
H06:There exist positive relationship between pre purchase attitude and BI;
H07:There exist negative relation between pre purchase attitude and post purchase behavior/dissonance
H08:There exist significant cognitive dissonance associated with a higher information search than with a low level of information search effort carried out by the consumer on purchase of durables
H09:From the time of occurrence of Cognitive dissonance based on a past decision, the propensity to change the belief increases with time;
H010:A complex rational buying style tends to produce lesser cognitive dissonance strength than an impulsive simple style in the buying of durables
H011: It is less likely that a consumer changes his/her beliefs and evaluation immediately after an in depth information search and complex buying decision is made on durables.
H012:The Socio Economic Variables influences the Consumer Purchase Attitude, are also tested with ANOVA and Regression analysis.

RESEARCH METHODOLOGY

The study investigated the purchase attitude of HHs in the decision-making of purchasing consumer durables and cognitive dissonance for family utility-White goods. The research instrument used is the combined structured questionnaire and interview schedule addressed on family units with Durables-specifically the MWO as the attitude object. A combined technique of Personal interview using structured questionnaire(7 point S.D scale) was adopted for fetching primary data collection from a sample size of 300 (MC HHs personally visited) urban middleclass HHs from a population of Six lakh HHs of Kochi metro, adopting the disproportionate stratified random sampling on 30 geographical pockets and limited to the middle class income groups of HHs, based on Corporation census enumeration data and confined only to the urban/semi urban areas. A semantic differential scale similar to Sweeney etal .(2000) was applied for assessing the Cognitive dissonance questions in the post purchase scenario. For impulse buying, scale similar to Hausman(2000) and Rook & Fisher(1995) were based for question framework. The Cronbach's alpha overall was 0.81 indicating reliability for the measured constructs considered herein. A pretest with 50 families was conducted in 2012 to begin with corrections effected and later the primary survey was conducted in 2012-13 period at Kochi urban areas.

RESULTS & DISCUSSION

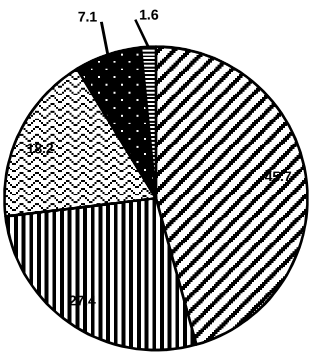
The various tables illustrated below depict the various results. The socio economic demographics of the respondent is tersely outlined below vide table1 .

TABLE 1: RESPONDENT'S SED PROFILE

Socio demographic Profile of Respondents			
S. No	HH Respondent's Characteristics		Percent of sample (N=300nos.) %
1	Gender	Male	45.3
		Female	54.7
2	Age(Years)	20-30	18.1
		31-40	51.2
		41-50	28.1
		51+	2.6
3	HH Size(nos.)	< 2	1.4
		2-4	40.8
		5.6	31.6
		>6	26.2
4	Education al qualification	ITI/SSLC	2.2
		Diploma/Graduate	38.8
		PG/Professional	51.6
		PhD	7.3
5	Occupation/Career	Government sector/PSU	25.2
		Private sector/IT	23.6
		Self employed/Business	19.3
		Housewife	21.3
		Others/NRI	10.6
6	Total average monthly income of HH(Rs.)	Below INR 30K('000)	2.7
		30K-60K	25.4
		60K-90K	32.2
		90K-120K	19.9
		120K-150K	9.1
		150K-180K	10.7
7	Type of Family	Joint	25.1
		Nuclear	74.9
8	Food habits-lifestyle enjoyed	Pure Vegetarian	16.3
		Fully Non vegetarian	61.9
		Mixed-Veg+ Non Veg	21.8
9	Sub cultural-Religious beliefs held	Hindu	42.1
		Christian	36.6
		Muslim	21.3
10	Current FLC Stage	Empty Nest	22.6
		Full Nest I	20.7
		Full Nest II	35.5
		Full Nest III	21.2
11	Ultimate /Final purchase decision maker in HH for White goods	Husband only	18.2
		Wife only	27.4
		Parents only	7.1
		Kids only	1.6
		Joint	45.7

The sample is dominated by females(54.7 percent),the max age group is 31-40yrs(51.2 percent),highest HH size segment is 2-4numbers(40.8 percent),most respondents are PG/Professionals(51.6 percent) thanks to the high literacy prevailing in Kochi which is the highest in the country. Government employees account for the major chunk of the sample(25.2 percent) .The highest family average income bracket being Rs.60,000-90,000(32.2 percent) .Predominantly the dominant family type is nuclear(74.9 percent).Interestingly, 61.9 percent are fully non vegetarians, a facet influencing the demand for MWO and Refrigerators in Kochi. The consumption of meat, eggs and fish is the highest in the country. Hindus(42.1 percent) dominate the religious affiliation. Full Nest II (35.5 percent) account for most of the FLCS. The most popular decision maker in the MC Urban families is Joint decisions(45.7 percent) in the family purchase decision making on MWO, with wife dominant at 27.4 percent.

FIG.1: ULTIMATE PURCHASE DECISION MAKER IN HH



Refer to Fig 1 above, wherein the prominent decision making is Joint(45.7%),followed by Wife(27.4%),husband(18.2%),parents(7.1%) & kids(1.6%).Parents are relevant in the Joint families only which account for only 25.1% vide above table 1.

TABLE 2: OWNERSHIP PROFILE OF CONSUMER DURABLES POSSESSED PER HH SAMPLED IN MC FAMILIES OF KOCHI

Ownership of durables in HH	%(Sample:300)
Refrigerator	99.8
Washing machine	97.4
MWO/OTG	76.7
Induction cooker/LPG Hobs & Hoods/Hybrid cookers	96.3
Vac Vaccum cleaner /Water purifier	98.8
LED/LCD/Plasma Color TV with STB/DTH	100
Home theatre/DVD Music systems 5.1 H Fi Speaker systems	92.7
Air conditioners/Split AC units	81.3
Mobile phones(Hi tech 3G)/I pod//Digital Camera/Camcorder	100
PC/Laptop with broadband connections/Tablet/Notebook/PS2	98.5
Home Gym –Indoor Health Equipment / Bi Cycle	76.6
Premium Two wheelers and Petrol/Diesel Cars(Luxury)	98.2

The highest ownership in a Household(HH) after the CTV is obviously the Refrigerators(99.8 %).Needless to say that each household has kitchen appliances like Food processor-Mixer Grinder, Wet grinder- table top, Pressure cookers and non stick ware ,Induction cookers, MWO(76.7%) which are a bare necessity now in urban Kitchens. Though both White and brown goods has been listed in above table no.2,MWO is the object of this empirical study and generalized.

TABLE 3: SALIENT BELIEFS ON PRODUCT ATTRIBUTES OF MWO-WHITE GOODS

	Salient attributes influencing selection of White Goods/MWO	Salience (Mean/SD) for MWO
1	High Quality /Value for money, Durability	(4.46/0.78)
2	Innovative foreign technology ,Multiple modes-Combo functions with precise temp control system	(4.47/0.78)
3	Brand value/Name– Stylish Features& trendy/ color finish	(3.68/1.24)
4	5 star Energy rating, Low volt operability,5-10yr Warrantee for Compressor or Magnetron	(4.62/0.69)
5	Varied recipe automatic menus-multi stage cooking-Indian menu	(4.23/0.92)
6	Affordable price-Sizing with Capacity in Liters with Standard accessories	(4.57/0.76)
7	T Grill/Convection/Combo/Solo; Variable Power levels of 0.8KW,1KW,1.4KW/automated fail safe operation	(4.39/0.86)
8	MOC of Oven Cavity in SS, Powder coating,/Rust free/Higher life expectancy /Ease of operation/Door & handles design, Crisper & Freezer, Turn table of 255,285,315,350,380mm,FLAT	(4.32/0.89)
9	Bacteria/Virus free, Eco & Green friendly, most easy to clean/stain free ,Healthy & fail safe design, auto protection & reminder with free accessories like Ceramic/Glass tray, Rotisserie, Wire rack.,	(4.28/0.92)
10	Auto defrosting/humidity controller/Temp Control &Self diagnostics-ergonomic LCD Panel feather touch membrane for easy operation-Menu driven/Timer memory/Express cooker	(3.54/1.27)

There are ten search attributes listed vide Table no.3 above. Energy efficiency with long term Warrantee is the most salient belief driving the attitude towards the products like MWO. The least salient is the Hi-tech facilities provided on MWO which is quite complex.

TABLE 4: KEY MOTIVATORS FOR PURCHASE OF MWO

o	Key Motivator for purchase of MWO	Relative Salience(Mean/SD) for MWO
1	Convenience/comfort at home -Utilitarian	(3.54/1.27)
2	Status symbol for modular Kitchen	(3.11/1.39)
3	Special Offers-discount/gifts & Net worth-Durable service life	(3.24/1.36)
4	Manual Labor reduction-Faster & reliable cooking/menus/alternative to LPG hobs	(4.49/0.76)
5	Cooking of NON VEG Food & part or reuse with Convection/Grill/Toast at will-flexible	(4.27/0.93)
6	Warming or full cooking of frozen food for variety of dishes preparation-hedonic	(4.25/0.87)
7	Maintain freshness ,provide heat/desired heat level-serve hot and crispy	(4.24/0.91)
8	Good after sales service care and cookery classes	(3.68/1.25)
9	Meet peer pressure-keenness of family members for use	(4.47/0.79)
10	Resolve dissatisfaction with present Problems/avail exchange facility	(4.17/0.88)

Table 4 depicts the key motivators for the purchase of MWO. The key motivation is found to be facilitating faster cooking as an alternative to LPG Hob(4.49/0.76). This is most relevant in the backdrop of shortage of LPG cylinders and limited allocation per year per household, while electric power is available always.T he Induction cooker is also a close competitor to the MWO in the popular Modular Kitchens at Kochi.

TABLE 5: LEADING BRANDS

S .No	Lead brands for MWO in Kochi	Mean	SD
1	VIDEOCON	3.12	1.40
2	ONIDA	4.28	.92
3	SAMSUNG	3.89	1.13
4	LG	3.11	1.40
5	IFB BOSCH	4.48	.79
6	WHIRLPOOL	3.77	1.18
7	SIEMENS	4.19	.93
8	SANYO	3.16	1.38
9	GODREJ	4.02	1.15
10	Others	2.91	1.35

Table 5 illustrates the current leading brands of MWO sold at Kochi market. From above table the most preferred MWO brand is BOSCH(4.48/0.79). About more than 18 brands prevail in the Kochi market for above product and stiff competition prevail.

TABLE 6: ADEQUACY-IMPORTANCE OF ATTRIBUTES BASED ATTITUDE TOWARDS WHITE GOODS –MWO

Evaluative attributes	Mean	SD	T test for mean equality	Sig. (2 tailed)	S/NS @ .05
Technology	7.12	0.968	0.791	.002	S
Quality	6.36	0.945	0.863	.021	S
Brand Image	5.74	1.063	1.031	.312	NS
Price	5.62	0.875	-5.128	.001	S
After sales services-spares support	5.57	1.482	5.562	.000	S
Perceived Risk level	5.21	1.483	5.026	.001	S
Sizing-color-styling-Programs	4.93	1.389	5.494	.481	NS

Table 6 depicts the salient attributes relevant to MWO-White goods selection and preference in buy. Except brand image and size/color/shape/styling/program, all other salient search attributes are **Significant** by application of T test.

TABLE 7: ADVERTISEMENT PERSUASION MEANS FOR ATTITUDE CHANGE TOWARDS WHITE GOODS-MWO

S No	Mass Media	Mean	SD	S. No	Ad factors influencing Attitude change	Mean	SD
1	CTV-DTH	4.59	0.71	1	Presentation style	3.78	1.18
2	WWW-E portals/Online Bazar	3.67	1.2	2	Creative methods	4.23	0.91
3	Print-Newspapers and Magazines	3.68	1.25	3	Matching with Self image/Personality	3.54	1.28
4	Hoardings/E Display/Portable Vans	2.8	1.34	4	Communication Language	4.12	0.78
5	Exhibitions, Handouts, Presentations	3.08	1.43	5	Persuasion message-emotive	4.29	0.93

Table 7 indicates the attitude change vide mass media and the Ad induced messages. The persuasion factors of the Advertisement influencing the attitude change is the mostly the emotional value(4.29/0.93), followed by the creativity applied in the Advertisement appeal(4.23/0.91) to the consumer.

TABLE 8: INFLUENCERS FOR CONSUMER ATTITUDE CHANGE THROUGH SALES PROMOTION DRIVE FOR LEADING BRANDS OF MWO

S No	Sales Promotional methods/aspects	Mean	SD	S no	Sales Promotion methods	Mean	SD
1	Exchange schemes	4.59	0.72	6	Cash discounts on Billing	4.19	0.92
2	Free gifts/Accessories like vessels	4.29	0.91	7	Festival offer/schemes	3.08	1.42
3	Celebrity endorsement	2.81	1.43	8	Product positioning	4.24	0.91
4	Sales personnel Charisma	2.96	1.38	9	After sales care assured	4.58	0.72
5	Lucky draw, Scratch & Win Offers	3.32	1.32	10	Faster Loan & delivery	4.21	0.92

Table 8 evaluates the various sales promotion measures. After sales service care assurance (4.58/0.72) is the most salient, followed by exchange schemes(4.59/0.72) ,in the sales promotion drive influencing attitude change and matching with the Ad messages for driving persuasion to effect attitude change.

TABLE 9: REGRESSION MODEL ON CONSUMER ATTITUDE

Influencing constructs on Pre Purchase attitude of Consumer	Estimate	S.E	C.R	P<	S/NS
Socio Graphics	0.921	0.268	3.5	0.01	S
Involvement/Importance/Confidence	0.827	0.472	3.9	0.01	S
Personal +Psycho Graphics	0.786	0.685	4.1	0.01	S
Attitude functional beliefs	0.874	0.493	3.1	0.01	S
PEOU/PU/Knowledge-Expertise	0.693	0.536	2.8	0.01	S
Behavioral Intention(BI)	-0.143	0.117	-1.3	0.05	NS
Post purchase Behavior/Dissonance	-0.388	0.424	-1.9	0.01	S

Table 9 lists all the independent variables likely to influence the dependent variable, the purchase attitude, through a simplistic regression. The social aspect, PBC and functions of attitude(motive)are very dominant in the pre purchase 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/dissonance 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 behavior.

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 .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 removal service/pacifying the high cognitive dissonance level aspect appropriately also can be applied for evolving a general model for durables. An elaborate exposition of the Attitude change not ventured due to space constraints.

TABLE 10: HYPOTHESIS TESTING FOR HYPOTHESIS H08-11 BASED ON SIMPLE REGRESSION ANALYSIS WITH STRENGTH OF COGNITIVE DISSONANCE AS (DEPENDENT VARIABLE)

Independent variables	R	(R)2	F	Sig.	Remarks
Level of information search chosen -High/Low	0.552	0.304	57.298	.000	Significant @.05
Change of belief with increasing pass of time	0.329	0.108	15.951	.000	Significant @.05
Buying Style adoption -Complex/Impulsive	0.473	0.224	37.806	.000	Significant @.05
Immediate change of belief-Evaluation after Complex rational buying event	0.357	0.128	19.148	.000	Significant @.05

Table 9 disseminates by simple regression analysis the cognitive dissonance characteristics to facilitate the test of hypothesis below.

8)H08:There exist significant cognitive dissonance associated with a higher information search than with a low level of information search effort carried out by the consumer on purchase of durables(Supported)

(9)H09:From the time of occurrence of Cognitive dissonance based on a past decision, the propensity to change the belief increases with time (Supported)
(10)H010:A complex rational buying style tends to produce lesser cognitive dissonance strength than an impulsive simple style in the buying of durables(Supported)
(11)H011: It is less likely that a consumer changes his/her beliefs and evaluation immediately after an in depth information search and complex buying decision is made on durables(Supported) Low involved purchases in contrast to higher involvement & search may trivialize dissonance cognitive dissonance(Simon etal.,1995).In impulse buying ,unplanned or spontaneous buying act is exhibited(Rook & Fisher,1995;Verplanken &Herabadi,2001).Higher incidence of cognitive dissonance follows such impulse buying made on excitement, emotion charged state/mood ,lack of control(poor PBC) or even compulsion and irrational basis. Park & Enright (1997) indicated that time is the best healer of conflicts on beliefs. Time is also a forgiver and reduces severity with current notions and to adapt to new cognitions(Vassilikopoulou etal,2009).The above hypothesis endorse the past research work reporting on cognitive dissonance.

TABLE 11: ANOVA ON SOCIO ECONOMIC DEMOGRAPHIC VARIABLES AS INDEPENDENT VARIABLES INFLUENCING THE PURCHASE ATTITUDE-DECISIONS ON WHITE GOODS-MWO

s.no	S E Variables of Respondents-HH	SS	MS	F Value	Sig	S/NS @.05
1	Age			7.411	.007	S
	Between groups	10.781	10.779			
	Within Groups	142.661	1.455			
	Total	153.442				
2	Gender			3.854	.011	S
	Between groups	10.854	3.619			
	Within Groups	91.105	.938			
	Total	101.959				
3	Educational Qualification			3.442	.022	S
	Between groups	9.636	3.213			
	Within Groups	89.608	.935			
	Total	99.244				
4	Occupation			2.313	.041	S
	Between groups	11.351	2.837			
	Within Groups	115.978	1.229			
	Total	127.329				
5	Family size			7.032	.001	S
	Between groups	23.065	5.766			
	Within Groups	78.136	.819			
	Total	101.201				
6	FLC Stage			7.328	.000	S
	Between groups	23.411	5.852			
	Within Groups	76.015	.797			
	Total	99.426				
7	Monthly income of HH			7.036	.001	S
	Between groups	24.231	5.768			
	Within Groups	76.732	.822			
	Total	100.963				
8	Food habit style			3.445	.038	S
	Between groups	12.435	4.143			
	Within Groups	115.571	1.202			
	Total	128.006				
9	Religious beliefs			4.036	.062	NS
	Between groups	3.367	3.362			
	Within Groups	81.638	.835			
	Total	85.005				
10	Decision making in HH			3.446	.019	S
	Between groups	12.435	4.145			
	Within Groups	115.566	1.206			
	Total	128.001				

Table 11 highlights the SED Variables impact through ANOVA, with Purchase attitude-decision as the dependent variable. From above ,it can be concluded that except the sub cultural religious beliefs, all the other socioeconomic /other variables **significantly influence** the attitude towards the purchase of MWO.(H012).Though the respondents behold traditions, the impact of it on their purchase attitude is little and pragmatism and modernity are more embraced.

FINDINGS

The primary survey brought out the following observations. The surveyed sample has been dominated by females and the max age group is 31-40yrsent),the highest HH size segment is 2-4numbers,and most of the respondents are PG/Professionals, thanks to the high literacy prevailing in Kochi which is the highest in the country. The female literacy level is higher than males in Kerala with a very high density of population. The female sex ratio is also higher among women. The Government employees account for the major chunk of the sample, though the private sector like I.T Industry is also prominent in Kochi .The highest family average income bracket being Rs.60,000-90,000 and most nuclear families have dual earning couples .It has been seen that Predominantly the dominant family type is nuclear in structure. Interestingly, most of the HHs are fully non vegetarians, a facet influencing the demand for MWO and Refrigerators in Kochi. The consumption of meat, eggs and fish is the highest in the country. Hindus dominate the religious affiliation, with Christians and Muslims as minorities. Full Nest II account for most of the FLCS. The most popular decision maker in the MC Urban families is Joint decisions in the family purchase decision making on MWO, with wife dominant ,being middle class.

The highest ownership in a Household(HH) after the CTV is obviously the Refrigerators. Needless to say that each household has kitchen appliances like Food processor-Mixer Grinder, Wet grinder- table top, Pressure cookers and non stick ware ,Induction cookers, MWO which are a bare necessity now in urban Kitchens. Though both White and brown goods has been listed in above, MWO is the object of this empirical study and generalized. .There are ten search attributes listed above. Energy efficiency with long term Warrantee is the most salient belief driving the attitude towards the products like MWO. The least salient is the Hi-tech facilities provided on MWO which is quite complex. The key motivation is found to be facilitating faster cooking as an alternative to LPG Hob(4.49/0.76). This is most relevant in the backdrop of shortage of LPG cylinders and limited allocation per year per household, while electric power is available always.T he Induction cooker is also a close competitor to the MWO in the popular Modular Kitchens at Kochi. The current leading brands of MWO sold at Kochi market has been identified. The most preferred MWO brand is BOSCH(4.48/0.79). About more than 18 brands prevail in the Kochi market for above product and stiff competition prevail. the salient attributes relevant to MWO-White goods selection and preference in buy have also been listed. Except brand image and size/color/shape/styling/program, all the other salient search attributes are Significant by statistical inference with the application of T test .Attitude change vide mass media and the Ad induced messages also have been understood. The persuasion factors of the Advertisement influencing the attitude change is the mostly the emotional value(4.29/0.93), followed by the creativity applied in the Advertisement appeal(4.23/0.91) to the consumer. The various sales promotion measures have been identified. The after sales service care assurance(4.58/0.72) is the most salient, followed by exchange schemes(4.59/0.72) ,in the sales promotion drive influencing attitude change and matching with the Ad messages for driving persuasion to effect attitude change. All the independent variables likely to influence the dependent variable, the purchase attitude, through regression attempted. The social aspect, PBC and functions of attitude(motive)are very dominant in the pre purchase attitude formation. The various hypothesis vide H01:There exist positive relation between pre purchase attitude and subjective norms/social factors is significant/supported;H02:There exist positive relationship between pre purchase attitude and PBC(&Involvement/Importance/Perceived risk & confidence level) is significant/supported;H03: There exist positive relationship between pre purchase attitude and personal factors is significant/supported;H04:There exist positive relationship between pre purchase attitude and belief on attitude function served is significant/supported;H05:There exist positive relationship between pre purchase attitude and PEOU/PU/Knowledge of the product is significant/supported; H06:There exist positive relationship between pre purchase attitude and BI is not significant/rejected;H07:There exist negative relation between pre purchase attitude and post purchase behavior/dissonance 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 behavior. The TPB and TAM are well supported by above findings . 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 .H08:There exist significant cognitive dissonance associated with a higher information search than with a low level of information search effort carried out by the consumer on purchase of durables.(Supported);H09:From the time of occurrence of Cognitive dissonance based on a past decision, the propensity to change the belief increases with time .(Supported);H010:A complex rational buying style tends to produce lesser cognitive dissonance strength than an impulsive simple style in the buying of durables.(Supported);H011: It is less likely that a consumer changes his/her beliefs and evaluation immediately after an in depth information search and complex buying decision is made on durables.(Supported).

The Low involved purchases in contrast to higher involvement & search may trivialize dissonance cognitive dissonance(Simon etal.,1995).In impulse buying, unplanned or spontaneous buying act is exhibited(Rook & Fisher,1995;Verplanken &Herabadi,2001).Higher incidence of cognitive dissonance follows such impulse buying made on excitement, emotion charged state/mood ,lack of control(poor PBC) or even compulsion and irrational basis. Park & Enright (1997) indicated that time is the best healer of conflicts on beliefs. The SED Variables impact studied using ANOVA, with Purchase attitude-decision as the dependent variable. From above ,it can be concluded that except the sub cultural religious beliefs, all the other socioeconomic /other variables significantly influenced the attitude towards the purchase of MWO.(H012).Though the respondents behold the Kerala traditions, the impact of it on their purchase attitude is very little and pragmatism and modernity like buying innovative technology based durables is growing. The use of high technology in durables and imported components bare testimony to the quality aspects .Also the service center facilities through Call centers and franchisees is also on the increase in the Kochi city. Thus proper service care could be provided by the leading brands. Brand loyalty has not been evidenced, since the risk perception of the middle class is substantial for durables. The high level of involvement and cognitive dissonance bear testimony to the prevalence of a gap ,that the marketers have to fill so as to reassure and supply proper information on products and maintain a better customer relationship management initiative. This can further the market presence and increase the brand loyalty of consumers, since the gap between two consecutive purchases of same durable is substantial like beyond ten years or more.

RECOMMENDATIONS/SUGGESTIONS

Customized Innovative products and services are the solutions to the variegated acculturated consumer behavior demand patterns of modern consumers. The consumer dissatisfaction with the durable goods on attributes like quality/after sales care have 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 sales promotion 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. Nonetheless, the sales of consumer durables in growing steadily despite fall in value of Indian rupee(for accounting imported components in MWO) due to the modern consumer's penchant for luxury in the growing Kochi metro. The marketers will have to take note of the shifts and newly learnt taste and preference of the urban consumers, in the face of stiff competition for branded durables in the urban market like Kochi. Better technology based innovative products, new sales promotion strategies and gifts, attractive exchange deals, interest free loans with negligible EMI deals could be tied up with leading new generation banks at Kochi. The Push Pull strategy can be better applied as the competition intensifies.

CONCLUSION

We know that Consumer behavior is the study of how a consumer thinks, feels, and selects between competing products. Moreover, the study of attitudes is critical to understanding the motivation and decision strategies employed by consumers. The combination of beliefs, attitudes, and behaviors influence how a consumer reacts to a product or service. Marketers develop relative, compelling marketing messages using the same combination of information, and ultimately influence consumer behavior. The TRA and TPB has been monumental in defining the Attitude-Behavior 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. The Information communication revolution has changed the consumer's priorities, and with high technology products ,the decision making is made easier through online transactions/E commerce ,in the modern setting of knowledge enabled society A short insight into the 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 behavior. The future seems rosy for the white goods market poised for higher competitive growth ,though the dissonance prevailing within the Consumers needs to be addressed well by the marketers of MWO .

LIMITATIONS

The basis of this study is TPB and TAM, which assume that consumers are rational beings who process purchase in a rational manner. Unconscious influences and impulsive purchase behaviors are excluded in this study. The response of the respondent's have been assumed to be truthful of their actual intentions and the direct measure of attitude only has been feasible due to time constraint. Only the middle class urban segment is considered in this study.

SCOPE FOR FUTURE STUDIES

This study is typically undertaken with the example of a white good and then generalized for all white goods and durables class of goods. A separate study based on brown goods is also feasible to elicit the response of the respondents and contrast between the white and brown goods responses. Further, the study could be extended to contrast with FMCG family of goods as well in a rural setting. All the cross section of the society and not just limited to the middle class could throw more light on the socio economic demographics of the consumers. .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 removal service/pacifying the high cognitive dissonance level aspect appropriately also can be applied for evolving a general model for durables. An elaborate exposition of the Attitude change not ventured due to space constraints.

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VENTURE CAPITAL INVESTMENTS IN INDIA

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ABSTRACT

Venture capital has been considered as the engine of economic growth and for promoting equitable development through knowledge based enterprise. Venture capital industry plays a significant role in technological and economic escalation of economy through its direct involvement in the development of wide variety of knowledge-intensive enterprises. The objective of present study is to explore the investment of SEBI Registered Venture Capital Funds and Foreign Venture Capital funds in India. Along with the study also helps to know the sector of economy which gains more prominence by venture capitalists for their risky investments. To achieve the aforesaid objectives the data collected from most reliable website (www.sebi.gov.in). As per researcher study the total investment values of VCF and FVCF in India have reached to Rs. 55,542 Crore as on December 31, 2012.

KEYWORDS
Risky investments, Venture Capital etc.

INTRODUCTION
India has become one of the fastest developing nations in the new millennium. It is one of the hotspots for investments with reaping rich benefits. Beside from the successful information technology, there is a enormous potential for investment, growth and development in several other sectors like Pharmaceuticals, Telecommunications, Healthcare, Electronics, Food Processing and Business Process Outsourcings (BPOs).The competitive edge of India over other developing nations like China, Russia etc., lies in its huge skilled human capital and knowledge entrapped in the research laboratories. There should be a form of finance that links all the available resources for exploration and effective utilization. This link is available in numerous forms such as bank loans, private debt, equity, bonds etc. However each of them has their own pros and cons which leads to inapplicability under different contexts. Development in the high growth sector needs not only high technology and huge capital but also the ability to take huge risks. Venture capital is the vehicle that suits this role.

Venture capital is a means of equity financing for rapidly-growing private companies. Finance may be required for the start-up, development/expansion or purchase of a company. Venture capital firms invest funds on a professional basis, often focusing on a limited sector of specialization (e.g. Information Technology Infrastructure, Health/Life Sciences, Clean Technology, etc).

CONCEPT OF VENTURE CAPITAL
The term 'Venture Capital' is understood in many ways. In a narrow sense, it refers to investment in new and untried enterprises that are lacking a stable record of growth.

Venture Capital refers to the commitment of capital as shareholding, for the formulation and setting up of small firms specializing in new ideas or new technologies. It is not merely an injection of funds into a new firm, it is a simultaneous input of skill needed to setup the firm, design its marketing strategy and organize and manage it. It is an association with successive stages of firm's development with distinctive types of financing appropriate to each stage of development.

Venture Capital is long-term risk capital to finance high technology projects which involve risk but at the same time has strong potential for growth. Venture Capitalist pools their resources including managerial abilities to assist new entrepreneurs in the early years of the project. Once the project reaches the stage of profitability, they sell their equity holdings at high premium.

International Finance Corporation. Washington, (IFC) defines Venture Capital as equity or equity-featured capital seeking investment in new ideas, new companies, new products, new process or new services that offer the potential of high returns on investment. It may also include investment in turnaround situations.

VENTURE CAPITALISTS
A venture capitalist is a person or investment firm that makes venture investments, and these venture capitalists are expected to bring managerial and technical expertise as well as capital to their investments. A venture capital fund refers to a pooled investment vehicle that primarily invests the financial capital of third-party investors in enterprises that are too risky for the standard capital markets or bank loans. Venture capital firms typically comprise small teams with technology backgrounds (scientists, researchers) or those with business training or deep industry experience.

LITERATURE REVIEW
Researcher reviewed the studies done by some of our Indian eminent researchers on venture capital financing, some of the important studies are Pandey (1996), Kumar, Asim (1996), Verma (1997), Pandey (1998), Mitra (2000), Kumar, Vinay (2002), Dr. A.K.Mishra (2004), Dheeraj Pandey, Thillai Rajan (2011), Dr. A. Amruth Prasad Reddy and Dr. M Venkata Subbaiah. (2011) etc, most of the study concentrated on investments criteria, Investment process etc.

RESEARCH GAP
Researcher found in the review of literature that, majority of the studies on venture capitalists investment criteria's and venture capital investment process in India. So in present study researcher made an attempt to know the investments of domestic venture capital fund as well as foreign venture capital fund in India for the growth of the economy.

OBJECTIVE
To look into the investment of SEBI Registered Venture Capital Funds and Foreign Venture Capital funds in India

SCOPE OF THE STUDY
The present study is confined to SEBI registered domestic venture capital fund and SEBI registered foreign venture capital fund as on 31 Dec 2012 and also data analyzed for the period of six years i.e. from 31 Dec 2007 to 31 Dec 2012.

DATA COLLECTION AND METHODOLOGY
To achieve the above said objectives researcher gathered the data from secondary sources and researcher observed that as on May 31, 2012 registered domestic Venture Capital Funds and foreign venture capital funds in India are 208 and 154 respectively.

PRESENT SCENARIO

TOP FIVE SECTORS ATTRACTED MORE INVESTMENTS BY VCS DURING JAN TO DEC 2012

Sectors of Economy	Amount (Rs. In Millions)	Deals/Investments
IT and ITES	381	133
Health and Life Science	98	18
Education	53	14
Financial Services	55	10
Energy	62	9

Source: Venture intelligence

Venture capital firms have invested around $762 million over 206 deals in India during the 12 months ended December 2012. with 133 investments worth about $381 million, the Information Technology and IT-Enabled Services (IT & ITES) industry retained its status as the favorite among VC investors during 2012 accounting for 65% of the investments (50% in value terms). The volume of investments in IT & ITES rose b y8% over that in 2011.

Healthcare & Life Sciences industry emerged as the second favorite destination for VC investors, attracting 18 investments worth $98 million during the year. Education industry came in third attracting 14 investments worth $53 million. Financial services and Energy industry were the fourth and fifth favorite industries attracting 10 investments (worth $55 million) and 9 investments ($62 million) respectively.

INVESTMENTS BY STAGE & REGION

Early Stage investments accounted for 82% of all VC investments in volume terms and 58% in value terms during 2012.

- Companies based in South India accounted for 45% of all VC investments (56% by value) during 2012.
- Their peers in Western India accounted for 25% of the pie in 2012 (12% by value).
- Companies based in North India accounted for 23% of the investments in 2010 (22% by value).

FAVORITE CITIES FOR VC INVESTORS

Region	Investments/Deals
Bangalore	62
National Capital Region(including New Delhi, Gurgaon and Noida)	45
Mumbai	39
Chennai	14
Hyderabad	12

Source: Venture intelligence

Among cities, companies headquartered in Bangalore were the favorite among VC investors during 2012 attracting 62 investments, followed by National Capital Region (including New Delhi, Gurgaon and Noida) based companies that accounted for 45 investments and Mumbai based companies with 39 investments. Chennai and Hyderabad followed with 14 deals and 12 deals.

DATA ANALYSIS

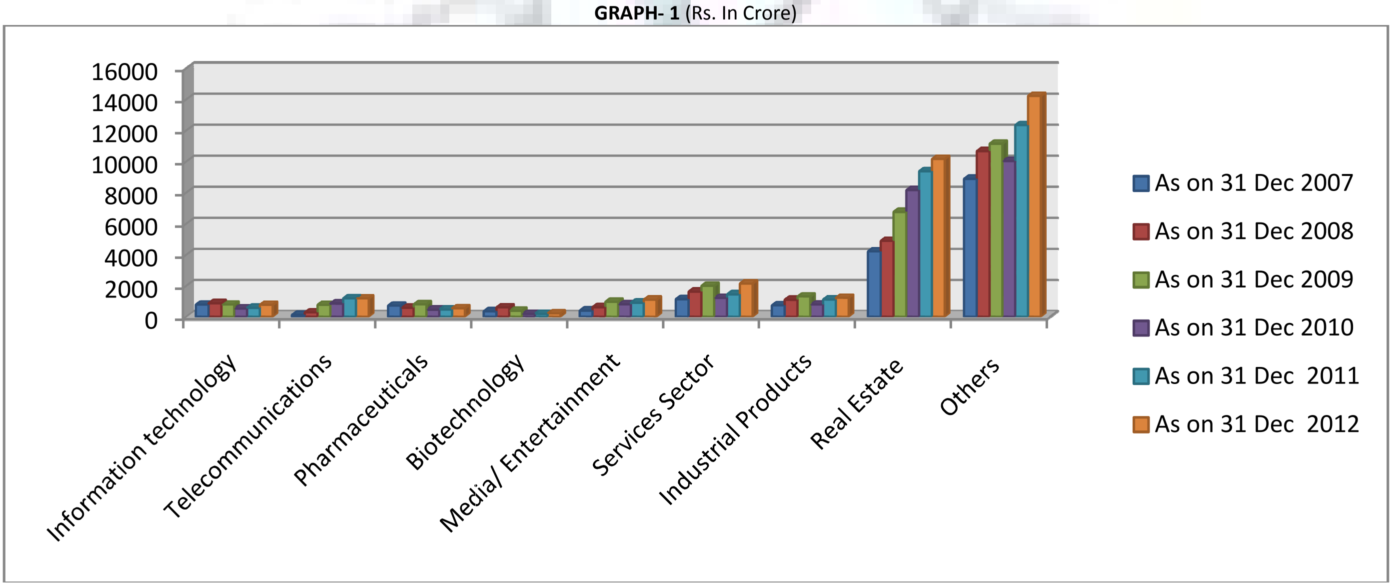
TABLE – 1: INDUSTRY WISE CUMULATIVE INVESTMENT DETAILS OF SEBI REGISTERED VENTURE CAPITAL FUNDS (VCF) IN INDIA (Rs. In Crore)

Sectors of Economy	As on 31 Dec 2007	As on 31 Dec 2008	As on 31 Dec 2009	As on 31 Dec 2010	As on 31 Dec 2011	As on 31 Dec 2012
Information technology	779	871	782	533	578	770
Telecommunications	118	275	767	858	1185	1182
Pharmaceuticals	716	581	802	460	469	550
Biotechnology	354	603	389	187	188	216
Media/ Entertainment	401	622	965	802	911	1101
Services Sector	1134	1618	1991	1215	1443	2137
Industrial Products	735	1095	1301	783	1110	1224
Real Estate	4207	4887	6753	8155	9373	10159
Others	8881	10664	11143	10029	12336	14218
Total	17325	21216	24893	23023	27592	31556

Source: www.sebi.gov.in

GRAPHICAL REPRESENTATION OF INDUSTRY WISE CUMULATIVE INVESTMENT DETAILS OF SEBI REGISTERED VENTURE CAPITAL FUNDS (VCF) IN INDIA

GRAPH- 1 (Rs. In Crore)



The above table and Graph represents the total investments of domestic venture capital firms made in India as on 31 Dec 2007 to as on 31 Dec 2012. Total investments made by domestic venture capital funds are 31,556 Crore. And also we can observe that, the investments made in Information technology is drastically decrease in 2009 because of the global recession and bad economic condition and same is continued till 2010. After that it recovered 2011 and IT sector again started attract good investments in 2011 onwards. And pharmaceuticals and biotechnology sectors also bears up and down of investments by VCs, where as telecommunications, media/entertainment, service sector, industrial products, real estate and other sectors of economy gaining lot of prominence in terms of investments made by venture capitalists year by year. This leads create a lot of employment opportunities, increase in the standard of leaving and economic growth of the country.

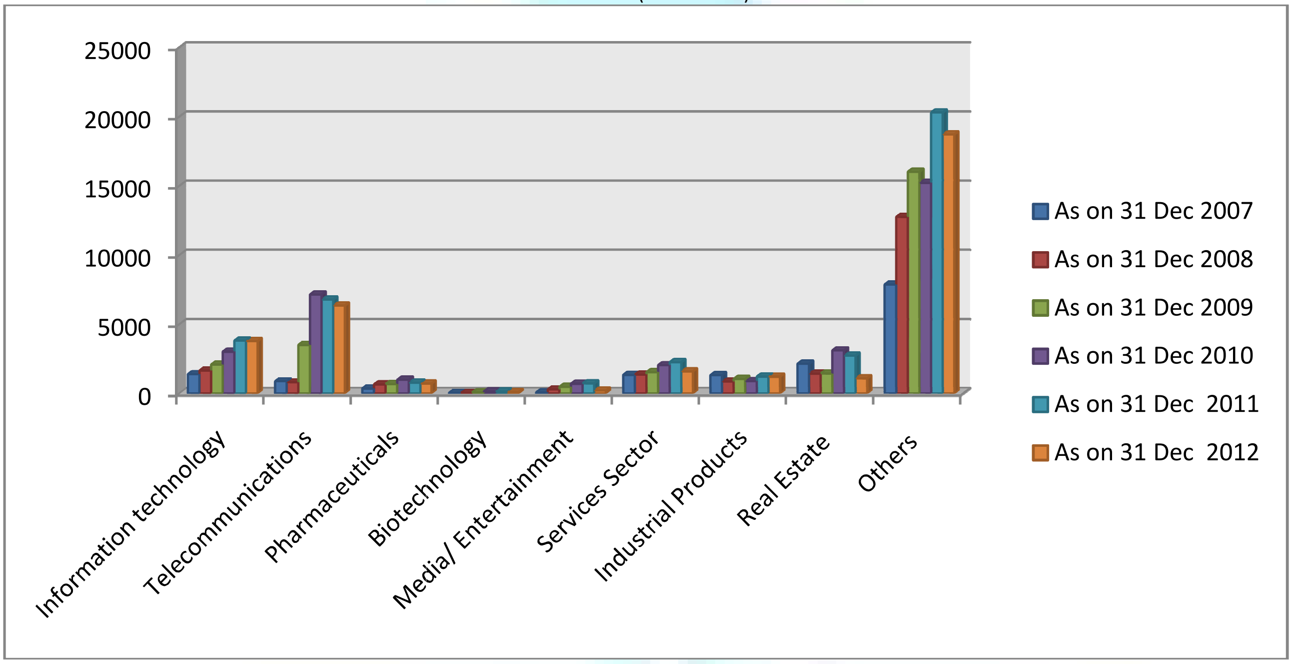
TABLE – 2: INDUSTRY WISE CUMULATIVE INVESTMENT DETAILS OF SEBI REGISTERED FOREIGN VENTURE CAPITAL FUNDS (FVCF) IN INDIA (Rs. In Crore)

Sectors of Economy	As on 31 Dec 2007	As on 31 Dec 2008	As on 31 Dec 2009	As on 31 Dec 2010	As on 31 Dec 2011	As on 31 Dec 2012
Information technology	1390	1649	2082	3016	3813	3787
Telecommunications	872	801	3502	7145	6778	6352
Pharmaceuticals	360	648	675	985	775	713
Biotechnology	31	31	72	140	140	100
Media/ Entertainment	69	284	469	701	720	209
Services Sector	1341	1358	1538	2039	2256	1596
Industrial Products	1312	856	1043	886	1217	1211
Real Estate	2141	1424	1432	3107	2725	1091
Others	7868	12749	16015	15223	20307	18716
Total	**15384**	**19800**	**26827**	**33241**	**38730**	**33773**

Source: www.**sebi**.gov.in

GRAPHICAL REPRESENTATION OF INDUSTRY WISE CUMULATIVE INVESTMENT DETAILS OF SEBI REGISTERED FOREIGN VENTURE CAPITAL FUNDS (FVCF) IN INDIA

GRAPH - 2 (Rs. In Crore)



The above table and Graph depicts the total investments made by foreign venture capital funds (FVCF) in India as on 31 Dec 2007 to as on 31 Dec 2012. Total investments made by foreign venture capital funds are 33,773 Crore. Along with it also depicts total investments made by FVCF in different sectors of economy. It clearly indicates that telecommunications, information technology, service sector, industrial products, real estate, and others got more magnitude by FVCF for their investments compare to biotechnology, pharmaceuticals, and media/entertainment during 2007 to 2012.

CONCLUSION

India is one of world's fastest budding economies, apart from China; no other country has as high an economic growth rate as India. Our country offers several fiscally feasible advantages to domestic venture capitalists as well as foreign venture capitalists. Inspite of this, there is slow growth of venture capital industry compare to some of the advanced countries like USA, UK etc. In India the growth of VC industry is slow, because of Multiplicity of regulations, tax policy, IPO norms, lack of Flexibility in investment ceiling, sectoral restrictions and other regulatory mechanism etc.

At last no doubt, the growth of venture capital market in India is not so bad but scope for further improvement is plenty. In this context there is an urgent need by our government to take appropriate steps for the growth of venture capital industry to attract good investments for different sectors of the economy for the balanced regional development of the economy through knowledge intensive industries.

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CHILDREN'S UNDERSTANDING OF TV ADVERTISING: A STUDY OF THE CHILDREN IN DELHI AND NCR

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ABSTRACT

We examine children's understanding and remembrance of TV advertising that is their ability to differentiate between TV programmes and commercials and their understanding of advertising intention using questionnaires. The sample consisted of 100 children in the age group of 7-13 years taken from different areas of Delhi and NCR. The sample consisted of equal number of boys and girls. For the purpose of analysis of data, different tests like one way ANOVA, Kruskal Wallis test, Correlation, Chi- square test, Regression Analysis are used. The age of a child and amount of media exposure turns out to have a positive effect. It can be inferred that as the age increases the tendency to remember an ad increases. Thus the children in their much developed stages will remember the advertisement much longer time than the children in early stages of development (analytical stage). Similarly the remembrance of an ad increases with the exposure to media, thus the children who have got more exposure to TV advertisements remember the advertisements much longer. The understanding of advertisements is directly correlated with age and amount of exposure. Thus the children in their much developed stages will understand the advertisements much better than the children in early stages of development (analytical stage). Similarly the understanding of an ad increases with the exposure to media, thus the children who have got more exposure to TV advertisements understand the advertisements much better. The effects of gender are rather very small, that is gender does not have much impact on the understanding and remembrance of TV advertisements.

JEL CODE
M370

KEYWORDS
Advertising, Age, Children, Television, Understanding.

INTRODUCTION

Television is one of the strongest medium of advertisements, because of its mass reach; it not only influences an individual's attitude, behavior, lifestyle, experience and other aspects but even the culture. The most terrible victims of TV influence are children. Its effects on children are universal in nature but the magnitude varies from child to child depending upon factors like age, gender, viewing pattern. During the last three decades, the impact of advertising on children recollection and behavior has been the major topic of debate all over the world. Children constantly assume larger roles in their homes and are becoming further ingrained and involved in the shopping and buying habits of their households. The children today are considered as consumers and advertisements have to be made keeping in view their emotions, needs and wants. Hite and Eck (1987) in their study reveal that nearly 61% of parents say "Yes" to the demands of their children based on what they have seen in a TV advertisement. Due to this, responsibility towards this vitally important sector is becoming necessary. The rationale of TV advertising has to be investigated from a child's point of view. The literature (Robertson and Rossiter, 1974; Donohue, Henke, and Donohue, 1980; Butter et al., 1981; Stephens and Stutts, 1982; Macklin, 1983 and 1987) has shown several times that some children are able to differentiate between programs and advertisements and are aware of the purpose of TV advertising, whereas others are not.

The understanding of TV advertising is a significant issue to investigate both from the parent's viewpoint as understanding may prevent harmful influences on the well-being of their children and from the advertiser's point of view as it will vary the effectiveness of their TV advertisements. The lucrative and influential children's market cannot be permitted to sit inoperative by the advertisers. Acceptable advertising is "advertising that does not fall foul of either the legal or the advertising self- regulatory system in place in that society" (Harker, 1998). Acceptable advertising to children may be explained as advertising that is not detrimental to their physical, mental or moral health and social life. Advertising Standards Council of India (ASCI) is a self regulatory voluntary organization of the advertising industry in India. India as such does not have rules and regulations for advertising to children like other countries such as Sweden and Norway.

LITERATURE REVIEW

The responses of children to TV advertisements during a research trail revealed that children's food choices especially in snacks depend on their understanding to TV commercials (Gorn and Goldberg, 1982). According to Peggy Charren, president and founder of ACT: " The ultimate goal of the thirty second worth of information contained in the message must be to manipulate the child to desire, want and need for the product. No industry will invest forty million to convince these two- to eleven- year olds that they do not need a lot of these products to be happy, healthy, wealthy and wise." (Cited in Liebert and Sprafkin, 1988). Atkin (1981) found that the chances of recalling the brands are very high in children with intense exposure to TV advertisements while shopping in the markets and with their parents. Wartella and Ettermen (1974) observed that children as young as 3 or 4 years old were found to make an attentional shift upward at the commencement of a commercial. On the contrary, the studies by the National Science Foundation (1977) and Zuckerman et al.(1978) found that the children of the age of 5 years continue to concentrate to commercials at around the same level as during the programme. Levin et al. (1982) found that the children react more to the variation in information loads in the opening 10 seconds of a 30 or 60 second commercial than in the same time period extracted from a longer

programme segment. However, Mizerski (1995) found that repeated exposure to the product through commercials with a separator could prompt positive or negative influence towards the product instead of blurring the difference between the programmes and commercials.
Ward et al (1972) found age as a major factor in perception and learning from the advertisement and the behavioral transformation is more likely to crop up in older children than younger ones. The results of several studies appear to indicate that huge majority of children below the age of 6, cannot articulate the selling intention of advertising (Robertson and Rossiter, 1974; Ward et al., 1977; Donohue et al., 1978). Age is a significant factor in a child's understanding and studies involving non verbal measures of understanding have revealed that children can have a rough sense of commercial's selling intent as young as age 4 (Gains and Esserman, 1981). Despite these findings, it is essential to apprehend that a child who says or indicates that advertisements want us to buy things, may still not be able to fully understand the persuasive nature of advertising (Signorielli, 1991). Ward et al (1977) in a survey of kindergarten- aged children estimated that between one tenth and one half of children understand that advertising is trying to sell them products. During this survey, they found that 22% reported that commercials strive to get them to purchase the products. When the kindergartners were shown commercials and then interviewed, the percentage rose up to roughly one- half. Similar findings were reported by Gains and Esserman (1981). They reported that children as little as age 4 can exhibit understanding of commercial intention, but under particular presentation circumstances. The understanding of persuasive intent and selling intent apparently develops as children grow older. Ward et al. (1977) set the age of attainment of understanding as young as kindergarten age, others set it as 8 years or older (Robertson and Rossiter, 1974; Atkin 1979). Therefore, children at least under the age of 8 years cannot be wary of advertising messages (Palmer and Dorr, 1980).
Robertson and Rossiter (1974) advanced the research in this area by differentiating two types of attribution of intent: assistive and persuasive. Assistive means that advertisements are viewed as providing information, while persuasive refers to situations in which the advertisements are viewed as trying to sell something. With the growth of child, the view usually shifts from assistive to persuasive. The study further divulges that by age 10 or 11, almost all children are able to attribute persuasive intent to advertisements. Martin (1997) pointed that non verbal judgment is most significant among younger children. In addition, the understanding of advertising intention is more constant across different age levels among children. The difference between assistive/ informational and persuasive/ selling intention is imperative. For children informational intent is easy to grasp while selling intent may create confusion. A child may find it more difficult to grasp the selling intent of an advertisement in isolation than if he/she watches it in intermingle of children programmes and advertisements with separator plans. The research carried out so far seems to disclose that there are certainly age related differences in children's understating of the selling intent of advertisements. In general, children below the age of 6 are unable to know a commercial's selling intent (Robertson and Rossiter, 1974; Ward et al., 1977; Donohue et al., 1978; Macklin, 1983). The children up to this age believed that commercials existed to provide information to people. At the age of 6 or 7, a child begins to understand that commercials are trying to sell products. When a child reaches the pre- adolescent age of 11 or 12, he/she is aware of, and can recognize and fully grasp the selling intention behind the existence of commercials.
The researchers from time to time have proved that children are able to distinguish between television commercials and programmes. The social science research of the 1970s claimed that young children have trouble in separating programming from commercials (Seiter, 1993). On the other hand, Liebert and Sprafkin (1988) refer to a study in which preschoolers were asked to recognize programmes and commercials in a sequence of short television segments. It was found that 5 year- olds were significantly more accurate than 4 or 3 year- olds, but the percentage of correct identifications was relatively high for all the three groups. In addition, it was found that the average correct figure is even higher: 80%, when children's accuracy in grouping child- oriented commercials only was examined. In a similar study conducted by Gains and Esserman (1981) found that 90% of 4- to -5 year- olds and 100% of 6- to 8- year- olds were correctly able to recognize commercial as separate from the programme in which it was embedded. Ward et al. (1977) also reported a study which shows that children as young as 5 or 6 are able to make a distinction between television programmes and commercials, but as predicted from developmental theory, these children are likely to base the distinction largely on perceptual cues. Young (1990) found that children aged between 5 and 7 could not make a distinction between commercials and programmes, and were able to identify commercials only 53% of the time.

OBJECTIVES
1) To know whether children are able to understand the selling intent of advertisements.
2) To study the effect of age, gender and amount of media exposure on the remembrance of advertisements.

HYPOTHESIS
H1: Age has an effect on the remembrance and understanding of advertisements.
H2: Gender has an effect on the remembrance and understanding of advertisements.
H3: Amount of media exposure has an effect on the remembrance and understanding of advertisements.

RESEARCH METHODOLOGY
The study targeted the children between 7 and 13 years of age as respondents. A total of 100 respondents, all from the different areas of Delhi and NCR were studied. The sample was drawn from different schools using the stratified sampling technique. The sample consisted of fifty boys and fifty girls of age group 7-13, which was further divided into 25 boys and 25 girls from rural and urban areas. The data collected has been analyzed by using different tests of analysis in SPSS 16, such as ANOVA, Kruskal Wallis test, Correlation, Chi- square, Regression analysis.

ANALYSIS
CORRELATION BETWEEN REMEMBRANCE OF AN ADVERTISEMENT, AGE, GENDER AND AMOUNT OF EXPOSURE

TABLE 1

Correlations					
		Remembrance	Amount of Media Exposure	Age	Gender
Remembrance	Pearson Correlation	1	.598**	.714**	.099
	Sig. (2-tailed)		.000	.000	.325
	N	100	100	100	100
Amount of Media Exposure	Pearson Correlation	.598**	1	.503**	.097
	Sig. (2-tailed)	.000		.000	.339
	N	100	100	100	100
Age	Pearson Correlation	.714**	.503**	1	.027
	Sig. (2-tailed)	.000	.000		.790
	N	100	100	100	100
Gender	Pearson Correlation	.099	.097	.027	1
	Sig. (2-tailed)	.325	.339	.790	
	N	100	100	100	100
**. Correlation is significant at the 0.01 level (2- tailed).					

From the table 1, the remembrance of an ad is directly correlated with age(r=0.714,p<0.01) and amount of exposure(r=0.598,p<0.01). Thus it can be inferred that as the age increases the tendency to remember an ad increases. Thus the children in their much developed stages will remember the ad much longer time than the children in early stages of development (analytical stage). Similarly the remembrance of an ad increases with the exposure to media, thus the children who have got more exposure to TV advertisements remember the advertisements much longer. Kruskal Wallis test (table 2 & 3) was further applied to validate the results of correlation ship matrix. It is seen that mean rank increases with the age of children (γ^2 =51.277).

KRUSKAL- WALLIS TEST

TABLE 2

Ranks

	Age	N	Mean Rank
Remembrance	Less than 7 years	1	12.00
	7-10 years	14	17.36
	10-12 years	39	40.74
	Greater than 12 years	46	69.70
	Total	100	

TABLE 3

Test Statistics a,b

	Remembrance
Chi-Square	51.277
Df	3
Asymp. Sig.	.000

a. Kruskal Wallis Test

b. Grouping Variable: Age

From the table 1, it is seen that the amount of exposure is directly correlated with age(r=0.503, p<0.01). Thus it can be inferred that children devote more amount of time to watching TV with increase of age. Further Kruskal Wallis test (table 4 & 5) was applied to validate the results of correlation ship matrix. It is seen that mean rank increases with the amount of exposure (γ^2=29.551)

TABLE 4

Ranks

	Amount of Media Exposure	N	Mean Rank
Remembrance	2 hours	7	18.71
	2-3 hours	30	35.10
	more than 3 hours	63	61.37
	Total	100	

TABLE 5

Test Statistics a,b

	Remembrance
Chi-Square	29.551
Df	2
Asymp. Sig.	.000

a. Kruskal Wallis Test

b. Grouping Variable: Amount of Media Exposure

From the table 1, it is seen that gender of child is not correlated with remembrance of an ad (r=0.099, p>0.05), amount of media exposure(r=0.097, p>0.05), age (r=0.27, p>0.05). Thus boys and girls do not vary in their approach to TV advertisements. Further Kruskal Wallis (table 6 & 7) also validated the results (γ^2=0.563)

TABLE 6

Ranks

	Gender	N	Mean Rank
Remembrance	Boy	50	48.47
	Girl	50	52.53
	Total	100	

TABLE 7

Test Statistics a,b

	Remembrance
Chi-Square	.563
Df	1
Asymp. Sig.	.453

a. Kruskal Wallis Test

b. Grouping Variable: Gender

CORRELATION BETWEEN UNDERSTANDING OF ADVERTISEMENTS, AGE, GENDER AND AMOUNT OF EXPOSURE

TABLE 8

Correlations

		Understanding	Age	Amount of Media Exposure	Gender
Understanding	Pearson Correlation	1	.573**	.393**	.023
	Sig. (2-tailed)		.000	.000	.822
	N	100	100	100	100
Age	Pearson Correlation	.573**	1	.503**	.027
	Sig. (2-tailed)	.000		.000	.790
	N	100	100	100	100
Amount of Media Exposure	Pearson Correlation	.393**	.503**	1	.097
	Sig. (2-tailed)	.000	.000		.339
	N	100	100	100	100
Gender	Pearson Correlation	.023	.027	.097	1
	Sig. (2-tailed)	.822	.790	.339	
	N	100	100	100	100
**. Correlation is significant at the 0.01 level (2-tailed).					

From the table 8, the understanding of advertisements is directly correlated with age(r=0.573, p<0.01) and amount of exposure(r=0.393, p<0.01). Thus it can be inferred that as the age increases the tendency to understand the advertisements increases. Thus the children in their much developed stages will understand the advertisements much better than the children in early stages of development (analytical stage). Similarly the understanding of an ad increases with the exposure to media, thus the children who have got more exposure to TV advertisements understand the advertisements much better. Kruskal Wallis test (table 9 & 10) was further applied to validate the results of correlation ship matrix. It is seen that mean rank increases with the age of children (γ^2 =32.183)

TABLE 9

Ranks

	Age	N	Mean Rank
Understanding	Less than 7 years	1	4.50
	7-10 years	14	20.14
	10-12 years	39	46.85
	Greater than 12 years	46	63.84
	Total	100	

TABLE 10

Test Statistics [a,b]

	Understanding
Chi-Square	32.183
Df	3
Asymp. Sig.	.000

a. Kruskal Wallis Test

b. Grouping Variable: Age

From the table 8, it is seen that the amount of exposure is directly correlated with age(r=0.503, p<0.01). Thus it can be inferred that children devote more amount of time to watching TV with increase of age. Further Kruskal Wallis test (table 11 & 12) was applied to validate the results of correlation ship matrix. It is seen that mean rank increases with the amount of exposure (γ^2=25.210).

TABLE 11

Ranks

	Age	N	Mean Rank
Understanding	Less than 7 years	1	22.50
	7-10 years	14	25.86
	10-12 years	39	47.06
	Greater than 12 years	46	61.52
	Total	100	

TABLE 12

Test Statistics [a,b]

	Understanding
Chi-Square	25.210
Df	3
Asymp. Sig.	.000

a. Kruskal Wallis Test

b. Grouping Variable: Age

From the table 8, it is seen that gender of child is not correlated with understanding of an advertisements (r=0.023, p>0.05), age (r=0.27, p>0.05), amount of media exposure(r=0.097, p>0.05), Thus boys and girls do not vary in their approach to TV advertisements.

REGRESSION ANALYSIS

TABLE 13

Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.767[a]	.589	.572	.52941

a. Predictors: (Constant), Area of living, Gender, Amount of Media Exposure, Age

b. Dependent Variable: Remembrance

TABLE 14

ANOVA [b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	38.134	4	9.534	34.016	.000[a]
	Residual	26.626	95	.280		
	Total	64.760	99			

a. Predictors: (Constant), Area of living, Gender, Amount of Media Exposure, Age

b. Dependent Variable: Remembrance

TABLE 15

Coefficients [a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.611	.362		1.687	.095
Amount of Media Exposure	.406	.099	.314	4.092	.000
Age	.601	.084	.554	7.179	.000
Gender	.087	.106	.054	.820	.414
Area of Living	.007	.109	.004	.060	.952

a. Dependent Variable: Remembrance

Multiple Regression with SPSS was applied to determine whether the variation in independent variables (age, gender, amount of exposure, area of living) contribute significantly to the change in remembrance of an advertisement.
In Model Summary[b] table (table 13), the value 0.767 given under the column R is multiple correlation ship coefficient which talks that all the variables i.e. dependent and independent are correlated significantly.
ANOVA table (table 14) reveals that p value given under the significance column is <0.01. This tells that the variance in four independent variables (age, gender, amount of exposure and residential area) contribute significantly to the change in remembrance of advertisements.
The values in the coefficient table (table 15) formulate the regression equation. The values under the column B against constant is the "a" value in the regression equation and values against amount of exposure (0.406), age (0.601), gender (0.087), residential area (0.007) define the slope of the regression line and are the values of b_1,b_2,b_3 and b_4 in the multiple regression equation
$Y= a +b_1X_1+b_2X_2+b_3X_3+b_4X_4$ (Equation 1)
Hence the multiple regression equation is formulated as under
$Y= 0.611+0.406\ X_1+0.601\ X_2+0.087\ X_3+0.007\ X_4$ (Equation 2)

CONCLUSION
The understanding and remembrance of an advertisement is directly correlated with age and amount of exposure. It can be inferred that as the age increases the tendency to remember and understand an advertisement increases. Similarly the remembrance and understanding of an advertisement increases with the exposure to media. Thus the children who have got more exposure to TV advertisements remember the TV advertisements much longer and understand the advertisement much better. The variation in age, gender and amount of media exposure, area of living contribute significantly to the change in remembrance of an advertisement which has been proved by the regression equation (equation 1). The advertisers should effectively use the advertisements to gain a considerable amount of reach and response. The advertisements should be shown on the channels which they like and watch. The advertisers should use the judicious mix of celebrities and fictitious characters to catch the attention of the children.

LIMITATIONS
1) **Time constraint:** The research had only two months to conduct the research due to which a sample size of only 100 was taken.
2) **Sampling coverage:** The sample came only from the children of Delhi and NCR. The sample might not be generalized and not have fully displayed the general characteristics of the children.

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IMPACT OF CELEBRITIES ADVERTISEMENT TOWARDS COLLEGE STUDENTS

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ABSTRACT

In the present study efforts have been measured the effectiveness of celebrity advertisements from the college students point of view with consideration factors like effectiveness of celebrity advertisement in terms of Reaching of the product message, Remembrance, Ensures reliability, Attractiveness, Motivation by the product. Purchase intension of customers after watching an advertisement, recall value of the advertisement, tempting the customers to spend more, creating an impression on others by using a particular product, effectiveness of an advertisement when multiple celebrities are used to endorse the same product, celebrities' effectiveness in terms of regional appeal. It could be ascertained that celebrity advertisement is effective as it has a positive impact on various factors, which are essential reasons for a company to advertise in any media.

KEYOWRDS

celebrities advertisement, marketing.

INTRODUCTION

Attractiveness of a source refers to similarity, familiarity and likeability. Similarity is an assumed resemblance between the source and the members of the audience. Familiarity means that customers have knowledge of the source through exposure. Likeability is the affection developed for the message source as a result of physical appearance (for instance, film stars like Katrina Kaif) and behavioual aspects (for instance, cricketers like Sachin Tendulkar who are a pride of the country). Celebrity like film stars and cricketers are popular message sources because of their attractiveness and likeability. The marketers use celebrities to endorse their products because of many other reasons too. At the same time, celebrity endorsements have their own disadvantages.

REVIEW OF LITERATURE

AnaghaShukre, (2010) in her article," Reality Television Shows: Entertaining, Money Minting or Tantalizing?", found that reality shows seem to have gripped the imagination of the nation. The audiences have become tired of the never ending saga of the family dramas and most of them are switching over to the reality shows. The popularity of the Indian reality shows lies in the fact that these are short termed yet these present the perfect dose of entertainment. From the above findings, it is clear that there are mainly five factors because of which people like to watch reality shows. These are concept, emotional connect, entertainment, celebrity and social relatedness. Reality television is a ray of hope for the ordinary people. It not only gives them the courage to dream but also the assistance to turn their dreams into reality. Though it is difficult to say whether reality shows are a passing phase, but the media has been cashing in on the real shows and is busy minting money. **Smita Sharma, (2005)** in his article "Celebrity Endorsement" reveals that as a part of marketing communication strategy are common among organizations around the globe. The celebrity endorsements industry today is estimated to be a one fifty two to two hundred crores industry, and growing. Celebrities are the million dollar babies of the advertising world, attracting a lot of money for themselves and the products they endorse. However, companies need to choose celebrities carefully, a wrong decision will tarnish the company's image, while a right choice will result in benefits that are unimaginable. **Shakti Prakash, Meenu Kumar, GyanPrakash, (2012)** in their article, " An Analysis Of TV Advertising And Usage Of Celebrity Endorsers: A Content Analysis Approach", found that around 59.00% advertisements had celebrities who were used as endorsers, actors or spokespersons. So, it can be concluded that Indian advertisements have been using celebrities to a large extent. Maximum number of celebrities were being used in the ads of medicine and toiletries category; home products, appliances and furnishing, and drinks and confectionery category. However, chi- square analysis revealed no significant relationship among the various product categories' advertisements as far as relative use of celebrities was concerned. This shows that the use of celebrities is not product specific. Female celebrities are being used more frequently than male celebrities. Here, the use of celebrities, in terms of sex of the celebrity was not found to be product specific. As far as the use of different types of celebrities is concerned, film stars are being used quite frequently in TV advertisements. The use of different types of celebrities is related to product category. The analysis revealed that non-humorous appeal is used more in TV advertisements and appeals are product specific. The analysis showed that advertisers are using humorous and emotional appeal for low involvement product categories; however, non-humorous and rational appeal are being used for high involvement product categories.**VirendraChavda (2012)**in his article "A Study Of The Role & Effectiveness Of Celebrities In Advertisements" found that efforts have been made to measure the effectiveness of celebrity advertisements from the customer's point of view with consideration of factors like effectiveness of celebrity advertisement in terms of creating an impression, attracting audiences, survival in competition, purchase intention of customers after watching an advertisement, recall value of the advertisement, tempting the customers to spend more, creating an impression on others by using a particular product, effectiveness of an advertisement when multiple celebrities are used to endorse the same product, celebrities' effectiveness in terms of regional appeal.

IMPORTANCE OF THE STUDY

This study creates an awareness about the product, services and other facilities to college students.This study creates an awareness about the misleading advertisement.

STATEMENT OF PROBLEM

The "College Students" are the important segment of consumers of the most of the product or service of a business organization. Many marketers consider college students as they are most vulnerable group and they often patronize products with novelty and creativity. Most of the brands today are targeted on youth market and like to their emotions, feelings and behaviour. The advertisers also try to attract college students by various means of media. Since the advent of television, it has become a major for advertising and many prefer to advertise their products through television as it has wider viewers. In average, the college students spend three to four hours a day in watching television. With the emergence of world wide web, these days college students have started using the internet and browse through hundreds of websites of their own interest.

OBJECTIVES
1. To measure the impact of celebrity advertisements towards college students
2. To measure the celebrities' effectiveness for aspects such as Reaching of the product message, Remembrance, Ensures reliability, Attractiveness, Motivation by the product.

HYPOTHESES OF THE STUDY
$H_0$1: There is no significant relationship between the demographic profile of the respondents and the impact of celebrity advertisement towards the awareness of college students.

METHODOLOGY
Research methodology is the way to systematically solve a problem. A research methodology consists of various steps. A researcher should have detailed knowledge before implementing all the steps of the research methodology. The researcher must design the steps of research methodology focusing on the research objectives and the logic behind it.

QUESTIONNAIRE DESIGN

The data was collected through a stretched questionnaire, which has been pretested among the researchers and faculties before posting the final one. The research was carried out using maximum closed entered question designed to collect the requisite information from the respondents. The questionnaire designed in view that it would be administered by the interviewer face to face and as such, the questions and the answers need to be clear and unambiguous and should take less time to answer.

COLLECTION OF DATA

Both primary and secondary data was collected. Primary data was collected through questionnaire. This questionnaire aims to gather information related to advertising awareness among college students. Secondary data was collected through published articles, journals, books, newspapers, magazines and websites.

POPULATION AND SAMPLE DESIGN

The population of the present study comprises of all the college students who are studying in Arts and Science colleges affiliated by ManonmaniamSundaranar University in the academic year 2011-2012. There are a total of 62 colleges affiliated to ManonmaniamSundaranar University. The random sampling technique had been used in selecting the sample of the present study. The Sample comprises of 500 college students drawn from the 25 colleges affiliated to ManonmaniamSundaranar University.

FRAME WORK ANALYSES

After the completion of the data collection, the filled up questionnaire were edited. A master table was prepared to sum up all the information contained in the questionnaire. With the help of the master tables, classification tables were prepared which were taken directly for analysis. Version 19.0 of statistical package for social science (SPSS) was used to analyse the data. The collected data has been analysed by using appropriate statistical tools like percentage, chi-square test for arriving at conclusion.

CELEBRITY ADVERTISEMENT CONVEYS THE PRODUCT
Indian advertisements have been using celebrities to a large extent. Maximum number of celebrities were being used in the ads of medicine and toiletries category; home products, appliances and furnishing, and drinks and confectionery category. Advertising agencies use more than one technique to sell merchandise to the general public because of consumer differences. The techniques used by advertisers to convey messages to consumers are based upon demographics studies during product development. Data relating to influence of celebrities is presented in table 1.

ANALYSIS

TABLE – 1: CELEBRITY ADVERTISEMENT CONVEY THE PRODUCT

Celebrity Advertisement	Frequency	Percent
Yes	475	95.0
No	25	5.0
Total	**500**	**100**

Source: Primary Data

Table 1 shows that 95 percent of the respondents are accept that celebrity advertisement convey the product message and remaining 5 percent of the respondents are reject this statement of celebrity advertisement convey the product message. Hence it can be concluded that 95 percent of the respondents are like to celebrity advertisement.

IMPACT OF CELEBRITY ADVERTISEMENT

A huge amount of money is being spent on celebrity endorsements, which source its importance for the advertising industries. A recent estimate notes that one quarter all commercial screened in U.S.A include celebrities.Data relating to influence of models is presented in table 2.

TABLE – 2: IMPACT OF CELEBRITY ADVERTISEMENT

Impact of Celebrity Advertisement	Frequency	Percent
Reaching of the product message	142	28.4
Remembrance	93	18.6
Ensures reliability	106	21.2
Attractiveness	101	20.2
Motivation by the product	58	11.6
Total	**500**	**100**

Source: Primary Data

Table 2 reveals that 28.4 percent of the respondents are accept celebrity advertisement make impact on reaching of the product message. This is followed by 21.2 percent and 20.2 percent of the respondents are accept that celebrity advertisement make reliability and attractiveness. Besides, 18.6 percent and 11.6 percent of the respondents are accept that celebrity advertisement make remembrance and motivation to buy the product. Hence it can be concluded that 28 percent of the respondents are influenced by the reaching of the product message.

AGE AND IMPACT OF CELEBRITY ADVERTISEMENT

Advertisers use celebrities as endorsers to break through the advertising clutter. They believe that celebrities have arresting power and draw attention to advertising messages. For instance, commercials that use Amitabh Bachchan or Shahrukh khan as the endorsers are more likely to be effective in capturing the attention of the target audience. Marketers think that a popular celebrity not only can influence the audience feelings, attitudes, and purchase behaviour positively, but can also enhance the product image or performance in consumers' perception.

TABLE – 3: AGE AND IMPACT OF CELEBRITY ADVERTISEMENT

Age	Impact of Celebrity Advertisement					
	Reaching of the product message	Remembrance	Ensures reliability	Attractiveness	Motivation by the product	
18 – 21	93(30.30)	52(16.90)	79(25.7)	53(17.3)	30(9.8)	307
21 – 24	49(25.40)	41(21.20)	27(14.00)	48(24.90)	28(14.50)	193
Total	**142**	**93**	**106**	**101**	**58**	**500**

Source: Primary Data

Out of 500 respondents, 30.30 percent of the respondents are in the age group of 18 – 21 years get impact by reaching of the product message through celebrity advertisement. It is followed by 25.7 percent and 17.3 percent of the respondents get ensure reliability, remembrance and attractiveness of the celebrity advertisement. Very few of 9.8 percent of the respondents get impact through motivation by the product. Secondly 25.40 percent and 24.90 percent of the respondents are in the age group of 21 – 24 years get impact by celebrity advertisement for reaching of the product message and attractiveness whereas, 21.20 percent and 14.50 percent of the respondents are belong to the age group of 21 - 24 years. Finally 14 percent of the respondents get impacts by celebrity advertisement through ensure reliability. Hence, it can be concluded that majority of the respondents are in the age group of 18 - 21 years get impact by reaching of the product message through celebrity advertisement.

GENDER AND IMPACT OF CELEBRITY ADVERTISEMENT

Advertisers often use physically attractive persons in their ads as a passive or decorative model to attract attention. Attractiveness positive influence and can lead to favourable evaluations of products as well as ads. The relevance and suitability of the model depends on the nature of the product.

TABLE – 4: GENDER AND IMPACT OF CELEBRITY ADVERTISEMENT

Gender	Impact of Celebrity Advertisement					Total
	Reaching of the product message	Remembrance	Ensures reliability	Attractiveness	Motivation by the product	
Male	59(28.92)	35(17.16)	47(23.04)	37(18.14)	26(12.74)	204
Female	83(28.04)	58(19.60)	59(19.93)	64(21.62)	32(10.81)	296
Total	**142**	**93**	**106**	**100**	**58**	**500**

Source: Primary Data

The above table 4 shows that gender of the respondents in relation to celebrity advertisements. Out of 500 respondents 28.92 percent of the male and 28.04 percent of the female respondents get impact by reaching of the product message. Besides 23.04 percent of the male and 19.93.percent of female respondents get ensure reliability about the product. Whereas, 18.14 percent and 21.62 percent of male and female respondents get impact by celebrity advertisement for remembrance and attractiveness. Finally 12.74 percent and 10.81 percent of the male and female respondents get motivation by the product. Hence it is proved majority of the male respondents get impact by reaching of the product message.

EDUCATION AND IMPACT OF CELEBRITY ADVERTISEMENT

Celebrity endorsements are less likely to influence knowledgeable consumers about a product or service or those holding strong attitudes compared to consumers with little knowledge or neutral attitudes. Charles Atkin and M. Block have reported ("Effectiveness of Celebrity Endorsers", Journal of Advertising Research 23, (February/March 1983) that college-age students were more likely to have a positive attitude toward a celebrity-endorsed product than older consumers.

TABLE – 5: EDUCATION AND IMPACT OF CELEBRITY ADVERTISEMENT

Education	Impact of celebrity advertisement					Total
	Reaching of the product message	Remembrance	Ensures reliability	Attractiveness	Motivation by the product	
U.G.	94(30.20)	54(17.40)	79(25.40)	51(16.40)	33(10.60)	311
P. G.	48(25.40)	39(20.60)	27(14.30)	50(26.50)	25(13.20)	189
Total	**142**	**93**	**106**	**101**	**58**	**500**

Source: Primary Data

The above table 5 depicts the level of education and their impact towards celebrity advertisement. Out of 500 respondents, majority of the students from U.G. Among them 30.20 percent of students get impact by reaching the message of the product. It is followed by 25.40 of the respondents ensures the reliability through celebrity advertisement where as 17.40 percent and 16.40 percent of the respondents get impact by the celebrity advertisement for remembrance and attractiveness. Only least 10.60 percent of the respondents get motivation by the product through celebrity advertisement. Secondly, out of 500 respondents, 188 respondents are in P.G. Among them 26.50 percent of the P.G respondents attract by the celebrity advertisement. It is followed by 25.40 percent of the students get message about the product. Besides 20.60 percent of the respondents get remembrance through celebrity advertisement and finally 14.30 percent and 13.20 percent get ensures reliability and motivation by the product. Hence it can be prove that majority of the U.G. respondents get impact by reaching the message of the product.

SUBJECT AREA AND IMPACT OF CELEBRITY ADVERTISEMENT

In order to arrest quick attention of the audience and consumers, the advertisers use individual spokespersons or endorsers as a source component. Companies marketing consumer durable & non-durable products often use popular sports persons & film stars in their advertising to endorse their products.

TABLE – 6: SUBJECT AREA AND IMPACT OF CELEBRITY ADVERTISEMENT

Subject Area	Impact of Celebrity Advertisement					Total
	Reaching of the product message	Remembrance	Ensures reliability	Attractiveness	Motivation by the product	
Arts	61(27.20)	39(17.40)	59(26.30)	42(18.80)	23(10.30)	224
Science	59(30.70)	36(18.80)	35(18.20)	39(20.30)	23(12.00)	192
Commerce	22(26.20)	18(21.40)	12(14.30)	20(23.80)	12(14.30)	84
Total	**142**	**93**	**106**	**101**	**58**	**500**

Source: Primary Data

The above table 6 depicts the level of education and their impact towards celebrity advertisement. Out of 500 respondents majority of them from the area of science. Among them 30.70 percent of science students get impact by reaching of the product message. It is followed by 20.30 percent of the science students get attractiveness of the celebrity advertisement. Whereas 18.80 and 18.20 percent of the science students get impact by celebrity advertisement for remembrance and ensure reliability. Only least 12 percent of science students get motivation by the product secondly out of 500 respondents, 224 respondents are in the area of arts. Among them 27.20 and 26.30 percent of the respondents get impact by celebrity advertisement through reaching of the product message and ensure reliability. It is followed by 18.80 and 17.40 get attractiveness and remembrance through celebrity advertisement. At last 10.30 of the arts respondents get motivation by the product. Finally out of 500 respondents, 84 respondents are in the area of commerce. Among them 26.20 percent of respondents get impact by reaching of the product message. It is followed by 21.40 percent and 23.80 percent of the respondents get impact by celebrity advertisement through remembrance and attractiveness. At last 14.30 percent of the respondents get attractiveness and motivation by the product. Hence it can be proved that majority of the science students get impact by reaching of the product message.

CHI-SQUARE TEST

AGE AND IMPACT OF CELEBRITY ADVERTISEMENT

A celebrity is an icon of the masses. A celebrity's popularity in the masses turns out to be criteria in selling a particular product. It is more the trust and love for the celebrity than the quality or durability of a product to be sold. Consumers perceive the brand as having superior quality because it has been endorsed by a credible source. This makes an endorsement as one of the indicators of quality for any brand. Advertisers have recognized the value of using spokespersons who are admired: TV and movie stars, athletes, musicians and other public figures. It is estimated that nearly 20% of all TV commercials are featuring celebrities and advertises pay hundreds of millions of dollars for their services.

NULL HYPOTHESIS

It is framed the null hypothesis that there is no significant difference between the age and impact of celebrity advertisement.

TABLE – 7:CHI-SQUARE TESTS

	Value	df	P Value
Pearson Chi-Square	16.085[a]	5	0.007
Likelihood Ratio	16.756	5	0.005
Linear-by-Linear Association	2.730	1	0.098
N of Valid Cases	500		

a. 2 cells (16.7%) have expected count less than 5. The minimum expected count is .39.

As per this analysis, the 'p' value is less than 0.05 at 5% level of significance, the null hypothesis is rejected. It is concluded that there is a significant relationship between age of the respondents and impact of celebrity advertisement.

GENDER AND IMPACT OF CELEBRITY ADVERTISEMENT

A company might highlight new-product features, price reductions, or other important product information in order to get former customers of its product to switch back. To accomplish their advertising objectives, the company has to attract their customers or users or several media to see the advertisement and buy the product. For this, a new trend started by these producers was to use a celebrity in their product's advertisement – a celebrity on whom the audience have blind faith.

NULL HYPOTHESIS

It is framed the null hypothesis that there is no significant difference between the gender and impact of celebrity advertisement.

TABLE – 8: CHI-SQUARE TESTS

	Value	df	P Value
Pearson Chi-Square	3.509[a]	5	0.622
Likelihood Ratio	3.855	5	0.571
Linear-by-Linear Association	.078	1	0.780
N of Valid Cases	500		

a. 2 cells (16.7%) have expected count less than 5. The minimum expected count is .41.

As per this analysis, the 'p' value is greater than 0.05 at 5% level of significance, the null hypothesis is accepted. It is concluded that there is no significant relationship between gender of the respondents and impact of celebrity advertisement.

LEVEL OF EDUCATION AND IMPACT OF CELEBRITY ADVERTISEMENT

A person who enjoys public recognition from a large share of a certain group of people and uses this recognition on behalf of a consumer good by appearing with it in advertisement is known as celebrity. Today, celebrity endorsement is being seen more and more essential part in an integrated marketing communication strategy.

NULL HYPOTHESIS

It is framed the null hypothesis that there is no significant difference between the level of education and impact of celebrity advertisement.

TABLE – 9: CHI-SQUARE TESTS

	Value	Df	P Value
Pearson Chi-Square	15.562[a]	5	0.008
Likelihood Ratio	16.125	5	0.006
Linear-by-Linear Association	2.484	1	0.115
N of Valid Cases	500		

a. 2 cells (16.7%) have expected count less than 5. The minimum expected count is .38.

As per this analysis, the 'p' value is less than 0.05 at 5% level of significance, the null hypothesis is rejected. It is concluded that there is a significant relationship between level of education of the respondents and impact of celebrity advertisement.

SUBJECT AREA AND IMPACT OF CELEBRITY ADVERTISEMENT

The use of celebrity endorsers for an effective way of transferring meaning to brands as it is believed that celebrity endorsers bring their own emblematic meaning to the endorsement process and that this cultural meaning residing in the celebrity is passed on to the product, which in turn is passed onto the consumer.

NULL HYPOTHESIS

It is framed the null hypothesis that there is no significant difference between the subject area and impact of celebrity advertisement.

TABLE – 10: CHI-SQUARE TESTS

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	8.302[a]	8	.405
Likelihood Ratio	8.325	8	.402
Linear-by-Linear Association	.205	1	.651
N of Valid Cases	500		

As per this analysis, the 'p' value is greater than 0.05 at 5% level of significance, the null hypothesis is accepted. It is concluded that there is no significant relationship between subject area of the respondents and impact of celebrity advertisement.

SUMMARY OF FINDINGS
The study concluded that 28 percent of the respondents are influenced by the reaching of the product message.The study concluded that majority of the respondents are in the age group of 18 - 21 years get impact by reaching of the product message through celebrity advertisement.The study framed that majority of the male respondents get impact by reaching of the product message.The study proved that majority of the U.G. respondents get impact by reaching the message of the product. The study proved that majority of the science students get impact by reaching of the product message.

SUGGESTIONS
The study framed that 95 percent of the respondents are like celebrity advertisement. Hence it is suggested that a celebrity is an icon of the masses, so business organization shall to choose celebrities carefully, a wrong decision will tarnish the company's image, while a right choice will result in benefits that are unimaginable.

CONCLUSION
In the present study efforts have been measured the effectiveness of celebrity advertisements from the college students point of view with consideration factors like effectiveness of celebrity advertisement in terms of Reaching of the product message, Remembrance, Ensures reliability, Attractiveness, Motivation by the product. Purchase intension of customers after watching an advertisement, recall value of the advertisement, tempting the customers to spend more, creating an impression on others by using a particular product, effectiveness of an advertisement when multiple celebrities are used to endorse the same product, celebrities' effectiveness in terms of regional appeal. It could be ascertained that celebrity advertisement is effective as it has a positive impact on various factors, which are essential reasons for a company to advertise in any media.

LIMITATIONS OF THE STUDY
This study was conducted in all the college students who are studying in Arts and Science colleges affiliated by ManonmaniumSundaranarUniversity , so the canvases narrow and scope of the analysis limited. Findings of this study may not be applicable to students belongs to professional colleges and other area.

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DETERMINANTS OF PROFITABILITY OF COMMERCIAL BANKS IN INDIA

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ABSTRACT

In the changing economic environment of financial sector reforms, profitability is assuming greater importance. The financial viability of banks largely depends on the adequacy of Profits and Profitability, The aim of this study is to identify the determinants of profitability of major Scheduled Commercial Banks in India. We Include the Scheduled banks given in the official Annual RBI publication. The data is related to the year 2009-10.The result of the empirical study showed the Low Profitable Banking groups the major determinants of profitability are profit per employee, Non-Interest Income/Total Assets, Wage Bill/Total Assets. Similarly for the High Profitable group the major determinants of profitability are Non-Interest Income/Total asset, Wage Bill/Total expense, Capital Adequacy Ratio, and Non-Performing Assets.

JEL CODE
G21

KEYWORDS
Commercial Banks, Non-Performing Assets, Profitability.

1. INTRODUCTION

1.1 INDIAN BANKING INDUSTRY

Financial Sector Reforms set in motion in 1991 have greatly changed the face of Indian Banking. The banking industry has moved gradually from a regulated environment to a de-regulated market economy. The market developments kindled by liberalization and globalization have resulted in changes in the intermediation role of banks. The pace of transformation has been more significant in recent times with technology acting as a catalyst. While the banking system has done fairly well in adjusting to the new market dynamics, greater challenges lie ahead. Financial Sector would be opened up for greater international competition under WTO Banks will have to gear up to meet stringent prudential capital adequacy norms under Basel II. Banks will also have to cope with challenges posed by technological innovations in banking. Banks need to prepare for the changes.

1.2 MEASUREMENT OF BANK PROFITABILITY

Several methods can be used to measure bank profitability of, all of which have some advantages and as well as some short comings. A popular method is to relate profitability to total bank assets. The rate of return is a valuable measure when comparing the profitability of one bank with another or with the commercial banking system.

The traditional measures of the profitability of any business are it return on assets (ROA) Assets are used by business to generate income, loans and Securities are a bank's assets and are used to provide most of a bank's income. However, to make loans and to buy securities, a bank must have money, which comes primarily from the bank's owners in the form of bank capital, from depositors and from money that its borrows from other banks or by selling debt securities – a banks buys assets primarily with funds obtained from its liabilities as can be seen from the following classic accounting equation:

Assets = Liabilities + Bank Capital (Owner's equity)

However, not all assets can be used to earn income, because banks must have cash to satisfy cash withdrawal requests of customers. This vault cash is held in its vaults, in other places on its premises such as teller's drawers and inside its automated teller machines (ATMs) and thus, earns no interest. Banks also have to keep funds in their accounts at the Federal Reserve that, before October, 2008, paid no interest. However, because of the credit crisis that was occurring at that time, the Federal Reserve Started paying interest on bank's reserves, although it is much less than market rates. A bank must also keep a separate account – Loan loss reserves – to cover possible losses when borrowers are unable to pay back their loans. The money held in a loan loss reserve account cannot be counted as revenue and, thus, does not contribute to profit

The ROA is determined by the amount of fees that it earns on its services and its net interest income:

Net interest income = Interest received on Assets – Interest paid on liabilities

= Interest earned on Securities + loan – Interest paid on deposits and Borrowings

Net interest income depends partly on the interest rate spread, which is the overage interest rate earned on it assets minus the average interest rate paid on its liabilities.

Interest Rate spread = Average Interest Rate Received on Assets – Average Interest Rate Paid on liabilities

Net interest margin shows how well the bank is earning income on its assets. High net interest income and margin indication a well-managed bank and also indicator future profitability.

$$\textbf{Net interest margin} = \frac{\text{Net Interest Income}}{\text{Average Total Assets}}$$

$$\text{ROA} = \frac{\text{Fee Income t Net Interest Income - Operating Costs}}{\text{Average Total Assets}}$$

$$\text{ROA} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

THE ROA FOR BANKS

Because income is calculated over a time period, but assets, as a balance sheet factor, are determined at a particular time, average assets are used:

Average Total Assets = Total assets at the end of fiscal year - Total assets at start of fiscal year
2

The rate of return on assets is a valuable measure when comparing the profitability of one bank with another to with the commercial banking system. A low rate of return might be the result of conservative lending and investment policies or excessive operating expenses. If savings accounts comprise an unusually large proportion of total deposits, interest expense may be higher than average. Banks could attempt to offset this by adopting more aggressive lending and investment policies to generate more income. A high rate of return on assets may be the result of efficient operations, of a low ratio of time and savings deposits to total deposits, or of high yields earned on the assets. If the last case is true, the bank may be assuming a high level of risk, for the higher returns yielded by the assets, the more likely they are to embody higher degrees of risk. This is not necessarily bad, for the bank may be doing a good job of managing its assets, although it may be subjecting itself to large potential losses.

2. REVIEW OF LITERATURE

Elivia and Bansal (1993) came to the conclusion that unprofitable expansion of bank branches in rural areas have led to lower profitability. They used regression model in their study to compare the effect of various factors on the profitability of twenty five scheduled commercial banks.

Parasuraman (2001) attempted to measure the performance of major banks in India in the year 1998-00 under the criteria of EVA. The study found that ranking of banks under Return of Assets assumes close resemblance to the ranking under EVA, whereas the ranking under other criteria like total income, interest, as percentage of total assets, spread, and net profits do not match with the ranking under EVA.

Das (2002) has studied the inter-relationships among capital, non-performing loans and productivity using data on public sector banks for period 1995-96 through 2001-01 and finds the three parameters to be intertwined, with each reinforcing and to a degree, completing the other.

Bodia and Verma (2007) attempted to identify the key determinants of profitability of Public Sector Banks in India. The analysis is based on step-wise multivariate regression model used on temporal data from 1991-92 to 2003-04. The study has indicated that the variables such as non-interest income, operating expenses, provision and contingencies and spread have significant relationship with net profits.

Mittal and Dhade (2007) compared various categories of banks on their productivity and profitability. They found no remarkable difference in the spread ratio but they found a significant difference in Burden ratio among the public sector and private sector & Foreign banks. Also according to them, those public sector banks that have been able to increase the productivity found themselves at par with the private sector banks.

Ramchandran and Kavitha (2009) conducted a census study to analyse the profitability of the Indian scheduled commercial banks by covering all the Indian Scheduled Commercial Banks, which have been divided into three groups viz., the SBI group, the Nationalized Banks group and the Private Banks group with two sessions, i.e., Period I and Period II by dividing the 10 year-study period into the first five years and the last five years. The step-wise multiple regression analysis was adopted for the study. An analysis of the SBI group reveals that in both the periods of study, the variable provisions and contingencies to total expenses occupied a prominent place. The nationalized banks group showed a position of provisions and contingencies to total expenses in the first half of the study period and Capital Adequacy Ratio (CAR) during the second half of the study period. In relation to the private banks group, it has changed from other interest expenses ratio to capital adequacy ratio.

Sayilgan and Yildirim (2009) conducted a study to find out the determinants of profitability of in Turkish Banking sector for the period of 2002-07. Return on assets and return on equity were explored using multivariable single equation regression method.Regression results demonstrated that consumer price index inflation and first difference of ratio ofoffbalancesheet transactions to total assets affect the profitability indicators negatively in a significant manner.

Dhaliwal and Arora (2009) analyzed the profitability of RRBs operating in Punjab and compared it with RRBs operating in India. The indicators selected to study the profitability and financial efficiency of the banks were return of funds, return on advances, cost of funds, cost of deposits, financial margin, non-interest income, operating cost, risk cost, net margin, credit deposit ratio, coverage ratio and gross NPA ratio for the period from 1994-95 to 2005-06 and was based on secondary data collected from annual reports of the banks and various publication of NABARD. Percentage analysis has been applied to calculate various profitability and efficiency indicators.

3. NEED AND SIGNIFICANCE OF THE STUDY

As discussed earlier the financial viability of the banks depends on the profitability. So, it becomes important to determine the prime determinants that affect the profitability of banks. Economic crises in the past have shown that problems in banking sector can spread to overall economy and lead to big-scale crises. It is for sure that as the share of banking sector in financial system increases, the role of the sector in macroeconomic stability and economic growth also becomes prominent

Resilience of a banking sector is undoubtedly closely related to its profitability which can be used to strengthen capital structure through auto-financing. Profitability assumes greater importance in the changing scenario of autonomy and financial sector reforms. The viability of banks depends largely on the adequacy of profits and profitability. Profitability in banking parlance denotes the efficiency with which a bank deploys its total resources to optimize its net profits and thus serve as an index to the degree of asset utilization and managerial efficiency.

It becomes important to identify the factors that directly affect the profitability of the banks. Moreover very scanty work has been done with the objective of identifying the determinants of profitability of banks in India. So in order to fill this gap this topic was chosen.

4. OBJECTIVES OF THE STUDY

In the light of the above discussion and of the serious concern of the monetary authorities and the bank management about declining profitability of banks, the study attempts to examine the various factors having an impact on bank profitability so as to suggest the ways to improve their profitability.

In particular the three broad objectives pursued are:

1. To identify the determinants that influences the profitability of Indian Commercial Banks.
2. To identify the most critical profitability ratios
3. To suggest measures to improve the profits and profitability.

5. RESEARCH METHODOLOGY

5.1 SOURCES OF THE DATA

The sources of data is the secondary sources such as official website of Reserve Bank of India (www.rbi.org.in) and the audited balance sheet and Income and expenditure statement of each bank under study.

5.2 SAMPLING

The study is confined to the major scheduled commercial banks in India. The sample includes all the Scheduled banks given in the official Annual RBI Publication.

The sample consists of 78 banks -

• SBI & Its Associates	7
• Nationalized Banks	20
• Other Scheduled Commercial Banks (Private Banks)	21
• Foreign Banks	30
All Banks	78

The data is related to the year 2009-10.

The source of data is the official website of Reserve Bank of India

5.3 TOOLS TO ANALYSE THE DATA

5.3.1 CORRELATION ANALYSIS

Correlation analysis attempts to study the relationship between two or more variables. The correlation coefficient of the selected independent variables with the bank profitability has been worked out in order to identify the most important variables or the variables which have higher association with the dependent variable.

Also, the correlation coefficient among the different variables has been worked out so as to arrive at a correlation matrix which incorporates correlation coefficients of all the selected variables with the dependent variable, as well as correlation coefficient among different independent variables. The test of significance has also been applied in order to identify the variables which have significant correlation.

5.3.2 REGRESSION ANALYSIS

Regression analysis attempts to study the functional relationship between the variables and provides a mechanism for prediction. As profitability of the banks is the result of several variables, the impact of each selected variable on bank profitability has been studied through multiple regression analysis.

5.3.3 MULTIPLE REGRESSION ANALYSIS

In order to investigate the effect of several independent variables (X), a multiple regression model has been used. The Linear Multiple regression model involving the dependent variable Y and independent variables (X_2, X_3........Xp) can be written as

$Y_i = \alpha+\beta_2 X_{2i} +\beta_3 X_{3i} .... +\beta_p X_{pi} + e_i$

Where,

α denotes the intercepts, $\beta_2 .... \beta_p$ are the partial regression coefficients, i = 1, ... n observations and e_i is the residual term associated with the 'i'th observation. Thus the multiple regression model gives the expected value of Y conditional upon the fixed values ofX_2,X_3 X_p plus the error component.

5.3.4 STEP- WISE REGRESSION PROCEDURE

Many procedures have been developed to estimate the regression coefficients of selected independent variables. Forward selection starts with constant and adds variables that result in the largest R^2 increase. Backward elimination begins with a model containing all independent variables and removes the variables that changes R^2 the least. Stepwise selection, the most popular method, combines forward and backword sequential approaches. The independent variable that contributes most to explaining the dependent variable is added first. Subsequent variables are included based on their incremental contribution over the first variable and on whether they meet the criterian for entering the equation (e.g., a significance level of .01). Variables may be removed at each step if they meet the removal criterion, which is a larger significance level than that for entry.

ASSUMPTIONS OF MULTIPLE REGRESSIONS

Classical linear regression models rest on five assumptions:

(1) the dependent variable can be calculated as a linear function of a specific set of independent variables and as a disturbance term;
(2) the error has a zero expected value, that is, E(€) = 0;
(3) the error terms have constant variance for all the observations, that is, *e(€^{2})* =
(4) the random variables e , are statistically independent of each other, that is, E($€_i$,$€_j$) = 0 for all i≠j ; and
(5) the number of observations is greater than the number of independent variables, and there is no exact linear relationship between the independent variables.

If the error term has a constant variance (as assumed above), it is called *homoskedastic;* if the error variance is itself variable, the error is *heteroskedastic* (see heteroskedasticity). Further, if the error terms corresponding to different observations are correlated, they are called *autocorrelated* error terms. (This is common with time-series data.) If two or more independent variables are approximately linearly related in the sample data, then there is a problemofmulticollinearity. Statistical analysis can test whether the standard assumptions hold. Where any of the above problems appear, new estimators are need.

DEPENDENT AND INDEPENDENT VARIABLE

Indian banking has the distinction of being driven by the dual forces of the government interventions in the form of RBI (Reserve Bank of India) stipulations, and the efficiency of internal bank management. This is in addition to the investment behavior of the consumers and the trend of public savings in the economy. Two of the major RBI interventions: Capital Adequacy Ratio and Priority Lending Norms. Higher CRAR indicates that a bank's large amount of money is stuck in provisions or risk management, meaning that there will be fewer money left for investment or for the continuation of the activity. Priority advances/Net Advances shrinks the bottom line of these individual banks because the return on advances is relatively less.

The factors which are internal to the banks include various efficiency and operational parameters. These parameters can be broadly be classified on four broad parameters. These are as follows:

a) *Liquidity of the bank (L}:* Liquidity for a bank means the ability to meet its financial obligations as they come due. Bank lending finances investments in relatively illiquid assets, but it fund its loans with mostly short term liabilities. Thus one of the main challenges to a bank is ensuring its own liquidity under all reasonable conditions.
b) *Return Performance (RP):* The three basic parameters that measure returns generated by bank are : Interest income, Non-Interest income and net interest spread, all divided by total assets. Net interest spread is the difference between interest income and interest expenditure. Higher the net spread, higher the profitability.
c) *Expense Parameters (EP):* Two parameters are used under this. They are wage bill/ total expenses and cost of deposits. Both of these have normally a negative effect on the profitability.
d) *Operational Efficiency (OE):* Non- performing assets (as a percentage of net advances) and profit per employee are usually the prime measure of operational efficiency. Higher figures in any may erode the long term profitability of the bank concerned.

The Functional relationship

The Return on Assets is related to the above said exogenous and endogenous factors by the following relationship:

ROA = f (RBI, L, RP, EP, OE)

Where,

RBI denotes the interventions of the Reserve Bank of India. Only one parameter i.e., Capital Risk Adequacy Ratio is studied under this.

L stands for Liquidity of the banks

RP stands for Return Performance

EP stands for Expense Parameters

OE stands for Operational Efficiency

INDEPENDENT VARIABLES

The independent variable is typically the variable representing the value being manipulated or changed. In the given study we have taken eleven independent financial ratios relating to the year 2009-10.

The eleven independent variables being considered are given below:

I. Independent variable due to RBI intervention –

1. CRAR

II. Independent variable due to the banks internal operations/ management

A. Liquidity of the bank (L)

2. Credit/Deposit Ratio
3. Investment / Total Deposit Ratio

B. Return Performance (RP)

4. Interest Income/Total Assets
5. Non- Interest Income /Total Assets
6. Net Interest spread/ Total Assets
7. Return on Advances

C. Expense Parameter (EP)

8. Wage Bill Total expense
9. Cost of Deposits

D. <u>Operational Efficiency f OE)</u>

10. Non-Performing Assets/ Net Advances
11. Profit per Employee

THE DEPENDENT VARIABLE

The dependent variable is the observed result of the independent variable. In the given study the dependent variable is Return on assets (ROA). ROA is considered as the measure of the profitability of banks. So we are trying to see the relationship of ROA with respect to other independent variables.

6. ANALYSIS AND FINDINGS

The data for all scheduled banks in India (78 banks in all) were entered in an excel file and all the 11 independent variables were calculated for the year 2009.

The model constructed for finding the determinants of ROA is as follows:

$ROA = \beta_0+\beta_1 X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\beta_5\ X5+\beta_6X_6+\beta_7X_7+\beta_8X_8+\beta_9 X_9$

βo represents the constant term, and $\beta 1$ .... $\beta 11$ n represents the Coefficients of the Independent Variables X1, X2....X11 respectively.

As we have used Standardized Coefficients of beta.

$\beta o = 0$, And X1......... ...X11 represents the 11 Independent Variables used in the study which have been explained earlier.

Now, multi-variable, single-equation regression model was applied suing SPSS 17.0 Software Package. Firstly, the SPSS code file was Split on the basis of the Group where 0 was the Low Profitable Group (having ROA less than 1) and 1 was High Profitable Group (having ROA equal to or more than 1). The coefficients of the model taken from the regression results for the year 2009-10 are as below:

a) Low Profitable Group

We know that the regression procedure, via the least square method of estimation, gives us the line that fits the points better than any other. But in this situation also a question arises that how good is the fit. It may well be the case that the best fitting line is not especially close to all points at all.

Model Summary[d]

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.684[a]	.468	.450	.85245
2	.951[b]	.904	.897	.36881
3	.958[c]	.919	.910	.34478

a. Predictors: (Constant), Non-Interest Income/Total Assets

b.Predictors: (Constant), Non-Interest Income/Total Assets, Profit per Employee

c. Predictors: (Constant), Non-Interest Income/Total Assets, Profit per Employee, Wage Bill/ Total Expense

d. Group = low profitable

This part of regression output- the model summary- reports a statistic that measures "goodness of fit." The statistic is called the coefficient of determination, represented by R square. It is square ofr, the coefficient of correlation. As this is a multiple regression so, we will ignore R Square but Adjusted R Square will be used.

R square can range from 0.0000 to 1.0000, and indicates the extent to which the line fits the points; 1.000 is a perfect fit, such that each point is on the line. The higher the value of adjusted R square, the better. So, in this year we can see that changes in Non-Interest Income /total assets accounts for 45% of the variation in ROA, but when all the three variables are taken together their total effect in 91.0 percent. Rest of this is because of the other variables which are otherwise insignificant. Also, in this study, Stepwise regression technique is used.

Coefficients[ab]

	B	Std. Error	Beta		
1 (Constant)	.500	.165		3.031	.005
Non-Interest Income/Total Assets	-.160	.031	-.684	-5.133	.000
2 (Constant)	.399	.072		5.555	.000
Non-Interest Income/Total Assets	-.158	.013	-.678	-11.771	.000
Profit per Employee	.078	.007	.660	11.457	.000
3 (Constant)	.770	.176		4.371	.000
Non-Interest Income/Total Assets	-.151	.013	-.648	-11.689	.000
Profit per Employee	.076	.006	.644	11.861	.000
Wage Bill/ Total Expense	-.023	.010	-.127	-2.276	.031

a. Group = low profitable

b. DependentVariable: ROA

The Regression equation is:

$ROA= 0.770 - 0.151\ X_5+ 0.076\ X_{11}- 0.023\ X_8$

We now have one intercept (constant) and 3 slopes, one for each of the three explanatory variables. The intercept represents the value of ROA when all of the 3 variables are equal to zero. Each slope represents the marginal change in ROA associated with a one unit change in the corresponding independent variable, if other variables were to remain constant. Also by using this equation we can predict the value of ROA if we know the values of the other independent variables.

The coefficient table also reports standardized coefficients, or betas for each variable. The equation using the betas is:

$ROA= -0.648X_5 + 0.644\ X11 - 0.127\ X_8$

These betas (or beta weights) allow us to compare the relative importance of each independent variable. In this case:

Signs for Coefficients for Independent Variables:

Sign	Independent Variables
Positive	Profit Per Employee
Negative	Non-Interest Income/total assets, wage bill/ total assets

So, the results of this empirical study shows that for the Low Profitable Banking group the major determinant of Profitability are Profit per Employee, Non-Interest Income/total assets, wage bill/ total assets. The Return on Assets was affected positively by Profit per Employee. This means as the profit per Employee increase the ROA also increases. This is very obvious as banking industry is a service industry and also labours intensive so, as the profit per employee increases ROA also increases. Now, Non-Interest Income/total assets, wage bill/ total assets have a negative beta coefficient. The Return on assets was affected negatively by the Non-Interest income/total assets. This means as the Non-Interest income/total assets for a bank increases its ROA decreases. This is also very logical as for any bank, if it has high level of this ratio, it has a direct affect on its profitability because for a low profitable bank if the major source of income in the Non-Interest income then it is matter of great concern because for a low profitable bank the major source of income should be the interest income and for a low profitable bank it is not possible to continue other investments to earn this Non-Interest income. So, if in future its investments decrease the profitability will be affected to a great extent. So, More the Non-Interest income/total Assets of a bank, lesser the ROA and less profitable it is. Similarly, Wage Bill/ Total Expense have a Negative coefficient. This means that as this ratio increases the ROA decreases and vice versa. This happens because as the wage bill increases the profit per employee and the total expense increases which hampers the profitability of any bank. So, if the percentage of wage bill in the total expense will be more the profitability will be less.

b) High Profitable Group

Model Summary[g]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.699[a]	.488	.472	.58981
2	.873[b]	.762	.748	.40795
3	.917[c]	.842	.826	.33838
4	.933[d]	.880	.864	.29929
5	.957[e]	.917	.902	.25404
6	.970[f]	.941	.928	.21740

a. Predictors: (Constant), Net Interest Spread/Total Assets
b. Predictors: (Constant), Net Interest Spread/Total Assets, Non-Interest Income/Total Assets
c. Predictors: (Constant), Net Interest Spread/Total Assets, Non-Interest Income/Total Assets, Wage Bill/ Total Expense
d. Predictors: (Constant), Net Interest Spread/Total Assets, Non-Interest Income/Total Assets, Wage Bill/ Total Expense, Profit per Employee
e. Predictors: (Constant), Net Interest Spread/Total Assets, Non-Interest Income/Total Assets, Wage Bill/ Total Expense, Profit per Employee, CRAR
f. Predictors: (Constant), Net Interest Spread/Total Assets, Non-Interest Income/Total Assets, Wage Bill/ Total Expense, Profit per Employee, CRAR, Non-Performing Assets/Net Advances
g. Group = high profitable

R square can range from 0.0000 to 1.0000, and indicates the extent to which the line fits the points; 1.000 is a perfect fit, such that each point is on the line. The higher the value of adjusted R square, the better. So, in this year we can see that changes Net Interest Spread/Total Assets for 47.2% of the variation in ROA, but when all the six variables are taken together their total effect in 92.8 percent. Rest of this is because of the other variables which are otherwise insignificant. Also, in this study, Stepwise regression technique is used.

Coefficients[a,b]

Model	Unstandardized coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.365	.233		1.567	.127
Net Interest Spread/Total Assets	.345	.061	.699	5.608	.000
2 (Constant)	.350	.161		2.168	,038
Net Interest Spread/Total Assets	.295	.043	.597	6.807	.000
Non-Interest Income/Total Assets	.051	.008	.534	6.081	.000
3 (Constant)	.805	.177		4.552	.000
Net Interest Spread/Total Assets	.294	.036	.596	8.188	.000
Non-Interest Income/Total Assets	.069	.008	.719	8.295	.000
Wage Bill/ Total Expense	-.031	.008	-.337	-3.938	.000
4 (Constant)	.805	.156		5.148	.000
Net Interest Spread/Total Assets	.266	.033	.539	8.061	.000
Non-Interest Income/Total Assets	.072	.007	.754	9.732	.000
Wage Bill/ Total Expense	-.034	.007	-.375	-4.896	.000
Profit per Employee	.011	.003	.206	3.103	.004
5 (Constant)	1.015	.145		6.986	,000
Net Interest Spread/Total Assets	.281	.028	.569	9.913	.000
Non-Interest Income/Total Assets	.075	.006	.781	11.801	.000
Wage Bill/ Total Expense	-035	.006	-.388	-5.961	.000
Profit per Employee	.013	.003	.261	4.466	.000
CRAR	-.015	.004	-.204	-3.555	.001
6 (Constant)	1.074	.126		8.558	.000
Net Interest Spread/Total Assets	.315	.026	.638	12.007	.000
Non-Interest Income/Total Assets	.099	.009	1.033	11.092	.000
Wage Bill/ Total Expense	-.042	.005	-.456	-7.706	.000
Profit per Employee	.020	.003	.386	6.223	.000
CRAR	-.019	.004	. -.258	-4.994	.000
Non-Performing Assets/Net Advance	-.156	046	-.309	-3.406	.002

a. Group = high profitable
b. Dependent Variable: ROA

The Regression equation is:

ROA = $1.074 + 0.315\ X_6 + 0.099\ X_5 - 0.42\ X_8 + 0.20\ X_{11} - 0.19\ X_1 - 0.156\ X_{10}$

We now have one intercept (constant) and 6 slopes, one for each of the three explanatory variables. The intercept represents the value of ROA when all of the 6 variables are equal to zero. Each slope represents the marginal change in ROA associated with a one unit change in the corresponding independent variable, if other variables were to remain constant. Also by using this equation we can predict the value of ROA if we know the values of the other independent variables.

The coefficient table also reports standardized coefficients, or betas for each variable. The equation using the betas is:

ROA = $0.638\ X_6 + 1.033\ X_5 - 0.456\ X_8 + 0.386\ X_{11} - 0.258\ X_1 - 0.309\ X_{10}$

These betas (or beta weights) allow us to compare the relative importance of each independent variable. In this case:

Signs for Coefficients for Independent Variables in the Descending Order of their affect on the Profitability:

Sign	Independent Variables
Positive	Non-Interest Income/Total Assets, Net InterestIncome/Total Assets, Profit per Employee
Negative	Wage bill/Total Expense, CRAR, Non-Performing Assets

Now, for the High Profitable group the Major Determinants of profitability for the year 2009-10 are Non-Interest Income/Total Assets, Net Interest Income/total assets. Profit per Employee, Wage Bill/Total Expense, CRAR, and Non-Performing Assets .The signs of their coefficients are shown in the above table. Non-Interest income/total assets affect the ROA positively and to the most significant Extent. This was expected as for a high profitable bank other investments are very important. All the high profitable banks have more or less same level of interest income. So, the profitability game rests on the shoulder of investments. As these high profitable banks have huge capital that they can invest so, better their other investments like stocks, bonds etc. Better is their profitability. But we have seen above that in case of low profitable banks, it was just the opposite. Net interest income/total assets affect the ROA positively and to the most significant Extent. This was expected as the interest is the major source of income for the banks. So, it has to be a major profitability measure. So, as the net interest income/total assets increases the ROA of the high profitable bank increases. Similarly, The Return on Assets was affected positively by Profit per Employee. This means as the profit per Employee increase the ROA also increases. This is very obvious as banking industry is a service industry and also labours intensive so, as the profit per employee increases ROA also increases. Wage Bill/ Total Expense have a Negative coefficient. This means that as this ratio increases the ROA decreases and vice versa. This happens because as the wage bill increases the profit per employee and the total expense increases which hampers the profitability of any bank. So, if the percentage of wage bill in the total expense will be more the profitability will be less. Similarly, Non-Performing assets and CRAR adversely affects the ROA or the profitability of the bank.

7. SUMMARY AND CONCLUSION

A well planned, organized, efficient and viable banking system is a necessary concomitant of economic and social infrastructure of the economy. Banking occupies a crucial place in undertaking the development effort and acts as a vehicle for socio- economic transformation as well as a catalyst to economic growth.

In the post reform period, Indian banking system has become quite complex and varied. Banks have evolved into a technology for delivering a wide range of financial services and are no longer a merely an institution of financial intermediation. The activities of bank have encompassed advisory roles as well as a monitoring function with a distinct disciplining base. Demands of innovativeness and creativity have been placed on bankers to such an extent that commercial banks are considered as one of the basic infrastructural points in promoting development.

In the study, bank profitability was measured by the net returns generated out of total resources deployed. This is given by Return on Assets i.e. net profits as percentage of total assets. An attempt was made to identify the most critical profitability ratios using stepwise multiple regression analysis.

The objective of the study was to identify the determinants that influence the profitability of Indian Commercial Banks and also identify the most critical profitability ratios. For the purpose of this analysis few representative determinants were chosen. For data collection secondary data collected from RBI publication were referred. The sample included all scheduled commercial banks in India. The study was done for the financial year 2009-10.

The results of the empirical study for the year 2009-10 showed that for the low Profitable Banking group the major determinant of Profitability are Profit per Employee, Non-Interest Income/total assets, wage bill/ total assets. The Return on Assets was affected positively by Profit per Employee whereas it was negatively affected by Non-Interest Income/total assets, wage bill/ total assets.

Similarly for the High Profitable group the Major Determinants of profitability for the year 2009-10 are Non-Interest Income/Total Assets, Net Interest Income/total assets, Profit per Employee, Wage Bill/Total Expense, CRAR, and Non-Performing Assets. Out of these Interest Income/Total Assets, Net Interest Income/total assets, Profit per Employee affect ROA positively whereas Wage Bill/Total Expense, CRAR, and Non-Performing Assets have a negative effect on the ROA.

Finally in order to conclude the banks should focus on the various factors that have a positive impact on the overall profitability such as Non-Interest Income/Total Assets, Net Interest Income/total assets, Profit per Employee and Cost of Funds as improving these financial ratios will in turn improve the overall profitability whereas Banks should try to eliminate factors that have a negative impact such as wage bill/ total expense, CRAR and Non-Performing Assets.

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A STUDY ON ENVIRONMENT FRIENDLY MARKETING

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ABSTRACT

Now a days in our country people have become more aware and interested in environmental issues. This has led to an increased demand for environmental friendly products. Previously the sale of product is determined by price often determined if a customer bought the product or not. Environment friendly marketing has not lived up to the hopes and dreams of many managers and activists. Although public opinion polls consistently show that consumers would prefer to choose a green product over one that is less friendly to the environment. This paper is based on the study about the need and use of Environment Friendly Marketing. It also studies about the various problems, social responsibility, cost profit issues and opportunities of Environment friendly marketing. Finally an idea is given about a strategy to implement Environment friendly marketing.

KEYWORDS

Ecological Marketing Strategy, Environment Friendly Marketing, Green Marketing, Social responsibility.

INTRODUCTION

People are getting more aware of the environmental issues every day. One only have to read in a daily paper to realise to what extent today's society affect the environment, how the general public is becoming more aware of the problem and willing to do something about it. That humankind is disturbing the natural balance in the world by its way of living has been especially evident in recent year's earlier environmental changes and the human effect on the environment slowly appeared, making the effects less noticeably. People are becoming inclined to give up some of their personal comfort in order to be more environmental friendly. This can be demonstrated through travelling by bus instead of by car, by saving electricity, by buying environmental friendly products and by supporting products and services that are produced locally in order to reduce waste even though those efforts might mean higher prices and less comfort. The awareness of the environment has led to a shift in the demand for environmental friendly products from the public. Many grocery stores today provide organic-, echo-, toxic free products and so forth, as alternatives to the regular products. This can be seen as a result of the environmental awareness of people and the increased demand for healthier food.

Although environmental issues influence all human activities, few academic disciplines have integrated green issues into their literature. This is especially true of marketing. As society becomes more concerned with the natural environment, businesses have begun to modify their behaviour in an attempt to address society's "new" concerns. Some businesses have been quick to accept concepts like environmental management systems and waste minimisation, and have integrated environmental issues into all organisational activities. Some evidence of this is the development of journals such as "Business Strategy and the Environment" and "Greener Management International," which are specifically designed to disseminate research relating to business' environmental behaviour. One business area where environmental issues have received a great deal of discussion in the popular and professional press is marketing. Terms like "Environment Friendly Marketing" and "Environmental Marketing" appears frequently in the popular press. Many governments around the world have become so concerned about Environment Friendly marketing activities that they have attempted to regulate them.

ENVIRONMENT FRIENDLY MARKETING

Environment Friendly marketing is marketing that include environmental issues in the marketing efforts. The main idea is that customers that are provided with information of the environmental effect of the products they are considering buying, can and will take this information into account when deciding which product to purchase. Those aspects will in turn make companies more inclined to produce products that are better from an environmental point of view.

Unfortunately, a majority of people believe that Environment Friendly marketing refers solely to the promotion or advertising of products with environmental characteristics. Terms like Phosphate Free, Recyclable, Refillable, Ozone Friendly, and Environmentally Friendly are some of the things consumers most often associate with Environment Friendly marketing. While these terms are Environment Friendly marketing claims, in general Environment Friendly marketing is a much broader concept, one that can be applied to consumer goods, industrial goods and even services. For example, around the world there are resorts that are beginning to promote themselves as "eco-tourist" facilities, i.e., facilities that "specialise" in experiencing nature or operating in a fashion that minimizes their environmental impact.

Thus Environment Friendly marketing incorporates a broad range of activities, including product modification, changes to the production process, packaging changes, as well as modifying advertising. Yet defining Environment Friendly marketing is not a simple task. Indeed the terminology used in this area has varied, it includes: Environment Friendly marketing, Environmental Marketing and Ecological Marketing.

REVIEW OF LITERATURE

The first signs of interest in Environment Friendly marketing could be seen in the 1970s but it was not until the late 1980s and the 1990s that environmental friendly or ecological marketing gained attention from a broader audience. Researchers argued for a rapid growth in the use of ecological products which represented a shift in consumption behaviour (Prothero, 1990). Much research was conducted on the subject which identified a greater awareness of the environment from the public. Furthermore the findings showed an increased demand for green products from consumers and that people were inclined to pay additional costs for environmental friendly characteristics (Mintel, 1991). Furthermore the view of green management as a profitable strategy arose, since green corporations ideally use less raw material, waste less and produce less pollutions (Wasik, 1996). The interest in Environment Friendly marketing from corporations rose as a result of all of those aspects. Companies claimed to have changed to more environmental friendly approach and promotion and advertisement containing green information rocketed (Crane, 2000). Companies such as McDonald's, Merck and Quaker Oats were praised for their environmental efforts in terms of adopting environmental policies, recycling efforts, energy efficiency, corporate responsibility and so forth (Wasik, 1996). The positive response those efforts gave in the press were examples of how environmental efforts could pay.

OBJECTIVES

This paper will attempt
1) To introduce the terms and concepts of Environment Friendly marketing
2) To briefly discuss why going green is important
3) To examine some of the reason that organisations are adopting a Environment Friendly marketing philosophy; and
4) To Mention some of the problems with Environment Friendly marketing .

RESULTS & DISCUSSION

IMPORTANCE OF ENVIRONMENT FRIENDLY MARKETING

The question of why Environment Friendly marketing has increased its importance is quite simple and relies on the basic definition of Economics. Economics is the study of how people use their limited resources to try to satisfy unlimited wants. Thus mankind has limited resources on the earth, with which he/she must attempt to provide for the worlds' unlimited wants. While the question of whether these wants are reasonable or achievable. In market societies where there is "freedom of choice", it has generally been accepted that individuals and organisations have the right to attempt to have their wants satisfied. As firms face limited natural resources, they must develop new or alternative ways of satisfying these unlimited wants. Ultimately Environment Friendly marketing looks at how marketing activities utilize these limited resources, while satisfying consumers' wants, both of individuals and industry, as well as achieving the selling organisation's objectives.

WHY ARE FIRMS USING ENVIRONMENT FRIENDLY MARKETING?

When looking through the literature there are several suggested reasons for firms increased use of Environment Friendly marketing. Five possible reasons cited are:
1. Organisations perceive environmental marketing to be an opportunity that can be used to achieve its objectives.
2. Organisations believe they have a moral obligation to be more socially responsible.
3. Governmental bodies are forcing firms to become more responsible.
4. Competitors' environmental activities pressure firms to change their environmental marketing activities.
5. Cost factors associated with waste disposal, or reductions in material usage forces firms to modify their behaviour.

OPPORTUNITIES

It appears that all types of consumers, both individual and industrial are becoming more concerned and aware about the natural environment. In a 1992 study of 16 countries, more than 50% of consumers in each country, other than Singapore, indicated they were concerned about the environment. A 1994 study in Australia found that 84.6% of the sample believed all individuals had a responsibility to care for the environment. A further 80% of this sample indicated that they had modified their behaviour, including their purchasing behaviour, due to environmental reasons. As demands change, many firms see these changes as an opportunity to be exploited. Given these figures, it can be assumed that firms marketing goods with environmental characteristics will have a competitive advantage over firms marketing non-environmentally responsible alternatives. There are numerous example of firms who have strived to become more environmentally responsible, in an attempt to better satisfy their consumer needs.

- McDonald's replaced its clam shell packaging with waxed paper because of increased consumer concern relating to polystyrene production and Ozone depletion.
- Tuna manufacturers modified their fishing techniques because of the increased concern over driftnet fishing, and the resulting death of dolphins.
- Xerox introduced a "high quality" recycled photocopier paper in an attempt to satisfy the demands of firms for less environmentally harmful products.

This is not to imply that all firms who have undertaken environmental marketing activities actually improve their behaviour. In some cases firms have misled consumers in an attempt to gain market share. An Introduction To Environment Friendly marketing cases firms have jumped on the green bandwagon without considering the accuracy of their behaviour, their claims or the effectiveness of their products. This lack of consideration of the true "greenness" of activities may result in firms making false or misleading Environment Friendly marketing claims.

SOCIAL RESPONSIBILITY

Many firms are beginning to realise that they are members of the wider community and therefore must behave in an environmentally responsible fashion. This translates into firm's belief that they must achieve environmental objectives as well as profit related objectives. This results in environmental issues being integrated into the firm's corporate culture. Firms in this situation can take two perspectives;
(a) They can use the fact that they are environmentally responsible as a marketing tool; or
(b) They can become responsible without promoting this fact.

There are examples of firms adopting both strategies. Organisations like the 'Body Shop' heavily promote the fact that they are environmentally responsible. While this behaviour is a competitive advantage, the firm was established specifically to offer consumers environmentally responsible alternatives to conventional cosmetic products. This philosophy is directly tied to the overall corporate culture, rather than simply being a competitive tool. An example of a firm that does not promote its environmental initiatives is Coca-Cola. They have invested large sums of money in various recycling activities, as well as having modified their packaging to minimize its environmental impact. While being concerned about the environment, Coke has not used this concern as a marketing tool. Thus many consumers may not realise that Coke is a very environmentally committed organisation. Another firm who is very environmentally responsible but does not promote this fact, at least outside the organisation, is Walt Disney World (WDW). WDW has an extensive waste management program and infrastructure in place, yet these facilities are not highlighted in their general tourist promotional activities.

GOVERNMENTAL EFFORTS

As with all marketing related activities, governments want to "protect" consumers and society; this protection has significant Environment Friendly marketing implications. Governmental regulations relating to environmental marketing are designed to protect consumers in several ways –
(a) Reduce production of harmful goods or by-products;
(b) Modify consumer and industry's use and/or consumption of harmful goods; or
(c) Ensure that all types of consumers have the ability to evaluate the environmental composition of goods.

Governments establish regulations designed to control the amount of hazardous wastes produced by firms. Many by-products of production are controlled through the issuing of various environmental licenses, thus modifying organisational behaviour. In some cases governments try to "induce" final consumers to become more responsible. For example, some governments have introduced voluntary curb-side recycling programs, making it easier for consumers to act responsibly. In other cases governments tax individuals who act in an irresponsible fashion.

COMPETITIVE PRESSURE

Another major force in the environmental marketing area has been firms' desire to maintain their competitive position. In many cases firms observe competitors promoting their environmental behaviours and attempt to emulate this behaviour. In some instances this competitive pressure has caused an entire industry to modify and thus reduce its detrimental environmental behaviour. For example, it could be argued that Xerox's "Revive 100% Recycled paper" was introduced a few years ago in an attempt to address the introduction of recycled photocopier paper by other manufacturers.

COST OR PROFIT ISSUES

Firms may also use Environment Friendly marketing in an attempt to address cost or profit related issues. Disposing of environmentally harmful by-products, such as polychlorinated biphenyl (PCB) contaminated oil are becoming increasingly costly and in some cases difficult. Therefore firms that can reduce harmful wastes may incur substantial cost savings. When attempting to minimize waste, firms are often forced to re-examine their production processes. In these cases they often develop more effective production processes that not only reduce waste, but reduce the need for some raw materials. This serves as a double cost savings, since both waste and raw material are reduced. In other cases firms attempt to find end-of-pipe solutions, instead of minimizing waste. In these

situations firms try to find markets or uses for their waste materials, where one firm's waste becomes another firm's input of production. One example of this is a firm who produces acidic waste water as a by-product of production and sells it to a firm involved in neutralizing base materials. The last way in which cost or profit issues may affect firms' environmental marketing activities is that new industries may be developed. This can occur in two ways:
(a) A firm develops a technology for reducing waste and sells it to other firms; or
(b) A waste recycling or removal industry develops.
For example, firms that clean the oil in large industrial condensers increase the life of those condensers, removing the need for replacing the oil, as well as the need to dispose of the waste oil. This reduces operating costs for those owning the condensers and generates revenue for those firms cleaning the oil.

SOME PROBLEMS WITH GOING GREEN

An Introduction to Environment Friendly marketing no matter why a firm uses Environment Friendly marketing there are a number of potential problems that they must overcome. One of the main problems is that firms using Environment Friendly marketing must ensure that their activities are not misleading to consumers or industry, and do not breach any of the regulations or laws dealing with environmental marketing. Environment Friendly marketing claims must;

- Clearly state environmental benefits;
- Explain environmental characteristics;
- Explain how benefits are achieved;
- Ensure comparative differences are justified;
- Ensure negative factors are taken into consideration; and
- Only use meaningful terms and pictures.

Another problem firms face is that those who modify their products due to increased consumer concern must contend with the fact that consumers' perceptions are sometimes not correct. Take for example the McDonald's case where it has replaced its clam shells with plastic coated paper. There is ongoing scientific debate which is more environmentally friendly. Some scientific evidence suggests that when taking a cradle-to-grave approach, polystyrene is less environmentally harmful. If this is the case McDonald's bowed to consumer pressure, yet has chosen the more environmentally harmful option. When firms attempt to become socially responsible, they may face the risk that the environmentally responsible action of today will be found to be harmful in the future. Take for example the aerosol industry which has switched from CFCs (chlorofluorocarbons) to HFCs (hydrofluorocarbons) only to be told HFCs are also a greenhouse gas. Some firms now use DME (dimethyl ether) as an aerosol propellant, which may also harm the ozone layer. Given the limited scientific knowledge at any point in time, it may be impossible for a firm to be certain they have made the correct environmental decision. This may explain why some firms, like Coca-Cola and Walt Disney World, are becoming socially responsible without publicizing the point. They may be protecting themselves from potential future negative backlash; if it is determined they made the wrong decision in the past. While governmental regulation is designed to give consumers the opportunity to make better decisions or to motivate them to be more environmentally responsible, there is difficulty in establishing policies that will address all environmental issues. For example, guidelines developed to control environmental marketing address only a very narrow set of issues, i.e., the truthfulness of environmental marketing claims. If governments want to modify consumer behaviour they need to establish a different set of regulations. Thus governmental attempts to protect the environment may result in a proliferation of regulations and guidelines, with no one central controlling body.

ECO LABELS AND GREEN SALES

Eco labels have emerged as the main marketing tool, since Environment Friendly marketing was introduced in the 1990s. However eco labels still represent a very small share of the total market which partly depends on the fact that they have been directed towards consumers that are very aware of environmental issues and their effect on the environment.
The sales of ecological products could be greater. However there are an insufficient number of ecological farmers and producers. Therefore the demand is greater than the supply. Ecological products have become a scarce commodity and existing products are always sold out. The general dealers report that ecological items such as dairy products, flour products and meat have a huge demand. One of the main reasons why people argue for that they do not purchase ecological products is that they think ecological products are much more expensive compared to the conventional ones. Conclusively ecological products seem to be a growing segment in a quite mature market. Environment Friendly marketing did not correspond to the expectations it were given in the 1990s. However the concept is now highly interesting again. The demand for ecological products is increasing from customers. Eco labelling has become the main tool to verify the ecological features of products.

ECOLOGICAL MARKETING STRATEGY

Making use of a marketing strategy is about measuring the demand from customers or anticipating a future demand, segment and target the market, and Frame of Reference thereafter positioning the company/product/service, which hopefully will result in a competitive advantage. Environment Friendly marketing is presently the same as ecological labelling, in other words the product. The other three traditional marketing tools price, place and promotion has been left out which according to Rex & Baumann (2007) results in a position where it is doubtful if a competitive advantage is reached.

FIGURE: 1- MARKETING STRATEGIES FROM TWO PERSPECTIVES; THE CURRENT FOCUS OF ENVIRONMENT FRIENDLY MARKETING AND ADDITIONAL ASPECTS OF CONVENTIONAL MARKETING (REX & BAUMANN, 2007, P. 573).

Marketing strategy	Demand measurement	Segmentation & Targeting	Positioning	⇨	Competitive advantage
Green marketing focus:	Market size	The green consumer	Eco label (product)	⇨	Doubtful
Other aspects in conventional marketing:	Market needs and wants	All consumers	Place, price, promotion	⇨	Possible

A decision to buy can be based on the situation, the context and the object; the consumer's ability and motivation to process information or the person and its lifestyle. Price, quality and accessibility is important to various degrees for a customer considering purchasing environmental friendly products depending on how the consumers value environmental features and the reliability of those features. The prices of environmental friendly products are in some cases higher than the prices of the ordinary alternatives. A higher price compared to the ordinary alternative can be determining factor for some consumers, verifying the accurateness of the products green features. Others do not consider the price at all but choose the environmental friendly alternative regardless. Some purchase green products when the price is comparable to the ordinary alternative. Quality is another determinant factor when considering buying environmental friendly products. Some customers are willing to accept lower quality (such as wash powder that does not remove all stains since it does not contain certain chemicals). Others are not willing to sacrifice their personal comfort and purchase the ordinary alternative in such cases. Accessibility is the third determinant factor when considering purchasing green products or not. Such consumers are not willing to actively search for locations where green products are promoted or scrutinize

products on the shelf's which are poorly labelled or not actively promoted. Such consumers buy environmental friendly products that are easy to access and identify in the store. Consumers that are very dedicated to environmental friendliness are willing to sacrifice time and efforts to actively search and assure themselves of the validity of the green features.
Environment Friendly marketing could adopt and learn many tools and techniques from traditional marketing, in order to make use of other means than labelling in order to promote green products. Such efforts could be to address a broader range of customers, not only targeting green consumers by promoting the environmental friendly features of the product as one of the appeals of many. It could also be to engage more actively in the creation of the market and make strategic use of the traditional positioning strategies of price, place and promotion.

CONCLUSION
Environment Friendly marketing is the need of present era. Consumers are becoming more aware about eco-friendly products. Environment Friendly marketing covers more than a firm's marketing claims. While firms must bear much of the responsibility for environmental degradation, ultimately it is consumers who demand goods, and thus create environmental problems. One example of this is where McDonald's is often blamed for polluting the environment because much of their packaging finishes up as roadside waste. It must be remembered that it is the uncaring consumer who chooses to disposes of their waste in an inappropriate fashion. While firms can have a great impact on the natural environment, the responsibility should not be theirs alone. Consumers are not overly committed to improving their environment and may be looking to lay too much responsibility on industry and government. Ultimately Environment Friendly marketing requires that consumers want a cleaner environment and are willing to "pay" for it, possibly through higher priced goods, modified individual lifestyles, or even governmental intervention. Until this occurs it will be difficult for firms alone to lead the Environment Friendly marketing revolution.

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EMERGING TRENDS OF UNIVERSAL BANKING IN INDIA

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ABSTRACT

Universal banking is the fastest growing sector of the banking industry. It, by attending directly the needs of the end customers, is having glorious future in coming years. The term 'Universal Banks' refers to those banks that offer a wide range of financial services, beyond commercial banking and investment banking, insurance etc. Universal bank is a place where all financial products are available under one roof. Corporates can get loans and avail of other handy services, while individuals can bank and borrow. In India, universal banking sector as a whole is facing a lot of competition ever since financial sector reforms. Banks therefore, are now competing for increasing their business. The ongoing reforms process, growing use of technology, increased competition and product innovation has all put the banking sector on a high growth trajectory. However, significant challenges lie ahead for the banks in the country as they gear unto embrace international standards .The issue of universal banking resurfaced in India in year 2000, when ICICI gave a presentation to RBI to discuss the time frame and possible options for transforming itself into a universal bank. Indian banking, with the help of Universal Banking has technology edge and better business models, compared to pre-liberalizations era. Today, they are able to attract and gain more volumes simply because they meet their customers' requirements better than anyone else. However, there is a need for constant innovation in universal banking. This requires product development and differentiation, micro-planning, marketing, prudent pricing, customization, technological upgradation, home / electronic / mobile banking, effective risk management and asset liability management techniques.

KEYWORDS
universal banking, banking industry.

INTRODUCTION
The banking industry in India has experienced a rapid transformation. The growing universalisation and internationalization of banking operations have altered the face of banks from one of mere intermediator to one of provider of quick, efficient and consumer centric services. These days, apart from providing the conventional banking services, banks have begun offering a bouquet of financial services to their clients. The ultimate aim is to offer a "one-stop-shop" for meeting varied customers' financial needs. Today, banks have been expanding their service scope, and hence, "Universal Banks", which provide a variety of financial products and services in one house, have experienced growing popularity.

MEANING
Universal Banking is a multi-purpose and multi-functional financial supermarket (a company offering a wide range of financial services e.g. stock, insurance and real-estate brokerage) providing both banking and financial services through a single window.

As per the World Bank, "In Universal Banking, large banks operate extensive network of branches, provide many different services, hold several claims on firms (including equity and debt) and participate directly in the Corporate Governance of firms that rely on the banks for funding or as insurance underwriters".

In a nutshell, the term 'Universal Banking' refers to those banks that offer a wide range of financial services, beyond the commercial banking functions like Mutual Funds, Merchant Banking, Factoring, Credit Cards, Retail loans, Housing Finance, Auto loans, Investment banking, Insurance etc. This is most common in European countries. Consequent to the liberalisation and deregulation of financial sector, there has been blurring of distinction between the commercial banking and investment banking.

Universal banking is a combination of Commercial banking, Investment banking, Development banking, Insurance and many other financial activities. It is a place where all financial products are available under one roof. So, a universal bank is a bank which offers commercial bank functions plus other functions such as Merchant Banking, Mutual Funds, Factoring, Credit cards, Housing Finance, Auto loans, Retail loans, Insurance, etc.

UNIVERSAL BANKING IN INDIA: THE EMERGENCE
The banking scenario in India has been changing at fast pace from being just the borrowers and lenders traditionally, the focus has shifted to more differentiated and customized product/service provider, from regulation to liberalization in the year 1991, from planned economy to market. Earlier financial institutions (FIs) used to cater to term loan requirements while commercial banks did working capital financing. Consequent to the liberalisation and deregulation of financial sector, there has been blurring of distinction between the commercial banking and investment banking. In India, a Working Group was constituted by Reserve Bank of India on December 8, 1997 under the Chairmanship of Shri S.H. Khan to bring about greater clarity in the respective roles of banks and financial institutions for greater harmonisation of facilities and obligations. S.H Khan Committee Report and also report of the Committee on Banking Sector Reforms or Narasimham Committee Report advised to consolidate the banking industry through mergers and integration of financial activities. That is, they advised a combination of all banking and financial activities. That is, they suggested a Universal banking.

The issue of universal banking resurfaced in Year 2000, when ICICI gave a presentation to RBI to discuss the time frame and possible options for transforming itself into a universal bank. Reserve Bank of India also spelt out to Parliamentary Standing Committee on Finance, its proposed policy for universal banking, including a case-by-case approach towards allowing domestic financial institutions to become universal banks.

Now RBI has asked FIs, which are interested to convert itself into a universal bank, to submit their plans for transition to a universal bank for consideration and further discussions. FIs need to formulate a road map for the transition path and strategy for smooth conversion into a universal bank over a specified time frame. The plan should specifically provide for full compliance with prudential norms as applicable to banks over the proposed period.

UNIVERSAL BANKING IN INDIA: CURRENT SCENERIO

Owing to the recommendations of Narasimham Committee and Khan Committee, in India, all the banking and financial institutions are showing lots of interest in universal banking and marching towards it.

In India, Development Financial Institutions (DFIs) and Refinancing Institutions (RFIs) were meeting specific sectoral needs and also providing long-term resources at concessional terms, while the commercial banks in general, by and large, confined themselves to the core banking functions of accepting deposits and providing working capital finance to industry, trade and agriculture. Now, with DFIs told to move towards universal banking, banks have been allowed to diversify into investment and long term financing, and DFIs will lend for working capital also. DFIs are ultimately converting into either Commercial Banks or Non Banking Financial Companies. This, in a way spelt the beginning of the end of specialized services from DFIs, and the introduction of universal banks. Keeping in view the vast potential available for insurance business, and other allied activities in various financial disciplines, many public and private sector banks have directly entered in insurance business with their own products. ICICI Bank, Kotak Mahindra Bank Ltd, HDFC Bank Ltd and Development Credit Bank Ltd, these banks have made strategic alliances with foreign insurance companies for selling the insurance products both in life and general branches. Besides the insurance business, the banks are engaged in investment, merchant banking and advisory and consultancy services to earn revenue. The latest trend in banks is to have their own call center to save costs of outsourcing their activities.

The shift from specialized to universal banking is not restricted to FIs; SBI and LIC can be considered universal banks. SBI deals with Mutual funds and investment banking and its insurance initiative with Cardiff SA brings it closer to the universal banking objectives and LIC’s move to acquire to stake in corporation banks.

UNIVERSAL BANKING IN INDIA: FUTURE PROSPECTIVE

A universal bank is a one-stop supplier for all financial products and activities, like deposits, short term and long term loans, insurance, investment banking etc. Universal banking enables banks to exploit economies of scale and scope. A bank has an existing network of branches, which can act as shops for selling the products like insurance.

No doubt, universal banking tends to be large, so large that failure of even one such bank could bring the entire system down. In this scenario, universal banking might result in a variety of negative consequences for economy. So, the universal banking may have positive and negative effects on an economy.

BENEFITS OF UNIVERSAL BANKING

- Economies of scale from lower operational costs, i.e., larger scale can avoid the wasteful duplication of marketing, research and development and information gathering efforts.
- By offering a broader set of financial products than what a specialized bank provides, a universal bank is able to establish long-term relationship with the customers and provide them with a package of financial services through a single-window.
- Flexibility in adapting to the fast changing environment.
- Better and innovative products.
- Reduction of risk by diversification.
- Access to international financial markets.
- Higher output due to specialization

WEAKNESSES OF UNIVERSAL BANKING

- The failure of a larger institution could have serious ramifications for the entire system in that if one universal bank were to collapse, it could lead to a systemic financial crisis. Thus, universal banking could subject the economy to the increased systemic risk.
- Universal bankers may be tempted to take excessive risks. In such cases, the government would be forced to step in to save the bank.
- Vulnerable to high risks due to investment banking activities coupled with focus on commercial banking activities.
- By virtue of their sheer size, universal banks may gain monopoly power in the market, which can have significant undesirable consequences for economic efficiency.
- Universal banks may tend to work primarily with large established customers and ignore or discourage smaller and newly established businesses.
- Universal banks could use such practices as limit pricing or predatory pricing to prevent smaller specialized banks from serving the market. This argument mainly stems from the economies of scale and scope.
- Combining commercial and investment banking gives rise to conflict of interests, as universal banks may not objectively advise their clients on optimal means of financing or they may have an interest in securities because of underwriting activities.
- There may be conflict between the investment banker's promotional role and the commercial banker's obligation to provide disinterested advice .
- Banks may deploy their own assets in securities with consequent risk to commercial and savings deposits.
- Unsound loans may be made in order to shore up the price of securities or the financial position of companies in which a bank had invested its own assets.
- A commercial bank's financial interest in the ownership, price, or distribution of securities inevitably may tempt bank officials to press their banking customers into investing in securities which the bank itself was under pressure to sell because of its own pecuniary stake in the transaction.

CONCLUSION

No doubt, universal banking can provide considerable benefits and would pose few problems for the economy. Universal banking is, no doubt, the fastest growing sector of the banking industry with the key success by attending directly the needs of the end customers and is having glorious future in coming years. Universal banking sector as a whole is facing a lot of competition ever since financial sector reforms were started in the country. Walk-in business is a thing of past and banks are now, on their toes, to capture business. Banks therefore, are now competing for increasing their business. There is a need for constant innovation in universal banking. This requires product development and differentiation, micro-planning, marketing, prudent pricing, customization, technological upgradation, home / electronic / mobile banking, effective risk management and asset liability management techniques.

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THE IMPACT OF THE PERCEIVED QUALITY, CUSTOMER SATISFACTION, BRAND TRUST AND CONTEXTUAL FACTORS ON BRAND LOYALTY

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ABSTRACT

Every day, a customer makes several purchase decisions. The numbers of decision are base on brand loyalty. The purpose of this research is to investigate the effect of the perceived quality, customer satisfaction, brand trust and contextual factors on brand loyalty of K&N's product in Pakistan. Data has collected through self-administrated questionnaires from user of K&N's in city Bahawalpur. We have selected the students, employees and businessperson as respondents. We have distributed questionnaires among 200 respondents. From 200 respondents 150 have selected. Remaining 50 questionnaires was excluding due to faulty response. For analysis, we have used regression analysis techniques. The results showed that brand trust has a strong and significant relationship with brand loyalty. Customer satisfaction & perceived quality has also positive impact on brand loyalty. The impact of contextual factor on brand loyalty was insignificant. After the study we recommend that, if the company wants to prosper in the market they should focus on these factors. These factors determine the loyalty of the customers. In our opinion if the company is able to develop the trust, customer satisfaction and good perceived quality then it can perform better.

KEYWORDS
Brand Loyalty, Perceived Quality, Customer Satisfaction, Brand Trust, Contextual Factors.

1. INTRODUCTION

Despite the remarkable researches on brand loyalty (BL), still it is a hot issue. Experience of the customer is powerful force at behind his/her decision making associated to brand re-buy and brand loyalty. BL has conceptualized as a customer based construct that is determined by both psychological perception and behavioral reaction in the previous time period, as well as the present time period. The brand can be explained as a name, symbol, term, design, and logo or the combination of the all these, aims at identifying the products and the services of one seller or group of sellers, and differentiate these products. The realization of brand through customer, the possibility of increase in the trust relationship and the strong positive attitude towards brand and the general impact of this should increase brand loyalty.

Brand plays the important role in the choice of customer about the product. There is a main link between producer and consumer. Moreover, offers the consumer several functions that fulfill his or her desire through buying process. It also provides their positioning in community. Customer goes into the selection process of products when he or she wants to purchase particular brand. Customer should be aware about the importance of brand, and the significance response among brand and the loyalty of the brand. A number of past researches on brands have focused on consuming goods especially on the understanding of the effects of the awareness of brands.

There is an emerging trend on branding which is the same as service logic in concentrating on value added processes. In such view, brand plays an important role so it has not only related to end users but also to the company, its employees and its shareholders. Research papers call this vast perspective of branding as brand loyalty. Richard Oliver (1977) defines loyalty as: It is a strong commitment to superior services or goods repurchase in future to acquire the same brand despite of marketing efforts by potential rivals and their impacts. In fact, the promise of the customer is outcome of the organization that provides advantages for the consumer so that they keep on increase their purchasing from the same organizations. When any customer wants to purchase brand without any encouragement then the real customer commitment to brand is established. This relationship established when two parties attract each other like a pool and they feel some special advantages for them. The loyal customers not focus only on the price but act as a fan of the organization and help to attract new customers.

BL is most the important issue in the market and business due to the fact that brand subjected to international business level. BL is a very important subject from the marketing point of view, especially as present market is marketed by it is passing through a mature phase and rigorous competition, whereas keeping the consumer loyal to brand is very critical for the survival and performance of the organization. Brand loyal customers are willing to pay more for brand of the organization. This policy considered more efficient and effective than encouraging the new consumer. Similarly, BL leads to the superior market share when the same brand is purchase repeatedly by loyal customer. Consequently, brand is the one and only distinguishing factors among the competing and same product. Moreover, BL's influential strength does not limit to the marketing tools only, but also it goes away from this stage to achieve the goal and future vision of the goods and the company's achievements and its survival in the market. In addition, the few researches have included the impact of the contextual factor (CF) on behavioral intention (Neelam e gham and Jain, 1999). The contextual factors incorporated in the process of purchase and repurchase. Most researchers have not looked at the impact of the contextual factors. The contextual factors like the gender, age, status.

A marketing researcher says that the BL is regularly declining. The researches of perceived quality (PQ) and customer satisfaction (CS) factors are associated to BL, having dominated the service literature. Companies require the deeper consideration of how the CS and PQ play the positive role in the association between BL and its determinants and how it has translated into BL. These issues are not escapable from the attention of the researchers when they are associated to achieve the brand loyalty.

The aim of this study is to explore the concept of the CF and its impacts on the BL. Moreover, this study will investigate the effect of the CF on BL. The PQ and the CS are associated with the BL. Brand develop the relationship with the consumer, weather a significant correlation by being the loyal to the brand, or negative correlation by switching or changing the brand. The loyal customer creates the BL through Brand trust.

Section 2 of this paper will introduce the literature review of all these variable "perceived quality, customer satisfaction, contextual factors, brand trust and brand loyalty". We develop the hypotheses and a proposed model of this research. In section 3, we test these hypotheses. In last section, we find out the result from all this discussion and give some future recommendations.

2. LITERATURE REVIEW

2.1 BRAND LOYALTY (BL)

The BL creates a positive degree of attachment a customer has for a brand. So many definitions of BL have given by different researchers and writers; thus, we cannot find a single definition of loyalty easily. Therefore, we will explain a number of definitions of several writers and researches, who study and discuss the subject of BL. In the past, Jacoby was the first who paid consideration towards loyalty of brand. He has considered the first who laid the foundation of loyalty. According to Jacoby and chestnut, the brand loyalty is partial behavioral reaction, showed with passage of time by some decision maker in association to one or more opportunities within largest set of these (chestnut and Jacoby). The definition of brand loyalty that is given by Jacoby and Olson has regarded as the most complete definition of BL. According to them BL is the non-random and long existence behavioral response, and it was mental process of purchase formed by certain decision units who considered multiple brands. In previous researches, researcher took the repurchase as the tool to measure brand loyalty. According to Eismen (1990), action loyalty is the consumer satisfaction on the purchase of a specific brand at regular basis.

In the light of all above-mentioned types of consumer BL, Assel in 1993 defined BL as the repurchase behavior based on consumer satisfaction with their overall experiences of purchasing of a same brand. A study conducted by Oliver in 1999, he divided BL in four different parts, action loyalty, cognitive loyalty, conation loyalty and affective loyalty. In 1996, a researcher Day added two indicators, affection and action for BL and divided BL into spurious BL and true BL. The spurious BL of consumers may make repurchase only, because there is only one choice of the brand on the store that they purchase. While true brand loyal consumer should show the effective and psychological commitments in addition to repeat purchase consistency. According to dick and Basu (1994) the can be classified in the following four types.

1. True loyalty
2. Spurious loyalty
3. Latent loyalty
4. No loyalty

FIGURE 1: MODEL OF LOYALTY

		Repeat Purchase Possibility	
		High	Low
Related Attitude	High	True Loyalty	Latent Loyalty
	Low	Spurious Loyalty	No Loyalty

Source: Dick and Basu (1994, p.101)

Consumer loyalty considered as the potency of association between the relative attitude of an individual and their repurchase behavior. In the more competitive and smaller markets, it is very difficult to retain the old customers and find new ones. Now BL has been considered as the universal solution for all the organization to stay in the globally competitive market (kotler and keller, 2005). Therefore we can say that the longer the relationship between the customer and company, the more the profit and benefit for the company. It had proved from different studies that the smaller decrease in the customer complaints could create a considerable increase in the overall profits of the company. It is cheaper to serve those customers who are aware with firm processes and offerings. According to Reichheld and Sasser the customers who are loyal always spread positive things of company.

2.2 PERCEIVED QUALITY (PQ) AND BRAND LOYALTY (BL)

According to Oliver, BL has strongly held commitment to repurchase a product at regular basis (Oliver, 1999). The definition that has given by Oliver focuses both attitudinal and behavioral aspects. BL is considering as the most important factor that affects the choice of consumers (Rubionsion and Baldinger, 1996). In 1994, Dick and Basu suggested that consumer loyalty is the outcome of psychological processes and a behavioral response that a consumer has (Dick and Basu, 1994). In the study that is under consideration, thus, we describe BL as the function of both behavioral and psychological process of a specific brand. Since the linkage between PQ and consumer loyalty well defined in the literature, the association between PQ and BL is comparatively limited**.** According to MacConnell (1968), the PQ could explain the potency of BL because such kind of association has the potency to add differentially towards the customer behaviors and attitudes.

H1: *There is the direct relationship between PQ and BL.*

2.3 CUSTOMER SATISFACTION (CS) AND BRAND LOYALTY (BL)

The difference between the real performance and consumer expectation is the satisfaction. If brand fulfill these expectations of the consumer then this will known as the customer satisfaction. The several of experiential studies explain that satisfaction is a predecessor of brand attitude, brand re-buy intention, and attitudinal BL for customer retailing services (Oliver, 1980; Pritchard et al., 1999; Russell- Bennett et al., 2007). Satisfaction increase loyalty when BL measured in a several successive purchases of the same product (La Barbera and Mazursky, 1983). In the same way, research has exposed that assessment of a retail service following purchase and utilization leads to two aspects of BL, purchase loyalty and attitudinal loyalty. Which play an important role in determining whether the customer will purchase that brand again (Bennett, Härtel, and McColl-Kennedy, 2005; Chaudhuri and Holbrook, 2001).

H3: *There is a direct relationship between the CS and BL.*

2.4 BRAND TRUST (BT) AND BRAND LOYALTY (BL)

Studies show that trust is a critical factor for the building of BL (Chaudhuri and Holbrook, 2001; Reicheld & Schefter, 2000; Berry, 1995; Morgan and Hunt 1994; Dyson, Farr & Hollis, 1996). Trust has gained a great concern from the researcher in marketing (Morgan & Hunt, 1994; Dwyer, Schurr, & Oh, 1987; Andaleeb, 1992). Researchers of different fields have different viewpoint on the trust, so each scholar has defined BT differently. According to Deutsch (1973), "trust is the belief which a person desires from others." (p148). Augstin and Singh (2005) defined the trust as the customer confidence that he or she has on the supplier to deliver all the services that has promised. Cemal et al (2005) defined BL as the process of continuing and maintaining the valued and crucial relationship that has created by the trust. In other words, trust and loyalty should be linked, because both are very critical in relational exchanges and valued relationship. According to Ashley and Leonard (2009), the trust of customers develops in the brand based on positive beliefs regarding their expectations for the performance of product and the behavior of organization. It has found that trust leads to loyalty (Moorman, et.al, 1992; Morgan and Hunt, 1994). Therefore, we can say that BT will contribute to both attitudinal loyalty and purchase loyalty.

H4: *There is a direct relationship between BT and BL.*

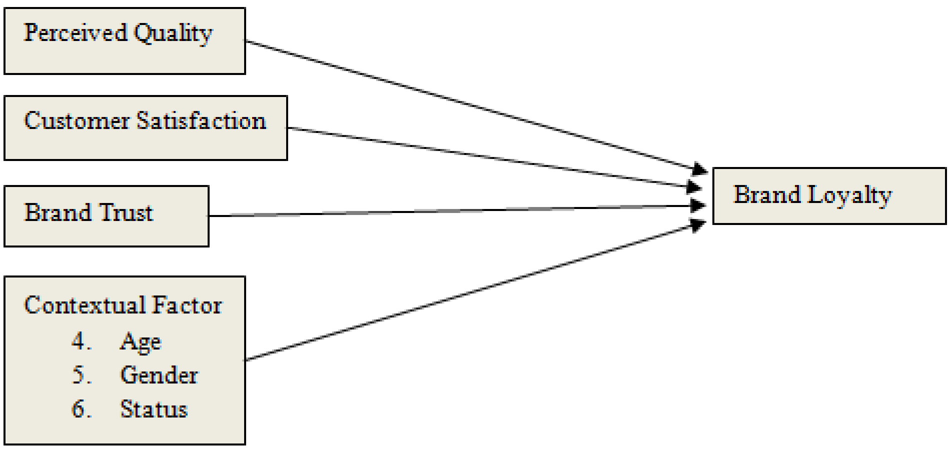
2.5 CONTEXTUAL FACTORS (CF) AND BRAND LOYALTY (BL)

The market of youngster is a significant and strong segment of customers with many distinctive features that merit it to be considering as a specific segment (Ness et al., 2002). Youngsters have more spending power than the others (Jenkinson, 2000). The youngsters globally represent a remarkable opportunity for managers (Martin and Bush, 2000). Zollo (1999) predicts that the youngster will spend more as compare to baby boomers (Merrill, 1999). Zollo (1999) suppose that youngsters are extremely important target market for managers because of their rising pressure over family expenditure, capacity to expend in future, and capability to set new trends. Youngsters are founds to be involved with new trends as compare to any other segment and influential in mass customer activities of other segments. Customers, including youngsters are often influence by variety of outside factors that in turn influences their personality, way of life and spending patterns. Determining the particular factors that influence youngsters and their buying patterns has become a major issue for behavioural researchers (Martin and Bush, 2000). Earlier researches have examined, what youngsters wants to consume and some other factors that influence them (Keillor et al., 1996; Moschis and Churchill, 1978). According to the theory of social learning, behavior of consumer influence by so many factors such as, family values (Feltham, 1998), limited finance, self concept (Ness et al., 2002). Ganesh et al. (2000) stated that recent knowledge is not enough to provide understanding to administrator concerning this user group and their decisions. Howell suggests that the Involvement and experience of young adults is less with brand. Earlier investigation (Roehm & Roehm et al, 2004) shows that youngsters are not loyal but these conclusions are relatively unclear and turn toward disagreement. Further, Ness (2002) watches the common difficult situation of allocating insufficient financial assets and due to this trouble; they have many causes to switch to the connecting commodities with the purpose of saving money. Young people develop many of their behavioral reactions in earlier life cycle, which are much investigational during their lives. Therefore, following hypotheses proposed:

H4. *Contextual factors will have a positive relationship of brand loyalty.*

2.6 PROPOSED MODEL OF THE RESEARCH

According to our hypothesis, we have developed the proposed model.



3. RESEARCH METHODOLOGY

This research is descriptive in its nature. Descriptive research can explained as describing something, some phenomena or any particular circumstances. According to Creswell, (1994) descriptive researches explain the existing circumstances instead of interpreting and making judgments .The main purpose of the descriptive research is verification of the developed hypotheses that image the current position. According to kumar (2005), this type of research provides information about the current situation and focus on past attitudes.

3.1 DATA/SAMPLE

In order to collect data for understanding the situation about the BL, a sample of 150 respondents will ask to participate in a self-administered questionnaire. The population for the current research is consumer in Pakistan. The current study utilizes a non-probability sampling technique that is convenience sampling. According to Zikmund (1997), Convenience sampling is sampling technique that obtains and collects the relevant information from the sample and unit of the study that are conveniently available. Convenience sampling is normally use for collecting a number of completed surveys quickly and economically.

It has assured that sample members have two main criterions to participate in the self-administered survey. First, the sample members should have enough knowledge about the brand. Second, they must be the user of that brand. We select these sample members from a city. We have targeted all those peoples who are the user of that brand. The selection of the sample is base on the earlier studies.

3.2 INSTRUMENTS AND MEASURES

The survey instruments of current study address two major purposes. First is to analyze the association of diverse variables in the BL. Second, is to collect information about the different traits of the respondents that can use on the deviation in the different categories. This survey contains two sections. Section 1 includes different personal and demographic variables. This section will obtain information about gender, age, income, education, and status.

Section 2 includes the latent variables that are important in the current study. These variables include perceived quality, customer satisfaction, brand trust and contextual factors (age, gender, and status). This section of the study is develop on the past literature and previously used questions (table 1). The scale of the study has taken from the earlier literature and published studies. The independent variables of the study are BT, CS, PQ and CF. There is eight items of BL, which is dependent variable of our current study. There are four items of PQ, 2 items of CS and five items of BT. BL measured with eight items taken from Chaudhuri and Holbrook, 2001; Grace and O'Cass 2005; Algesheimer, et.al 2005; Fullerton, 2005; Heithman, et.al2007; Hess and Story, 2005; Johnson, et.al 2006; Sierra and McQuity, 2005; Zeithaml, et.al 1996),. PQ has measured with four items taken from Yoo et al (2000). CS measured with four items adapted Ragunathan and Irwin (2001). BT had measured with five items adapted by morgan& hunt, 1994; ballester and munuera, 2005; lasser, 1995; chandhuri and Holbrook, 2001; hstech and hing 2004; caceres and paparoidamis 2007; ballester and aleman munuera 2001; Dixon, bridson, evans and Morrison 2005).

TABLE 1: SCALES OF THE STUDY

No.	variable	Items	references
I	Brand loyalty	1. This brand would be my first choice. 2. I consider myself loyal to this brand. 3. I will not buy other brands if the same product is available at the store. 4. I recommend this brand to someone who seeks my advice. 5. I get good value for my money. 6. I say favorable things about this brand to other people. 7. I am willing to pay premium price over competing products to be able to purchase this brand again. 8. This brand is my first choice in the next few years.	(Chaudhuri and Holbrook, 2001; Grace and O'Cass 2005; Algesheimer, et.al 2005; Fullerton, 2005; Heithman, et.al 2007; Hess and Story, 2005; Johnson, et.al 2006; Sierra and McQuity, 2005; Zeithaml, et.al 1996),
2	Perceived quality	1. This brand is of high quality. 2. It is likely that the brand is very reliable. 3. It is likely that brand is of very consistent quality. 4. It is likely that the brand offers excellent features.	Yoo et al (2000)
3	Customer satisfaction	1. Overall, I am satisfied with specific experiences with the brand. 2. I am satisfied with my decision to purchase from this brand.	Ragunathan and Irwin(2001)
4	Brand trust	1. I trust on this brand. 2. I rely on this brand. 3. This is an honest brand. 4. This brand fulfills my expectations. 5. This brand is safe.	Lasser, (1995), Hunt, (1994) Chanduhuri and Holbrook,(2001)

3.3 PROCEDURE

This questionnaire divided amongst 200 respondents in Bahawalpur. These respondents were selected base on the criteria above mentioned. Before giving the questionnaire, the purpose of study and questions explained to the respondents so they can easily fill the questionnaire with applicable responses. 150 questionnaires were preferred and the rest of the questionnaires were not included in the further analysis due to imperfect or invalid responses. After collecting the completed questionnaires, these questionnaires coded and entered into SPSS sheet for further regression analysis.

3.4 RELIABILITY ANALYSIS

Overall cronbach alphas of all variables in our study are more than acceptable and recommended value is 0.50 by Nunnlly (1970) and 0.60 by Moss (1998). This shows that all the 19 items were reliable and valid to measure the opinions of customers towards brand loyalty.

TABLE 2: RELIABILITY OF MEASUREMENTS INSTRUMENT

Scales	Items	Cronbach alpha
Brand loyalty	8	.806
Perceived quality	4	.735
Customer satisfaction	2	.612
Brand trust	5	.762

4 RESULTS AND ANALYSIS

4.1 PROFILE OF THE RESPONDENT

Personal and demographic information such as gender, age, education, income and status of brand users and potential consumers has given in (Table 3).

TABLE 3: PROFILE OF THE RESPONDENT

Variable	Category	Frequency	Percentage
Gender	Male	86	57.3
	Female	64	42.7
Age	15-20 year	35	23.3
	20-25 year	87	58.0
	25-35 year	20	13.3
	35-45 year	06	4.0
	Above 45 year	02	1.3
Income (Rs)	Below 15000	76	50.7
	15001-25000	32	21.3
	25001-35000	17	11.3
	35001-45000	6	4.0
	45001-60000	9	6.0
	Above 60000	10	6.7
Education	Matriculation	6	6.0
	Inter	9	9.0
	Bachelor	43	28.7
	Master	78	52.0
	MS/M. Phil	12	8.0
	PhD.	2	1.3
Status	Student	87	58.0
	Employed	39	26.0
	Businessman	21	14.0
	Unemployed	0	0
	House wife	3	2.0

4.2 HYPOTHESIS TESTING

4.2.1 PERCEIVED QUALITY (PQ) AND BRAND LOYALTY (BL)

Consequently, this study explains that PQ has a significant direct association with BL. The PQ has significant relationship with BL (Beta=.267) and ($p< 0.01$). It means PQ contributes more than 26% to BL. The regression results of the PQ validate the H1.

4.2.2 CUSTOMER SATISFACTION (CS) AND BRAND LOYALTY (BL)

Regression results of the study confirm that there is significant positive relationship between CS and BL with (beta=.280) and ($p<0.01$). According to these results, CS gives more than 28% to BL. These results validate H2.

4.2.3 BRAND TRUST (BT) AND BRAND LOYALTY (BL)

The regression results of the study comply that there is significant positive relationship between BT and BL with (beta=.409) and ($p < 0.01$). According to these results BT contribute more than 40% to BL. These results of the study validate H3.

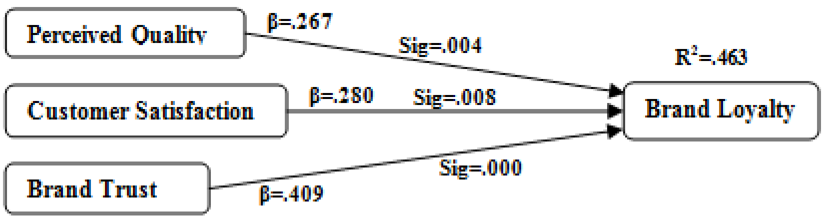
4.2.4 CONTEXTUAL FACTORS (CF) AND BRAND LOYALTY (BL)

We have applied ANOVA test technique on the CF (gender, age, status) and found that there is insignificant relationship between CF and BL. Table 4 summarizes the regression results of the study and figure 1 shows the graphical presentation of the structural model.

TABLE 4: REGRESSION RESULTS

Hypothesis	Model variable	Estimate	S.E.	C.R.	p	Results
H1	PQ → BL	.267	.079	2.917	.004	Supported
H2	CS → BL	.280	.072	2.662	.008	Supported
H3	BT → BL	.209	.086	4.311	.000	Supported

FIGURE 1: STRUCTURAL MODEL RESULTS



5. DISCUSSION

The purpose of this research is to present the role of perceived quality and brand trust as marketing apparatus for assuring brand loyalty in customer goods industry (K&N'S) from customer point of view The association between satisfaction and brand loyalty has been well researched in consumer markets, focusing generally on fast consumer products (Fournier *et al.,* 1997). Consistent with past conclusion from consumer investigations, the model of outcome reported here suggests that CS is antecedent to BL. When customers visit retail service stores, they are more probable to be contented with the outcome, which leads to encourage BL. As respondents are repeat customers, this may become an issue for repurchasing behaviors that become preset over time, such as straight repurchase. In this case, as CS level increases with the nature of service quality perceptions, the level of BL is also increased.

Survey has two parts, firstly demographic profiles and second part contains BT, PQ, CS and BL. For reliability and validity, the instrument has evaluated. Consequently, framework of BT, PQ, and BL is a valid and reliable instrument. Using survey questionnaire, data has collected and analyzed using SPSS (statistical package for social sciences). Research provides remarkable findings through correlation and regression analysis.

Several managerial implications appear from this study. By joining the theoretical perspectives that examine PQ, CS and BT at the individual levels of measurement have a significant impact on BL formation. Previous studies that have underestimated the possible impact of all these variables have omitted a key driver. If customer needs has well managed by service employees, customer-oriented firms will consistently perceived as having better service quality and delivering CS. Furthermore, this effect is not only an evidence for perceptions of the services cape, but also a fundamental process for the reinforcement of BL. To reinforce BL, service firms collect customer-focused data, but the present study propose that when the data become a common firm-wide platform from which tactical decisions are prepared, customer orientation will develop and become self-reinforcing (Kennedy et al.,2003).

In view of the fact that, CS, BT and PQ are the belief that understanding and pleasing customer needs should be a firm's consideration (Seyedian and Luo, 2003). Our empirical findings also suggest that all members of a firm must continuously create superior value for customers, and must do better than the competitors.

This has advantages for reinforcing brand loyalty and improving market performance. Our findings highlight the significant effects between PQ, CS, BT and BL. Analysis concludes that there are differences in the antecedents of BL between PQ, CS and BT. BT plays a more significant role in BL than CS and PQ.

The outcome has also showed that PQ considerably enhances BL (beta=0.267), supporting H1. Moreover, the result shows an agreement with Spreng & Patterson (1997) who revealed that customers often evaluate the PQ in their perception towards the benefits received and costs incurred. This result also shows an agreement with Anderson & Srinivasan, 2003; Voss et al. 1998; Doddset et al. 1991, who asserted that the lower the PQ, the more the customers switches to another competitive brand and lower the BL. PQ is very important for customers to return and their advices to friends, relatives and others. Therefore, it is important to the success of buyer-seller associations (Lemon, Rust, & Zeithaml, 2001).

The consequences suggest that CS has a significant (beta=.280) supporting H2, influence the way in which customers evaluate the brand through both cognitive and accumulated point of view. These conclusions provide an initial point for uncovering some misunderstanding on brand loyalty formation in the literature concerning the role of consumer orientation in consumer's decision-making process.

Statistical analysis concludes that BT is a key factor of developing BL. The outcome of BT on BL was vital (beta= 0.409), supporting H3. BT enhances loyalty. A study recognized the paths by which manufacturers construct user trust and confirmed a path from user trust to loyalty in relationship exchanges (Singh, Sirdeshmukh & Sabol, 2002). With the creation of a well-valued exchange relation, BT achieves BL.

6. LIMITATION AND FUTURE RESEARCHES

Strategies and measures help to build BL. For this purposes, managers must pay equal or even more concentration to the business strategies, personal communication as well as merchandising. In the development of BL, Marketing manager should concentrate on brand factors. In our discussion, the outcomes have numerous limitations and specify directions for further investigation on BL. The main limitation of this research is that it focuses only one product category K&N, potentially limiting to the other domains. Another limitation in our study is the range of constraints we applied to indicate brand loyalty formation. A possible direction for further research involves testing the different role of satisfaction and perceived quality as antecedents of brand loyalty.

This research would draw attention to the differences in BL formation and maintenance. We suggest that outcome of this research should be simulated with different product category and brand. Brand loyalty, brand communication and brand involvement are some other determinants of BL that could be included in more models. There is also need to develop a more deep understanding of the association between BL and other consumer industry related variable such as brand experience. Sample size of this research is small. Study can be made stronger by increasing sample size.

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HOW TO REMOVE THE UNCERTAINTY CONCERNING THE CONTINUITY OF ENTITY: THE STRONGEST EVIDENCE FROM THE VIEW POINT OF THE AUDITORS IN SAUDI ARABIA

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ABSTRACT

The research is conducted to study about the removal of the uncertainty concerning the continuity of entity based on the evidence of the view point of the auditors in Saudi Arabia. The researcher recommends that there should be specific indicators for the continuity of the company to take enforceable by the companies through the show in the financial statements, in a way that enables auditors to judge the company's intention and continuity.

JEL CODE
M4, M42

KEYWORDS
uncertainty concerning, the strongest evidence, the continuity of entity.

INTRODUCTION

Conceptual framework of the accounting based on three sets of assumptions are: assumptions related to the environment of accounting, and assumptions relating to the accounting domain, and a set of assumptions to be proved.
Assumptions of accounting environment are:
- Quantification
- Exchange
- Entities
- Time Period
- And unit of measure.

While those related to accounting domain are; financial statements, market prices, personal morale, and tentativeness.
The third set of assumptions includes the following: Continuity, objectivity, consistency, stable unit, and disclosure, which are the field of the external auditor to make sure about their availability, through the mentioned means. In order to ensure compliance with these assumptions, the international accounting standards included procedures and methods to handle the data, if applied by the accounting unit, shall be considered bound to these assumptions. This paper will focus on the assumption of continuity, which were given by the issuers of International Accounting Standards and International auditing Standards great deal of importance. This importance is due to that the users of financial statements make their decisions according to what was disclosed in these financial statements. And because most of these decisions relate to investment and financing decisions that represent the long-term financial events, it becomes necessary for the auditor to deduce the continuity through reviewing the financial statements. As a result of the keenness of the Standard Committee of the International audit, the committee issued the standard No. 570, which required the external auditor, to make sure that the company has shown its intention and ability to continue working. And through a closer look by the auditor to the financial reports issued by the company, he could decide if the company applying the International Auditing Standard No. 570, the auditor may relies on several indicators to build his opinion about this aspect, such as, the strategic plan of the company, acquisition of long-term assets, financing policy, accounting ratios and etc.

PROBLEM STATEMENT AND QUESTIONS

Given the multiplicity of indicators pointing to a client company's ability to continue, the application of International Auditing Standard No. 570 by the audit firms in Saudi Arabia, depends on the auditor's assessment of the most powerful indicators to confirm the intention and the company's ability to continue.
This paper will discuss this problem by the following questions:
1. To what extent is the commitment of auditing firms, by applying IAS No. 570 in Saudi Arabia?
2. What are the more accepted indicators by the Saudi auditors to assess the company's intention and ability to continue?

THE STUDY OBJECTIVES

The main objectives of this study are:
1. Ensure compliance of audit firms operating in Saudi Arabia, to apply the requirements of IAS No. 570 (continuity), through the auditor to verify the ability and the intention of the financial statements.
2. To give ranks for the indicators accepted by Saudis auditors according to their importance to disclose the company's intention and ability to continue.
3. To develop clear and acceptable indicators by audit firms who operate in Saudi Arabia, that reflect the intention and ability of the company to continue.
4. Disseminate the results of the study to audit firms by the concerned authorities.

THE STUDY IMPORTANCE

Conceptual framework of accounting based on multiple assumptions, and the assumption of continuity is one of the most important of these assumptions. Because it means the intention of the company and its ability to continue. Because of this importance, the Council of International Stands on Auditing allocates the standard No. 570, which required the auditor to the need to ensure the availability of the intention and ability to continue in the company under scrutiny. "For the purpose of this paper the researcher will use the statement of (the client)". Therefore, the duty of auditor in this aspect is limited in the evaluation of the company's ability and intention to continue through he financial data and reports that will be disclosed. And because of the availability of multiple indicators that reflect the company's intention and ability to continue; this important study comes to discern the strongest indicators of the assumption of continuity from the perspective of Saudis auditors, and to publish these indicators on the auditing firms through official channels to become as legal practices.

THEORETICAL BACKGROUND AND PREVIOUS STUDIES

IAS No. 570

This standard has tackled the auditor responsibilities toward auditing the financial data which indicate the management using of the continuity assumption in preparing the financial statements, where, it requires from the auditor the verification of the company's intention and ability to continue through the auditing of the financial statements and reports issued by the company management, and this means that the client company is not temporary, or it is threatened with extinction. And that this company, under the continuity assumptions continues to work, and is preparing its financial statements on the basis of this assumption, unless the intention of the company management moving toward liquidation of the company. The external auditor could rely on many indicators either from the financial reports or from the clarifications related to deduce the continuity assumption. International Standard 570 has identified the responsibility of the auditor to obtain sufficient audit evidence, and have a sign on the accuracy of the organization's management use of the presumption of the continuing the organization through the proportion and presentation of financial statements, in addition to his responsibility for any conclusion about the fundamental form of the organization's ability to continue, also it was considered that this responsibility is obligatory, even if there was not anything that requires from the organization management to do a specific assessment to the company's ability to continue as an ongoing organization. In this regard, the researcher recognizes that there are facts and gaps been included in the financial statements by the organization, may help in verifying of the company's intention and ability to continue. Moreover, the auditor may insist to search for additional factors and reasons not included in the financial statements to support his point of view, where the auditor, by his own analysis of these facts and gaps, generates significant indictors for the continuity or not continuity of the organization. The following are some of these assumptions:

- The preparation of the financial statements of the organization according to the accrual basis which requires loading each financial period its share of the annual expenses, and giving it its share of the annual revenues. And this will be reflected in the balance sheet through accounts such as, accrued expenses which will be paid in the next period, and unearned revenues. And this finally means the availability of the continuity assumption.

FINANCING POLICIES

Financing policy is one of the important financial policies, because it is associated with Board of Directors and the company's interest. Financing policy cares on how to get money from different sources, in addition to the types of these funds and guarantees related thereto (Ramadan, 1996). When the emergence of long-term loans in the company's budget, and the absence of premiums payable resulting from these loans, this means that this company trusted by the banks, and it is able to meet its obligations to its creditors. Similarly, if there are corporate bonds issued before a period of time, and that the company pays interest to holders of these bonds in a timely manner, this indicates the continuation of the company in the past and later.

PROFITS ACHIEVEMENT

Profits represent the result of the company's operations for a specific period of time, often for a year starts in January 1st up to December 31st. Profits equal to total revenues minus total expenses, and shown in the income statement which was disclosed through the annual report of the company, so, if the company was making profits in previous years, this will increase the conviction of the auditor that the company will achieve a profit in subsequent years, taking into account other evidence, relating to revenue and expenses such as sales volume, pricing policy, and market share. But, in the case of the continuation of the company in achieving the losses, for a number of previous years including the current year under scrutiny, this gives an indication of the failure of the company, causing the lack for continuity.

DECLINING THE CURRENT RATION COMPARED TO THE INDUSTRY

Current Ratio is computed by dividing total current assets, on total current liabilities:

CURRENT ASSETS

CURRENT LIABILITIES

The outcome of this equation is a number represents the company's ability to meet its short-term through its current assets. If this result was in the company 3.2 for example, and in the industry 5.4, this means that the company has 3.2 dollars as current assets versus each dollar of current liabilities, this may seems good initially, but when it compared with the industry in which the ratio is 5.4, the ratio of the company will be weak (Besley and Brigham, 2000, P. 108), which means that the company suffers from liquidity risks that may threatened its continuity.

CASH FLOW

Cash Flow statement is one of the financial statements that should be disclosed in the annual report of the company. It can be defined as a statement shows cash received and cash paid in a specific period of time to get the net cash flow that resulted from three basic activities operations, investments, and financing, in a manner leads to reconcile the cash balance in the beginning of the period and in the end of the period (Hijazi, 2007). When the net cash flow is negative, meaning that cash arrested, less than the cash paid, and without waiting for the inflows in the subsequent financial period, the company will face difficulties due to poor liquidity, limit its ability to meet its obligations, also, this may constitute an obstacle to lend to the company by banks. In this case, the auditor will come out with a negative result for the possibility of the continuation of the company.

RATE OF RETURN ON EQUITY

This rate is the more sensitive for the shareholders; it equals the result of dividing profits after taxes on the total equity. It represents, the profits obtained by the shareholders against the investment of their money in the company (Bseley and Brigham, 20000, P. 108). If this rate of return has decreased from year to year, or if it was significantly low versus the rate prevailing in the industry, the auditor tends to doubt about the company's ability to continue.

LAWSUITS

A large number of lawsuits against the company mean that the company is suffering from multiple problems with the stakeholders especially the customers and suppliers. And this may lead to the liquidation of the company.

MARKET SHARE

This indicator means the percentage of the company's sales volume of a certain product, to the whole sales of the same product in the market. For example; if the sales volume of the company was 7,000 dollars and the whole sales 100,000, the market share of the company is: 7,000 **/** 100,000 = 7% .Therefore, if the market share of the company was in continuing increase, good profits will be achieved. While, declining of the market share means losing many of the customers which leads to lower profits that threaten the company's continuity.

LITERATURE REVIEW

There are a lot of studies that tackled the international Audit Standard number 570:

1. A study by the Arab Forum of Accountants (2008) under the title: "Analytical Study of the Reports of the External Auditor in the Light of the Standards of U.S. and British".
   The study aimed to indicate cases of doubt about the continuance of the company, where the researcher has mentioned that there are many indicators can not limited their impact on the financial statements, such as, frequency of operational losses, significant decrease in the working capital, lack of ability to get new credit, and lower ability to meet the financial obligations, and these situations, may force the company to liquidation.
2. A study by Zureikat and Hmboz (2010) titled: "The Application of IAS No. 570 "the continuity" by Jordanian Statutory Auditors".
   The study aimed to identify the IAS No. 570, and to identify the role of the auditor in assessing the carport's ability to continue, and the commitment of the Jordanian auditors to IAS No. 570. And the results were as follows:
   - Jordanian auditors are aware about their responsibility to assess the ability of customers to continue in the future.
   - Jordanian auditor is committed to identifying indicators of doubt, that affect the continuity of client companies such as, the highest increase in current liabilities from current assets, the emergence of negative financial ratios, suffering of operational losses, and to stop the distribution of profits to shareholders.
3. A study by Swayeed (2009) under the title: "To Predict Financial Failure".

The study aimed to clarify the indicators and guidance contained in IAS No. 570, which addressed the auditor responsibility when auditing the financial data that they show the availability of the assumption of continuity in the company, as a basic for the preparation of financial statements. The researcher pointed out three types of these indicators:

- Financial indicators: such as, negative financial ratios, the increase of current liabilities from current assets, and the lack for financing projects for new products.
- Operational indicators: such as; loss of administrative leaders, the loss of franchise, and labor problems.
- Other indicators: such as; changes of governmental regulations, and lawsuits against the company.

METHODOLOGY

This study was conducted by using the descriptive analytical approach, were the secondary data was collected from the books and articles about the topic, while, the primary data were collected from the study sample through a questionnaire designed for the purpose of ranking the indicators of continuity according to their importance from the point of view of the Saudis auditors.

THE STUDY LIMITS

This study was conducted in January 2012, and it was limited on the audit firms in Riyadh city.

THE STUDY POPULATION AND SAMPLE

The study population consists from the employees of audit firms operating in Riyadh city, with 30 of auditors, to represent the study sample.

METHODS AND PROCEDURES

The following questionnaire was distributed on the respondents to put ranks for each indicator according to its importance from the respondent point of view:

No.	Indicators	The Rank
1.	The use of accrual basis is evidence of continuity.	
2.	Strategic Planning indicates to the company's intention and ability to continue.	
3.	The existence of long-term financing policies represents the ability to continue.	
4.	Non-profits for successive periods, means weak capacity to continue.	
5.	Ongoing declining in the working capital, limits the ability to continue.	
6.	Lower liquidity ratio means lower ability to continue.	
7.	Weak in cash flow, leads to lower ability of the company to meet obligations, which threaten its continuity.	
8.	Declining of ROE threaten the company's continuity.	
9.	Increase the lawsuits against the company, may causes the liquidation of the company	
10.	Decreases in the market share leads to difficulties in continuity.	
11.	Ignoring legislations by the company may end its existence.	
12.	Low customer satisfaction indicates to the company failure.	
13.	The application of international accounting principles is an evidence of the company's intention to continue.	

RESULTS OF STATISTICAL ANALYSIS

The statistical analysis for the ranking of the indicators from the point of view of the sample members did not confirm the existence of any indicator most likely to be accepting as the major indicator according to Saudis Auditors vision to ensure the continuity of the company. Where, the first statement received the first rank based on the opinion of four respondents out of 12 respondents. And in the same time the sixth statement has occupied the same level. Therefore, Saudis auditors are focusing on the use of accrual basis and liquidity ratio as evidence to the company's continuity. While the last rank was to the statement No. 13 which is: "The application of international accounting principles is an evidence of the company's intention to continue".

RECOMMENDATIONS

The researcher recommends that there should be specific indicators for the continuity of the company to take enforceable by the companies through the show in the financial statements, in a way that enables auditors to judge the company's intention and continuity.

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WEBSITE

7. www.acc4arab.com

EMPIRICAL INVESTIGATION OF SERVICE QUALITY IN RETAIL BANKING: COMPARISON OF STATE BANK OF INDIA AND ICICI BANK, AHMADABAD

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ABSTRACT

The service sector essentially has an element of intangibility. Hence, quantitative methods may not be of use to solve this issue. The service sector is the one which has direct and utmost customer interaction and so their satisfaction can be used as a benchmark for quality management. This paper focuses on the perceptions of the customers of service quality provided by a public sector bank (SBI) and a private sector bank (ICICI).A sample of 100 customers was taken from each bank so as to gauge their satisfaction levels regarding the services provided by the bank of their choice. The customers of SBI showed dissatisfaction regarding employee behaviour whereas for ICICI, the customers perceived lack of reliability. The employees of ICICI failed to instill confidence in customers. The banks can thus design a service that raises the satisfaction levels of employees.

JEL CODE
M31

KEYWORDS
Factor analysis, Service quality, SERVPERF

INTRODUCTION

Service quality is defined as customer's overall impression of an organization's services in terms of relative superiority and inferiority (Johnston, 1995). It should not only meet but exceed customer's expectations and should include a continuous improvement process (Lloyd – Walker & Cheung, 1998).

Among the service organizations, the banking sector primarily caters to the needs of all classes of society and is large enough to capture and represent almost all the facets of service quality assessment. Usually the literature on growth in the banking sector focuses on the productivity and the financial aspects, so it is interesting to study the service quality perspective and understand the management's commitment towards the same. The Reserve Bank of India has also considered its importance and devised new norms for the same.

Two decades post liberalization, the banking sector is continuously making innovations in the quality management not only to compete in the dynamic business world but also to revolutionize the perceived corporate image in the minds of the consumers. Banks lately realized that attracting and retaining satisfied customers would undoubtedly bring growth in the organization (M Kailash, 2011). Not to forget that there has been a tremendous change in the expectations of customers due to the very obvious reasons like increased education and incomes, upward social mobility and immense involvement of expressive and collaborative social media.

Hence this study evaluates the need for the banks to have a more customer centric approach and a continuous flow of innovative offerings which can redefine their corporate image and boost profitability.

On the basis of literature survey, customer perceptions have been analyzed so as to get a fair view of both the banks under survey.

RATIONALE OF THE STUDY

The Indian brand equity foundation, February 2011 report mentions the fact that there has been a gradual shift of customers from public sector banks to private and foreign banks. The key drivers for growth in the latter are;

- Anywhere, anytime banking
- Improved processes and bundled product offerings
- Faster service
- Customer-specific products or offerings on a regular basis
- Bank customer has replaced branch customer
- Focus on understanding customer needs or preferences
- Segmentation or differentiation of customers
- Customer-driven strategies
- Large number of micro, small and medium enterprises (MSMEs) with significant growth opportunities in their respective sectors.

The consolidated balance sheet of scheduled commercial banks 2009-10 states that only new private sector banks outperformed their counterparts and showed an accelerated growth in 2009-10 as compared to year 2008-09.

The Indian banking scenario is a well balanced mix of public and private sector banks. Where public sector banks provide stability to it, the private sector provides necessary dynamism to it. The new age customers look up to banks as state-of-the-art modern service providers who not only adapt faster processing systems but also give equal attention to technological advancements, aesthetics and enhanced service quality. The new age customers have a newer set of service quality parameters which can be gauged from their perceptions.

LITERATURE SURVEY

E Mubarak Ali, G.S David Sam Jaykumar and P L Senthil (May 2011) investigated into the service quality of Indian Bank in Thanjavur District where the five dimensions of the SERVQUAL instrument along with demographic and rational profile were tested using exploratory analysis. Confirmatory Multiple Regression Analysis was the statistical tool used analyze the contribution of various dimensions to the overall service quality. And then the 22 items of the SERVQUAL were put to exploratory factor analysis so as to reduce the same and extract the most significant ones to the service quality to and the conclusions reinforced the importance of 'empathy' as the key factor to influence and enhance customer loyalty.

Jaspal Singh and Gagandeep Kaur (February 2011) conducted an empirical study of selected Indian banks to identify the determinants of customer satisfaction. Two banks each of private and public sector were selected for the survey. 32 items selected for the survey were incorporated in a questionnaire which was administered to 200 customers. A demographic profile of customers was also undertaken for the study. This item scale was subjected to factor analysis using principal component method with varimax rotation. They identified nine factors namely responsiveness, tangibles, service innovation, social responsibility, reliability and accessibility, assurance, pricing and other facilities, problem solving capability and convenient working hours of the bank .They recommended that in this world of evolving customer expectations, their satisfaction should be the key concern for all banks where the above mentioned determinants play a justifiable role. Customer dissatisfaction will put the bank at a competitive disadvantage.

M.Kailash (May 2011) evaluated customer perceptions on service quality of retail banks is Tamil Nadu using SERVQUAL model. Firstly the researcher collected demographic information of the respondents and analyzed an association between various demographic variables and customer perceptions. Then to test the service quality dimensions, the 23-item instrument developed by Parasuraman was used by the researcher. His survey concluded that customers' perception was maximum in the 'tangibles' area and minimum in the 'responsiveness' area. It was also noticed that age and education did not have any impact on the customer perceptions. But income group did make a difference in the perceptions. The fixed income group had higher perceptions of service quality than flexible income groups. In order to gain a competitive edge banks need to give importance to innovative and personalized products and competitive pricing.

Mohammed Hossain and Shirley Leo (2009) conducted an analytical study based on primary data regarding service quality perceptions in the Qatari Retail banking industry. On the basis of scholarly studies, they designed a questionnaire consisting of four dimensions namely reliability, competence, tangibles and empathy, which cover 18 parameters. The degree of perception of customers on the 18 parameters was quantified by using a 5 point Likert scale. The same was tested for reliability and validity using Cronbach's alpha quotient. With the help of Z tests and descriptive statistics were used to rank the number of items in priority so far customer perceptions were concerned. Again the perception was highest in tangibility area and lowest in competence area. The parameter 'customer support' was poor in ranking that means the bank did not pay attention to customer support and that was the cause of major dissatisfaction. Thus the study proved to be useful to selected Qatari banks as it revealed the weak areas and instigated the management to work for the health of the same.

Sandip Ghosh Hazra and Kailash B L Srivastava (August and November 2009) studied the impact of service quality on customer loyalty, commitment and trust in the Indian Banking Sector. Their main objective was to study the strength of association between service quality and customer satisfaction, loyalty and trust. The other part of the study consisted of evaluation of perceptions of customers of private and public sector banks and discovers the degree of difference and the factors affecting the same. A 43 item questionnaire was used wherein service quality was measured by 22 item scale adapted from Parasuraman et al. customer loyalty was measured by a 13 item scale adopted from the Behavioral Intentions Battery (BIB) developed by Zeithaml et al. Customer commitment and customer trust was measured by a 4 item scale each adopted and modified from Gabarino and Johnson (1999) and Walter et al(2003). As all the above variables are multi dimensional, factor analysis was used to explore the major factors. The results identified the importance of four factors; assurance-empathy, reliability, tangibles and security. Customer commitment emerged as a single factor which was independent. Consequently, the researchers worked on examining the strength of association between independent and dependent measures by multiple regression analysis. Implications of the study show that banks should go for loyalty programs and provide better quality services in order to retain customers and get their commitment. The overall results regarding service quality of the private sector banks displayed a lack of 'reliability' factor whereas for public sector banks, the 'tangibility' aspect was missing. A strong correlation was seen between assurance-empathy factor and customer loyalty and commitment.

Usha Arora and Bhavna Vashishat (August 2011) investigated into the perceptions of borrowers regarding service quality dimensions of retail banking with special reference to credit schemes. In this study, total service quality was measured in the selected dimensions with the help of a structured questionnaire filled by borrowers of selected banks (3 public sector banks and two private sector banks) of Haryana.51 items were selected covering various dimensions of perceptions of customers regarding credit schemes of banks. Principal component analysis economized the variables from 51 to 11 and then they were further classified in five categories; a) product features b) office services c) pre sale services d) post sale services and e) behavioral response. The SERVPERF score, which is the overall score for service quality, was obtained by averaging the mean scores of all the dimensions and multiple comparisons were also carried out. The Punjab National Bank showed best results in all the dimensions. It concluded that people look for customization of products, trained staff and feedback system for better customer complaint handling. A special emphasis was made by 'A' class borrowers for door to door services. The importance of benchmarking for quality improvement was also revealed in the study.

SERVQUAL SCALE

Valarie Zeithaml, Leonard Berry and A.Parasuraman are one of the best known researchers in the field of service quality management. They developed a research instrument to measure customer satisfaction with various aspects of service quality. It was based on the premise that customers can evaluate a firm's service quality by comparing their perceptions of its service with their own expectations. SERVQUAL is a scale containing 22 items relating to perceptions and expectations, based on the five dimensions identified by the researchers. When perceived performance ratings are lower than expectations, this is a sign of poor quality. The reverse indicated good quality. The dimensions are mentioned below;

- Tangibles (appearance of physical elements)
- Reliability (dependable, accurate performance)
- Responsiveness (promptness and helpfulness)
- Assurance (competence, courtesy, credibility and security)
- Empathy (easy access, good communication, and customer understanding)

Poor quality places a firm at a competitive disadvantage, potentially driving away dissatisfied customers. But over a period of time, the parameters of service quality have changed along with a major change in the perceptions of customers. This scale has been strongly criticized by Cronin and Taylor (1992) as there have been issues regarding P-E gap scores. Hence they developed a scale called SERVPERF scale, which is based on the perception component alone so as to reduce the duplication error of SERVQUAL. Also when the expectations of the customers tend to be very high with respect to all the variables, gauging the same would lead to huge gaps which would give the wrong impression about the results. This research hence incorporates only perceptions of the customers so that the weaker areas of performance can be identified and worked upon. SERVPERF scale is thus used to measure the (P) component alone.

OBJECTIVES OF THE STUDY

- To evaluate the service quality initiatives taken by selected banks in Ahmedabad
- To evaluate the perceptions (P) of customers with reference to selected service quality parameters
- To suggest, on the basis of results, means of improving service quality, in selected banks of Ahmedabad with a view to making overall banking service qualitative, effective and efficient.

RESEARCH METHODOLOGY

SAMPLE CHARACTERISTICS

In order to fulfill the above mentioned objectives a random sample of 100 customers, each of a public sector bank and a private sector bank were chosen between the ages of 31-45 years having a savings account in the respective banks. Simple Random Sampling was used to collect the data from the customers. The study intends to gauge the perceptions of customers regarding service quality initiatives of the banks in Ahmedabad which can be used as a base for further studies which would help the banks to design a service process which would best suit the needs of a fast evolving urban environment. The customers of Ahmedabad have become demanding in a very recent past due to a sudden outburst of opportunities, income and availability. Hence their inclination towards banking services has not only increased but has shown a considerable rise in their demands for sophisticated offerings. So this is the time when we research into what do the customers perceive and communicate to the banks in operation for a focused service effort.

RESEARCH INSTRUMENT

In order to understand the customer perceptions in the banking industry of Ahmedabad, a 23 item instrument was administered to the customers based on the SERVQUAL scale. This was an adoption from Parasuraman *et al.* (1988), which consisted dimensions of tangibility, employee responsiveness, reliability, assurance and empathy.

A very striking feature, in the current study was that the customers of Ahmedabad were still used to traditional methods of banking. The question of safety and reliability dominated the perceptions of the customers when questions were asked to them about private banks. Though the researcher tried to capture of the young and middle aged customers, hardly two of them showed interest in newer methods of banking. So, the SERVQUAL instrument, which is supposedly now obsolete, still has relevance in understanding customer's perceptions where still traditional banking prevails.

FACTOR ANALYSIS AND SCALE VALIDATION

As the researcher wanted to identify the focal areas of service quality, it was imperative to reduce the variables to minimum factors where correlation was established. Hence, for this purpose the Exploratory Factor Analysis was employed. SPSS 15 was used for statistical analysis. Principal Component Analysis was employed wherein the variables with an Eigen value greater than 1 were initially extracted. A few of variables showed multiple loadings and hence the matrix was rotated using Varimax rotation, which finally helped the researcher to understand the key factors affecting service quality.

RESULTS

TOTAL VARIANCE EXPLAINED FOR SBI

Factors	Total	% of variance	Cumulative % of var.	Rotation Total	Rotation % of var.	Rotation Cum. % of var.
1	5.985	26.020	26.020	3.115	13.542	13.542
2	2.345	10.197	36.217	3.014	13.105	26.647
3	2.110	9.176	45.394	2.445	10.631	37.378
4	1.925	8.368	53.762	2.146	9.332	46.610
5	1.421	6.179	59.941	1.932	8.400	55.011
6	1.185	5.151	65.092	1.778	7.730	62.740
7	1.175	5.108	70.200	1.716	7.459	70.200

TOTAL VARIANCE EXPLAINED FOR ICICI

Factors	Total	% of variance	Cumulative % of var.	Rotation Total	Rotation % of var.	Rotation Cum. % of var.
1	5.004	21.757	21.757	2.599	11.301	11.301
2	2.225	9.675	31.432	2.417	10.508	21.809
3	2.100	9.131	40.653	2.292	9.965	31.774
4	1.905	8.282	48.845	2.056	8.939	40.712
5	1.655	7.197	56.043	2.006	8.722	49.434
6	1.363	5.925	61.968	1.827	7.943	57.378
7	1.248	5.424	67.392	1.660	7.218	64.515
8	1.156	5.027	72.420	1.423	6.188	70.784
9	1.047	4.550	76.970	1.423	6.186	76.970

FACTORS EXPLAINED FOR ICICI

Factors	% of variance explained	Factor Name
1	13.542	Employee behaviour
2	13.105	Accuracy
3	10.631	Assurance
4	9.332	Empathy
5	8.400	Reliability
6	7.730	Tangibles
7	7.459	Time factor

FACTORS EXPLAINED FOR SBI

Factors	% of variance Explained	Factor Name
1	21.757	Reliability
2	9.675	Safety
3	9.131	Assurance
4	8.282	Tangibles
5	7.197	Accuracy
6	5.925	Employee behaviour
7	5.424	Empathy
8	5.027	Time factor
9	4.550	Speed

INTERPRETATION AND SUGGESTIONS

The above conclusions reveal that maximum variance in the customer's perceptions was explained by seven factors, where the focal factor was '**employee behaviour**' for the public sector bank SBI whereas nine factors were identified for private sector bank ICICI, led by the factor '**reliability**'. The least variation was explained by the time factor for both the banks reflecting the bank's efforts to match up to the suitability and convenience of the customers. In fact, the customers of SBI were very satisfied with the banks approach towards convenience as it posted regular advertisements in leading newspapers regarding extension of banking hours during financial year ending. Moreover they also revealed that bank used to operate extra hours after a long patch of public holidays. But they also showed dissent regarding behaviour of employees and suggested some constructive changes in their behaviour.

Thus, for State bank of India, it would be helpful to maintain quality of the service if they engage in programs of ***employee training and empowerment***. Such programs shall motivate the senior employees to understand the demands of the new age customers and help them manage higher satisfaction levels of the customers as well as longer productive relations. Being the oldest bank of Ahmedabad, it has acquired the place of safest bank in the customer's mind, so the factor of assurance and reliability doesn't arise in the minds of customers. But for total quality management, the tool of ***benchmarking*** would help them attain a competitive and modern edge.

ICICI bank has been the fastest evolving private bank of Ahmedabad, characterized by aggressive promotion techniques, very well trained and empathetic employees and ultra modern infrastructure. The customers in question showed a great amount of satisfaction regarding the employee's approach towards understanding their needs. Also the bank had made persistent efforts to resort to the convenience of customer s in the processes. But the bank is yet to go a long way so far the question of reliability is concerned. The customers may be attracted with the speed and accuracy of the bank's transactions but still displayed worry with the tag 'private' bank. ICICI bank needs to focus on positioning strategies in Ahmedabad as to extend their reach to the semi urban crowd, the bank needs to reinforce that private is just a matter of ownership and in no ways harm the public interest. Such campaigns would help them carve a niche in the little explored market of Ahmedabad.

LIMITATIONS

- Sample size not large enough
- The study is based on the service quality model framed by Parasuraman et al. It does not consider use of technology like e banking or m-banking as majority of the customers still prefer on the counter banking in Ahmedabad.
- Undertakes only non financial aspects

SCOPE OF THE STUDY

1. This was a pilot study conducted for the purpose of gauging customer perceptions in the banking sector.
2. The same can be used for *comparison* between various banks.
3. Also *cross sectional studies* can help the banks in designing cultural marketing strategies
4. The use of internet and mobiles would reduce employee involvement but increase technical hassles. The banks can focus on *e-service quality management.*
5. Also now the focus has shifted from service quality to *total quality management*, which undertakes perceptions of the management as well as employees. Hence a comprehensive study can be undertaken.

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CONSUMER LITERACY REGARDING CONSUMER PROTECTION ACT, 1986

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ABSTRACT
This Paper has been written to study the general awareness among consumer for consumer protection and specially awareness of provisions of Consumer Protection Act. It specifically studies the level of awareness with regard to procedural formalities to be completed while filing a complaint in consumer forum. It also explains the important theoretical points related to protection of consumer's interest. For this purpose a sample of 450 respondents has been taken. Data has been collected through well structured questionnaire. Analysis and interpretation of data have shown very interesting, alarming and informative results and findings. At the end some recommendations have been given for strengthening the present setup more effective .In the good olden days the principle of 'Caveat emptor', which meant buyer beware governed the relationship between seller and the buyer. In the era of open markets buyer and seller come face to face, seller exhibited his goods, and buyer thoroughly examined them and then purchased them. It was assumed that he would use all care and skill while entering into transaction. The maxim relieved the seller of the obligation to make disclosure about the quality of the product. In addition, the personal relation between the buyer and the seller was one of the major factors in their relations. But with the growth of trade and its globalization the rule no more holds true. It is now impossible for the buyer to examine the goods before hand and most of the transactions are concluded by correspondence. Further on account of complex structure of the modern goods, it is only the producer /seller who can assure the quality of goods. With manufacturing activity becoming more organised, the producers / sellers are becoming stronger and organised whereas the buyers are still weak and unorganised. In the age of revolutionized information technology and with the emergence of e-commerce related innovations the consumers are further deprived to a great extent. As a result buyer is being misled, duped and deceived day in and day out. Mahatma Gandhi, the father of nation, attached great importance to what he described as the "poor consumer", who according to him should be the principal beneficiary of the consumer movement. He said: "A Consumer is the most important visitor on our premises. He is not dependent on us we are on him. He is not an interruption to our work; he is the purpose of it. We are not doing a favour to a consumer by giving him an opportunity. He is doing us a favour by giving an opportunity to serve him." Inspite of these views consumerism is still in its infancy in our country, thanks to the sellers' market and the government monopoly in most services. Consumer awareness is low due to the apathy and lack of education among the masses. It is believed that meditation opens the 'third eye'. Likewise, consumer education should help to open the 'CONSUMER EYE' of the consumers. The consumer eye concept means that an informed consumer looks at a product critically and analytically , first from his own point of view as an individual consumer , then with the interest of the community at large in mind. (Consumer Education: A Resource Handbook, IOCU, Malaysia) Consumer must be aware of his rights, raise voice against exploitation and seek redressal of his grievances. Consumers' consciousness determines the effectiveness of consumerism. It is the duty of the consumer to identify his rights and to protect them.

KEYWORDS
Consumer literacy, CPA 1986.

WHO IS CONSUMER?
The legal, technical or perfect definitions of the consumer have been given in the consumer protection Act. 1986. Under this Act, the term "consumer" has been defined into two categories:

(1) CONSUMER OF GOODS: Consumer of goods means a person who buys any goods for a consideration and includes the user of goods. Under this Act a consumer is one who has paid or promised to pay the consideration or partly paid and partly promised to pay or under any deferred payment system such as hire purchase system or installment system. But it does not include a person who buys the goods for resale and for any commercial purpose.

(2) CONSUMER OF SERVICES: Consumer of Services means a person who hires or avails of any services for a consideration which has been paid or promised or partly paid and partly promised or under any system of deferred payment and includes any beneficiary of such services. But it does not include a person who avails of such services for any commercial purposes. For the purpose of this clause 'commercial purpose' does not includes use by a person of goods bought and used by him exclusively for the purpose of earning his livelihood by means of self-employment.

CONSUMER EDUCATION
Consumer Education is one of the most important spheres of work in consumer protection. With increased consciousness consumers will have the courage and the skill to take action individually and collectively to protect them effectively. Wide-spread participation will prepare consumers to be alert citizens and help them to drive maximum value for their money. This is where consumer education assumes significant place in educational programmes. Through consumer education, consumers are better protected and are ensured a value for life.

CONSUMER PROTECTION ACT, 1986: SOME REFLECTIONS
It may be mentioned at the outset that anyone interested in the task of consumer protection movement has to be well versed in various laws and not merely with the Consumer Protection Act, 1986. He should have knowledge of laws relating to Contract. There is no limit to subjects, which may come before a Consumer Forum / Commission for decision. In addition, one should also be well versed with the laws relating to unfair trade practice and restrictive trade practices. It is a matter of great satisfaction that we can legitimately boast that we now have in our country a statute, which provides more effective protection to the consumers than any corresponding legislation in force in countries, which are considered to be much more advanced and industralised. CPA has been in operation for about 26 years. A number of deficiencies and shortcoming in respect of its operation have come to light thereby requiring amendments thrice, still leaving scope for further improvements. Despite all this it is a handy weapon for consumers to ensure accountability of producers of goods and providers of services. In the International Conference on Consumer Protection held in Malaysia in 1997, the Indian Consumer Protection Act was described as one "which has set in motion a revolution in the field of consumer rights".

IMPORTANT FEATURES OF THE C.P. ACT
Important features may be summed up as under:
- The Act applies to all goods and services unless specifically exempted by the Central Government.
- It covers all the sectors – private, public and cooperative.
- The provisions of the Act are compensatory in nature.
- It provides adjudicatory authorities, which are simple, speedy and less expensive.
- It also provides for Consumer Protection Councils at the National, State and District levels.

- The provisions of this Act are in addition to and not in derogation of the provisions of any other law for the time being in force.

CONSUMER RIGHTS UNDER THE ACT

The Act enshrines the following rights:

- The right to be protected against the marketing of goods which are hazardous to life and Property;
- The right to be informed about the quality, quantity, potency, purity, standard and price of goods so as to protect the consumer against unfair trade practices;
- The right to be assured, wherever possible access to variety of goods at competitive prices;
- The right to be heard;
- The right to seek redressal against unfair trade practices or unscrupulous exploitation of consumer and
- The right to consumer education.

OTHER IMPORTANT ASPECTS OF C.P. ACT

WHO IS A COMPLAINANT?

Complainant means:

- a Consumer;
- any Voluntary Consumer Association;
- the Central Government;
- the State Governments or Union Territory Administration;
- one or more consumers , where there are numerous consumers having the same interest and
- in case of death of a consumer, his legal heir or representative.

WHAT CONSTITUTES A COMPLAINT?

An allegation made in writing by the complainant that

- Any unfair trade practice or restrictive trade practice has been adopted by any trader.
- The goods bought or agreed to be bought suffer from one or more defects.
- Services hired /availed or agreed to be hired /availed suffer from deficiencies in any respect.
- That a trader has charged for the goods or services mentioned in the complaint, a price in excess of the stipulated price:

(i) fixed by or under any law for the time being in force; or
(ii) displayed on goods; or
(iii) displayed on any package containing such goods

- That goods or services which are hazardous to life and safety of the public are being offered to the public.

RELIEFS AVAILABLE TO CONSUMERS

Following reliefs are available to the Consumers under the Act:

- Removal of defects from the goods;
- Replacement of the goods;
- Refund of the price paid;
- Award of compensation for the loss or injury suffered;
- Discontinue and not to repeat unfair trade practice or restrictive trade practice;
- not to offer hazardous goods for sale;
- to withdraw hazardous goods from sale;
- to cease manufacture of hazardous goods and desist from offering services which are hazardous in nature;
- if the loss or injury has been suffered by a large number of consumers who are not identifiable conveniently, to pay such sum (not less than 5% of the value of such defective goods or services provided) which shall be determined by Forum;
- to issue corrective advertisement to neutralise the effect of misleading advertisement;
- to provide adequate costs to parties.

OBJECTIVES OF THE STUDY

Important objectives of the present study are:

1. To understand the concept of consumer and its problems, to have a glimpse on the concept of consumer protection and on methods of consumer protection.
2. To study the general awareness among consumers regarding consumer protection measures.
3. To specifically study the awareness among consumers regarding the various important procedural formalities for filling complaints under Consumer Protection Act 1986.
4. To draw some conclusions and give some recommendations for strengthening the consumer awareness programme to make it more effective.

RESEARCH METHODOLOGY

Following research methods were adopted for this study:

1. **SAMPLING DESIGN**
   The sampling technique selected for the study was simple random sampling. The respondents have been randomly selected from total population.
2. **SAMPLE SIZE**
   The sampling size was 450. The questionnaire was systematically prepared and distributed to the consumer respondents. The respondents varied from a wide cross section of various economic and demographic characteristics.
3. **SOURCE OF DATA**
   The data for this study has been collected from primary and secondary sources.
   Primary data: Primary data are those, which are collected a fresh and for the time and thus happen to be original in character. In this study the questionnaire were used for the primary data collections.
   Secondary data: Secondary data are those which have already been collected by some other context and which have been already processed through the statistical process. Secondary data was collected through journals, books, websites, and published data.
4. **STATISTICAL TOOLS**
   Various types of statistical tools were used to analyse the research work like Anova, F-test and Chi-Square.

REVIEW OF LITERATURE

S.K.vimla concluded that the Indian Government is committed to ensure and protect the welfare and rights of the consumers in the country so that easy availability of commodities is made accessible to them and they are protected from any exploitation. Shashi Khurana revealed in her study that the consumers are well-versed with the term 'Jago Grahak Jago' almost in all respect. Quality parameters/standards like ISI, ISO, Agmarks etc. are also not new for them. But in contrast to these the procedural awareness or practical implication are showing some different result. Only 20% of the respondents are well-equipped in all respect. 20% to 30%are having incomplete idea for these whereas 50% of the respondent showed totally unawareness in this regard. All the respondents have to face the situation of consumer exploitation in one way or other. Study shows that only 10% have approached to the consumer forum for justice.

PROFILE OF THE CUSTOMERS

As stated above the study has been confined to the sample size of 450 customers. The age group is 15-60 years, because all are consumers and affect the buying behavior of the family members. Respondents belong to urban, semi urban and rural areas. On the basis of qualification we categorise them as Matriculates, Graduates and Post Graduates.

DATA ANALYSIS & INTERPRETATION

KNOWLEDGE OF THE CPA

1. The Consumer Protection Act was enacted in 1986 to better protect the consumers. It provides for a three-tier redressal mechanism at the district, state and the National levels to address the complaints of the consumers. Consumers can make use of this mechanism only if they are aware of its existence. In spite of wide publicity being given by the government, not all the consumers are aware of this Act as depicted in table no. 1. Of all the respondents, 67% matriculates, 67%graduates and 65% postgraduates are aware about CPA.

TABLE NO. 1

Knowledge of CPA	Qualification			Total	Pearson Chi-Square	Asymp. Sig. (2-sided)
	matriculate	graduate	post graduate			
No	28	77	45	150	.139	.933ns
	32.6%	32.9%	34.6%	33.3%		
Yes	58	157	85	300		
	67.4%	67.1%	65.4%	66.7%		
Total	86	234	130	450		
	100.0%	100.0%	100.0%	100.0%		

PLACE OF COMPLAINING

2. Table No. 3 shows that only 12.4% of the respondents are not aware of the fact that where to file a suit against a consumer dispute. F value is not statistically significant at 5% level of significance, which shows that all consumers are having knowledge of filing a consumer case in consumer courts.

2.1 It is clearly stated u/s 3 of CPA that the provisions of this act shall be in addition to and not in derogation of the provisions of any other law for the time being in force. Even the highly qualified people do not know that against consumer dispute one can go to any other related courts. In Table No. 4, Study reveals that however matriculates think that sometimes they can file a consumer complaint in any other courts also, while 84.2% graduates and 87.7% postgraduates think that they can never go for consumer complaints in any other court. F value is statistically significant at 5% level of significance, which shows that consumers behave differently regarding filing a consumer case in other than consumer courts.

TABLE NO. 2

Place of complaining	Parameters	N	Mean	Std. Deviation	f-value	Sig.
Consumer Courts	Matriculate	86	4.26	1.129	.500	.607ns
	Graduate	234	4.12	1.392		
	post graduate	130	4.07	1.432		
Any other courts	Matriculate	86	2.59	1.375	57.665	.000**
	Graduate	234	1.35	.871		
	post graduate	130	1.30	.850		

**significance at 1 percent level, * significance at 5 percent level, ns not significant

TABLE NO. 3

Consumer Court	Qualification			Total	Pearson Chi-Square	Asymp. Sig. (2-sided)
	Matriculate	graduate	post graduate			
Never	5	32	19	56		
	5.8%	13.7%	14.6%	12.4%		
Occasionally	16	21	14	51		
	18.6%	9.0%	10.8%	11.3%		
Sometime	12	35	17	64		
	14.0%	15.0%	13.1%	14.2%	9.238	.161ns
Most of time	53	146	80	279		
	61.6%	62.4%	61.5%	62.0%		
Always	86	234	130	450		
	100.0%	100.0%	100.0%	100.0%		
Total	5	32	19	56		
	5.8%	13.7%	14.6%	12.4%		

TABLE NO. 4

Any Other Court	Qualification			Total	Pearson Chi-Square	Asymp. Sig. (2-sided)
	Matriculate	graduate	post graduate			
Never	32	197	114	343	105.633	.000**
	37.2%	84.2%	87.7%	76.2%		
Occasionally	0	6	1	7		
	.0%	2.6%	.8%	1.6%		
Sometime	34	23	9	66		
	39.5%	9.8%	6.9%	14.7%		
Most of time	11	3	4	18		
	12.8%	1.3%	3.1%	4.0%		
Always	9	5	2	16		
	10.5%	2.1%	1.5%	3.6%		
Total	86	234	130	450		
	100.0%	100.0%	100.0%	100.0%		

WHO IS CONSUMER?

3. Table shows that 60.5% matriculates are of the view that consumer is a person who consumes the product under CPA. Only 42.7% graduates and 49.2% postgraduates think that that one who consumes will always be a consumer under CPA. 36% respondents do not know that one who consumes will be a consumer under CPA, 1986. F value is statistically significant at 5% level of significance. It shows a highly significant difference between the groups.

3.1. According the definition of consumer under CPA 1986 the person who purchases can be a consumer. But 59% graduates and 57.7% postgraduates do not agree with the point. In whole 52.2% respondents do not know that purchaser can be a consumer.

3.2. Consumer Protection Act 1986 says that people who are beneficiary of the goods and services can be a consumer but 66% graduates and 69.2% postgraduates do not agree with this point however 51.2% matriculates agree with the statement. F value is statistically significant at 5% level of significance. There is a highly significant difference between the groups.

3.3. Table shows that matriculates think that sometime who purchase for resale will also be a consumer under CPA, while graduates and postgraduates are with the strong opinion with more than 80% that a reseller cannot be a consumer under CPA. It shows a highly significant difference of opinion between the groups.

TABLE NO. 5

Consumer	Parameters	N	Mean	Std. Deviation	f-value	Sig.
Who Consumes	Matriculate	86	4.01	1.522	8.307	.000**
	Graduate	234	3.08	1.884		
	post graduate	130	3.32	1.848		
Who Purchases	Matriculate	86	2.80	1.555	3.048	.048*
	Graduate	234	2.28	1.675		
	post graduate	130	2.42	1.738		
Beneficiary of the goods	Matriculate	86	3.80	1.600	44.396	.000**
	Graduate	234	2.05	1.581		
	post graduate	130	1.97	1.565		
Reseller	Matriculate	86	2.76	1.579	37.156	.000**
	Graduate	234	1.52	1.184		
	post graduate	130	1.43	1.041		

**significance at 1 percent level, * significance at 5 percent level, ns not significant

TABLE NO. 6

Who Consumes	Qualification			Total	Pearson Chi-Square	Asymp. Sig. (2-sided)
	Matriculate	graduate	post graduate			
Never	15	101	46	162	23.975	.002**
	17.4%	43.2%	35.4%	36.0%		
Occasionally	2	2	4	8		
	2.3%	.9%	3.1%	1.8%		
Sometime	2	8	6	16		
	2.3%	3.4%	4.6%	3.6%		
Most of time	15	23	10	48		
	17.4%	9.8%	7.7%	10.7%		
Always	52	100	64	216		
	60.5%	42.7%	49.2%	48.0%		
Total	86	234	130	450		
	100.0%	100.0%	100.0%	100.0%		

TABLE NO. 7

Who Purchases	Qualification			Total	Pearson Chi-Square	Asymp. Sig. (2-sided)
	Matriculate	graduate	post graduate			
Never	22	138	75	235	81.670	.000**
	25.6%	59.0%	57.7%	52.2%		
Occasionally	27	11	1	39		
	31.4%	4.7%	.8%	8.7%		
Sometime	3	12	8	23		
	3.5%	5.1%	6.2%	5.1%		
Most of time	14	27	17	58		
	16.3%	11.5%	13.1%	12.9%		
Always	20	46	29	95		
	23.3%	19.7%	22.3%	21.1%		
Total	22	138	75	235		
	25.6%	59.0%	57.7%	52.2%		

TABLE NO. 8

Beneficiary of the goods	Qualification			Total	Pearson Chi-Square	Asymp. Sig. (2-sided)
	Matriculate	graduate	post graduate			
Never	19	155	90	264	92.581	.000**
	22.1%	66.2%	69.2%	58.7%		
Occasionally	1	5	2	8		
	1.2%	2.1%	1.5%	1.8%		
Sometime	2	21	12	35		
	2.3%	9.0%	9.2%	7.8%		
Most of time	20	14	4	38		
	23.3%	6.0%	3.1%	8.4%		
Always	44	39	22	105		
	51.2%	16.7%	16.9%	23.3%		
Total	86	234	130	450		
	100.0%	100.0%	100.0%	100.0%		

TABLE NO. 9

Reseller	Qualification			Total	Pearson Chi-Square	Asymp. Sig. (2-sided)
	Matriculate	graduate	post graduate			
Never	32	189	107	328	109.283	.000**
	37.2%	80.8%	82.3%	72.9%		
Occasionally	1	8	6	15		
	1.2%	3.4%	4.6%	3.3%		
Sometime	31	17	6	54		
	36.0%	7.3%	4.6%	12.0%		
Most of time	0	1	6	7		
	.0%	.4%	4.6%	1.6%		
Always	22	19	5	46		
	25.6%	8.1%	3.8%	10.2%		
Total	86	234	130	450		
	100.0%	100.0%	100.0%	100.0%		

The Consumer Protection Act, 1986 provides for a three-tier mechanism at the district, state and the National levels to redress the grievances of the consumers. Consumers can file a complaint which is to be disposed of within a specified time framework. The procedure is based on summary trial and principles of natural justice. Some respondents did not know about the redressal mechanism. Even those who knew about the Act were to a large extent unaware about the main provisions and procedures of the Act.

WHO CAN FILE A COMPLAINT?

4. Table no. 10 & 11 shows that most of the people are of the opinion that a consumer can himself file a complaint under CPA. Though there is a difference of opinion between Matriculates, Graduates and Post graduates. 12.8% matriculates, 29.9% Graduates and 23.8% Post graduates do not know the procedure of filing a complaint.

4.1. Table no. 12 shows that Matriculates think that sometimes registered consumer organisations can file a complaint on behalf of consumers while 65.8% graduates and 68.5% postgraduates disagree with the statement. There is highly significant difference between the groups.

4.2. Table no. 13 shows that matriculates think that sometime central or state government can also file a complaint under CPA while 81.6% graduates and 82.3% postgraduates disagree with the statement. F value shows a highly significant difference of opinion between the groups.

4.3. Table no. 14 shows that most of the time matriculates agree that one or more consumer having the same interest can file a complaint while 69.2% graduates and 66.9% postgraduates disagree with the statement. F value is statistically significant at 5% level of significance. It shows a highly significant difference of opinion between the groups.

TABLE NO. 10

Complainant under CPA	Parameters	N	Mean	Std. Deviation	f-value	Sig.
Consumers	Matriculate	86	4.34	1.394	5.599	.004**
	Graduate	234	3.62	1.793		
	post graduate	130	3.80	1.714		
Cos	Matriculate	86	3.29	1.700	20.468	.000**
	Graduate	234	2.10	1.624		
	post graduate	130	1.98	1.558		
Central/State Govt.	Matriculate	86	3.29	1.533	87.173	.000**
	Graduate	234	1.45	1.056		
	post graduate	130	1.45	1.064		
Consumers Collectively	Matriculate	86	3.19	1.427	25.303	.000**
	Graduate	234	1.91	1.494		
	post graduate	130	1.95	1.506		

**significance at 1 percent level, * significance at 5 percent level, ns not significant

TABLE NO. 11

Consumers	Qualification			Total	Pearson Chi-Square	Asymp. Sig. (2-sided)
	matriculate	graduate	post graduate			
Never	11	70	31	112	17.431	.026*
	12.8%	29.9%	23.8%	24.9%		
Occasionally	2	2	4	8		
	2.3%	.9%	3.1%	1.8%		
Sometime	1	10	7	18		
	1.2%	4.3%	5.4%	4.0%		
Most of time	5	17	6	28		
	5.8%	7.3%	4.6%	6.2%		
Always	67	135	82	284		
	77.9%	57.7%	63.1%	63.1%		
Total	86	234	130	450		
	100.0%	100.0%	100.0%	100.0%		

TABLE NO. 12

Consumer Organisations	Qualification			Total	Pearson Chi-Square	Asymp. Sig. (2-sided)
	matriculate	graduate	post graduate			
Never	27	154	89	270	44.869	.000**
	31.4%	65.8%	68.5%	60.0%		
Occasionally	3	5	5	13		
	3.5%	2.1%	3.8%	2.9%		
Sometime	4	14	5	23		
	4.7%	6.0%	3.8%	5.1%		
Most of time	22	20	12	54		
	25.6%	8.5%	9.2%	12.0%		
Always	30	41	19	90		
	34.9%	17.5%	14.6%	20.0%		
Total	86	234	130	450		
	100.0%	100.0%	100.0%	100.0%		

TABLE NO. 13

Central/State Govt.	Qualification			Total	Pearson Chi-Square	Asymp. Sig. (2-sided)
	matriculate	graduate	post graduate			
Never	23	191	107	321	172.417	.000**
	26.7%	81.6%	82.3%	71.3%		
Occasionally	3	9	3	15		
	3.5%	3.8%	2.3%	3.3%		
Sometime	5	17	12	34		
	5.8%	7.3%	9.2%	7.6%		
Most of time	36	6	1	43		
	41.9%	2.6%	.8%	9.6%		
Always	19	11	7	37		
	22.1%	4.7%	5.4%	8.2%		
Total	23	191	107	321		
	26.7%	81.6%	82.3%	71.3%		

TABLE NO. 14

Consumers Collectively	Qualification			Total	Pearson Chi-Square	Asymp. Sig. (2-sided)
	matriculate	graduate	post graduate			
Never	24	162	87	273	144.580	.000**
	27.9%	69.2%	66.9%	60.7%		
Occasionally	1	11	7	19		
	1.2%	4.7%	5.4%	4.2%		
Sometime	3	13	11	27		
	3.5%	5.6%	8.5%	6.0%		
Most of time	51	17	6	74		
	59.3%	7.3%	4.6%	16.4%		
Always	7	31	19	57		
	8.1%	13.2%	14.6%	12.7%		
Total	86	234	130	450		
	100.0%	100.0%	100.0%	100.0%		

DISPUTES WHICH WILL BE TREATED AS CONSUMER DISPUTES

5. Table no. 16 shows that 65.1% matriculates think that against unfair trade practices one can file a complaint in consumer courts while 48.3% graduates and 40% postgraduates disagree with the statement. It shows a highly significant difference of opinion between the groups.

TABLE NO. 15

Unfair Trade Practice	Parameters	N	Mean	Std. Deviation	f-value	Sig.
	Matriculate	86	3.88	1.662	14.001	.000**
	Graduate	234	2.71	1.799		
	post graduate	130	2.93	1.779		

**significance at 1 percent level, * significance at 5 percent level, ns not significant

TABLE NO. 16

Unfair Trade Practice	Qualification			Total	Pearson Chi-Square	Asymp. Sig. (2-sided)
	matriculate	graduate	post graduate			
Never	17	113	52	182	38.800	.000**
	19.8%	48.3%	40.0%	40.4%		
Occasionally	6	10	9	25		
	7.0%	4.3%	6.9%	5.6%		
Sometime	3	15	9	27		
	3.5%	6.4%	6.9%	6.0%		
Most of time	4	24	16	44		
	4.7%	10.3%	12.3%	9.8%		
Always	56	72	44	172		
	65.1%	30.8%	33.8%	38.2%		
Total	86	234	130	450		
	100.0%	100.0%	100.0%	100.0%		

SERVICES OF AN ADVOCATE

6. Table no. 18 shows that 41% matriculates, 60% graduates and 51% post graduates believe that services of an advocate are compulsory for filing a case before consumer courts while 59.3% matriculates, 39.7% Graduates and 48.5% Post Graduates think that most of the time services of an Advocate are compulsory but sometimes not.

TABLE NO. 17

Mandatory Advocate Services	Parameters	N	Mean	Std. Deviation	f-value	Sig.
	Matriculate	86	4.41	.494	5.148	.006**
	Graduate	234	4.60	.490		
	post graduate	130	4.52	.502		

**significance at 1 percent level, * significance at 5 percent level, ns not significant

TABLE NO. 18

Mandatory Advocate Services	Qualification			Total	Pearson Chi-Square	Asymp. Sig. (2-sided)
	matriculate	graduate	post graduate			
Most of time	51	93	63	207	10.131	.006**
	59.3%	39.7%	48.5%	46.0%		
Always	35	141	67	243		
	40.7%	60.3%	51.5%	54.0%		
Total	86	234	130	450		
	100.0%	100.0%	100.0%	100.0%		

KNOWLEDGE OF LIMITATION PERIOD FOR FILLING A COMPLAINT

7. Most of the people like 56% matriculates, 67.5% graduates and 58% post graduates think that one can file a case within 1 year from the date on which cause of action has arisen. 34.9% matriculates, 14.5% Graduates and 24.6% post graduates know that the limit is for 2 years. The calculated F value is not statistically significant at 5% value of significant and it may be concluded that matriculates, graduates and post graduates have a very little knowledge about limitation period for filing a complaint in consumer courts that is restricted up to 2 years from the date of cause of action has arisen.

TABLE NO. 19

Knowledge of limitation period	Parameters	N	Mean	Std. Deviation	f-value	Sig.
	Matriculate	86	4.47	.663	.667	.514ns
	Graduate	234	4.50	.782		
	post graduate	130	4.40	.774		

**significance at 1 percent level, * significance at 5 percent level, ns not significant

TABLE NO. 20

Limitation period for filing a case	Qualification			Total	Pearson Chi-Square	Asymp. Sig. (2-sided)
	matriculate	graduate	post graduate			
More than 2 years	8	42	23	73	18.319	.001**
	9.3%	17.9%	17.7%	16.2%		
2 years	30	34	32	96		
	34.9%	14.5%	24.6%	21.3%		
1 years	48	158	75	281		
	55.8%	67.5%	57.7%	62.4%		
Total	86	234	130	450		
	100.0%	100.0%	100.0%	100.0%		

CONCLUSION

From the facts and figures as stated above it is very much clear that inspite of being well educated, people are not aware of the provisions of the CPA. Most of the people believe that they are very much aware about the CPA but this study clearly shows that they hardly know anything about CPA except the existence of the CPA. Neither they know who can be a complainant nor do they know about the manner in which complaint can be filed. These are very basic things and everybody should be aware of these definitions in order to take benefit of the CPA. As people are not aware of these basic things about CPA that's the reason people engage advocates for pursuing cases in Consumers fora. Had they been literate about the basic provisions of CPA then they could have protected themselves in a better way by exercising their rights available under the Act. Thus we can safely conclude that people need to be more aware and literate with respect to the Consumer Protection Act and the Government also need to focus more on this aspect to make the people more literate so that they can protect themselves from exploitation and the objective of enacting this Act can be achieved.

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A STUDY ON ETHICAL ASPECTS OF ACCOUNTING PROFESSION- AN EXPLORATORY RESEARCH IN MSMEs

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ABSTRACT

Business ethics of management is not infused to corporate life with one attempt. Continuous attempts and processes of ethical values need continuous purification method to eliminate unethical trends and vices from the system. Tact is the biggest skill of any management system of any organization as justified with valid arguments in Chanakya Niti. Any tact at any end for the welfare of the larger part of the system is justified as ethical. References are available in other ancient texts such as one from Arthashastra, "Praja sukhe sukham, Shrestha, prajanam cha hite hitam; Natmapriyam hitam shreshtha, prajanam tu priyam hitam" i.e. the concept of the shreshthadharma, that the better off one is in society, the higher should be one's sense of responsibility. Based on a fusion of the literature, and analysis of samples collected this paper analyses need and possibility of "An Approach Framework for Ethical accounting regulations (FEAR) in MSMEs." in the light of Ethical aspects of accounting profession.

KEYWORDS

Indian Ethos, Ethical accounting, Ethical accounting regulations, Self governance, transparency.

INTRODUCTION

Due to the diverse range of accounting services and recent corporate collapses, attention has been drawn to ethical standards customary within the accounting profession (1). Current news about corporate scandals and unethical behaviors of major accounting firms have implied a murky image that hangs over the accounting profession (2). In the current days of alarming economic scams and increasing questionable accounting practices, importance of Indian ethos for corporate ethical culture is worth mentioning. The spirit of Indian way of living is simple living and dignified thinking. Indians choose to live a simple life so that they can provide more energy and contemplation to the development of spiritualism. Here intelligence is more significant than materialistic acquisitions, ethics is more important than economics. But for last two decades had given us alarming shocks and surprises with respect to fraudulent accounting and corporate scams. The Accounting ethics is primarily a field of applied ethics, the study of moral values, and judgments as they apply to accountancy (3). Indian ethos teach us Asatho maa sat gamaya (lead us from bad to good); Thamaso maa jyothir gamaya (lead us from darkness to light); Mruthyormaa amrutham gamaya (lead us from the pains to happiness) (4).

REVIEW OF LITERATURE

The formalization of Indian accounting is credited to vishnuguptha chanakya kautilya who was the author of the ARTHASHASHTRA, which was published in 4th century. It contains 15 volumes and 150 chapters and it developed and made detailed contributions to areas of accounting and control system, and the most important among them is role of ethics in accounting. Apart from Arthashastra, there exists sufficient evidence to conclude that in Vedic India, accounting was a highly developed system (5). The earliest documented evidence of accounting rules in India have been found in 'smriti' literature which dates to 700 b.c which was in Sanskrit and prescribed rules that governed transactions and commercial exchange with interpretation of Vedas and religious rituals. (6). Accounting focuses on measurement and reporting based on rules that vary among organizations, industries, countries and over time. Accounting statements are useful only if their audiences have confidence in them. Ancient Sumerian commerce was facilitated by accounts that represent some of the earliest examples of written records. Luca Pacioli the "father of accounting", wrote on accounting ethics in his first book summa de arithmetica, geometria, proportioni, et proportionalita, published in 1494 (7). The concept of Ethics in Accounting emerged freely out of the crosscurrents and positive developments of society. During its twentieth anniversary meeting of American association of public accountants (AAPA formed in 1887) in October 1907, ethics was a major topic of the conference among its members. (8) As a result of discussions, a list of professional ethics was incorporated into the organization's bylaws. There was increasing pressure to bring about change in the objective of accounting from that of presenting information to management and creditors to that of provision of complete information to investors and stockholders (1915:Ripley.W.Z) (9). The concept of efficiency of business is often interpreted as maximization of business or maximization of wealth. Ethics, in terms of social decency, civic responsibility, justice, fair play, integrity, concern for the environment etc are taken into account only as a means to maximize corporation wealth(1978:Kristol) (10). The ethical approach to accounting recognizes that company's activities have economic as well as social impacts. This is based on the concept of Social Welfare i.e. In terms of the effects on all groups in the free enterprise system. 1984 Casler, Darwin J. -Due to several accounting scandals within the profession, critics of accountants have stated that when asked by a client "what does two plus two equal?" the accountant would be likely to respond "what would you like it to be?" (11) This thought process along with other criticisms of the profession's issues with conflict of interest, have led to various increased standards of professionalism while stressing ethics in the work environment. 1986, REST. J - Research in accounting ethics has been significantly influenced by the work of Rest.J, who specified four distinct sequential stages which an individual must go through in ethical decision-making process. The process is initiated with the first component, recognition of ethical issues (ethical sensitivity), followed by ethical judgment which represents the stage in which one uses a variety of strategies to determine which courses of action are morally right or wrong. (12). 1989, Luoma - "Ethics" is a term subject to numerous, sometimes conflicting, interpretations (13) Ethical problems are a very relevant issue present in many aspects of real life. A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. 1990, R.Francis and Jere- Francis have addressed the question insofar as it affects accountants. He suggests five possible virtues that could be unique to the practice of accounting: Honesty, concern for the economic status of others, sensitivity to the values of co-operation and conflict, communicative character of accounting, and dissemination of economic information. However, there exist obstacles to the realisation of the virtues and he suggests three of these as: the dominance of external rewards, the corrupting power of intuitions, and the failure to distinguish between virtues and laws. The "worship of money", he argues, has, in recent times, infected accounting practice and he concludes the "Accounting, if it is to be virtuous, must celebrate itself as the unique creation of human labour and moral agency that it is" (14). 1990, Francis.J.R - from accounting perspective which is a discipline that is thoroughly ethical in nature, ethical behavior can be expressed as performing the accounting duties in accordance with generally accepted accounting principles (GAAP) such as reliability, accuracy, objectivity and so on. International ethics standards board for accountants (IESBA) is responsible for developing and issuing ethical standards and providing guidance for accounting profession (IFAC) (15). 1996 Hooker, J. N. -clearly not every job in the business world calls for professionalism. The fundamental role of accounting, for example, is universally recognized, and incompetence or dishonesty in this area might not come to light until much damage is done. Perhaps also the need for accounting professionals is acknowledged because it does not call into question the ideology of a self-regulating market. (16). 1996, Brief, Arthur, Dukerich, Janet, Brown, Paul, and Brett, Joan -Although the accounting profession has always had a strong focus on internal controls, recent spectacular business failures, which have undermined auditors' credibility in their reporting function, have eroded public confidence in the accounting and auditing profession. Brief et al (17) found that 87% of accountants surveyed were willing to misrepresent financial statements in at least one case when presented with seven financial reporting dilemmas. This has led to new and more stringent applications of standards. 2003, Abdolmohammadi, M., Read, W. & Scarbrough, D - According to Abdolmohammadi et al., the accounting profession is likely to face a reform because of the Enron scandal, which implies improving ethical reasoning among Auditors, which is necessary in order to enhance the public trust (18). 2003 Clarke.F, G Dean and K oliver- High profile corporate collapses and fraud, with which accountants have been associated as executives, director, or as auditors, have prompted searching questions to be asked as to the integrity of the professional accountants involved (19). These collapses or systemic failures, as the broad range of financial scandals exposed in the early years of the 21st century have been labelled, have brought into sharp focus and over a more concentrated timescale, issues of long-standing debate (Brown, 2005; Young, 2005; Reinstein and McMillan, 2004; Dewing and Russell, 2003) including: audit and accounting regulation; auditor independence; earnings management; and audit and audit firm quality controls. Many studies have provided evidence on how managers manipulate earnings to maximize their compensation or enhance their performance evaluation (e.g., Healy and whalen, 1999; nelson, et al, 2003). 2003 Duska, R.F. & Duska, B.S. -According to Duska & Duska, all professional bodies including but not limited to Accounting and Medicine have ethical standards which they must adhere to and the relevance of ethics in accounting lies in their very application to better the services offered to clients by the concerned professional body. According to the code of professional conduct by AICPA, accounting as a profession is brought out as comprising a group of stakeholders including bit not in any way limited to "employers, governments, stockholders and owners of businesses, regulatory authorities, creditors, the financial as well as business community etc. It is these people to whom the modern accounting professional is accountable to when it comes to adherence to ethics in accounting. It is important to note that regardless of the function in which CPA's perform their duties, be it auditing, cost accounting, advisory services or otherwise, their obligations to the public as well as other stakeholders identified in the text above remains unchanged as far as adherence to ethics in accounting is concerned. (20). 2004 -The journal, Business Ethics quarterly, considered this topic important enough to devote a special issue to "Accounting Ethics" (21). This was really a milestone in the direction of Ethical accounting. 2005- International Federation of Accountants (IFAC) - A distinguishing mark of the accountancy profession is their acceptances of the responsibility to act in the public interest (22) Key qualities which appear in the codes of ethics of professional bodies include independence, integrity, objectivity, competence and judgment. 2005 - Houghton, Tom Campbell and Keith -The growing importance of ethics in accounting attracted many researchers. Few examined ethical challenges exposed by recent accounting and auditing 'lapses' through a study of interconnected moral, legal and accounting issues. (23). 2005-Gowthrope - The Institute of Chartered Accountants in England and Wales , ICAEW's introduction to its 'Guide to Professional Ethics' includes a list of five fundamental principles which either expressly mentions or clearly implies all of these qualities, along with other related qualities such as honesty, fair-dealing, truthfulness, courtesy, skill and diligence. (24) 2006-Georges Enderle- Truthfulness of and trust in the financial reporting system depend on far more than the actions and decisions of individuals or sophisticated "mechanisms" for the whole system (25). 2006 Ketz, J. Edward -the ruination of investors in Enron, WorldCom, waste management, Adelphia, Tyco and scores of other business concerns has raised questions about the adequacy and relevance of academic research into accounting ethics, as well as the ethical nature of professional parties (26). 2006- Larsson, Marie, Wennerholm, Caroline -there is a need for comprehensive ethics Education for accounting students before entering the accounting and auditing profession. In order for the auditing profession to stay trustworthy it is important that accounting students understand the importance of being ethical as an auditor before entering the profession, since ethics is what makes the profession. (27). 2009-Nicholas Koumbiadis and John O. Okpara - Current news about corporate scandals and unethical behaviors of major accounting firms have implied a murky image that hangs over the accounting profession. Based on the findings and conclusion of their research, it is suggested that business school programs especially accounting, should continue to emphasize ethical and moral issues into their respective programs. Accounting professors should devote more time raising the awareness of ethics and ethical issues in the classrooms. (28)

IMPORTANCE OF THE STUDY
Ethical accountability of an accountant has several propositions. Ethical accounting can be applied to financial accounting, management accounting, and cost accounting etc. Application of ethics in accounting practice is crucial challenge and ethical implications in accounting covers the aspects like taxation, regulation, social accounting, environment accounting etc. The need for better ethical practices in financial management of corporate has assumed added importance in the backdrop of the financial crisis occurring in companies. Lack of efficient internal controls would also lead to serious problems in new generation companies. (29). The importance of accounting and accountability is a very serious matter for corporate as well as academicians, since last few years. The theme of the Indian school of business's (ISB) conference in December 2007 was 'need for accounting research in India and Asia' (30). Indian accounting can become an example for other if Indian accounting community so determines (31). India might find it difficult to join the global accounting research movement since research in accountancy does not get preference among professionals and academia here. Professional accountants do not join the teaching profession because of the huge difference between earnings of an accounting teacher and that of an accounting professional in practice or working in the industry. Unless and until accountancy gets its rightful position in academia, India will remain a follower, rather than a leader in the field of accountancy. The institute of chartered accountants of India is doing its best to be proactive in strengthening research in the accounting area and to improve accounting literacy of the country (32).

STATEMENT OF THE PROBLEM
The importance of accounting and accountability is a very serious matter for corporate as well as academicians, since last few years. Ethical accountability of an accountant has several propositions. Ethical accounting can be applied to financial accounting, management accounting, and cost accounting etc. Application of ethics in accounting practice is crucial challenge and ethical implications in accounting covers the aspects like taxation, regulation, social accounting, environment accounting etc. The need for better ethical practices in financial management of corporate has assumed added importance in the backdrop of the financial crisis occurring in companies. Lack of efficient internal controls would also lead to serious problems in new generation companies. The theme of the Indian school of business's (ISB) conference in December 2007 was 'need for accounting research in India and Asia'. Indian accounting can become an example for other if Indian accounting community so determines. India might find it difficult to join the global accounting research movement since research in accountancy does not get preference among professionals and academia here. Professional accountants do not join the teaching profession because of the huge difference between earnings of an accounting teacher and that of an accounting professional in practice or working in the industry. Unless and until accountancy gets its rightful position in academia, India will remain a follower, rather than a leader in the field of accountancy. The institute of chartered accountants of India is doing its best to be proactive in strengthening research in the accounting area and to improve accounting literacy of the country.

HYPOTHESIS
- There is no significant difference between the qualifications of respondents on the ethical aspects of accounting profession

OBJECTIVES OF THE RESEARCH
- To study the areas of concern in ethical aspects of accounting profession MSMEs located in Mumbai and suburbs.
- To measure the level of Ethical aspects in accounting profession in MSMES to establish Need and possibility of FEAR.

RESEARCH METHODOLOGY
This study is based on Stratified cluster sampling. The total sample size is 720 consist of accounting professionals employed in MSMEs in Mumbai and suburbs. Research instrument used was Nine part questionnaire developed by the Author. The first part consist of Personal profile of respondents, second part the

organization profile, third ethical aspects of accounting profession, fourth ethical attitude of accounting professionals, fifth ethical aspects of accounting standard, sixth ethical accounting in practice, seventh ethical accounting regulations, eighth business ethics & csr practices in MSMEs, and ninth Ethical accounting regulatory audit. The third to ninth section was developed on a five point lickert scale (Highly disagree…Highly agree). It consists of statements relating to organizational ethical accounting practice, ethical standards, employees ethical perception towards ethical accounting regulation, etc. In this study the ethical quotient of organizations is seen in combination of the parameters 1) Personal factors & Ethical aspects of accounting profession 2) Organizational factors & Ethical aspects of accounting profession. Spss was used for analysis. The data analysis tool consisted of Anova and Average score analysis and developing a scoring table based on which the ethical quotient was arrived at.

RESULTS & DISCUSSION

In this section using Tool ANOVA the need and possibility of fear is verified. The technique of analysis of variance is an extension of the test used to test the equality of several means. In this section the results of analysis of variance performed between the different personal classifications viz educational qualification of respondents on the ethical aspects of accounting profession. The **table 1** describes the results of Anova in terms of personal factors and its significance on the ethical aspects of accounting profession.

TABLE 1: RESULTS OF ANOVA: QUALIFICATION & ETHICAL ASPECTS OF ACCOUNTING PROFESSION

Variable	Sources of variances between groups			Sources of variances Sov-within groups			Sources of variances -total			F value	P value	Significance/ non significance
	Ss	Df	Mss	Ss	Df	Mss	Ss	Df	Mss			
V1	35.76	4	8.94	1716.727	715	2.401	1752.487	719		3.723	0.005	S
V2	4.947	4	1.237	1290.44	715	1.805	1295.387	719		0.685	0.602	Ns
V3	3.465	4	0.866	329.967	715	0.461	333.432	719		1.877	0.113	Ns
V4	10.34	4	2.586	1324.302	715	1.852	1334.644	719		1.396	0.234	Ns
V5	14.518	4	3.63	1348.81	715	1.886	1363.328	719		1.924	0.105	Ns
V6	4.727	4	1.182	1130.705	715	1.581	1135.432	719		0.747	0.56	Ns
V7	24.468	4	6.117	1587.26	715	2.22	1611.728	719		2.755	0.027	S
V8	3.33	4	0.832	588.648	715	0.823	591.978	719		1.011	0.401	Ns
V9	24.195	4	6.049	1235.116	715	1.727	1259.311	719		3.502	0.008	S
V10	14.803	4	3.701	575.795	715	0.805	590.599	719		4.595	0.001	S
V11	4.509	4	1.127	1522.018	715	2.129	1526.528	719		0.53	0.714	Ns
V12	1.491	4	0.373	668.841	715	0.935	670.332	719		0.399	0.81	Ns

Key findings are 1) there exists statistical significance in MSMEs with respect to perception as to Fairness & Integrity towards nation, which directs towards Need for FEAR. 2) Worship of Money can be an obstacle for realization of virtues in ethical accounting practice. Here exists statistical significance in MSMEs with respect to fair reward to accounting professionals and directs towards possibility of FEAR.
3) There exists statistical significance in MSMEs with respect to perception as to usage of ethics Education and directs towards possibility of FEAR. 4) Questionable integrity of the professional accountants had lead to focus on accounting regulation. There exists statistical significance in MSMEs with respect to perception as to Accounts professionals' integrity comparison.
In this section Using tool "Average score analysis" and score table, Ethical quotient is calculated. The Average score analysis is mainly used in any study is to assess the level of opinion/awareness/satisfaction of the different category of respondents on the various aspects relating to the study. First the opinion of the respondents are assessed through a scaling technique and then based on the consolidated opinion of the respondents, the average score is calculated. In this study the opinion of the respondents are assessed through a five point scaling technique similar to Likert scaling and then based on the consolidated opinion of respondents the average score is calculated and the results are presented in different tables with suitable interpretations. The Table 2 describes the results of Average score analysis for each personal classification of respondents on the level of ethical aspects of accounting profession in terms of personal factors and various factors relating to the ethical aspects of ethical aspects of accounting profession considered at workplace.

TABLE 2: RESULTS OF AVERAGE SCORE ANALYSIS FOR EACH PERSONAL CLASSIFICATION OF RESPONDENTS ON THE LEVEL OF ETHICAL ASPECTS OF ACCOUNTING PROFESSION

Personal factors	Personal factors divisions	A1	A2	A3	A4	A5	A6	A7	A8	A9	A10	A11	A12
Gender	Male	2.35	3.82	4.26	3.64	3.05	3.70	2.48	3.52	2.05	4.42	2.64	4.26
	Female	2.50	3.78	4.22	3.72	3.13	3.66	2.57	3.49	2.08	4.37	2.74	4.28
Age	20-30	2.39	3.79	4.18	3.63	3.03	3.56	2.45	3.58	2.12	4.39	2.74	4.23
	30-40	2.35	3.83	4.24	3.81	3.03	3.78	2.45	3.44	2.08	4.47	2.70	4.37
	40-50	2.42	3.82	4.23	3.68	3.01	3.70	2.58	3.49	1.97	4.41	2.66	4.23
	50-60	2.45	3.78	4.34	3.59	3.20	3.72	2.48	3.51	2.10	4.31	2.60	4.22
	Above 60	2.50	3.78	4.13	3.56	3.22	3.52	2.77	3.56	2.08	4.44	2.77	4.27
Educational qualification	Undergraduate	2.42	3.70	4.28	3.90	3.23	3.92	2.23	3.40	2.05	4.12	2.85	4.22
	Post graduate	2.54	3.84	4.27	3.71	3.06	3.67	2.55	3.50	2.15	4.44	2.69	4.29
	Commerce graduate	2.15	3.79	4.24	3.49	3.20	3.73	2.77	3.55	1.90	4.32	2.52	4.26
	MBA/MMS/CFA/PGDBM/PGDFM	1.92	3.65	4.05	3.49	2.78	3.57	2.15	3.62	1.63	4.59	2.70	4.15
	Non Commerce graduate	2.70	4.09	4.17	3.83	3.52	3.61	2.83	3.26	2.43	3.91	2.78	4.26
Experience	5 – 10 years	2.37	3.73	4.22	3.71	3.06	3.62	2.39	3.55	2.08	4.40	2.77	4.27
	10 – 15 years	2.38	3.90	4.22	3.70	2.97	3.74	2.55	3.48	2.07	4.45	2.69	4.31
	15-20 years	2.39	3.84	4.24	3.74	3.10	3.72	2.57	3.51	1.98	4.42	2.63	4.25
	20 years above	2.51	3.72	4.28	3.52	3.19	3.64	2.53	3.49	2.13	4.32	2.65	4.23

TABLE 3: ETHICAL QUOTIENT BASED ON AVERAGE SCORE ANALYSIS

Variable Factors	Undergraduate	Post graduate	Commerce graduate	MBA/MMS/CFA/PGDBM/PGDFM	Non Commerce graduate	Average Personal Score value	Average Personal Score based ethical quotient level	Objective
A01	2.42	2.54	2.15	1.92	2.7	2.40	Low	Possibility of FEAR
A02	3.7	3.84	3.79	3.65	4.09	3.80	High	Possibility of FEAR
A03	4.28	4.27	4.24	4.05	4.17	4.22	High	Possibility of FEAR
A04	3.9	3.71	3.49	3.49	3.83	3.67	low	Need for FEAR
A05	3.23	3.06	3.2	2.78	3.52	3.11	medium	Need for FEAR
A06	3.92	3.67	3.73	3.57	3.61	3.68	low	Need for FEAR
A07	2.23	2.55	2.77	2.15	2.83	2.52	medium	Possibility of FEAR
A08	3.4	3.5	3.55	3.62	3.26	3.50	medium	Possibility of FEAR
A09	2.05	2.15	1.9	1.63	2.43	2.06	Low	Possibility of FEAR
A10	4.12	4.44	4.32	4.59	3.91	4.36	low	Need for FEAR
A11	2.85	2.69	2.52	2.7	2.78	2.70	medium	Need for FEAR
A12	4.22	4.29	4.26	4.15	4.26	4.26	High	Possibility of FEAR

The Table 4 below shows the scheme of score range and the sum of average score based on personal factors.

Scheme & Score Range				Range of average score			Sum of Average score	
Statements	Count of Question	Min score	Max score	Low(1-2.5)	Medium (2.5-4)	High(4-5)		
Need for FEAR	5	5.00	25.00	5 to 12.5	12.5 to 17.5	17.5 to 25	17.52	High
Possibility of FEAR	7	7.00	35.00	7 to 17.5	17.5 to 24.5	24.5 to 35	22.75	Medium

FINDINGS

It is found from the **table 1 that** the hypothesis is accepted (non significant) in eight cases and in four cases (for variable "v1, v7, v9, & v10) the hypothesis is rejected, where it is significant (p<.05. Analyzing the table 03 on ethical exploration on the base of objectives of the study the table 04 is figured out. It is found from the Table 03 that the respondents irrespective of their personal classification have given high level of opinion towards 'Accountant very often have to set aside fairness and integrity towards nation, without any option' (A10) followed by 'I feel that if there is an ethical accounting regulatory audit (EARA), the ethical dilemma of an accountant can be avoided' (A12) when compared to the other factors in ethical aspects of accounting profession considered. From table 04 & 05 it is found that that with respect to statement Ethical aspects of accounting profession in MSMES-Need for FEAR, a) the level low is shown by variables A04,A06,A10, and b) medium by variables A05,A11. And with respect to statement Ethical aspects of accounting profession in MSMES-Possibility of FEAR, 1) High level by variables A02,A03, & A12 and 2)low by variables A01,A09 and 3) medium by A07,& A08.

It is concluded that there exists significant differences between the qualification & ethical aspects of accounting profession in case of fair reward to ethical aspects of accounting professional, usage of ethics education, accounts professionals integrity comparison & fairness & integrity towards nation. The majority of the respondents have high level of opinion towards "Accountant very often have to set aside fairness and integrity towards nation, without any option" as an important factor in ethical aspects of accounting profession and shows very low level of ethical quotient with mean ethical quotient value of 4.36, which explains the need for FEAR. It is concluded that based on the scheme of average score (a).The Ethical aspects of accounting profession in MSMES-Need for FEAR shows ethical quotient at high level with sum of scores 17.52 (b). The Ethical aspects of accounting profession in MSMES-possibility of FEAR shows ethical quotient at medium level with sum of scores 22.75. Based on the analysis of personal factors the summary of the ethical quotient can be illustrated with the help of table 03, 04 & 05 as shown below:-

- Ethical aspects of accounting profession in MSMES shows need for FEAR at high level
- Ethical aspects of accounting profession in MSMES shows possibility of FEAR medium level

SUGGESTIONS

FEAR shall provide standards for organizational ethical culture. Example Improve individual moral standards, standards for ethical dilemma and the influence of managers and co-workers, and the opportunity to engage in misconduct. Indian Ethos Management has as its basis, the culture base of India and as a country whose culture has its roots in religion - it does draw its lessons from the religions of the land - be it Hinduism, Buddhism, or any other. Indian thinkers mostly depend on internal controls, genetic cultivation and family culture to curtail greed (33). There is nothing wrong in materialism if it is secondary i.e. secondary to honestly, love, equality, justice, and compassion (34). If it comes first it can lead to exploitation, misery and loss of peace. As a participatory tool by MSMEs for improved Social responsibility. Atmano Mokshartham, Jagat hitaya cha: All work is an opportunity for doing well to the world and thus gaining materially and spiritually in our lives (35). MSMEs top management should initiate policies to train and motivate employees towards ethical behaviour. FEAR shall provide a means of controlling the forums and disputes within or outsiders. As a participatory tool by MSMEs for improved Self governance. Indian ethos teach us: Vaang me manasi prathishtithaa(words are founded in the mind); Manoo me vaachi prathishtithaa(the mind is established on the words); Srutham me maa atheethena ahoraatraan sandhadhaami(let us remember/recollect what all heard/learned throughout the days and nights); Vaang me madhu matthamaa(let our words be as sweet as honey) (36). MSMEs shall have an ethical code that outlines an acceptable ethical behaviour within accounting profession. FEAR shall provide the power to discipline the accounting professionals, other members, ranging from fines, penalties, punishments and or show disapproval everlastingly. As a participatory tool by MSMEs for improved Self governance. As per Nityaneeti-30 (37), "The doer, the promoter, the instigator and the approver, all the four shares the responsibility equally in good or bad deeds".

CONCLUSIONS

It is concluded that there exists significant differences between the qualification & ethical aspects of accounting profession in case of fair reward to ethical aspects of accounting professional, usage of ethics education, accounts professionals integrity comparison & fairness & integrity towards nation. Even though the understanding of the concept varied between respondents, it appeared that most of them understood need for regulating ethical accounting as a participatory tool for strengthening self governance, transparency and social responsibility.

SCOPE FOR FURTHER RESEARCH

Although the need for FEAR is supported well, the possibility of FEAR has considerable obstacles as per the perception of respondents. Further study as to inculcating ethical attitude and to identify the obstacles shall be considered for further research. Another crucial topic for future research can be the investigation of enterprise orientation. Reflecting on the values that drove the participating accounts professionals of MSMEs of this research and their approach to Ethical accounting regulation and participation for self governance, transparency and social responsibility, the values of owners and auditors can also be investigated.

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THE ROLES AND CHALLENGES OF SHARE COMPANIES IN ETHIOPIA

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ABSRTACT

It is known that shortage of capital is one of the factors that discourage investment in the Ethiopian economy. Share companies deliver best remedy for this problem because they can organize limitless people with small shares so that they form huge capital. Despite their potential role, Share companies are facing various challenges; due to the adverse corporate environment existing in Ethiopia. Hence, the study were conducted to explore the potential roles of share companies that can be contributed to development endeavors and identify the challenges facing them that limit their ability to achieve their roles as a result of existing Financial system. To be able to gather the necessary data, the study utilizes the descriptive analysis. Herein, the respondents were randomly selected from publicly held share companies. The questionnaire was the research instruments used for the data-gathering. The output of the study shows that although Share companies play important and crucial role in development endeavors; they are facing serious challenges. Share companies in Ethiopia are not furnished with comprehensive legislative framework and an organized as well as orderly operating environment; which could help establishment of several share companies that would accelerate the development endeavors and to the share buying public, it would enhance confidence in the industry.

KEYWORDS

Capital Mobilization, Investment Intermediaries, Regulation, Roles of Share Companies and Secondary market.

INTRODUCTION

A share company is a company whose capital is fixed in advance and divided in to shares Commercial Code of Ethiopia (1960). The word corporation and share companies are one and the same. Corporation is created (incorporated) by a group of shareholders who have ownership of the corporation, represented by their holding of common stock. The history of the establishment of share companies dates back to the end of 1880s in Ethiopia. The establishment of share companies in those periods was by an imperial charter because there was no law accommodating their existence. The same thing was repeated in Ethiopia when the Emperor's blessing was required. Then it was in Emperor Haile Sellasie's period i.e. in 1960 the first commercial code was legislated and the establishment of Share Company recognized for the first time. And right after the Derg had assumed power in 1967 E.C., the system of constituting share companies was discarded to oblivion for a period of 17 years. After the downfall of Derge Regime, due to liberalization of investment policy, beginning in the early 1990s, several initiatives have been taken that resulted in a series formation of commercial bank and insurance firms. Following the financial institutions different share companies in different sector had been established. There are now many initial offerings of shares to the public. (The Ethiopian Herald: 2009)

Establishment of share companies in Ethiopia shows faster growth in past two years. Establishing companies by raising capital through public equities has been in the boom in Ethiopia's business milieu, especially since mid 2008. Though the trend has been there for more than a decade after the first private banks started to popup through the same mechanism of raising capital, never have public equity offers been as many as the past one year (Nassissie Girma)

LITERATURE REVIEW

It is widely accepted that corporations have economic, legal and even social roles. According to Crane, Matten and Moon (2008) Corporations mobilize savings for investment**.** When people draw their savings and invest in shares, it leads to a more rational allocation of resources because funds, which could have been consumed, or kept in idle deposits with banks, are mobilized and redirected to promote business activity with benefits for several economic sectors such as agriculture, commerce and industry, resulting in stronger economic growth and higher productivity levels of firms. In modern times, corporations have become an increasingly dominant part of economic life. According to Helena Monteiro (2006) People rely on corporations for employment, for their goods and services, for the value of the pensions, for economic growth and social development. In addition, corporations can contribute with a vast array of resources that include: technology, human resources, technical expertise for capacity building. According to Gary Quinlivan (2000) the economic role of corporations is simply to channel physical and financial capital to countries with capital shortages. As a consequence, wealth is created, which yields new jobs directly and through "crowding-in" effects. In addition, new tax revenues arise from corporation generated income, allowing developing countries to improve their infrastructures and to strengthen their human capital. By improving the efficiency of capital flows, corporations reduce world poverty levels and provide a positive externality.

Investments in a business form of share companies can offer special benefits that other form of business may not deliver in development endeavor. Share companies have unique characteristics which distinguish them from other forms of business, thus share companies as a result of their unique nature, and have more (wider and deeper) potential to contribute for development endeavor of a country. Haskin (1997) states corporations are subjected to double taxation. The tax law of Ethiopia (Income Tax Proclamation No.286/2002) legislates that share companies must pay 30% of flat rate in the form of business profit tax and 10 % dividend tax.. Double taxation contributes to enhancement of government revenue because it privileges the government to collect tax twice. Share companies also have a potential to enhance governments revenue by offering an opportunity for capital gain tax. According to Larsen and Pyle () it is possible for corporations to assemble large amount of capital from the combined investment of many stock holders. In business milieu it is usually uncommon to find peoples outfitted with all skills and resources (entrepreneurial skill, technical know-how and financial resources). Share companies provide a best remedy by combining resource of different peoples and putting it together. Hence, share companies can mobilize large number of domestic resources. By pooling resources from large number of investors share companies can realize massive investments which may not be possible to be established by single individuals. Only few individuals may have the financial ability to establish such massive investments. However, by pooling the resource of many individuals through public offering of shares, share companies generate gigantic capital necessary to make massive investments (McNair and et al:2003).

According to Commercial Code of Ethiopia (1960) Share Company can issue a share at a minimum price of birr 10. Thus, both small and wealthy individuals can invest according to their financial capacity. Besides*,* investors need not be reside in the jurisdiction of the company's location. Theoretically they are assumed to be accessed in every corner of the country. Hence, share companies have great potential to provide investment opportunity to the public. The maximum number of share holders in a company is not limited. Thus, share companies can be owned by millions, thousands, and hundreds of share holders. Since all the risks and incomes are distributed over the owners and shares are freely transferable form one to another share companies have a potential to redistribute the income and risks (Meigs and et al::2001). Share companies are likely to have strong financial capability. Hence, they are likely to acquire the most up-to-date technology and know-how. Corporations are able to develop and market expensive new technologies more effectively than individuals operating other form of business (McNair and et al: 2003). Besides share company are likely to establish research and development departments which work on improvement and modernization of products and services provided by the company. In addition Share companies offer an opportunity to entrepreneurs who have project idea, but limited resource to implement the idea by using other people's money or technical know-how.

IMPORTANCE OF THE STUDY

The study is important from many perspectives which could be summarized as follows: It can help in improving the existing literature on share companies; it can improve the awareness among the public about role of share companies; it can help in indicating the main problems and possible solutions to policy makers. It can serve as a basis for further study.

STATEMENT OF THE PROBLEM

Investments in a business form of share companies can offer special benefits that other form of business may not deliver in development endeavor. Countries like Ethiopia with very small domestic product are expected to exploit the opportunity of creating a share holding company and enjoy its benefit. In recent time there are many people with project ideas offering shares to the public. But the buying public is hesitant to submit. New companies which wish to raise capital by public offering must float the share for a long period of time. Moreover, the companies end up undersubscribed. Shareholders owning shares with the various share companies find buyers privately, to sell off their shares (Addis Fortune). Though the business of initial public offering by the financial sector is heavily regulated by the Central Bank, this is not the case with the numbers of initiatives in other sectors. The share buying public is preposterously left to the mercy of the promoters. Hence, the study were conducted in order to describe the potential roles that can be played by share companies and assess the challenges post by the unfavourable corporate environment in Ethiopia.

OBJECTIVES

The general objective of the study is to explore the potential roles of share companies that can be contributed towards development endeavors and identify the main challenges being faced by these companies that are acting as limiting factor in order to achieve their role.

The specific objective of the study includes:

- To explore the potential roles of share companies.
- To know the basic characteristics of share companies during initial public offerings.
- To describe the prevailing corporate environment.
- To identify the main challenges being faced by the share companies.

RESEARCH METHODOLOGY

To be able to gather the necessary data, the study utilizes the descriptive analysis. In terms of approach, the study employed both qualitative and quantitative approaches. The quantitative approach focused on obtaining numerical findings and the qualitative approach focused on personal observations, description and individual insights of the respondents. To collect the necessary information, the study uses both the primary and the secondary data. The primary data are derived from the answers respondents gave in the questionnaire and interview. The secondary data on the other hand, are derived from the findings stated in published and unpublished documents. Herein, 20 respondents were randomly selected from publicly held share companies. The representatives of the company who were chosen in this study accomplish a questionnaire and interviews to assess challenges being faced by of share companies in Ethiopia. The result of the survey was processed by SPSS.

RESULT AND DISCUSSION

Though the concept of corporate environment may be too broad the study investigates the corporate environment in terms of: public offering environment, regulatory environment, transferability environment, and financial intermediaries' environment.

CHARACTERISTICS OF SHARE COMPANIES DURING PUBLIC OFFERINGS

The study in this section investigates the characteristics of initial public offerings at a time of establishment: the subscription rate, the share floatation period, number of share holders and the affordability of minimum investments set by companies.

DESCRIPTIVE STATISTICS

	N	Minimum	Maximum	Mean	Std. Deviation
Subscription rate in Percent	20	25%	84%	52.75%	14.63189
Minimum investment Requirement in Birr	20	400.	50000.	17,220	12108.26599
Length of floatation period in Month	20	10	24	15.5	4.19900
Number of share holders	20	131	15,000	3039.8	4127.10938
Valid N (list wise)	20				

Source: survey data (2011)

The experience of share companies in Ethiopia in mobilization of capital shows almost all companies are undersubscribed. The subscription rate of companies ranges from 25% to 84 % with a mean of 52.75%. Collectively companies are under subscribed by 47.25 %. The time required to sale shares in Ethiopia is 10 to 24 months .The mean (average) share flotation period is 15.5 months. Respondent's perception on lengthy of time it takes to float new shares indicates that 5 % perceive the period is short, 30 % medium, and 65 % long. The minimum investment requirement set by companies' ranges from 400 Birr to 50,000 Birr with a mean of 17,220 Birr. Majority of respondents (85%) perceive that the minimum investment requirement set by most share companies is unaffordable by small investors. The number of share holder in a company ranges from 131 to 15,000 with a mean of 3,039. Even though there is no standard to say the number of share holders in a company is few or high they can distribute the risk and income to more share holders than are now.

THE REGULATORY ENVIRONMENT

Share companies as a result of their unique nature needs special regulations. In Ethiopia Share companies are regulated by Ministry of Trade and Industry in general. Specifically share companies in a business of financial sector (insurance companies and banks) are regulated by National Bank of Ethiopia. Respondents indicates that financial sector share companies are subjected to high regulations relative to non financial sector share companies which are almost less regulated. The provision for non financial sector share companies is below sufficient and the monitoring and supervision by regulatory boy is far below the required level for non financial sector share companies. Friedman and Grose (2006) states that Issuers and investors will have more confidence in raising and investing funds in the equity market when the legal, regulatory and supervisory framework promotes new issues and, at the same time, provides adequate mechanisms for protecting investors. Mariassunta Giannetti (2004) revealed that the demand for equity is affected by investors' protection. Investors claim that they decrease their holdings or even avoid investing in companies or countries that are perceived to provide poor investor protection. Regardless of this fact there is poor regulation of securities in Ethiopia.

THE FINANCIAL INTERMEDIARIES ENVIRONMENT

Investopedia says financial intermediaries are institutions which act as the middlemen between the investor and the firms raising funds. Financial intermediaries play important role in process of raising funds by share companies. In fact, share companies may directly interact with investors without the service of financial intermediaries; however, the possibility of raising fund successfully is in doubt. Financial intermediary emerged because of inefficiencies found in direct interaction between the investors and the issuing companies (Kidwell and Peterson: 1990). Thus, share companies directly interacting with investors indicate inefficiencies in rising of funds. In the study 90 % of share companies sell their shares directly to investors while the remaining through brokers. Most companies are selling their shares directly to the public. They are not availing the service of intermediaries in selling of their shares. Though they play important role in selling of new shares by finding buyers, the service of capital market intermediaries such as investment bankers and brokers are limited in Ethiopian corporate sector, which results in inefficiency of share companies to distribute and market shares. This fact can be strengthening by looking in to place of sells for shares. The practice of share companies in selling of shares in terms of location indicates that 60% of companies offer (sell) their shares only at Addis Ababa, 35 % offer (sell) their share in Addis Ababa and some other major cities. Only 5% of the respondent indicates that they sell their share in remote areas. Most companies are not accessible in remote areas.

Share companies usually offer their shares for subscription to different types of investors either directly to individual investors or indirectly to institutional investors or to both. It is recognized that institutional investors have a great potential to mobilize large amount of saving from large number of individuals for investment. 100% of respondents reveal that individual investors are dominant in holding of shares, and institutional investors (excluding mutual funds) are involved to some extent. Though it is recognized that institutional investors have a great potential to mobilize large amount of saving from large number of individuals for investment, institutional investors in Ethiopia are not mobilizing adequate amount of capital from the public. This fact can be discovered by looking in to subscription rate of share companies in Ethiopia in which companies are undersubscribed on average by 47 %. The institutional investors involved in mobilization of capital in Ethiopian corporate sector are lacking of mutual funds; which have a great potential to mobilize large amount of savings from large number of individuals by offering a variety of investment schemes with different investment goals and by specifying low amount as minimum investment.

THE TRANSFERABILITY ENVIRONMENT

Since organized exchange (stock exchange) is lacking in Ethiopian corporate sector, shares transfer are facilitated in disorganized manner. In the disorganized manner transferability of shares are facilitate by each company's head office through the share administrator or the share holder find privately buyers. The study in this section investigates the transferability environment of shares in terms of liquidity, transaction cost, and fairness of price determination during transfer. Liquidity of shares means simply the convenience and speed of transferring shares in to cash or transferring shares from one person in to another. 53 % of respondents believe that shares are less liquid, while 42 % agree they are moderately liquid. Respondents indicate that it usually takes 1 week to 6 months to find buyers and transfer the share. With respective to transaction cost 63 % of respondent believe that share transfer involves high transaction cost, while 32 % believe shares transfers involve moderate cost. In a line with this, respondents indicate share transfer which is facilitated by external body incur on average 10% charges of the par value. With respective to fairness of price determination 84% of respondent believe that share transfer involves unfair price determination, and the remaining 16 % of respondents indicate share transfer involves faire price determination. In a line with this, respondents indicate that 68 % share transfers were priced at the same price to the par value, and the remaining 32 % above the par value. In Ethiopian corporate sector shares are priced unfairly in which the price of shares do not consider the actual demand and supply of shares and the earning and growth potential of the company .

FINDINGS

Share companies in Ethiopia are facing multiple challenges that test their ability to achieve their potential roles which emanate from different causes. Share companies have a potential to enhance the governments revenue by providing an opportunity for capital gain tax. However, as most shares are transferred at the same price in which it was bought (the par value) the potential of share companies to provide an opportunity for capital gain tax is limited. Share companies have a potential to mobilize domestic resource by combining and putting together different resources for investment (entrepreneurial skill, technical know-how and financial resources). However, the public is hesitant to subscribe for initial public offerings. Hesitation of the public to offer their resource diminish the potential of share companies to foster innovation and technological adaptation as fostering innovation and adapting technology is explained by strong financial capacity of share companies. Besides, hesitations of the public also diminish the potential of share companies to promote entrepreneurial societies as entrepreneurs may be discouraged by low response of the public. Although share companies have great potential to establish big business, they are not utilizing to the maximum of their potential; they are undersubscribed. Share companies have a potential to provide investment opportunity to both the small investors and wealthy inventors. However, there is little opportunity to small investors as the minimum investment requirement set by share companies is beyond the financial capability of small investors. Besides, most shares offering are restricted to the capital city and some major cities in the country.

Share Company has a potential to distribute income and risk over large number of individuals as long as large number of individuals subscribe. Besides, share companies also have a potential to redistribute the risk and income over large number of individuals by allowing freely transferability of shares form one individual to others after the first issue. But, there is low liquidity of shares in Ethiopian corporate sector. Though share companies can provide an opportunity to institutional investors to improve their value this potential is diminished partially by poor transferability of share prevailing in Ethiopian corporate sector.

The study from the above investigations infers that the corporate sector in Ethiopia is threatened by multiple challenges which diminish its potential roles to contribute for development endeavors. The key challenges of share companies which diminish its potential role are identified and scrutinize as follows.

I. ***Poor regulatory environment;*** though, not the case with financial sectors, corporate sector in Ethiopia is characterized by poor regulatory environment. In a poor corporate regulatory environment share holders have no guarantee that corporate issuers may sell bad securities to the public. Besides they have no guarantee that their interest and rights will be safeguarded. In an environment where share holders are not protected, it is known that they become hesitant to subscribe.

II. ***Poor transferability of shares;*** transferability environment in Ethiopia is characterized by less liquidity, high transaction cost, and unfair price determination. Thus, the existing share holders are suffering transferring of shares. They have limited option to switch investment in one company and invest the same in other company which they believe is profitable or meet their investment objective. When investors need the cash for any reason it is at delayed time that the share will be converted. The soreness prevailing in the existing share holders put up multiple challenges to share companies.

III. ***Inefficient marketing of share;*** In finding buyers of new issues the service of financial intermediaries are not availing. The process of finding buyers by the company is not usually efficient since; companies which offer shares to the public may not be well familiar with the market behavior as they are not constantly in the business of finding buyers and usually have no already established network to distribute shares.

IV. ***Inefficient capital mobilization;*** Share companies are not well achieving in mobilizing adequate capital required for investment as all share companies are undersubscribed. Share companies used to mobilize the capital largely from individual investors. Though institutional investors are participating in mobilizing of capital, the result is not as required since they are not providing adequate capital required by share companies. Mutual funds are missing in the capital mobilization environment though they have a potential to mobilize large amount of capital from large number of individuals (both small and wealthy investors) by providing a varieties of investment opportunities.

SUGGESTIONS

The study recommends the following points to overcome the challenging corporate environment and bring on a possibility of exploiting to the most of the potential of share companies.

1. Share companies need to be furnished with a comprehensive legislative framework to enhance confidence in the industry. The corporate law needs to be revised so as to ensure fair dealing and provide protection to investors. It would be better if separate regulatory body is established to regulate and promote the corporate sector.
2. Important financial intermediaries such as Mutual Funds and Investment Bankers need to be promoted to facilitate and prop up rising of funds by share companies.
3. The share transferability environment need to be provided with an organized as well as orderly operating environment to make the business of buying and selling shares easier, profitable and predictable.

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APPENDIX

QUESTIONNAIRE

1) Following are questions regarding to general information of the company, please fill in the blank space.
a) Business purpose of the company: ______________________________
b) Period of time for which the company is established: _________________
2) The following are questions relating to initial public offering of shares when the company was established. Please give the figure, word or sentence
a) Total number of shares (capital) offered to the public; ______________________
b) Total number of shares (capital) subscribed by the public: __________________
c) Par value/price per share: ___________________________
d) Minimum amount of Investment: ___________________
e) Service charge/premium per share: _________________________
f) The opening date for sale of shares: _______________________
g) Closing date for sale of shares: ___________________
h) Total number of share holders___________________________
i) Place of sales for shares;
i) Only in Addis Ababa
ii) In Addis Ababa and some other major cities
iii) In remote areas
3) How do you feel the response of general public towards initial public offerings?
a) Are hesitant to subscribe
b) Eager to subscribe
4) How was the shares marketed to the public?
a) Through brokers
b) Through the company agents
c) Through investment bankers
d) The company head office
e) Please specify if other way were employed_______________________________
5) The following are questions relating to shareholding profile of your company, please indicate the availability.
A shares held by foreigners
b shares jointly held by individuals
c Shares held by institutional investors (Banks, Insurance, Pension Funds, Unions Cooperatives etc...) except Mutual funds
d Shares held by Mutual funds
6) The following are question in relation to transfer of shares from one to another, please provide brief description for each items.
a) How shareholders find buyers when they need to sell their share ____
b) What costs do shareholders incur while transferring shares ____
c) What is the average time consumed to sell shares ____
d) What is the average price realized on sells
i) Above the par value
ii) Below the par value

iii) Equals to the par value
8) How do you perceive the sufficiency of corporate law to disclose information, and ensure transparency?
a) High b) Moderate c) Low
9) How do you see the degree of regulation to share companies?
a) High b) moderate c) low
10) How do you perceive the monitoring and supervision by corporate regulatory body?
a) High b) moderate c) low
11) How do you perceive the capacity and readiness of share company regulators to enforcement of compliance?
a) High b) moderate c) low
12) How do you perceive the length of time it takes to float new shares in Ethiopia?
a) Long b) moderate c) low
13) How do you perceive the liquidity of shares?
a) High b) moderate c) low
14) How do you perceive the Affordability of share price by the small investors?
a) High b) moderate c) low
15) How do you perceive the Fairness of price determination while buy/sell of shares?
a) High b) moderate c) low
16) How do you perceive the Transaction cost incurred when buying/selling of shares:
a) High b) moderate c) low
17) What do you think are the major challenges to corporate sector in Ethiopia? Please explain.

____

18) What do you suggest to overcome those challenges and bring on favorable corporate environment in Ethiopia?

____

19) Please put your general comments about role and challenges of share companies in Ethiopia.

____

RESPONSE ON INITIAL PUBLIC OFFERINGS OF COMPANIES

	Capital offered to the public in Million	Capital subscribed by the public in Million	Price per share in Birr	Minimum investment requirement	Service charge in Percentage	Time consumed to float shares in months	Number of share holders
A	50	42	500	50,000	20	NA	800
B	100	40	500	NA	5	12	NA
C	100	50	1000	25,000	5	24	1000
D	300	200	100	400	3	22	7002
E	50	25	25	25,000	NA	NA	131
F	66	17	25	25,000	NA	NA	300
G	200	85.1	1000	25,000	5	19	540
H	600	280	1000	5000	6	11	15,000
I	432	199	25	25,000	20	12	6400
J	300	149.5	1000	25,000	5	10	2778
K	60	24	1000	5000	9	NA	3800
L	93	55	1000	10,000	10	NA	220
M	279	160	1000	4000	5	24	6000
N	50	30	5000	25,000	10	13	NA
O	80	25	1000	20,000	7	16	750
P	50	24.2	1000	20,000	20	NA	486
Q	15	10	1000	NA	6	12	150
R	50	40	500	NA	NA	NA	554
S	306	160	100	5000	3	NA	11,200
T	335	208	100	10,000	10.5	NA	335

CONSUMER MARKET PURCHASE DECISION: A STUDY ON DURABLE GOODS IN JAFFNA DISTRICT

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ABSTRACT

Consumers decision-making process was based on their evaluations of the multiple attributes associated with the product and also the consumers. The paper addressed two research objectives. The first objective was to develop the most influencing attributes of consumer decision for durable goods and the second was to conduct a process-tracing and naming key factor components affected consumers' judgment processes. The convenient sampling technique was used in the sample selection. Responses were collected from 250 customers from Jaffna city. The study was based on primary data gathered using a questionnaire containing 20 literature based measures the contributing to consumer purchase decision. This paper presents a Factor Analysis approach to the problem of extracting the influences on consumer market purchase decision for the durable goods. Results indicated that product attributes, personal factor, psychological factor, price and distribution were the factors that have influenced the consumer decision. Therefore, it can be concluded that considering above attributes that have influenced on consumer market purchase decision for the analysis creates successive marketing and long term sustainability for the productive organization.

KEYWORDS

Consumer Market, Durable Goods, Product attributes and Purchase decision.

INTRODUCTION

Today's businesses need fresh thinking about how to operate and compete in the new economy. Successful companies take an outside- inside view of their business. The aim of the marketing is to meet and satisfy target customers' needs and wants. The field of consumer behavior studies how individual, group and organizations select , buy , use, and dispose of goods, services, ideas, or experiences to satisfy their need mad desires. Understanding of consumer behavior and knowing customers is never simple. Companies compete successfully in today's market place by a commitment to creating and delivering superior value to target customers. Successful companies know how to adapt to a continuously changing marketplace. Company cannot serve all customers in a broad market. Customers are too numerous and diverse in their buying requirements.

No company can win if its product and offerings resembles every other product and offering. Companies must pursue meaningful and relevant positioning and differentiation. Each company and offering must represent a distinctive big idea in the mind of the target market and each company must dream up new features, services and guarantees, special rewards for loyal users and new convenience and enjoyments. Marketing is seen as the whole business from the point of view of its final result, that is, from the customer's point of view (Assael, H 1992). The consumer is king in age of consumerism. While, durables goods are expected to last longer than three years. So, it is a product of high involvement for consumers. This characteristics of the consumer's behaviour for durable goods, makes it a more suitable and appropriate behaviour to study.

CONSUMER DURABLES IN THE COMPETITIVE MARKET

The demand for consumer durable has been rising with the increase in disposable income coupled with more and more consumers falling under the double income families. Availability of newer variants of a product is high in market. Consumers are spoilt for choice when it comes to choosing products. Newer variants of a product will help a company in getting the attention of consumers who look for innovation in products. The consumer durables industry is highly price sensitive, making price the determining factor in increasing volumes, at least for lower range consumers. For middle and upper range consumers, it is the brand name, technology and product features that are important. Availability of credit and the structure of the loan determine the affordability of the product. Sale of a particular product is determined by the cost of credit as much as the flexibility of the scheme.

This industry consists of durable goods used for domestic purposes such as televisions, computers, washing machines, refrigerators, microwave ovens, mobile phones, automobiles etc. The growth in the consumer durables sector has been driven primarily by factors such as the boom in the automobile industry, real estate & housing industry, higher disposable income, emergence of the retail industry in a big way coupled with rising affluence levels of a considerable section of the population. The shift in consumer preferences has also been triggered by the availability of foreign branded automobiles in Sri Lanka owing to higher import duties introduced by the government. The consumer durables industry can be broadly classified as consumer electronics and consumer appliances.

THE JAFFNA SCENARIO

Last few years after the end of local war have witnessed of growing demands for different durable products. Infrastructure development and new business entrants create more mobility of durable goods now to Jaffna District. There is a noticeable shift in the consumer's preference in favor of higher end, technologically superior branded products, the demand being fueled by increasing consumer awareness and preference for new models. This shift is also because of the increase in manufacture of branded products and narrowing down of price between branded and non-branded goods. Competition has forced the companies to offer efficient after sales service and support and this, in turn, has swayed customer preference for branded products. Post war there has been inundation of goods transcend the borders and the customer has a wider choice; breaking the shackles of the consumers regarding limitations of choices. Increase in demand of Jaffna people is a result of increase in income of the people and increase in discretionary income too. A rise in discretionary income results usually in an increased spending by consumer on those items that raise their living standards, Moreover, a trend for Jaffna people to utilize their income for more comforts and facilities is also developing. Intense competition among the marketers of consumer durables and the increasing awareness of Jaffna consumers about their own needs, is making a major difference in marketing of consumer durables.

RESEARCH PROBLEM

In the context of the above scenario, it is interesting to study how the human beings i.e. Jaffna consumers, satisfy their different basic and non-basic needs. The major categories in the market are car, mobile phone and home appliances as, refrigerator, washing machines and furniture. The rising income levels, double-income families and increasing consumer awareness are the main growth drivers of this industry. In addition to them the young nature of population and easy finance options are also fuelling the market and its dynamics. This research is an attempt to reflect the changes in the consumer buying behavior of durables in the Sri Lankan Market especially in home appliances buying in Jaffna city. Buying behavior need to understand why consumers make the purchases that they make? What are the factors influence consumer purchases?

LITERATURE REVIEW

Buying Behavior is the decision processes and acts of people involved in buying and using products. Consumer Buying Behavior refers to the buying behavior of the ultimate consumer. A firm needs to analyze buying behavior for Buyers reactions to a firms marketing strategy has a great impact on the firm's success.

Scholars indicated consumer behaviors as decision-making and behaviors involved in purchasing or using. The marketing concept stresses that a firm should create a Marketing Mix (MM) that satisfies (gives utility to) customers, therefore need to analyze the what, where, when and how consumers buy.
Marketers can better predict how consumers will respond to marketing strategies and defined consumer behaviors as follows; consumer behaviors are every activity, opinion and influence involved in the purchase and labor process. Another person thought consumer behaviors are the decision-making and behaviors when people buy and use products or services. They also pointed out that consumer buying behaviors are based on individuals satisfying their needs, seeking products, services or ideas and that includes behaviors like purchasing, using, evaluating and disposing. Kotler (2000) studied how individuals, groups and organizations purchase, use and dispose of products, services, ideas to satisfy their needs as his viewpoint on consumer behaviors.
Consumer decision making process by which consumers identify their needs, collect information, evaluate alternatives, and make the purchase decision. These actions are determined by psychological and economical factors, and are influenced by environmental factors such as cultural, group, and social values. In mapping out the buying process that consumers use, researchers have identified several categories of motivation that determine how consumers attach weight to or rate the importance of -product features: Personal: This includes the demographic factors that are correlated with purchase behavior. Psychological: Personality, attitudes, lifestyle, and motivations are a few of the factors included. Social: These influences include friends, family, opinion leaders, role models, and similar factors. Everyone involved in creating advertising and other marketing material knows that consumers are not as interested in a product's features as they are in the benefits they can receive. And it's no surprise to marketers that the way consumers feel about a product heavily influences the likelihood of their making a purchase.
Three scholars, Engel, Kollat and Blackwell from Ohio State University proposed the E-K-B model in 1968, which considered consumer behaviors a continuous process instead of intermittent individual actions. The model is centered on decision-making and comprised of combining the intertwined effects of internal and external factors. E-K-B model is the more comprehensive, intact and systematic model in current consumer behavior models. The model structure comprises 5 parts: 1) information input; 2) information process; 3) decision-making process; 4) variables that affect the decision-making; 5) extraneous interference. Amongst them, the decision-making process is the core of the E-K-B model. It includes: 1) need recognition; 2) search for information; 3) alternatives and evaluation; 4) purchase; 5) post purchase evaluation.
Later on, Eastman J.K et al., (1999) further presented internal and external factors, such as individual differences and environmental influences, affecting decision-making at every stage, to wit: 1). environmental influence: including culture, social status, personal influence, family, scenario and so on; 2) personal differences: consumers' sources of information, knowledge, attitudes towards the product, motive, personality, value system and lifestyle, etc which means the decision will be different depending on personal characteristics.

OBJECTIVES
Objective of the study is to study the consumer purchase decisions about durable goods. Here we have to study how Jaffna consumer is behaving, how they behaved in past and what are the future estimates about
The objectives were
1. To develop the influencing Factors of consumer decision for durable goods and
2. To conduct a process-tracing and naming key factor components affected consumers' judgment processes

RESEARCH METHODOLOGY
The methodological aspects related to the research conducted in the present studies are given hereunder:
DATA COLLECTION AND METHOD OF ANALYSIS
The convenient sampling technique was used in the sample selection. Responses were collected from 250 customers from Jaffna city. The study was based on primary data gathered using a questionnaire containing 20 literature based measures the contributing to consumer purchase decision. In order to increase the reliability of questionnaire, each construct was operationalized on a five-point Likert scale (1 strong agree and 5 for strong disagree). This paper presents a Factor Analysis approach to the problem of extracting the influences on consumer market purchase Decision for the durable goods. To further analysis the reliability of the data, sample adequancy tests by Kaiser-Meyer_olkin (KMO), Bartlett Test of sphericity and correlation matrix were conducted.
DATA ANALYSIS
The Kaiser-Meyer-Olkin measure of sampling adequacy tests were constructed for checking out the sample adequacy of the data. The value of KMO came out to be 0.796 (table 1) indicating that the factor analysis test can be proceeded correctly and the sample used is adequate the minimum acceptable value of KMO as supported by Othman and owen(0.5).

TABLE 1: KMO AND BARTLETT'S TEST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.796
Bartlett's Test of Sphericity	Approx. Chi-Square	4961.357
	df	190
	Sig.	.000

Source: Author constructed

In order to test the multidimensionality of the variables, Bartlett Test of Sphericity and correlation were conducted. The results of the Bartlett Test of sphericity turned out to be highly significant of 0.000 (Table 1) which indicate that the factor analysis processes were correct and suitable for testing multidimensionality. The correlation matrix also depicted high correlation among the variables certifying the suitability of application of factor analysis technique on the data (Appendix 1).Thus, it was derived from the statistical tests that the proposed items and dimensions of instruments were sound enough to measure the consumer purchase decision toward durable products. Principle factor analysis identified a few higher level dimensions characterizing consumer purchase decisions towards durables. Correlation among the variables is more than 0.5 correlations in Appendix 1.

TABLE 2: TOTAL VARIANCE EXPLAINED			
Component	Initial Eigen values		
	Total	Cumulative Variance %	Revised Cumulative Variance %
1	5.410	27.049	31.465
2	4.230	48.197	55.150
3	2.830	62.347	71.615
4	1.331	69.000	78.669
5	1.102	74.508	84.733
6	.988	79.451	89.222
7	.868	83.791	92.055
8	.755	87.563	94.136
9	.694	91.034	95.830
10	.475	93.407	96.854
11	.351	95.162	97.719
12	.279	96.559	98.365
13	.169	97.404	98.964
14	.140	98.102	99.329
15	.109	98.645	99.648
16	.096	99.126	99.895
17	.062	99.435	100.000
18	.053	99.702	-
19	.042	99.912	-
20	.018	100.000	-
Extraction Method: Principal Component Analysis.			

From the table 2 output, there were 5 Eigen values greater than 1.0. The latent root criterion for number of factors to derive would indicate that there were 5 components to be extracted for these variables. Cumulative proportion of variance criteria can be met with 5 components to satisfy the criterion of explaining 74.5% or more of the total variance.

EVALUATING COMMUNALITIES

TABLE 3: EXTRACTIONS AND REVISED COMMUNALITIES		
Variables	Extraction	Revised Extraction
Beliefs and Values	.822	.821
Durability	.870	.877
Features	.877	.889
Value for money	.747	.854
Education	.907	.917
Advertising	.790	.790
Discount	.766	.849
Style	.865	.854
Income	.903	.920
Job	.875	.907
Attitude	.888	.903
Availability	.514	.715
Perception	.938	.946
Product support services	.245	-
Reliability	.624	.630
Promotion	.385	-
Serviceability	.372	-
Brand	.856	.841
Family members	.723	.754
Motivation	.935	.938
Source: Author constructed		

Researcher was used the Principle Component Analysis as Extraction method. The factor solution should explain at least half of each original variable's variance, so the communality values should be 0.50 or higher. In the table 3 variables as Product support services, promotion and availability are below than 0.5. In table 3 revised communalities satisfy for all variables.

After deletion of three variables in the process analysis, remaining items were factor analyzed as shown in table 2. These factor explained 84.733 of revised total variance, which is very much acceptable for the Principle Component Varimax Rotated Factor Loading procedure.

IDENTIFYING COMPLEX STRUCTURE

Identified 5 components were explained by the 17 factors. But after the Principle Component Varimax Rotated Factor Loading procedure, there is difference in the factor component values; it is explicated in the table 4.

TABLE 4: ROTATED COMPONENT MATRIX

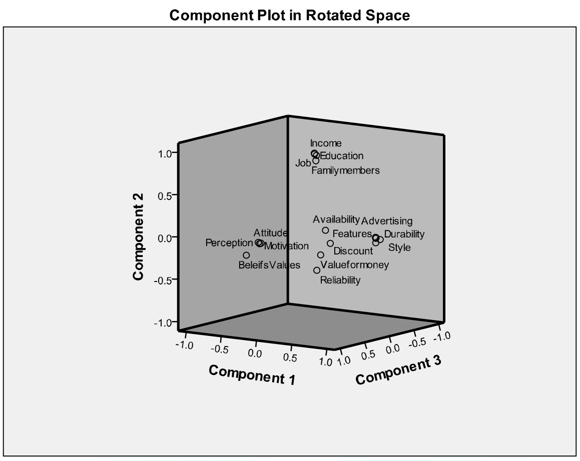
	Component				
	1	2	3	4	5
Beliefs and Values	-.822	-.327	.145	.039	.128
Durability	.917	.002	-.085	.169	-.018
Features	.933	-.019	.026	.127	.030
Value for money	.140	-.245	.011	.869	-.134
Education	.094	.931	.029	-.124	.157
Advertising	.866	.014	-.072	.180	-.050
Discount	.314	-.083	.062	.854	.103
Style	.910	.033	-.014	.092	.128
Income	.071	.946	.035	-.085	.112
Job	.046	.948	.003	-.054	.064
Attitude	-.075	.000	.943	.039	-.083
Availability	.151	.036	-.072	.002	.828
Perception	-.073	.020	.969	.018	-.015
Reliability	.136	-.417	.081	.046	-.655
Brand	.906	.036	-.010	.075	.119
Family members	.056	.859	-.013	-.107	.019
Motivation	-.039	.013	.966	.012	-.055

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

RELABELING TO THE COMPONENTS

These five factors and the variables loading on these factors have been shown with the scree plot in figure1 and summarized in Table 5.

FIGURE 1: SCREE PLOT IN ROTATE



Above figure explains the 5 components which were created by the17 factors of the product.
These five factors have been defined hereunder:

FACTOR 1: PRODUCT ATTRIBUTES

The first product factor as product attributes with an eigen value of 5.349 was explained 31.465% of the variance. This includes six statements namely durability, features, advertising, brand, style and reliability. These types of groups often influences as product characteristics which impact in the customer purchase decisions on durable goods.

TABLE 5: SUMMARY OF FACTORS

Factor	Factor Name	Loading	Statements
F1	Product attributes	.917	Durability
		.933	Features
		.866	Advertising
		.906	Brand
		.910	Style
		.136	Reliability
F2	Personal characteristics	.931	Education
		.946	Income
		.948	Job
		.859	Family members
F3	Psychological factors	.943	Beliefs and Attitude
		.969	Perception
		.966	Motivation
		.145	Learning
F4	price	0.869	Value for money
		.854	Discount
F5	Distribution	.828	Availability

Source: Author constructed

FACTOR 2: PERSONAL CHARACTERISTICS

Another factor named as Personal characteristics of customers. It consists of education, income, job and family members, which were the basic aspect of the purchase decisions. The second factor of Personal characteristics explained with the eigen value of 4.027 and 23.685 % of variance. Therefore this factor explained that better product attributes along with personal characteristics were very important features for product factor.

FACTOR 3: PSYCHOLOGICAL FACTOR

The third factor as psychological factors with an eigen value of 2.799 was explained 16.465% of the variance. This four statements namely attitude, perception, motivation and beliefs and values were loaded significantly on this factor. These types of factors often influence a person's behavior and attitude about many different durable products purchase decisions.

FACTOR 4: PRICE

The another product factor accounted by the 7.054% of total variance with eigen value of 1.199 two variable as value for money and discount were found to be significantly loading on this factors and this factor was named as price factor.

FACTOR 5: DISTRIBUTION

The last product factor is Distribution which consists of one variable as availability. This factor is accounted for the 1.031 eigen value and 6.064 of variance.

FINDINGS

The study found that there are 20 important variables which affect the consumer durables purchase decisions they are Durability, Reliability, Features, Value for money, Education, availability, Discount, Style, Income, Job, Attitude, Beliefs and Values, Advertising, Perception, Product support services, Promotion, Availability, Brand, Family members, and Motivation. According to the responses given from the customer only 17 variables mainly affect the consumer purchase decision but all these variables can't affect in the same range and three variables are eliminated from analysis as Product support services, promotion and serviceability. This research further revealed that these 17 variables were categorized as five components. According to the consumer decision maker's role is mainly affected by five factors as product attributes, consumer personal characteristics, consumer psychological characteristics, price and Distribution. "Product attributes" ranked first as the factor affecting in the purchase of durables by the respondents. While, "Consumer personal characteristics" ranked second, "consumer psychological characteristics" ranked third, "price" obtains the fourth rank, distribution ranked fifth.

It can be interpreted from the above analysis that the above five factors emerged the consumer choice in present times and also the buyouts in future. The modern day productive organizations lay more emphasis on the customer delights. Customers prefer differentiated, high durable, serviceability and identified branded, so the high quality durable products got more important weight by the Jaffna city. However, the selection is not only the product factor but also the customer characteristics of personal factor as income, education, job, and family members. Almost equal weight age is given to psychological factors, it consists of beliefs and values, perception, motivation and learning. Another factor of customers purchase decision was price , it emphasis the value for money and any discounts. Finally the availability is important factor in the purchase decisions. Even though people wish the product quality and attributes but they also care about product prices. Hence they wish to buy more products only which is more power full brand name and reasonable price. Moreover, Advertising is also given due weight age because it creates more awareness about quality, prices and any promotions with the product.

Another more emphasized factor is personal factor of customer, customer are desire to spend on durables, but the prices of durables are always high, they must have ability to pay. Ability pay depends on income or wealthy level these are correlated with the education and job. Durable goods selection mostly depend on the size of the family members, large or small capacity products are directly influence on the price of the products. Further psychological factor is main root of the purchase decisions, learning gathered from the product use experience, education and knowledge derived from awareness as advertising. So there is interrelationships exists among all 17 variables which are categorized under the five factors.

As it happens car and basic durables like grinder, mobile phone, furniture, Washing machine, furniture and Refrigerator becomes requirement than luxury in Jaffna. Water Purifier, Vacuum Cleaner and Air conditioner consumers of all classes are mostly untapped.

MARKETING IMPLICATIONS AND CONCLUSION

Sri Lanka has been acknowledged as one of the most promising and fastest growing economy of the world. After post war, consumer behavior and patterns has rapidly changed in Jaffna. Thus, a society which has been traditionally known as "collective" in nature is showing increased evidence of individualism. With increased penetration of electronic media, affordable home entertainment systems, cinema, and the internet, consumers are opening up to the great outside world. Many foreign brands are dominating particularly in consumer durable category. Both rural and urban consumers have rated foreign products very high as compared to domestic products. Jaffna consumers were found more impressed than their urban counterparts with foreign products in terms of essential and maintenance services, technical advancement, prestige, durability, quality/performance, and wide choice of size and model. Many things that were considered as luxuries till about ten years ago have become necessities for most people today" and in case of vehicles and household goods consumption in Jaffna city. Now a day's car and other vehicle consumption are very high in Jaffna. Consumer behavior was at the core of all decisions that had to do with the product. Over time, the consumer's concerns began to be integrated into all decisions relating to new products , Many products and brands that dominated consumer franchise for many years and others that were successfully launched, have declined or disappeared now after many years. The reasons have been varied: changing economic situation; new consumer contexts, behaviors and preferences; competing products offering better value choices to the consumer; The Sri Lankan consumer durables industry has witnessed a considerable change in the past couple of years. The market for consumer durables is becoming more competitive now a day. Therefore, the producer of durable products should understand consumer interest much to find higher sale of their products. Customers have the choice of both domestically produced and imported goods, with similar features. Changing lifestyle, higher disposable income coupled with greater affordability, easy finance options and a surge in advertising has been instrumental in bringing about a sea change in the consumer behavior pattern. The study concludes that the consumer durables choices of Jaffna will highly depend on the adaptability of all the above mentioned factors.

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APPENDIX

APPENDIX 1: CORRELATION MATRIX

Correlation	BV	Durability	Features	VFM	Education	Servicability	Discount	Style	Income	Job	Attitude	Advertiising	Perception	PSS	Reliability	Promotion	Availability	Brand	Fm	Motivation
BeleifsValues	1.000	-.808	-.694	-.053	-.366	-.747	-.153	-.653	-.335	-.317	.178	-.121	.176	-.033	-.055	-.034	-.189	-.647	-.317	.151
Durability	-.808	1.000	.849	.290	.053	.909	.394	.747	.045	.037	-.131	.182	-.130	.145	.132	-.096	.163	.736	.030	-.114
Features	-.694	.849	1.000	.265	.058	.765	.382	.883	.055	.025	-.036	.114	-.053	.154	.082	-.119	.168	.875	.015	-.025
Valueformoney	-.053	.290	.265	1.000	-.334	.256	.649	.159	-.297	-.275	.048	-.032	.020	.202	.272	-.236	.012	.154	-.307	.024
Education	-.366	.053	.058	-.334	1.000	.061	-.140	.120	.922	.879	.011	.202	.038	-.159	-.437	.286	-.110	.124	.774	.010
Servicability	-.747	.909	.765	.256	.061	1.000	.410	.686	.034	.046	-.111	.137	-.120	.162	.130	-.084	.153	.678	.034	-.086
Discount	-.153	.394	.382	.649	-.140	.410	1.000	.411	-.132	-.120	.053	.068	.042	.155	.045	-.155	-.041	.385	-.123	.049
Style	-.653	.747	.883	.159	.120	.686	.411	1.000	.109	.078	-.106	.145	-.093	.091	-.003	-.163	.187	.981	.079	-.060
Income	-.335	.045	.055	-.297	.922	.034	-.132	.109	1.000	.935	.018	.156	.049	-.154	-.416	.282	-.119	.111	.737	.018
Job	-.317	.037	.025	-.275	.879	.046	-.120	.078	.935	1.000	-.005	.121	.025	-.137	-.392	.272	-.091	.083	.752	-.005
Attitude	.178	-.131	-.036	.048	.011	-.111	.053	-.106	.018	-.005	1.000	-.136	.880	-.112	.120	.025	-.055	-.101	-.039	.869
Advertiisng	-.121	.182	.114	-.032	.202	.137	.068	.145	.156	.121	-.136	1.000	-.089	-.017	-.253	-.004	-.088	.139	.092	-.117
Perception	.176	-.130	-.053	.020	.038	-.120	.042	-.093	.049	.025	.880	-.089	1.000	-.187	.068	.085	-.034	-.090	-.025	.932
PSS	-.033	.145	.154	.202	-.159	.162	.155	.091	-.154	-.137	-.112	-.017	-.187	1.000	.091	-.094	.100	.097	-.137	-.197
Reliability	-.055	.132	.082	.272	-.437	.130	.045	-.003	-.416	-.392	.120	-.253	.068	.091	1.000	-.049	.055	.003	-.341	.095
Promotion	-.034	-.096	-.119	-.236	.286	-.084	-.155	-.163	.282	.272	.025	-.004	.085	-.094	-.049	1.000	-.106	-.176	.226	.056
Availability	-.189	.163	.168	.012	-.110	.153	-.041	.187	-.119	-.091	-.055	-.088	-.034	.100	.055	-.106	1.000	.194	-.100	-.047
Brand	-.647	.736	.875	.154	.124	.678	.385	.981	.111	.083	-.101	.139	-.090	.097	.003	-.176	.194	1.000	.086	-.054
Familymembers	-.317	.030	.015	-.307	.774	.034	-.123	.079	.737	.752	-.039	.092	-.025	-.137	-.341	.226	-.100	.086	1.000	.040
Motivation	.151	-.114	-.025	.024	.010	-.086	.049	-.060	.018	-.005	.869	-.117	.932	-.197	.095	.056	-.047	-.054	.040	1.000

RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE: EVIDENCE FROM INDIAN STOCK MARKET

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ABSTRACT

The purpose of this study was to understand the relationship between capital structure and financial performance of the companies. For this purpose, the study used definition of capital structure in scope of book value to market value and measures were assumed for financial performance. In this paper, I applied the data of 200 companies listed on National Stock Exchange (NSE) of India in a 5 year time horizon (2008-2012). Results of my study demonstrated that capital structure influences financial performance. The significance of the influence of capital structure on performance is respectively belonged to measures of adjusted value, market value and book value.

JEL CODES
G32, G39

KEYWORDS
Capital structure, Financial performance, Market Value

1. INTRODUCTION

Financial performance is a subjective measure of how well a firm can use its' assets from its' primary business to generate revenues. Erasmus, (2008) noted that financial performance measures like profitability and liquidity among others provided a valuable tool to stakeholders to evaluate the past financial performance and the current position of a firm. Brigham and Gapenski (1996) argued that in theory, the Modigliani and Miller model was valid however in practice, bankruptcy costs did exist and that these costs were directly proportional to the debt levels in a firm. This conclusion implied a direct relationship between capital structure and financial performance of a firm.

Berger & di Patti, (2006) concluded that more efficient firms were more likely to earn a higher return from a given capital structure, and that higher returns can act as a cushion against portfolio risk so that more efficient firms are in a better position to substitute equity for debt in their capital structure. This is an incidental of the trade-off theory of capital structure where differences in efficiency enable firms to alter their optimal capital structure either upward or downwards. In addition, Singh & Hamid, (1992) in their research, used data on the largest companies in selected developing countries and found that firms in developing countries used more of debt finance in financing their growth than was the case in industrialized countries. Abor, (2005a) also found a positive relationship between total assets and return on equity and that profitable firms in Ghana depended more on debt as a main financing option due to a perceived low financial risk.

Financing decisions are one of the most critical areas for finance managers. It has direct impact on capital structure and financial performance of the companies. It is a topic that continues to keep researchers pondering. Capital structure is directly related with the financing decision of the company. Primarily, it consists of the debt and equity used to finance the firm. Researchers continue to analyze capital structures and try to determine whether optimal capital structures exist. An optimal capital structure is usually defined as one that will minimize a firm's cost of capital, while maximizing shareholder's wealth. Hence, capital structure decisions have great impact on the financial performance of the firm. Exactly how firms choose the amount of debt and equity in their capital structures remains an enigma. Are firms mostly influenced by the traditional capital structures of their industries or are there other reasons behind their actions? The answers to these questions are very important, because the actions of managers will affect the performance of the firm, as well as will influence how investors perceive the firm. Much of the theory in corporate sector is based on the assumption that the goal of a firm should be to maximize the wealth of its current shareholders. One of the major cornerstones of determining this goal is financial ratios. Financial ratios are commonly used to measure firm's performance. Generally, corporations include these in their annual reports to stakeholders. Investment analysts provide these to investors who are considering the purchase of a firm's securities.

2. REVIEW OF LITERATURE

2.1 CAPITAL STRUCTURE THEORY

Capital structure puts into perspective the way in which a firm finances its operations Brigham,(2004), this can either be through debt or equity capital or a combination of both David, (1979). Capital structure theory as attributed to Modigliani and Miller concluded that it doesn't matter how a firm finances its' operations and that the value of a firm is independent of its' capital structure making capital structure irrelevant. The study was based on the assumption that there were no brokerage costs, earnings before interest and tax were not affected by the use of debt and that investors could borrow at the same rate as corporations and lastly there was no information asymmetry. Although this statement didn't reject the possible preference of a firm's owner to a certain type of financing over others, it did affect the irrelevance of the value of the firm to the means of financing it given a perfect market (Fischer, Heinkel, & Zechner, 1989). A number of theories were from then onward advanced to explain capital structure notable among which are the pecking order theory and trade off theory which have been often than not a centre of debate.

2.2 TRADE-OFF THEORY OF CAPITAL STRUCTURE AND TAXES

Myers, (2001) in his research on capital structure noted that the trade-off theory justifies moderate debt ratios. The purpose of the trade-off theory of capital structure is to explain the strategy a firm uses to finance investments which may be by equity and sometimes by debt. Tradeoff theory predicts that a weak firm will rely exclusively on a bank for debt capital. That is, for weak firms, bank debt dominates any mix of market and bank debt regardless of the priority structure. This result contradicts the notion that small/young firms avoid public debt because they lack access to such markets or face prohibitive costs in so doing (Hackbarth, Hennessy, & Leland, 2007). Within the tradeoff theory, there is a debt "pecking-order" with bank debt being preferred to market debt due to the lower implied bankruptcy costs. When the bank holds all ex post bargaining power, the desired level of debt tax shields can be achieved using only bank debt(Hackbarth *et al.,* 2007).

Myers, (2001) noted that the firm would borrow up to the point where the marginal value of tax shields on additional debt is offset by the increase in the present value of possible costs of financial distress. According to Modigliani & Miller, (1958), the attractiveness of debt decreases with the personal tax on the interest income. A firm experiences financial distress when the firm is unable to cope with the debt holders' obligations. If the firm continues to fail in making payments to the debt holders, the firm can even be insolvent. The theory can be explained by costs of financial distress and agency costs (Pandey, 2005)..

2.3. DETERMINANTS OF CAPITAL STRUCTURE

2.3.1 INTRODUCTION

A number of empirical studies have identified firm level characteristics that affect the capital structure of firms and these include:-

2.3.2 ASSET STRUCTURE

The asset structure of a firm plays a significant role in determining its capital structure. The degree to which the firm's assets are tangible should result in the firm having greater liquidation value Titman & Wessels, (1988a); Harris & Raviv, (1991). Bradley *et al* (1984) assert that firms that invest heavily in tangible assets also have higher financial leverage since they borrow at lower interest rates if their debt is secured with such assets. It is believed that debt may be more readily used if there are durable assets to serve as collateral (Wedig, Sloan, Hassan, & Morrisey, 1988). This will result in firms with assets that have greater liquidation value having relatively easier access to finance at lower cost.

Empirical research done by Bradley *et al* (1984); Wedig *et al.,* (1988); Friend & Lang (1988b); Mackie–Mason, (1990b); Rajan & Zingales, Shyam-Sunder, (1995); and Myers, 1999; Hovakimian *et al.,* (2004b), Kim and Sorensen 1986, suggested a positive relationship between asset structure and leverage for the firms, and a negative coefficient between depreciation expense as a percentage of total assets and financial leverage. In other studies done by Van der Wijst & Thurik, (1993) and Chittenden *et al.,* (1996); Jordan et al., 1998; Michaelas *et al.,* (1999); Cassar *et al.,(* 2003); Hall *et al.,* (2004) suggested a positive relationship between asset structure and long-term debt, and a negative relationship between asset structure and short-term debt. However, Esperanca *et al,* (2003) also found a positive relationship between asset structure and both long-term and short-term debt. The level of tangible fixed assets therefore may help firms to obtain more long-term debt.

2.3.3 FIRM SIZE

Large firms are seen to be more diversified and therefore have lower variance in earnings which gives them an upper hand in tolerating high debt ratios (Castanias, 1983). Smaller firms on the other hand may find it relatively more costly to resolve. Thus lenders to larger firms are more likely to recover their funds than lenders to smaller firms. This simply means that larger firms will have higher debt. Empirical evidence on the relationship between size and capital structure supports a positive relationship. Scholarly works as done by Barclay & Smith, (1996), Al-Sakran, (2001) and Hovakimian *et al.,* (2004a) suggest that smaller firms are likely to use equity finance while larger firms are likely to use debt. Cassar *et al., (* 2003), Esperanca *et al.,* (2003) and Hall *et al.,* (2004) found a positive relationship between firm size and long term debt ratios but a negative relationship between size and short term debt ratios.

2.3.4 FIRM AGE

As a firm continues in business, it establishes itself as a going concern thereby increasing its capacity to take on more debt. This therefore makes age positively related to debt. Age of the firm is a standard measure of reputation in capital structure models because as a firm continues longer in business, it establishes itself as a going concern and therefore increases its capacity to take on more debt making age positively related to debt. Hall *et al.,* (2004) concurred to the above aspect of capital structure noting that age is positively related to long-term debt but negatively related to short-term debt. Esperanca *et al.,* (2003), however, found that age is negatively related to both long-term and short-term debt. Green, (2002.) also found that age has a negative influence on the probability of incurring debt in the initial capital equation, and no impact in the additional capital equation.

2.3.5 FIRM GROWTH

Growth is likely to place a greater demand on internally generated funds and push the firm into borrowing (Hall et al., 2004). According to Marsh, (1982), firms with high growth will capture relatively higher debt ratios. In the case of small firms with more concentrated ownership, it is expected that high growth firms will require more external financing and should display higher leverage (Heshmati, 2002). Aryeetey, (1994) noted that growing Medium Sized Enterprises appear more likely to use external finance although it is difficult to determine whether finance induces growth or the opposite or both. As enterprises grow through different stages, they are also expected to shift financing sources. They may probably move from internal sources to external sources Aryeetey, (1994). Myers, (1977) however, holds the view that firms with growth opportunities will have a smaller proportion of debt in their capital structure.

2.3.6 FIRM RISK

Risk levels are one of the primary determinants of a firm's capital structure Kale *et al.* ,(1991). If a firm's operating risk is more volatile than the firm's earnings stream, the chance of the firm defaulting and being exposed to bankruptcy and agency costs is high. According to Johnson (1997), firms with more volatile earnings growth may experience more situations in which cash flows are too low for debt service.

Inspite of the above studies advanced, a number of studies have indicated an inverse relationship between risk and debt ratio Bradley *et al.,* (1984); Titman *et al.,*(1988a); Friend *et al,* (1988a); Mackie- Mason, (1990a); Kale *et al.,* (1991). Other studies suggest a positive relationship Jordan *et al.,* 1998; Michaelas *et al.,(1* 999). Esperanca *et al.,* (2003.) also found a positive relationship between firm risk and both long-term and short-term debt.

2.4 COMPONENTS OF CAPITAL STRUCTURE

2.4.1 EQUITY FINANCING

If a firm doesn't use debt financing, it's referred to as an un levered firm (Brigham 2004). This brings about what is referred to as business risk which is defined as riskiness inherent in the firm's operations if it doesn't use debt. If a firm doesn't use debt then its return on invested capital shall be measured by return on equity which is denoted by net income to common stock holders divided by common equity.

$$\text{ROE} = \frac{\text{Net income to common stock holders}}{\text{Common equity}}$$

This simply means that the business risk of a leverage free firm will be measured by the standard deviation of its Return on equity Brigham & Houston, (2007). The question is if a firm's Return on capital is measured using Return on equity in the absence of debt will the efficiency ratios exert a significant effect on leverage?

2.4.2 DEBT FINANCING

When a firm decides to use debt financing for its operations it's faced with a financial risk and it's referred to as a levered firm. Brigham & Houston, (2007) defined financial risk as that additional risk placed on common stock holders as a result of the decision to finance using debt. Financing risk is the probability that the earnings of the firm will not be as projected because of the method of financing. He also continues by saying that financing risk arises because debt has a fixed financing obligation usually in the form of interest which must be met when the obligation falls due before the shareholders can share in the retained earnings.

3. IMPORTANCE OF THE STUDY

Financing decisions are one of the most critical areas for finance managers. It has direct impact on capital structure and financial performance of the companies. It has always been an area for interest for researchers to understand the relationship between capital structure and financial performance of the company. This study provides a unique opportunity to examine the validity of the above statement and whether the financial performance of India firms can be explained by finance theory. Survival and growth needs resources but financing of these resources has limitation. Therefore, application of these should be in a way that creates an appropriate share of value for both providers and users of resources. Providers of resources are related with different levels of risk, benefit and control. Consequently, their expected returns are not the same. Use of debt leads to tax savings but on-time interest payments is a risk–taking way. On the other hand, lavishing stock holders wealth increases the value of expected returns of share holders so financing expenses will also be high. Thus a capital structure that means a merger of sources of finance minimizes the average costs of capital and leads to good performance is considered optimized one. The objective of this paper is to investigate the impact of financial leverage on the performance of publicly traded Indian companies.

4. STATEMENT OF PROBLEM

Although there has been a great deal of research on the subject of capital structure, this study makes a contribution to the literature in this area because it is an attempt to unfold the capital structure practices of companies operating in a unique environment. This is the environment where there are no personal taxes, a lat corporate tax rate, and a financial market system that is not very efficient. However, before looking into the specific of these companies, it would be more appropriate to review the literature available on this subject to see if the results drawn from our analysis are in conformity with the trends in capital structure. The purpose of this paper is to demonstrate the impact of defining the main variables of capital structure and performance on experimental results.

5. RESEARCH METHODOLOGY, HYPOTHESES AND DATA VARIABLES

The purpose of this paper is to demonstrate the impact of defining the main variables of capital structure and performance on experimental results. Therefore, the following hypotheses are extracted:

1) There is a significant relation between capital structure and return on investment (ROI);
2) There is a significant relation between capital structure and Return on equity (ROE);
3) There is a significant relation between capital structure and return on stock (RET);
4) There is a significant relation between capital structure and earnings before tax to sale ratio (EBT / S); and
5) There is a significant relation between capital structure and operational profit to sale ratio (OPR/S).

The starting point of my study is the firms listed at the National Stock Exchange of India. The 200 respondent firms in National Stock Exchange of India constituted the sample in our empirical test of the theoretical model. For these firms we collect data for the five-year period 2008-2012 from Prowess database of CMIE. Moreover, financial firms were excluded due to the peculiarity in terms of operations, structure of assets and liabilities that would hinder analysis and inter-company comparisons.

Internal secondary data was used in order to estimate the value of the dependent variable as well as the values of the independent explanatory variables. Archives, reports and documents are examples of internal secondary data. In the case of missing information, complementary data was collected by using reports available in the library and on the internet. Data was processed by descriptive statistics containing Mean, S.D and inferential statistics containing Pearson Correlation, ANOVA test using Statistical Package for Social Sciences (SPSS).

6. DATA ANALYSIS AND RESULTS

Data analysis is done as mentioned above and the results are drawn thereof.

6.1 DATA ANALYSIS

After gathering necessary data, they were analyzed by Excel and the variables were calculated. Then the variables entered in SPSS software and then correlation between dependent and independent variables were measured by using Pearson correlation coefficient. The difference between variables of capital structure is a result of the way of assessing equity in adjusted debt ratios, average price of selected firms at the end of the terms and average of shares in each of the studying terms has been used. For computing the market value of leverage, we use market value and the number of issued stock at the end of each term. To test the hypotheses, correlation matrix between capital structure and performance is used. Also to show the meaning fullness of the correlation between variables, instead of critical value of student's T test, significance level has been used when significance level is less than %5, H0 (null hypothesis) is rejected. In H0, it is assumed that there is not a link between two variables. Table 1 represents the empirical results from correlation matrix between variables. It is obvious that almost all the correlations (except tow items) are meaningful in level of %1.

TABLE 1: THE RESULTS OF CORRELATION

OPR / S_{it}	EBT / S_{it}	RET_{it}	ROE_{it}	ROI_{it}	Variable
-0.204	-0.252	0.042*	0.184	-0.329	BV_{it}
-0.423	-0.536	-.0162	-0.37	-0.604	MV_{it}
0.52	-0.649	-.105	-0.438	-0.695	$AjMV_{it}$

Correlation in significance level of %95 isn't meaningful (other results are meaningful)

According to obtained results, AJMV v(adjusted market value), MV (market value) and BV (book value) of capital structure respectively have the most correlation with financial performance measures;

rPr,AjMV > **r**Pr,MV > **r**Pr,BV

6.2 RESULTS

Tests on coefficient of correlation demonstrated that there is a meaningful link between tree variables of capital structure and five variables of performance except the link between return on stock and book value of capital structure that is not meaningful in significance level of 95%. This correlation between return on stock and adjusted market value is 95% and among other variables is equal to 99%. Results from tests on correlations and regression revealed that except the link between return on stock (hypothesis 3) in which the correlation between return on stock and market value of capital structure is statistically stronger, in the other correlations, adjusted value has the strongest relationship with performance measures. The negative relationship is consistent with Myers' (1984) notion that in general firms prefer internal to external financing sources. Profits as internal sources reduce the dependency of firms on leverage.

TABLE 2: THE RESULTS FROM TESTS ON HYPOTHESIS

Hypothesis	Relationship between leverage	Result	α	Meaningful variables
1	ROI_{it}	Confirmed	%5	BV_{it},3- MV_{it}, 2 – $AjMV_{it}$1–
2	ROE_{it}	Confirmed	%5	BV_{it},3- MV_{it}, 2 – $AjMV_{it}$1–
3	RET_{it}	Confirmed	%5	$AjMV_{it}$,2 – MV_{it} 1–
4	EBT / S_{it}	Confirmed	%5	BV_{it},3- MV_{it}, 2 – $AjMV_{it}$1–
5	OPR / S_{it}	Confirmed	%5	BV_{it},3- MV_{it}, 2 – $AjMV_{it}$1–

Rajan and Zingales (1995) found that if return on stock and investments are fixed in a short term, and the main way of external financing is debt, there is a negative correlation between performance and leverage.

7. FINDINGS AND CONCLUSIONS

One of main factors subject to intense debate in capital structure studies is whether to use the market value or the book value of debt and equity as the correct measure of leverage. Those who favor the use of the book value measure present two strong arguments. First, the main cost of borrowing is the expected cost of financial distress in the event of bankruptcy. Financial distress affects the weighted average cost of capital and consequently the optimal leverage. In such a situation, the value of the distressed firm is closer to its book value. Once the debt has been issued, changes in the market value of that debt do not affect the interest tax shield cash savings. Furthermore, if bankruptcy occurs, the accurate measure of debt-holders' liability is the book value of debt and not the market value of debt. Second, previous studies have shown that managers think in terms of book rather than market values. Unlike market values, book values are more easily accessible, more accurately recorded and not subject to market volatility. On the other hand, those who prefer the market value to book value argue that the market value ultimately determines the real value of a firm. They suggest that it is possible for a firm to have a negative book value of equity while simultaneously enjoying a positive market value. This is possible because a negative book value reflects previous losses while a positive market value denotes the expected future cash flows of the firm. In practice, both measures of book and market values are often used. Results of this study demonstrated that market value and adjusted value measures of capital structure in comparison with book value measures have stronger link with performance. This means market value should be taken more into consideration in evaluating capital structure. Many measures of firm performance, such as a firm's profitability, are negatively correlated with financial leverage. This result can be interpreted in this way that high leverages companies would have less profitability. In other words, debt level is over than optimized level and in comparison to advantages of tax shield, incensement of financial distress costs has more significance. There are other evidences for this relationship as following: Informational asymmetry and high costs of external resources and inefficiency of the market. Total liabilities ratio (TL) is used as the main measure of leverage and all the others are employed for robustness checks. Why do we regard total liabilities ratio a more appropriate measure for capital structure? We argue that, firstly, when a firm wants to obtain more debt, the creditor will consider not only how much the firm's long term debt is, but also how much the firm's current debt and total liabilities are. So the portion of other liabilities will affect the debt capacity of a firm. Second, current debt is a quite steady part of total assets. The reasons behind using of debts by Indian companies may be constant interest rate in any level of debt and risk. Totally, with respect to observed link between capital structure and performance, the conclusion is that company that has high profitability and good performance have less debt. These results are consistent with the results of Mayers, Stulz, Rajan and Zingales. On the method side, it would be desirable to investigate the determinants of capital structure over a longer period of time and over a number of economic cycles. Finally, the analysis could be improved by differentiating between types of debt such as long-term and short-term debt.

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AN EMPIRICAL STUDY ON FACTORS AFFECTING CONSUMER SATISFACTION

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ABSTRACT

In the contemporary environment the only constant is change. Therefore, businesses have to develop different strategies in order to survive in long run. One of the best strategies is about satisfying the customers that ensure a long term growth of business. Since satisfied customer is the core concern of any organization therefore they pay close attention toward the factors that influence customer's purchase decision. The main purpose of this research study was to investigate the key variables, having strong influence on customer satisfaction and purchasing decision of customers. Factors affecting customer satisfaction are key concern for any organization, department or country because through customer satisfaction any business can establish long term profitable relationship with customer. The reason behind is once a firm loses its loyal customers it has to incur a cost of acquiring them again in addition to acquiring the new ones. Factors affecting customer satisfaction is of worth importance in order to know the reasons or the factors which are responsible to create satisfaction among customers for a particular product. The results showed that both the factors significantly contributed to explain customer satisfaction but comparatively price fairness had the larger impact on customer satisfaction than customer services.

KEYWORDS

Customer Decision, Consumer Services, Factors, Growth, Marketing Strategies, Turnover.

INTRODUCTION

The consumer buying behaviour has been a debatable topic for the past so many decades around the world; previously many researchers have studied this topic and found exploratory findings in different contexts. The central purpose of the study is to investigate the impact of product price and product quality of consumer buying behaviour. The marketer must inspect the consumer buying behaviour by consumer psychological behaviour and social concerns. The consumers are eager of enhancing their standards of living with hygienic and reasonably high quality products and get rid of low quality products. To attract the consumer marketing strategies play very essential for future growth of many firms. The associations between opportunities of social influence, price, economy and personality/belief to understand the consumer perception (Haque, Khitabi & Rahman, 2009). This study will help consumer market to develop new innovative strategies to grab more customers. The research questions of this study are: Is there any relationship between consumer buying behaviour, product price and product quality? And is there any impact of product price and product quality of consumer buying behaviour? Researches show that various factors impart in creating the awareness, satisfaction, loyalty, and sense of belongingness toward brands of any kind but sometimes customers themselves are unaware of the reasons for the brand preferences. Empirical studies have found evidence that improved customer satisfaction need not entail higher costs, in fact, improved customer satisfaction may lower costs due to a reduction in defective goods, product re-work, etc. However, the key to building long-term customer satisfaction and retention and reaping the benefits these efforts can offer is to focus on the development of high quality products and services. A firm's future profitability depends on satisfying customers in the present – retained customers should be viewed as revenue producing assets for the firm. Customers may explain their satisfaction with a product or service in terms of specific aspects such as the product attributes, price, customer service, or a combination of other features.

LITERATURE REVIEW

Any business is likely to lose market share, customers and investors if it fails to satisfy customers as effectively and efficiently as its competitors is doing (Anderson, Fornell, and Mazvancheryl, 2004). According to Kim, Park and Jeong (2004) customer satisfaction is customer's reaction to the state of satisfaction, and customer's judgment of satisfaction level. Customer satisfaction is very important in today's business world as according to Deng et al., (2009) the ability of a service provider to create high degree of satisfaction is crucial for product differentiation and developing strong relationship with customers. Previous researchers have found that satisfaction of the customers can help the brands to build long and profitable relationships with their customers (Eshghi, Haughton and Topi, 2007). Though it is costly to generate satisfied and loyal customers but that would prove profitable in a long run for a firm (Anderson, Fornell and Mazvancheryl, 2004). Therefore a firm should concentrate on the improvement of service quality and charge appropriate fair price in order to satisfy their customers who would ultimately help the firm to retain its customers (Gustafsson, Johnson and Roos, 2005).

Customer satisfaction is actually how customer evaluates the ongoing performance (Gustafsson, Johnson and Roos, 2005). Consumer behaviour patterns are quite related to each other, specifically in the aspects like quality, pricing and decision making (Kumar, 2011). Saharudin et al. (2011) found that the business firms must precisely the relationship with regard to price, the buyer's own self-concept and ownership position in a purchase decision. A deeper understanding regarding the quality is very important for every marketer. The customer satisfaction and quality products are parallel in relationships with price, expertise, timeliness, service and the physical environment (Lacobucci, Ostrom & Grayson, 1995). Zeithaml, (1988) found that perception of consumers of quality change over a time as a result of added information, increased by changing expectations and completion in a product category. The consumers base their purchasing

decision on information indications and signals like product name, design & price (Samiee, 1994). The other major factors influencing buying behaviour are basically cultural, social, personal and psychological.
It is a common phenomenon that the services a brand offers and the price it charges actually determine the level of satisfaction among its customers, than any other measure (Turel et al. 2006). Customer's involvement is also important as when buyer consider the product important and invests time to seek information then it ultimately enhances the satisfaction level (Russell-Bennett, McColl-Kennedy and Coote, 2007). This satisfaction may influence the concerned company by repurchase, purchase of more products, positive word of mouth and willingness of customer to pay more for the particular brand. Most of the consumers need convenience and quality products that strongly motivate them to buy the same product more frequently in the future (Ahuja, Gupta, & Raman, 2003). Ahmad, & Vays, (2011) found that the pre-decision time of consumer purchasing behavior recognized solid link with the desire purchasing Behavior of the consumers. Customer satisfaction may be considered as a base line standard of performance and a possible standard of excellence for any business organization (Gerson, 1993). Customer satisfaction is a complex construct. Recently, researchers have argued that there is a distinction between customer satisfaction as related to tangible products and as related to service experiences. This distinction is due to the inherent intangibility and perishes ability of services, as well as the inability to separate production and consumption. Hence, customer satisfaction with services and with goods may derive from, and may be influenced by, different factors and therefore should be treated as separate and distinct (Veloutsou et al., 2005).
Customer satisfaction is a key and valued outcome of good marketing practice. According to Drucker (1954), the principle purpose of a business is to create satisfied customers. Increasing customer satisfaction has been found to lead to higher future profitability (Anderson, Fornell, and Lehmann 1994), lower costs related to defective goods and services, increased buyer willingness to pay price premiums, provide referrals, and use more of the product (Reichheld 1996; Anderson and Mittal 2000), and higher levels of customer retention and loyalty. Increasing loyalty, in turn, has been found to lead to increases in future revenue and reductions in the cost of future transactions Shervani, and Fahey 1998). All of this empirical evidence suggests that customer satisfaction is valuable from both a customer goodwill perspective and an organization's financial perspective.

OBJECTIVES OF THE STUDY
Understanding buying behaviour pattern is not enough without understanding the composition and origin of the customer. Today most of the Indian customers are attracted by the imported goods because of their high quality. So, that most of the Indian company Product looses their credibility and loyalty in domestic customers. Hence, the present paper was planned with the following aims and objectives.
1. To study the impact of various factors on the consumption pattern.
2. To study the satisfaction level of customers in different attributes of product.
3. To examine customer loyalty in a highly competitive market where consumers have free choice.

HYPOTHESIS
In order to check the relationship between the independent and dependent variables, two hypotheses were developed.
H1: *When increases in the price fairness by a brand are high that would lead to decreased customer satisfaction.*
H2: *Good customer services increase the number of satisfied customers and hence, enhance customer satisfaction*

RESEARCH STRATEGY
Research is of Descriptive conclusive type and has sample size consisting of 100 Present and potential customers. Data is collected by using detailed questionnaire with open and close ended questions, where as survey of customers was conducted and respondents were categorized according to gender, occupation, monthly income and No. of dependents.

DATA COLLECTION
The researcher in this study reviewed a number of literature books, articles, and related studies that have been done by other researchers. In the case of the primary data, the researcher used questionnaire. The questionnaire has the ability to clearly show these opinions in a numeric way.

SAMPLE SELECTION
In this study, the writer distributed the questionnaires directly to randomly select 100 respondents from a number of shopping centres. Some students from the Universities were also randomly selected to complete samples of the questionnaires. This method had the advantage of ensuring that most of the questionnaires distributed were returned, and also it motivated the respondents to give quality answers.

LIMITATIONS OF THE STUDY
The present paper has following limitations:
The paper was conducted in Bhopal only.
The sample size was limited to 100 respondents only.
Only ten shopkeepers dealing with readymade apparels were taken as sample

DATA ANALYSIS METHOD
The techniques of analysis used in this study were descriptive (mean, standard deviation) and inferential analysis (regression) to sum up the data collected. In order to describe the sample characteristics in the data analysis report, demographic data (Section A) such as age, gender, education, and occupation are included in the questionnaire. In the subsequent section, all the study variable scales are measured using a Likert scale rated varying from 1 to 5 (strongly disagree to strongly agree). Price was constructed in four measurement items, quality was also constructed in four measurement items, and buying behaviour in four measurement items respectively.

TABLE 1: RELIABILITY ANALYSIS

Variables	Cronbach's alpha
Product Price	.866
Product Quality	.826
Buying Behavior	.869

The scales were investigated in terms of their reliability, by means of the internal consistency (Cronbach's alpha). The individual reliability of the variables was measured as .866 for product price scale, product quality scale .826 and .869 for buying behaviour scale, but the overall reliability of the questionnaire responses was satisfactory at greater the .70 as discussed earlier.

CORRELATION

Inter-correlation among all study variables are shown in Table 2. Correlation analysis indicates that there is a significant positive relationship between product price and quality positive relationship between consumer buying behaviour ($r = .828$, $p < .000$); respectively. Product price positively significantly with buying behaviour ($r = .823$, $p < .000$). Similarly, product quality had a significant positive relationship with buying behaviour ($r = .643$, $p < .000$).

TABLE 2: CORRELATION

Serial/Price	Mean	St. Deviation	Product Quality	Product Behaviour	Buying
Product Price	3.4600	.70686	1		
Product Quality	3.3750	.67933	.828**	1	
Buying Behavior	3.3450	.67306	.823**	.643**	1

TABLE 3: MODEL SUMMARY

Model	Beta	t	Sig
PP	.923	9.031	.000
PQ	-.120	-1.187	.238

PP= Product Price, PQ = Product Quality, BB =Buying Behavior

REGRESSION ANALYSIS

TABLE 4: COEFFICIENTS

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	675	.38364	.826a	.682

Further, we conducted a multiple regression analysis to test hypotheses 1 to 2. The regression analysis results for product price and product quality are presented in above mentioned Tables. The R-square is 0.682 and F Value 103.858. The hypotheses H1 is accepted, but H2 was rejected because most of the respondents were giving priority to price. Hence, most of the respondents are price conscious, they want to buy as much as their income provider suggests.

RECOMMENDATIONS

In this research study, customer satisfaction has been taken into account which is a very important element for the success of any business. Our study can practically be used by all sectors in creating customer satisfaction.

1. We suggest that by making customers feel satisfied, by establishing good relationship with customers through efficient customer services would lead toward brand loyalty and keeping the price fairness of services compatible a firm can establish long term profitable relationship with customers.
2. Our findings can be practically implemented on service firms and apart from that those business which give due importance to relational marketing. We suggest managers of such firms to have belief in “best customer services and price fairness” for success and growth of business or in making customer satisfied.
3. Repetitive use of the same promotional schemes for a prolonged period may have negative effect on the loyal customers. So, retailers must view to developing more promotional strategy in line with the company’s objectives.

CONCLUSION

Overall, it is argued that the study of consumer behaviour is rapidly evolving as researchers recognize and implement new techniques and transdisciplinary perspectives to understand the nature of purchase and consumption behaviour. This wider view attempts to study consumer behaviour in the light of rapidly evolving lifestyles, values, priorities, and social contexts. Various theories on consumer research were not tested empirically until the middle twentieth century. Thoroughly accessing the consumer behaviour will help to increase the sales volume of firm. The planning and policy of marketing can also so decide accordingly. Therefore sound marketing programmers should start with a careful analysis of the habits attitudes, motives and needs of consumers. A business community that is ignorant of consumer preferences can’t possibly fulfil its obligations in a meaningful and responsive manner. The importance of loyal customers and their impact on business profitability is undisputable, but it is more difficult to build customer retention than it may appear. Marketers and for that matter retailers are doing so many things to establish strong relationships with their customers. Various strategies including loyalty schemes and discount cards are sometimes used in an effort to retain customers and also influence their buying behaviours, but their success is questionable.

Based on the outcomes of all the constructs and the discussion above, the following conclusion can be made concerning factors which influence the buying behaviour of customers with multiple products:

- Offering best quality products at reasonable prices as consumers mostly select their dresses according to their economic stability.
- Consumers past experience with a particular brand influence the buying decision of consumers.
- The selection criteria of consumers depend to the large extent upon the salesmen’s influence. Therefore, customers are agreeing that they get both psychological and economic satisfaction from affectionate salespersons.
- For better satisfaction of consumers business firm should handle consumer complaints of grievances quickly.
- Avoid monopolistic and unfair trade practices such as adulteration, black marketing, false advertising etc.
- A business community that is ignorant of consumer preferences can’t possibly fulfil its obligations in a meaningful and responsive.

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RISKS IN HOUSING FINANCE THE COMMERCIAL BANKS EXPOSED TO – AN OVERVIEW

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ABSTRACT
Housing finance by the commercial banks is exposed to various types of risks. All types of loans\advances in general and housing finance in particular involve a variety of risks. The risks that the commercial banks are exposed to in financing housing is unique, in the sense that the lending spreads over a period of 5 – 25 years which is long period and identifying the risks involved is very difficult. In fact inappropriate advances, pricing and risk management in home loans can create a problem for the broader financial systems. The risk in housing finance triggers systemic risks which lead to major financial crisis globally. In fact the problem in the housing mortgage market has been identified as one of the important causes of the financial crisis of 2008-09. In most of the developed economies, during this period most of the banks and other financial institutions financing housing started facing significant losses on their investment in housing mortgagees and related securities in 2007. These losses triggered full blown financial crisis. The financial turmoil so created has been widely considered the primary cause of the economic recession that began in late 2007. It is therefore the need of the hour, to identify the major risks in general and operational risks in particular in housing finance, and review the management of the risks.

KEYWORDS
Risk, Operational Risk, Mortgage, Management.

INTRODUCTION
Risk is a component of financial decision. Financial decision is an integral part of the human life. Risk is generally thought to be **"the danger of loss"**, it is associated with the down side and not the upside of a transaction. In the theory of finance, risk has been defined as "dispersion of unexpected outcome due to movement of financial variables". The word "Risk" has been derived from the Latin word "Rescum" which means, "Risk at Sea". Risk is inherent in every walk of life; however, risk in the banking sector has been associated with uncertainty and exposure which is an integral part of the banking business. Due to competition for survival, the banks are compelled to do business and encounter various types of financial and non-financial risks. Risk therefore, is universal, it refers to human behaviour in the decision making process. The measurement of the risk has been viewed in terms of distribution of potential outcomes of asset returns, asset values, loses etc., The two necessary parameters to evaluate the risky situation are :potential outcomes and their possibility of occurrence ,whether this evaluation is made consciously or unconsciously. With this backdrop, the present article proposes to study the risks faced by the banks in financing housing.

STATEMENT OF PROBLEM /NEED FOR THE STUDY
Housing is one of the basic necessities of mankind. Housing not only promotes the socio-biological interaction, but also house-hold based economic activities as it has both forward and backward linkages, it has been roughly estimated that about 280 industries are linked to housing activities directly or indirectly.

Housing finance of late has been considered as a priority sector and has evinced interest from various sections of the society. The problem of housing is a global one and therefore it has attracted the attention of the academicians, social activists, economists, Banks, politicians and policy makers. Housing finance has of late emerged as one of the important advances of the banks, as it has been considered as a safe and profitable advance for financial institutions in general and banks in particular. Housing finance plays a vital role, especially when there is an industrial sluggishness in the economy, as the surplus liquidity compels the banks in providing more finance to the housing sector. It is estimated that out of the total retail loans, that the banks have advanced, around 30 per cent to 35 per cent have been advanced to the housing sector. Housing financing is a "Mortgage" based advance and hence the banks find it safer when compared to other advances. However, the housing finance is not totally free from risks.

The financial crisis that the United States America faced in the year 2008-09 has to a very large extent originated from lapses or risks in the housing finance market. The Sub-prime crisis of the U.S., which has been considered more severe than the great depression of the 1930`s was attributed to the Operational Risk in housing finance. Operational Risk in mortgage industry manifested itself as multiple lapses, though modest in size but pervasive in extent, accumulated to enormous proportions and crushed many mortgage players, crippled many others and triggered further Operational Risk crisis in the adjacent mortgage backed securities market.

Some of the reasons for the Sub-Prime crisis were appraisal frauds, lier loans, intermediation and redistribution towards underwriters, and computer programmers, that encouraged the customers into borrowing more loans and more profitable to the lenders. In addition to this,
the real estate boom and the decline in long term interest rates were important contributors to the rise of sub-prime lending. The property prices in the US rose to 86 % between the period 1996 - 2006. Mortgage lending during this time rapidly increased the prices of the house and the Sub-prime was in a boom. Sub-prime lending increased from 9% of total mortgage lending in 2001 to 20% in 2006. During this period the property speculation grew, and as the boom persisted the lenders relied on the rising value of collateral to advance loans than the borrower`s ability to repay from his income. The quality of loans deteriorated and in addition to this the underwriting criterias were relaxed as a result only 38% of sub-prime loans had a combined LTVA (Loan to Value Assets) of 100% or more and the remaining were less secured which, in turn triggered the great financial crisis in the U.S..

RISKS IN HOUSING FINANCE ADVANCED BY THE COMMERCIAL BANKS
Housing finance by the commercial banks is exposed to various types of risks. All types of lendings in general and housing finance in particular involve a variety of risks. The risks that the commercial banks are exposed to in financing housing is unique, in the sense that the lending spreads over a period of 5 – 25 years which is long period and identifying the risks involved is very difficult. In fact inappropriate lending , pricing and risk management in home loans can create a problem for the broader financial systems. The risk in housing finance triggers systemic risks which lead to major financial crisis globally. In fact the problem in the housing mortgage market has been identified as one of the important causes of the financial crisis of 2008-09. In most of the developed economies, during this period most of the banks and other financial institutions financing housing started facing significant losses on their investment in housing mortgagees and related securities in 2007. These losses triggered full blown financial crisis. The financial turmoil so created has been widely considered the primary cause of the economic recession that began in late 2007. In this backdrop efforts have been made to identify the major risks in general and operational risks in particular housing finance, and review the management of the risks. In this context it is the need of hour to study the risks that the commercial banks are exposed to, in general and housing finance in particular.

OBJECTIVES OF THE STUDY

- To study the risks that the commercial banks are exposed to.
- To study the different types of risks that the banks are subjected to in financing housing
- To study the management and mitigation of the risks in housing finance.

DEFINITION OF RISKS

Risk has been defined in Oxford English Dictionary (OED), as "Exposure to the possibility of loss, injury, or other adverse or unwelcome circumstance; a chance or situation involving such a possibility" (Wikipedia) .Risk is effect of uncertainty on objectives. Uncertainty includes events (which may happen or may not happen) and uncertainty caused by lack of information or due to ambiguity. However, there is no uniform or unique definition of risk. Different financial institutions have defined risks differently, depending upon their banking structure, operations and investment strategies. Risk has been perceived as the probability and impact of a negative deviation, the probability or potential of sustaining a loss. Risks have been defined by various authors as "A condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for" (E.J. Vaughan & T. Vaughan, *fundamentals of risks and insurance,* John wiley & Sons, 9th edition ,2003). "An expression of the danger that the effective future outcome will deviate from the expected or planned outcome in a negative way." (H. Geiger. Die Risikopolitik der Bankken, teil 1 and teil 2 . *Der Sachweizer, Treuhander, 73(6:7 and 8).* "Risks are future problems that can be avoided or mitigated, rather than current ones that must be immediately addressed. Risk can also be expressed in mathematical terms as

Risk= (Probability of the accident occurring) X (expected loss in case of accident).

REVIEW OF LITERATURE

The available literature has been reviewed under different dimensions like, housing finance, study of risks, management and its mitigation.

Vast literature has been published regarding the housing systems in India, however,ther is little work on risk in housing finance. The literature focuses on the vital role of banks in housing finance, especially in recent times. The RBI Annual Report (2002-2003), RBI Report of Currency and Finance, (2002-03) has focused on the role of the commercial banks in financing to housing in India. The catalyst role of banking sector in financing housing has been well addressed by the various publications of the Basic Statistical Reports (BSR) and various issues of IBA Bulletin.

Basel-I and Basel-II Accords have laid down the guidelines for the commercial banks in advancing loans. "Basel Accord-II: Implications for the Indian Banking Systems" Bank Quest (Vol.74, No.3,) discusses the draw –backs of Basel-I on the one hand and on the other, highlights the importance of Basel-II Accord. The article probes into issues such as Minimum Capital Requirement, Supervisory reviews and Market disciplines. "Minimum Capital Requirement- Pillar-I",(Bank Quest) has also discussed the three pillars as the standardized approach for credit risk, the article also focuses on risk weights for Sovereigns, Banks, and the Corporates. CRISIL (2004), Report-2: "A road map for implementing and integrated risk management system by Indian banks by March 2005", IBA Bulletin have discussed the various types of risks that the banks are exposed to, in general and focuses on the risk management techniques to be adopted by the Indian banks.

Mohan Amarendra (2001), "Risk, credit risk and market risk-a conceptual – paradigm" (Bank Quest), has discussed the different kinds of risk in financial transactions of the bank.

Rajeev. A.S. (2004), "Operational risk a real nightmare?" (Bank Quest, Vol.75 No. 3.) has discussed about the Operational risk, its measurement and management in general.

The role of housing finance, good housing finance system, Mortgage Finance Market Infrastructure, and the various types of risks in housing finance and its management , mitigation and regulation has been discussed in "Housing Finance in Emerging Markets" by Loic Chiquier and Michael Lea compiled in the World Bank Report (2009) .

TYPES OF HOUSING FINANCE RISKS

The banks and housing finance institutions face risks of different category and magnitude. The risks faced in financing housing can be categorised on different factors such as the nature of loss, by the degree of expectancy, by risk type, event type, business type, or loss type, and by the magnitude of loss and the frequency of loss. Following are the different types of housing risks"

1. CREDIT RISK

Credit risk is one of the important risks faced by the banks financing housing. The credit risk has also been referred to as `Income Risks` or `Default Risks`. Credit risk has been defined as "The inability or unwillingness of a customer or counter party to meet commitment in relation to lendings." That is to say income risks or credibility risks, in housing finance is associated with risk of loan default, when the borrower lacks the ability provided through income, to pay interest and instalments. The credit risk in housing finance can broadly be classified as:

a) Probability of default and
b) Loss given default:

The probability of default refers to the likelihood that the borrower will fail to make payment over the life of the housing loan. However, loss given default refers to the net cost that the banks will suffer in the event of default and foreclosure. The loss given default on the other hand is termed as a loss because the banks usually lose when it has to foreclose and sell a property especially when the price of the house has declined. In addition to this, the loss given default also include the cost of maintaining the house if it remains vacant after foreclosure or from the legal fees and other clause of foreclosure.

One of the significant causes of credit risks faced by the banks in financing housing is the lack of credit information; this is more so a significant barrier in most of the emerging economies, as borrowers often do not have a credit history or ability to prove their income. In addition to this most of the borrowers in these economies are employed in the informal sector and as such their income is more volatile and difficult to substantiate. There are also instances wherein some borrowers who have systematically underreported their income which enforces the banks to bear the loss.

2. MARKET RISKS

Market risks refer to the sensitivity of the value of housing property to changes in the value prices. Market risks originate from uncertainty with respect to expected inflation, actual inflation, real inflation rate, exchange rate and lending for a longer term. The macroeconomic and environment and characteristics of the mortgage instruments are principal determinants of cash-flow risks. For example, a low cost repayment may be a desirable feature of the mortgage for the consumer, but it significantly increases the cash –flow risks to the lender.

The different methods of calculating market risks are Traded Market Risks and Non-Traded Market Risks methods. Traded Market Risks are modelled and calculated using Value at Risk (VaR) methodology. VaR facilitates the generation of information like establishment, trading limit and control of trading operations, performance, assets and resource allocation which include hedging decision, in addition to risk overwrite and regulatory reporting.

Under the Basel -II Accord market risk can be measured by using different approaches. The Standardised Approach is a formula based model, while the Internal Model Approach requires extensive data collection systems and quantitative expertise.

3. LIQUIDITY RISKS

Liquidity means the ability to effectively accommodate bank deposit as also reduction in liabilities and to fund the loan growth and possible off-balance sheet claims. The concept of liquidity is very important in managing financial risks.

Liquidity Risk considered as part of Market risk has been alternatively defined as "The risk that the institution will not be able to execute or transact at the prevailing market price because there is, temporarily, no appetite for the deal on the "other side" of the market .(M.Crouhy,D. Galai, and R.Mark. *Risk Management*. Mc Graw –Hill, New York, 2001). Liquidity risk is not unique to housing finance but it is rather a broader financial sector stability issue. The housing loans are long term in nature which creates a greater liquidity risk than any other type of lending.

TYPES OF LIQUIDITY RISKS

Liquidity risks are based on the cash flows placed in different time baskets namely, the behaviour of assets, liabilities and off-balance sheet items can be classified into three different types:

(i) **Funding risks:** It is the need to replace net outflows due to unanticipated withdrawal/non-renewal of deposit. This refers to the ability to meet funding obligations by either financing through sale of assets or by borrowing.

(ii) **Time Risk:** it is the need to compensate for non-receipt of expected inflow of funds that is the performing assets turning into non-performing assets.

(iii) **Call Risks:** The call risks happen on account of crystallisation of contingent liabilities and inability to undertake profitable business opportunities when desired.

4. AGENCY RISKS IN HOUSING FINANCE

Agency risks occur at the primary market level, where lenders may depend upon brokers to market and process loans and appraisers to value the collateral. In secondary markets, investors depend on third party originators and servicers to underwrite, collect, and remit payment. It is also a major concern in Government guarantee programmes as the government is exposed to a moral hazard. The presence of agency risk increases the cost of lending and securitization.

5. SYSTEMIC CREDIT RISKS IN HOUSING FINANCE

Systemic credit risk arises when there is a sudden decline in the property values. The decline may be local or national in nature. A market failure may be due to the inability of the lenders to diversify the mortgage risks. Real estate prices have the tendency to move in cycles, sometimes with tremendous volatility, which is risky not only to the lenders, but also for the stability of the financial systems. Volatile real estate prices make it difficult to value the collateral, underlying the mortgage, and to assess the credit risk of the mortgage portfolios. The sub-prime crisis of the U.S. (2007-08) demonstrates how real estate bubbles can be propagated across the global financial system. The real estate bubble in the U.S. due to the loose monetary policy adopted was further intensified by a mortgage bubble led to a mortgage and real estate explosion, affecting all types of lenders in the U.S. and abroad.

6. POLITICAL RISKS IN HOUSING FINANCE

The changes in a country`s or a region`s political system will have adverse impacts on the bank`s activities, as it adversely affects the ability of clients to perform their obligations to the banks. The political risk in mortgage lending relates to events that reduce earning from mortgage lending because of political intervention in the selection of borrowers, the rate adjustment process, the mortgage terms and conditions, or the foreclosure and eviction process.

7. OPERATIONAL RISKS (OR)

DEFINITION OF OPERATIONAL RISK

Operational Risks have been defined by the Basel Committee **–I** as, "any risk which is not categorized as market or credit risk or the risk of loss arising from various types of human or technical errors." (BCBS 1988, Banking Committee on Banking Supervision). Further, **Basel Committee –II** defined operational risk as "The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk." (BCBS 2004 Banking Committee on Banking Supervision).

The important types of operational risk involves breakdown in internal control and corporate governance, these break downs can lead to financial losses through errors, frauds or failure. The Basel committee –I has further opined that, due to the lending officer or staff exceeding their authority or conducting business in an unethical or risky manner the banks may incur loss. In addition to the above, the other major causes of operational risk are failure of information, technology, systems or major events like fire or any other disasters also leads to operational risk.

OPERATIONAL RISKS IN HOUSING FINANCE

Among the risks faced by the housing finance institutions, the operational risks are the most important and are a more recent phenomenon. Operational risks in housing finance have been defined by Basel committee in January 2001, as "the risk of direct or indirect loss resulting from inadequate or failed internal process, people or systems or from external events". Operational risk is a relatively new term for some very old problems, which happen on a small scale every day in financial markets and are managed with little or no incidents, which may however, may occasionally explode with dramatic and devastating effect. The transaction intensity of the mortgage business makes mortgage lenders more prone to OR. The long term maturity of the housing loans, the lengthy mortgage lien documents increases the likelihood of many errors. OR can become more important, as the mortgage value chain is "unbundled" through securitization as many participants work in different stages of the process like origination, servicing, securitization, and hence more actors are involved and therefore there are more chances of OR. Unlike market and credit risk OR factor in housing is largely internal to the bank .The OR in mortgage in housing includes risk of loss from incomplete documentation, automated system failures, data entry errors, rogue traders, internal and external frauds and computer security breaches.

TYPES OF OPERATIONAL RISK IN HOUSING FINANCE

The OR in housing finance stems from four important factors like people, process, systems, or external factors. The Basel-II Accord has identified seven different types of OR like internal frauds, external frauds, employment practises and work place safety, client's products and business practises, damage to physical assets, business disruptions and system failure and execution, delivery process management. The OR in housing finance can broadly be classified as internal factors and External factors.

I. INTERNAL FACTORS

The OR in housing finance which involves certain factors within the banking transaction is referred to as internal factors, responsible for OR in housing finance. The internal factors which lead to internal frauds can be defined as `Acts intended to defraud misappropriate property or circumvent regulations, the law or bank policy which involves at least one internal party' for instance unauthorised activities, thefts and so on.

(A) PEOPLE

People refer to the human resources and employees who are involved in handling the housing finance portfolios in banks. The failure in management of the people is the main cause for the OR in housing finance. The under- trained or untrained overworked employees may subject the bank to the OR. Failing to understand the mandate, lack of confidence in the institution, non-adherence to the bank policies and strategies are some of the causes for the OR in housing finance.

(B) PROCESS AND SYSTEMS

The complex or poorly designed systems and procedures are responsible for the wide range of problems faced by the banks. This because most systems and procedures are either unfit for the purpose or they malfunction. In addition, to this the increasing automation of systems and banks reliance on Information Technology (IT) has the potential to transform minor Manual processing errors to major systemic failures. Likewise, there will be losses arising from system failures due to failure in hardware, software, telecommunication, utility outrage and others.

II EXTERNAL FACTORS

The external factors have a major impact on financing housing. The external factors include both expected and unexpected changes. The major types of external factors are';

(A) DISRUPTIVE EVENTS

The losses arising from loss or damage to physical property or assets are referred to as disruptive events. The major factors of the disruptive events are natural calamities or disasters like fire, flood, and earthquakes. Human involvement like terrorist activities, vandalisms, eviction, acquisitions among others are also responsible for the disruptive activities in housing finance, which leads to OR in housing finance.

(B) CONSULTANT AND OUT-SOURCIN

The reliance on out- sourcing and use of consultants for house building activities has become a serious threat to the banks. Of late excessive use and dependence on the use of Consultant and out- sourcing of services related to financing housing has increased in a big way. The use of Consultants and outsourcing on the one hand enables the banks in processing the housing loan portfolio, but on the other hand the concern is the loss of control over the bank`s process. Miscommunication, data entry maintenance or loading errors, missed dead-lines, system misappropriation, accounting errors, entity attribution error, collateral management failure, failure of reference data maintenance among others are some of the factors that contribute to OR in housing finance.

Thus, the housing finance has globally been exposed to risks such as the market housing finance risks, credit risk in housing finance, systemic credit risks, agency risks, political risks and operational risks .

MITIGATION AND MANAGEMENT OF RISKS IN HOUSING FINANCE

All lending involves a variety of risks that must be allocated, managed and priced. However, the 10-30 years maturities and the legal aspects of mortgage pose a unique risk in housing finance. The inappropriate lending, pricing, and risk management can create problems for the broader financial system and macro-economy presents special challenges for regulators. Balancing risk and return is not an easy task as risk is subjective and not quantifiable. However, there may not be one-size-fit-all risk management module for all the banks to be made applicable uniformly It is in this context, that the mitigating of risks in financing housing is posing a great danger and is the need of the hour.

MANAGEMENT OF CREDIT RISKS

Managing credit risk is tricky situation, where it is important to distinguish good loan applications from bad loan applications. Good credit risk assessment is based on the knowledge of the borrower. The knowledge of the borrower includes both quantitative and qualitative source of information. The quantitative sources are relatively easier to evaluate than the qualitative sources. As the qualitative sources are more subjective and require different set of skills to assess efficiency. The strategies adopted to reduce the credit risks includes, building of long term relationship between the lender and the borrower. The tools for managing mortgage credit risk can broadly be classified into three categories:: Firstly, the front-end risk management, that is, screening by under-writing criteria, Secondly, the back-end risk control, by reserving capital against expected and unexpected credit losses, Finally , the risk sharing with the third parties through mortgage insurance and other credit lending mechanisms. The mortgage/housing credit risk management is based on three pillars.

PILLAR-1: Risk Based Mortgage under-writing:

Loan- to-value (LTV) and Debt-to-Income (DTI) are used as important indicators of mortgage default case in most of the countries. In most developed and emerging mortgage markets the LTV is set in two tiers,(i) those with mortgage insurance (MI) and(ii) those without mortgage insurance (MI). Normally the LTV ranges without MI is 60-80% and with MI 100% in most of the developed countries like USA, France, Germany and others. However, in India in the absence of MI the LTV ranges from 50-70%.

The credit risk management further, depends upon the DTI restriction s. DTI or loan to income refers to the borrower's ability to pay back the loan. Although, there is no explicit threshold while determining the DTI like the LTV. The DTI threshold in most of the European countries range between 30-45% and around 50% in most of the Asian countries including India. However, the use of loan to income as a risk indicator has become less prevalent since the introduction of the Automated Under-writing System (AUS) and the mortgage scoring system introduced in the mid-1990s. Currently the maximum DTI is generally at a higher level of 40% globally. The DTI is determined by various factors such as consumption pattern and borrower`s wealth or cash reserve. The accurate measurement and the validation of the borrower`s income is however, a big challenge in many countries.

PILLAR-II-RISK-SHARING VIA MORTGAGE

Mortgage is a type of insurance of external credit enhancement which was first started in 1930`s by the Federal Housing Administration (FHA) in the U.S. to provide a government guarantee for long term fixed-rate mortgage loans. The FHA`S successes lead to the development of private mortgage insurance and MI then expanded to other countries during the 1990`s and 2000. MI generally categorized into the Public MI and the Private MI and also categorized as Complete and Partial Coverage Programme. MIs can be either be a public or in the private initiative or it can co-exist. In countries like U.K., Italy and Spain the private MI exists. The advantage of public mortgage insurance is that it tends target wealth- constrained households because it usually sets maximum on the loan amount on the property value. Among the Asian countries the Hong Kong Mortgage Corporation established in 1997 as a joint venture private lending institution and this helped raise the LTV on mortgage risk from 70% to 90%.

PILLAR-III- RISK BASED CAPITAL REQUIREMENTS

The adoption of Basel-II recommendation in many countries has enhanced measurement of mortgage credit risks. It is now possible for the lending institutions to utilise the Economic Capital (EC) as a tool for internal allocation of capital across different business lines or mortgage products. The EC is a Value- at-Risk (VaR) type sensitivity measure that can be used in estimating unexpected stress, credit losses and others.

Apart from adoption of these three pillars in managing of the mortgage risks effective servicing, active monitoring of repayment performance and corrective actions go a long way in reducing mortgage credit risks.

MANAGEMENT OF MARKET RISKS IN HOUSING

Different methods have been adopted to mitigate market risks by both lenders and investors. Fixed Rate Mortgage (FRMs) place market risk in the hands of the lenders, and require matching funding and protection from prepayment risks. Floating rate and inflation indexed loans place at least market risks in the hands of the borrower, and require attention to payment shock and to any mismatch between nature and timing of the indices to which the loans and liabilities that fund them are linked. Economies having less liquidity fixed income markets have difficulty in establishing a reliable index for floating rate markets.

MANAGEMENT OF LIQUIDITY RISKS

Measuring and managing of liquidity risks is very important for effective housing finance companies. The Asset Liability Management (ALM) is a part of the over-all risk management in the banks. The ALM examines the assets and liabilities on a continuous basis to ensuring a proper balance between mobilizations of funds and deployment according to maturity profiles, costs, field, and risk exposures. It includes product pricing for deposits as well as advances and the desired maturity profile of asset and liabilities. Management of the liquidity housing finance companies not only examines how liquidity requirements are likely to evolve under different assumptions. Many a times the so called liquid assets like Government securities and other money market instruments could be illiquid when the market and the players are unidirectional. It is therefore necessary that the liquidity has to be tracked through maturity or cash flow mismatches. The tools like the use of maturity ladder and calculation of cumulative surplus or deficit or funds at selected maturity dates is adopted as a standard tool for measuring and managing net funding requirements.

MANAGEMENT OF THE AGENCY RISK

The agency risk is managed by the lenders and investors with contract terms, quality controls, and technology. Nevertheless, the agency risk materializes at various levels of the lending chain, from unscrupulous bankers and appraisers to moral hazard in securitized portfolios. A good example for this is the U.S. where the agency risks were one of the important drivers of the sub-prime crisis.

MANAGEMENT OF SYSTEMIC CREDIT RISKS

The management of the systemic credit risks depends upon the policies to deflate the price bubbles from time again. The policies in the developed countries which include greater price transparency, efficient markets for urban land, better market infrastructure, efficient lien registry system, lower transaction costs, strong legal framework for ownership and contract enforcement, and sophisticated financial system have been adopted to lessen the effect of the bubble and provide more rapid adjustment to collapse in prices. However, the same is not true in the emerging economies as the information is not only scarcer but the mortgage markets are less efficient.

OPERATIONAL RISK POLICY /REGULATORY FRAMEWORK

Housing finance is contributing to economic growth of a country and welfare of an individual. The strong and stable regulations only can foster the resilient lenders and financial markets. The financial market participants are not always willing to hold adequate capital, disclosure of risks they engage in or manage the risks efficiently. The balance between the faster economic growth and lighter regulations results in failures of lenders. The stronger regulations such as financial reporting, disclosures of risks, and appropriate level of risk based capital. Emerging markets financial disclosures rules are often below the international standards for best practise, security trading are infrequent and liquid, the audit rules are often weaker under these circumstances the strong regulations may fail to prove disclosure regimes and by installing greater market discipline.

In India between 1995 and 2011 two distinct prudential regulations for financing housing were identifiable. During the period 1995 to 2001, restrictions comprised numerical restrictions in the form of leverage restrictions, explicit interest rate caps on deposits for both borrowing and lending for housing finance. From 2001 onwards, in addition to these numerical restrictions, the prudential regulations was framed as it was outlined in Basel-II , with risk weights being the primary instrument of regulatory policy .During this period , risks weights specially for housing assets were introduced and frequently modified. In the Indian housing fiancé context, two regulators operate namely the Reserve Bank of India (RBI) which regulates bank lending to housing and the National Housing Bank for Housing Finance Companies.

In the year 1992 RBI introduced a risk- asset- ratio- system for banks in line with the Basel-I Accord recommendation of 1988 for financing housing. During this period the risk weight for housing finance was 100 per cent, as housing finance was categorized as "other advances" under the heading real estate and other investments in the balance sheets of the banks. In accordance with the Basel-II recommendation the RBI has redefined the risk-weights for housing finance where the residential properties are owned or rented with borrowing up to 30 lakhs is 50 per cent and above 30 lakhs risk weight is 75 per cent provided the LTV should not exceed more than 75 per cent risk weight is100 per cent and for commercial estate the risk weight is 150 per cent.

The Operational Risks in housing finance lending is normally regulated and supervised by both the Regulatory authorities and Market-participants. The housing finance lenders in general, and the Scheduled Commercial Banks in particular establish risk measures and methods for mitigating risks that include credit, market, liquidity, foreign currencies, operation and political conditions. The following are some of the measures adopted by the housing finance institutions in general and the Scheduled Commercial Banks to mitigate the operational risks financing housing.

MITIGATION OF HOUSING FINANCE RISKS

- As the Operational Risks in housing finance is a broad and catch –all topic, involves risks of different types, robust effective controls, automated systems and business processes to manage the credit underwriting process and all of the associated paperwork have been given utmost importance.
- With reference to the housing finance by the SCBs, the RBI has adopted several methods such as the loss incurred due to natural disaster can be mitigated by way of insurance.
- The RBI has directed the SCBs to establish back-up facilities and adoption of business continuity and disaster recovery plan to mitigate the loss due to business disruption as a result of failure in telecommunications or electricity.
- Another method adopted by the SCBs to mitigate the operational risks in financing housing is through strong internal auditing procedures due to internal factors like employee fraud or product flaws and procedural lapses.
- A strong control culture promotes a sound risk management practice that have to be reinforced by both Board of Directors and Senior Management. A system of effective internal control to ensure that the SCBs will comply with laws and regulations as well as policies , plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the bank`s reputation. In addition to this, internal control is process adopted by the Board of Directors, Senior Management and all level personnel.
- The Internal control emphasis on top level reviews, appropriate activity controls for different departments or divisions, physical controls, checking for compliance on exposure limits and follow-up on non-compliance, a system of approvals and authorisations and a system of verifications and reconciliations in financing housing by the SCBs are to be adopted.
- The internal control system also stresses on segregation of duties among the employees of the banks. The areas of conflicting interests among the employees should be identified, minimised, and subject to careful independent monitoring thereby minimising the loss due operational risks.
- The RBI has laid down guidelines that ,the SCBs should have a strong information system which provides reliable, timely and accessible information in a consistent format, regarding the internal financial operation as well as external market conditions.
- Methods to secure the data in an electronic form, monitored independently and supported by adequate contingency arrangements have been implemented.
- Another important measure adopted to mitigate operational risks by the SCBs in financing housing is by an effective internal audit function that independently evaluates the control systems within the organisation. Internal audit is part of the on-going monitoring of the bank`s system of internal controls and of its internal capital assessment procedure. Internal audit provides an independent assessment of the adequacy of, and compliance with, the bank`s established policies and procedures.

CONCLUSION

To conclude, the financial crisis of 2007 and 2008 exposed serious problems in housing finance by the commercial banks, from sloppiness to outright fraud. As said "what cannot be cured, should be endured" Like-wise, Risks in general and Operational Risks in particular housing finance cannot be completely eradicated, it can only be managed by a sound risk management framework. The framework includes clear strategies adopted by the Board of Directors and oversight exercised by the Senior Management , strong internal operational risk culture and internal control culture emphasizing on dual controls, effective monitoring and internal reporting, contingency and business continuity plans, high standards of ethics and integrity and commitment to effective corporate governance, including , segregation of duties avoidance of conflicts of interest and clear lines of management responsibilities , accountability and reporting , as reflecting in the bank`s corporate governance documents. All levels of staff shall understand their responsibilities are the need of the hour to mitigate and manage the operational risks in housing finance.

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THE CAPITAL STRUCTURE PUZZLE

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ABSTRACT

This paper is an attempt to analyze the important determinants of capital structure in Indian manufacturing industries in India in last decade. Over the past several years, financial economists and researchers have worked to bring more of scientific and predictive understanding in Corporate finance, this has been done by preparing formal theories that can be tested by empirical studies of corporate and stock market behavior. But this brings us to the most important issue to developing a well defined and exhaustive theory of capital structure which also find its applicability in actual market scenario and designing empirical tests that are powerful enough to provide a basis for choosing among the various theories. Several competing theories have reserchers have given there perspective in the form of theories, since Modigliani and Miller's famous propositions on the capital structure, to test the ground realities of capital market imperfections such as taxes, bankruptcy costs, agency costs, and information asymmetries. Therefore, the determinants of the capital structure of companies have been debated for long in corporate finance. To bring more clarity on it, this research attempts to test the important determinants of the capital structure of companies.

KEYWORDS
Capital Structure, Leverages, Debt –Equity ratio

INTRODUCTION

Some questions in finance-economics have not received there definitive answers, inspite of Corporate finance being discussed and taught in management schools for a century now. One of such are is "What determines the capital structure of a company". Miller-Modigliani (MM) arbitrage theorems on capital structure is considers to be milestone in this field. The actual financial market is far away from the assumptions of finance& economics assumptions of market imperfections and their effect on the share price of the firm. Most of the researchers in this have found that firms try to maintain a definitive debt ratio, to some extent which is affected by the market leaders of the specific sector. According to Myers, finance managers of a firm have a short term perspective while taking decisions related to sources of raising funds, they take the path of least resistance and choose what at the time appears to be the lowest-cost financing without considering its strategic results. Brander and Lewis (1986) and Maksimovic (1988)have found relation between capital structure and market performance. Contrary to the researchers who believe that the main objective of business is profit maximization objective, these theories, like the corporate finance theory, assume that the firm's objective is to maximize the wealth of shareholders, and show that market structure affects capital structure by influencing the competitive behavior and strategies of firms. Researchers' have developed models which have predicted a negative relationship between capital structure and market structure. As discussed in Myers (1984), it predicts a cross sectional relation between debt ratios and asset risk, size, profitability, tax status and asset type. Such have determined similar type of, risk characteristics and tax status, having similar leverage ratios. Bowen (1982) and Kim and Sorensen (1986) provide a negative relationship between non-debt tax shields and leverage. Conversely, Bradley (1984), Titman and Wessels (1988) and Homaifarl. (1994) have found a positive relationship between them. Ferri and Jones (1979), Kim and Sorensen (1986), and Chung (1993) show that there is no systematic association between firm size and capital structure. On the other hand Homaifar. (1994) and Titman and Wessels (1988) report results which are consistent with the notion that larger firms have higher debt ratios. Jaiilvand and Harris (1984) look at the determinants of speeds of adjustment to long term financial targets where the speed of adjustment is allowed to vary across companies and over time. Their results suggest that firm size, interest rates and stock price levels affect speeds of adjustment. In the UK firms, research on related topic has been notably done by Bennett and Donnelly (1993), Lasfer (1995), and Walsh and Ryan (1997). Bennett and Donnelly (1993) provide an examination of cross sectional determinants of leverage decisions among non-financial UK firms. They find that non-debt tax shields, asset structure, size and profitability are important determinants of capital structure of companies uneder study. The agency theory assumes that equity-controlled firms have a tendency to invest sub optimally to expropriate wealth from bondholders and the cost associated with this agency relationship is likely to be higher for growing firms. Ozkan (2001) presented further evidence on the negative and statistically significant relationship between growth opportunities and leverage. Nevertheless, Ozkan (2001) found a positive and statistically significant relationship between the lagged growth and leverage. He argues that the positive effect may happen because growth has a transitory effect on leverage ratios. Study done by T. Mallikarjunappa (2001) has found that Profitability, Collateral value of assets , Growth, Size, Tax, and Uniqueness do not have a significant influence on the capital structure of companies in the pharmaceutical industry in India. On the other hand, the variables Debt service capacity, non-debt tax shield, and Business risk emerge as the significant factors but their signs are in a different direction than what is hypothesized. Sahu (1997) study debt financing in the Indian corporate sector for 170 companies from 1979-80 to 1990-91 and report that, in the case of the total sample in 11 out of 12 years under study, the quantum of debt funds exceeded the volume of net worth. Besides, on an average debt funds constituted 71.5% of total fund sources of sample companies during 1979-91. Thus, heavy reliance by the total sample companies on debt funds is observed throughout the period under study.

DATA ANALYSIS, INTERPRETATION & FINDINGS

MODEL 1:KARL PEARSON'S CORRELATION ANALYSIS

DEPENDENT VARIABLES:

In this study Long term Debt-Equity ratio (D-E) is taken as dependent variable.

INDEPENDENT VARIABLE

Profitability (PROF): Earnings before interest and taxes scaled by total assets
Size (SIZ*):* Size is measured as a natural logarithm of sales
Collateral Value Of Assets (COVA): Net fixed assets deflated by total assets Growth (GROW): Growth is measured as a growth rate in yearly total assets.
Tax rate (TAXR): Tax rate is measured as a proportion of tax provision to profit before tax.
Business risk (RISK): It is been measured as the coefficient of variation of EBIT.

STATEMENT OF HYPOTHESES

On the basis of literature review following hypotheses have been formulated.
H_1: There is a positive relationship between PROF & D-E.
H_2: There is a negative relationship between SIZ & D-E.
H_3: There is a positive relationship between COVA & D-E.
H_4: There is a positive relationship between GROW & D-E.
H_5: There is a negative relationship between TAXR & D-E.
H_6: There is a negative relationship between RISK & D-E.

TABLE 1 : CORRELATION MATRIX: LEVERAGE AND DETERMINANTS

VARIABLES	D-E	PROF	SIZ	TANG	GROW	TAXR	RISK
D-E	1						
PROF	-0.4426	1					
SIZ	-0.3687	0.1933	1				
COVA	0.4982	-0.4105	-0.3776	1			
GROW	-0.7017	0.5052	0.6928	-0.6212	1		
TAXR	-0.0527	-0.0991	0.22647	-0.2534	0.1066	1	
RISK	0.7184	-0.2406	-0.0776	0.3971	-0.3457	-0.1058	1

According to the correlation matrix Table 1 the correlation coefficients are significantly different from zero at 95% confidence interval. The coefficients for COVA & RISK have significant positive relationship with D-E, while GROW, PROF & SIZ have significant but negative relationship. TAXR depicts significantly weak and negative relationship. In terms of magnitude highest correlation exists between D-E GROW (-0.68) followed by RISK(0.61), PROF (-0.55),COVA (0.50)& lastly SIZ (-0.37). Other significant relationship exists between SIZ & GROW (0.71), COVA & GROW (-0.62), PROF & GROW (0.49), COVA & RISK (0.41), COVA & SIZ (-0.37) and RISK &GROW (-0.35). Positive relationship between GROW & PROF and SIZ & GROW indicate increase in assets is attributable to increase in net earnings and sales revenue. Negative relationship between GROW & RISK implies increase in sales volume and asset structure decreases the systematic risk.

HYPOTHESIS TESTING

All the six hypotheses have been tested at 5% level of significance or at 95% confidence interval

The summary of critical t and calculated t tests pertinent to all hypotheses and their respective correlation coefficients r are reported at Table 2

INTERPRETATION AND FINDINGS

Result #1

Test statistic t - *2.205* > Critical t *2.201*, calculated t lies in the critical rejection region, the null hypothesis is rejected there is no positive relationship between PROF and D-E. We infer a negative relationship between PROF and D-E as correlation coefficient indicates the same decision.

TABLE 2: DECISION ON HYPOTHESES TESTING

Variables	Critical T	Statistical T	Table r	Statistical r	Null Hypothesis	Null Hypothesis
D-E	-	-	-	-	Accepted	Rejected
PROF	2.2010	-2.2048	0.5530	-0.5536	-	Ho
SIZ	2.2010	-1.3155	0.5530	0.5082	Ho	-
COVA	2.2010	1.9571	0.5530	0.5082	Ho	-
GROW	2.2010	-3.0903	0.5530	-0.6817	-	Ho
TAXR	2.2010	-0.1085	0.5530	-0.0327	Ho	-
RISK	2.2010	2.6099	0.5530	0.6184	-	Ho

NOTE: Indicates significance at 5% level. Degrees of Freedom n - 2. r pertains to Coefficient of Correlation.

Result #2

The hypothesis has been tested at 5% level of significance or at 95% confidence interval Test statistic t = - *1.316* < Critical t = *2.201*, calculated t lies in the acceptance region, the null hypothesis is accepted there is a negative relationship between SIZ and D-E.

Result #3

There is a positive relationship between COVA and D-E it has been ascertained from the Test statistic t *1.957* which is < Critical t *2.201*, calculated t lies in the acceptance region, therefore the null hypothesis is accepted we infer a positive relationship between COVA and D-E.

Result #4

There is enough evidence to infer a negative relationship between GROW and D-E as Test statistic t - *3.090* > Critical t *2.201*, calculated t lies in the critical rejection region, the null hypothesis stating a positive relationship between GROW and D-E. is rejected. There is a sufficient evidence of a negative relationship between GROW and D-E.

Result # 5

There is enough evidence to infer a negative relationship between TAXR and D-E, as Test statistic t - *0.1085* < Critical t *2.201*, calculated t lies in the acceptance region, the null hypothesis is accepted.

Result # 6

There is a significant evidence of a positive relationship between RISK and D-E. Test statistic t *2.610* > Critical t *2.201*, calculated t lies in the critical rejection region, therefore the null hypothesis is rejected.

Evidence from summarized result table: 2 indicate profitability (PROF) of manufacturing companies has negative relationship with the leverage (D-E). This result is consistent with the implication of pecking order theory . It implies that manufacturing companies that are profitable are less likely to resort to debt financing. The same result obtained by Titman & Wessels (1988) and Rajan & Zingales (1995) in their respective analysis. Size (SIZ) has positive association with the leverage (D-E) ratio. This result is consistent with the implication of trade off theory but is not significant. Research by Remmers et. al. (1974), finds no significant effect of size on capital structure. This result suggests large sized firms have high leverage (D-E) and Pandey et.al. (2000) and Gonenc (2003) have testified positive relationship. Consistent with both pecking order theory and the trade off theory Colletral Value of assets (COVA) is positively associated with the leverage (D-E). Empirical evidence of Titman & Wessels (1988), Rajan & Zingales (1995) Pandey. (2000) also observed positive relationship. Growth (GROW) opportunities as measured by sales growth scaled by corresponding asset growth are found to have a negative relationship with the leverage (D-E) in accordance to pecking order theory. Manufacturing firms experiencing high growth rate resort to less borrowing hence have low leverage (D-E). Myers (1977) indicated leverage to be inversely related to growth opportunities. The magnitude of association of tax rate (TAXR) and leverage (D-E) is negative having correspondingly weak effect. This finding contradicts hypothesized results owing to deferred taxation issue with the sample company. There is a positive relationship business risk (RISK) or volatility and leverage (D-E). The result implies paint manufacturers with high business risk (volatility) have high leverage (D-E). Bradley, Jarell & Kim (1984) and Barclay & Smith (1995) in their argument have stated negative relationship. According to Qian, Tian & Wirjanto (2007) this is attributable to positive relationship between leverage and size. Research studies by Bradley et al. (1984), Kester (1986), Long & Malitz (1985) and Baskin (1985) agree that leverage increase with tangibility while it decreases with profitability. The conclusion of this analysis is that profitability, tangibility and growth are significant determinants in the choice of capital structure by the manufacturing companies.

CONCLUSION

The result shows null hypothesis relating to profitability, growth and business risk are rejected based on t testing despite having statistically significant coefficients (both +ve & ve). The findings are consistent with the predicted hypotheses and the implication of theories. Null hypothesis relating to size, COVA and tax rate is accepted based on t testing only tangibility has statistically significant coefficients whereas size and tax rate denotes significantly weak correlation. The findings are consistent with the predicted hypotheses. Evidence from summarized result table: 2 indicates profitability (PROF) of manufacturing companies has negative relationship with the leverage (D-E). This result is consistent with the implication of pecking order theory . It implies that manufacturing companies that are profitable are less likely to resort to debt financing. Size (SIZ) has positive association with the leverage (D-E) ratio. This result is consistent with the implication of trade off theory but is not significant. Research by Remmers (1974), finds no significant effect of size on capital structure. Consistent with both pecking order theory and the trade off theory Collateral value of assets (COVA) is positively associated with the leverage (D-E). Growth (GROW) opportunities as measured by sales growth scaled by corresponding asset growth are found to have a negative relationship with the leverage (D-E) in accordance to pecking order theory. Manufacturing firms experiencing high growth rate resort to less borrowing hence have low leverage (D-E). The magnitude of association of tax rate (TAXR) and leverage (D-E) is negative having correspondingly weak effect. There is a positive relationship business risk (RISK) or volatility and leverage (D-E). The result implies paint manufacturers with high business risk (volatility) have high leverage (D-E). The conclusion of this analysis is that profitability, tangibility and growth are significant determinants in the choice of capital structure by the manufacturing companies.

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FOREIGN DIRECT INVESTMENT IN INDIA: A CRITICAL ANALYSIS

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ABSTRACT

This paper attempts, through a critical analysis, FDI is a non-debt creation source of additional external finances and at the micro level, FDI is expected to boost output, technology, skill levels, and employment regions of the host economy. The aim of FDI is to supplement the domestic capital and technology. FDI is a type of investment that involves the injunction of foreign funds in to an enterprise that operates in a different country of origin form the investor. The exchange of such investment flows benefits both the Home Counties and the host country. FDI facilities international trade and transfer of knowledge, skills and technology, The FDI can play catalytic role in a growing economy like India. The role of FDI is becoming increasingly significant in the Indian economy. The FDI is a part of future of Indian economy. FDI is a double edged weapon and it is not the only right solution to balance of payments crises. It is safely concluded that the cost of FDI flows have been on the high side or much more as in case of other sources of money. Hence the need of the hour is to adopt more cautions policy in regard to FDI flows by the host nations so that it could not become a source of gathering liabilities other than assets.

KEYWORDS

FDI, foreign investors.

INTRODUCTION

One of the most striking aspect to the current trend of globalization is the exponential growth of foreign direct investment flows or the multinational enterprises activity. The Rapid expansion of FDI by multinational enterprises since the mid eighties may be attributed to significant change in technologies, liberalization of trade and investment regimes and deregulation and privatization of markets in many countries including developing countries like India. Fresh investment as well as merge and acquisitions play an important role in the cross country movement of FDI.An important question that arises in whether FDI merely act as filler between domestic savings and investment or whether it serves purpose as well. At the macro level-FDI is a non debt creating source of additional external finances. This might boost the overall output, employment and export of an economy. At the micro level the effects of FDI need to be analysis for change that might occur at sector level output, employment and forward and backward linkage with other sector of the economy. There are fears that foreign firm might displace domestic monopolies and replace these with foreign monopolies which may, in fact, create worse conditions for customers. Thus it is important to have an efficient competition policy along with sector regulation in place.While the quantity of FDI is important, equally important is the quality of FDI. The major factor that might provide growth impetus to the host economy include the extent of localization of the output of the foreign firms plan, its export orientation, the vantage of technology used, the Research & Development (R&D) best suited for the economy, employment generation, inclusion of the poor and rural population in the resulting benefits and productivity inhancement.

DEFINITION OF FOREIGN DIRECT INVESTMENT

According to **Krugman** and **Obstfeld**, foreign investment is international capital flows in which a firm in one country creates or expands a subsidiary is another. It involve not only a transfer of resources but also the acquisition of control. That is, the subsidiary does not simply have a financial obligation to the parent company, it is part of the same organizational structure.

METHODS OF FDI

The Foreign Direct Investment may acquire voting power of an economy through any of the following methods:

(i) By incorporating a wholly owned co.
(ii) By acquiring shares in associated enterprise.
(iii) Through a merger or an acquisition of an unrelated enterprise.
(iv) Participating in an equity joint venture with another investor or enterprise.

AN OVERVIEW OF FDI IN INDIA

The historical background of FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the Colonial era of Britain in India. After Second World War, Japanese companies entered Indian market and enhance their trade with India, yet U.K. remained the most dominant investor in India.Further after independence issues relating to foreign capital, operations of MNC's gained attention of the policy makers keeping in mind the national interests the policy makers designed the FDI policy which aims FDI as a medium for acquiring advanced technology and to mobilize foreign exchange resources. The evaluation of Indian FDI can be divided into three phases classified on the premises of the initiative taken to induce foreign investments into the Indian economy:

(a) The first phase, between 1969 and 1991, was marked by the coming into force of the monopolies and Restrictive Trade Practices Commission (MRTP) in 1969, which impose restrictions on the size of operations, pricing of products and services of foreign company. The Foreign Exchange Regulation Act (FERA), enacted in 1973, limited the extent of foreign equity to 40%, though this limit could be raised to 74% for technology-intensive, export-intensive and core sector industries. Selective licensing regime was instituted for technology transfer and sodality payments and applications are subjected to export obligations.
(b) The second phase, between 1991 and 2000, witnessed the liberalization of the FDI policy, as part of the Government's economic reform program. In 1991 as per the 'Statement on Industrial Policy', FDI was allowed on the automatic route, up to 51% in 35 high priority industries. In 1996 the automatic approval route for FDI was expanded from 35 to 111 industries, under four categories (Part A up to 50%, Part B up to 51%, Part C up to 74% and Part D up to 100%).
(c) The third phase, between 2000 till date, has reflected the increasing globalization of the Indian economy. In the year 2000, a paradigm shift occurred, wherein, except for negative list, all the remaining activities were placed under the automatic route. Caps were gradually raised in a number of sectors/activities. Some of the initiatives that were taken during this period were that the insurance and defense sectors were opened up to a cap of 26% , the cap for telecom services was increased from 49% to 74%, FDI was allowed up to 51% in single brand retail.

REVIEW OF LITERATURE

Iqbal Alam Badar (2000) review the trend and dimension in regard to flow of global FDI to different region and countries during the present decade of 90's which is called or known as a decade of enormous flow of global FDI and examine its flip side.**Talerngsri Pawin (2001)** examine the influences of location specific characteristic of host industries such as factor endowment trade costs and polices factor more distinctively it examines the effect of vertical linkage among Japanese firms. The study finds out that Japanese FDI in Thailand was not evenly distributed across manufacturing activities. Some capital/ technological intensive industries like rail equipment and air craft did not receive any FDI during a specific period. On the other hand other relatively labour intensive industries like TV, Radio and communication equipment industry and motor vehicle industry received disproportionately larger value of FDI.**Mishra Pulak (2002)** in their article considering that the trends of FDI has to be reversed failing with the Indian industry sector will lose much in the present era of globalisation and completion, efforts should be immediately made not only in removing the imperfection and making the policy framework more consistent, transparent and rule based but also in creating an investor friendly environment by eliminating different obstacles to proper implementation of these measures as well as providing necessary infrastructure facilities.**Mahajan Vibha (2005)** find out ways how India can attract foreign investment. In order to make the foreign investment policy more transparent and less complex, the govt. has done away with pre equity approvals if a certain set of preconditions are met. This combines with other factors such as high economic growth in the main home and host countries, improve corporate profitability and higher stock valuation point to a recovery of FDI flows, other components of FDI (equity and intercompany loans) are also to pick up. Lot of measures are being taken up by Govt. Of India to attract foreign direct investment so that the gap between the approvals and the actual can be reduced.**Banga Rashmi (2006)** highlights the export diversifying impact of foreign direct investment in a developing country. FDI may lead to export diversification in the host country if it positively affects the export intensity of industries that have a low share in world export intensity of industries that have a low share in world exports. Indirectly FDI may encourage export diversification through spillover effects that is the presence of FDI in an industry may increase the export intensity of domestic firms. The imperial result for the Indian economy in the post liberalization period show that FDI from US has led to diversification of India's exports both directly and indirectly. However Japanese FDI has had no significant impact on India's export.

NEED OF THE STUDY
It is widely known that capital inflows into developing economies like India have risen sharply in nineties and has, therefore, become a self propelling and dynamic factor in the accelerated growth of the economies. The 1990's can be described as the most important decade in the history of Indian economy, when finance minister came with a reform agenda of liberalization, globalization and privatization to boost up Indian economy. Liberalization and globalization opened the gates to domestic capital market and foreign direct investment. Such initiatives helped to boost up the Indian economy.

This study focuses on FDI as vector of Indian globalization. Recently not only did India become a more frequent destination for FDI, but also many Indian firms have started investing abroad in a big way. The impassioned advocacy of increased FDI flows is based on the well worn argument that FDI is a rich source of technology and knowhow; it can invigorate the labour oriented export industries of India, promote technological changes in the in the industries and put India at a higher growth path. This exuberance of FDI needs to be based on analytical review of India's needs and requirements and her potential to participate in huge investment flows. Thus there is a definite need to incorporate the various dimensions of FDI into a theory of open economy development so as to explain in one integrated theoretical paradigm, the undercurrents of both inwards and outwards FDI flows.The empirical literature on the relationship between FDI and development is mixed. Despite a number studies are seeming contradictions, two consistent issues that repeatedly arises are:

- What are the motivators/reasons for FDI?
- What are the economic implications of FDI flow?

Hence a detailed analysis of FDI into India requires an examination of the determinants and impact of FDI in the Indian economy. This study took a closer look at the structure of foreign direct investments into India. It traces the development of India's economic policy regarding changes in FDI inflows. The expansion of FDI into India has been accompanied by a rapid economic growth and an increasing openness to the rest of the world. It is equally important to understand why India has become one of the important beneficiaries of FDI in the world and drives the more recent progress of India's inward FDI.

SCOPE OF THE STUDY
The present study involves foreign direct investment reforms in India. The study examines the effect of those reforms on the growth of foreign investment inflow in India. The reference period of the study is from the year 1991 to 2010. The study is based up on secondary information and the relevant information has been collected from various relevant sources of statistical tables related to foreign investment in India.The time series data on different FDI parameters has been collected, analyzed and interpreted. The main indicators on which the performance of FDI can be evaluated are FDI inflows, country wise FDI inflow, region wise FDI inflow and route wise FDI inflow to India.The study also includes a comparative analysis of Indian and Chinese economy on the basic of FDI inflows since 1991 to 2010, the main indicators of the comparative analysis is Global Corruption Index and World Competitive Index.

OBJECTIVES OF THE STUDY
The present study has been undertaken with a conduct empirical analysis of status of FDI in India and made a comparative analysis between Indian and Chinese economy .Thus the objectives of present study can be enumerated as follows :

- To analyse the pattern and direction of FDI inflow in India.
- To analyse the role of FDI in the development of Indian economy.
- To make a comparative analyse between Indian and Chinese economy.
- To rank the various sectors based up on highest FDI inflow.
- To identify the countries which gives India maximum FDI inflow?

HYPOTHESIS OF THE STUDY
1) **H_0** – There is no significant impact of FDI on GDP.
H_1 – There is significant impact of FDI on GDP.
2) **H_0** – There is no significant positive relationship between FDI and BSE.
H_1 – There is significant positive relationship between FDI and BSE.

TESTING OF HYPOTHESIS

TABLE 1: FDI INFLOWS, GDP & AVG. BSE

Year	FDI Inflow	GDP at Factor Cost	Avg. BSE
1991	409	1099072	1451.215
1992	1094	1158025	3246.03
1993	2018	1223816	2719.565
1994	4312	1302076	4024.595
1995	6916	1396974	3417.555
1996	9654	1508378	3422.17
1997	13548	1573263	3851.03
1998	12343	1678410	3531.61
1999	10034	1786525	4096.62
2000	10368	1864301	4821.12
2001	18486	1972606	3528.49
2002	13711	2048286	3293.375
2003	11786	2222758	4412.6
2004	14653	2388768	5422.325
2005	24613	2616101	7756.155
2006	70630	2871120	11417.16
2007	98664	3129717	16407.11
2008	123025	3339375	14452.08
2009	172849	3578128	12789.06
2010	202453	3896375	18380.32

Source: Various Publications

HYPOTHESIS -1

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	1609878.3	101384.79		15.879	.000
FDI	12.734	1.413	.905	9.010	.000

[a]Dependent Variable: GDP, R^2 = .819 Adjusted R^2= .808

HYPOTHESIS-2

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3416.535	541.187		6.313	.000
FDI	.078	.008	.925	10.344	.000

[a]Dependent Variable : BSE, R^2 = .856 Adjusted R^2 = .848

HYPOTEHSIS-1

H_o-The null hypothesis assumes that there is no significant impact of FDI on GDP in India. **H_1**-The alternative hypothesis assumes that there is significant impact of FDI on GDP in India. In order to test the hypothesis FDI has been taken as independent variable and GDP at factor cost as dependent variable. It is stated that independent variable is significant at 1 per cent level of significance. It shows that there is clear impact of FDI on GDP and some other unknown factors also plays significant role. In Table, the 'B' value is 12.734 which indicates that elasticity between FDI and GDP is 12.734. It resulted that ₹1 increase in FDI leads to 12.734 increase in GDP that helps in boosting growth rate of India. Therefore H_o is rejected and H_1 is accepted as there is significant impact of FDI on GDP in India.

HYPOTEHIS-2

H_o-The null hypothesis assumes that there is no significant positive relationship between FDI and BSE.**H_1**-The alternative hypothesis assumes that these are significant positive relationship between FDI and BSE.In order to test the hypothesis FDI has been taken as independent variable and BSE as dependent variable. It is stated that independent variable is significant at 1 % level of significances the coefficient Table 'B' value is .078 which indicates that elasticity between FDI and BSE. It shows a positive relationship between FDI and BSE because is FDI increases ₹1 than BSE increases by .078 points Therefore H_o is rejected and H_1 is accepted as there is positive relationship between FDI inflow and BSE.

LIMITATIONS OF THE STUDY

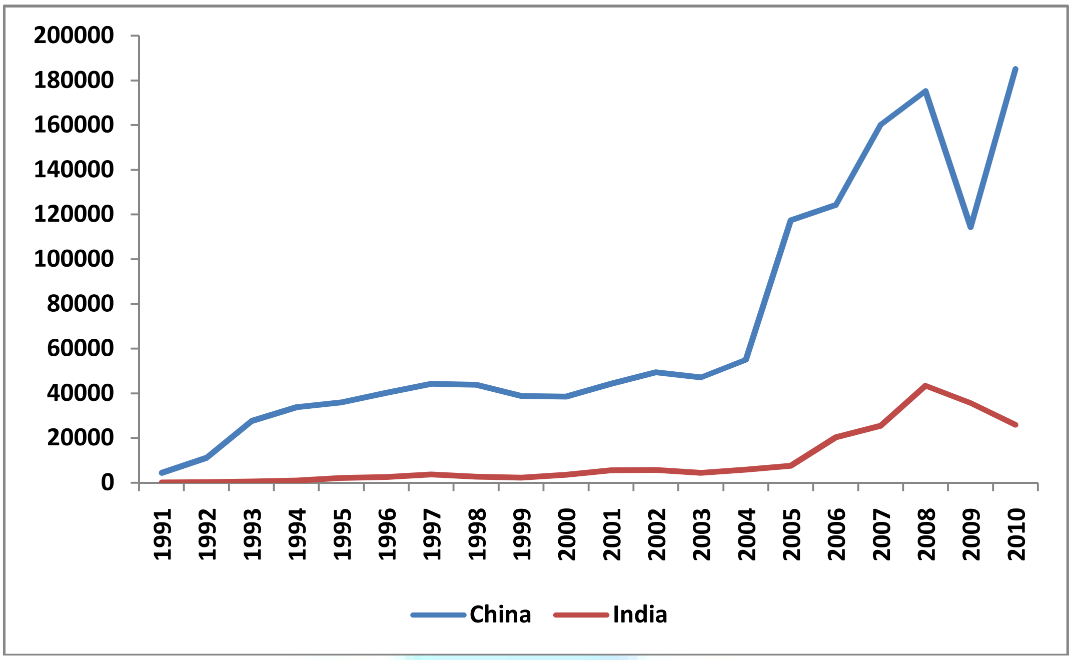
Best efforts has been made in this research to shape it a master piece for users, research scholars and the organizations directly and indirectly dealing activities of FDI in India. However, the researcher had to face certain limitations in the form of non-availability or delay in getting relevant data, monetary constrains during data collection non comparability of data, some of the limitations are pin pointed here under –

1) The study covers twenty years data only ranging from 1991 to 2010, and it does not include data before globalization.
2) The data used may be biased as it has been incorporated from secondary sources of information.

FDI IN INDIA AND CHINA-A COMPARATIVE ANALYSIS

In 2009, China became second largest FDI recipient in the world after the United States, whilst India paced ninth (UNCTAD, 2010). In the same year, both counties were ranked amongst the top three in the most preferred FDI locations in the UNCTAD's World Investment Report Prospects Survey 2009-2011.On the surface, China and India present a number of similarities. The two countries are the world's most populous, both with over one billion citizens, and feature amongst the largest economies in the world. On GDP at purchasing power parity, China is now the world's second major economic power, while India is ranked eleventhPrior to their openness to global markets, China an India were low per capital income counties, with an economy based largely on agriculture and an inward looking development strategy. Since then, they have embarked on a massive programme of economic reform opening their markets considerably to FDI and trade.Launched in 1978 and led by Deng Xiaoping, China's economic reforms process has seen the growth rate accelerate from an average of 5.2 per cent a year, during the period from 1960 to 1978 to 9.94 per cent a year from 1979 to 2009 (World Bank 2010). In the case of India, its reform process gathered momentum in 1991, under the Narasimha Rao government. The Indian economic growth rate moved from an average of 4.8 per cent between 1960 and 191 to 6.47 per cent since 1991 (World Bank 2010).Despite such apparent similarities, the Chinese and Indian experiences have hardly been synchronized.

CHART 1: FDI INFLOW TREND-A COMPARISON BETWEEN CHINA & INDIA



Source: OECD International Direct Investment Data Base Eurostat IMF

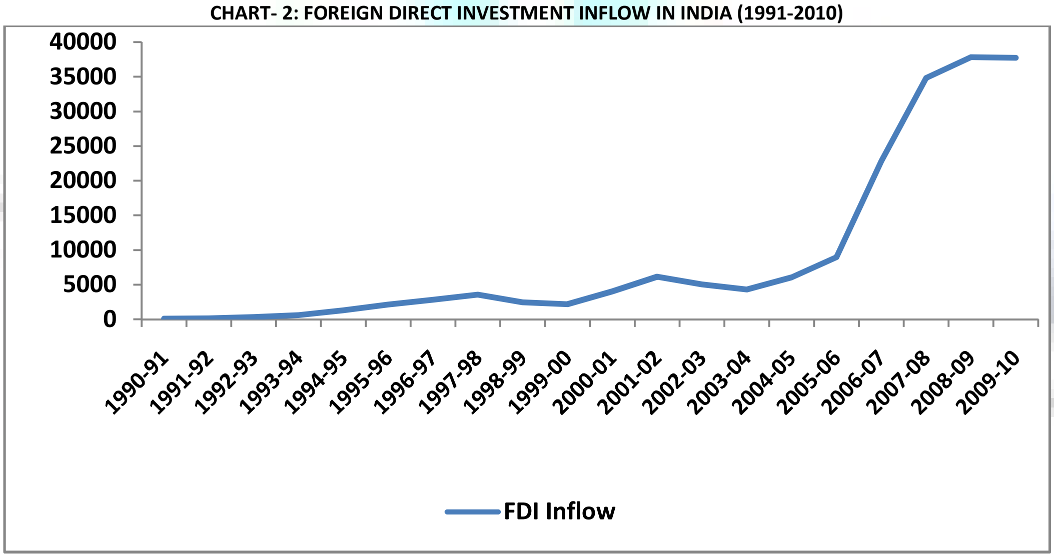
China currently attracts significantly more foreign investment than India. In 2009, for instance, China's yearly flows of foreign direct investment, at US $ 114200 million, were nearly four times greater than India's, while its share of global FDI inflows stood at 89.5 per cent compared to only 3.1 per cent for India (UNTAD 2010). Likewise, China's total FDI stocks in 2009 represented almost three times that of India. This disparity that exists in the level of FDI between the two countries has charged considerably in recent years. According to the OECD, China's index of FDI restrictiveness, in 2009, stood at 0.457, whilst, rather surprisingly, India's was only 0.220.An index of 0 indicates complete openness to FDI, while 1 indicates the total lack of it. The index includes, among other things, equity restrictions, approval requirements, restrictions on the amount of foreign key personnel, limits on the purchase of land and repatriation of profits and capital.

The reason for India's greater openness to FDI stem mostly from recent measures aiming at liberalising the economy, and policies to facilitate and promote foreign investment. For instance foreign investment of up to 100 per cent is now allowed without the govt. approval in almost all sectors of the Indian economy, except those subject to sectorial caps. Other measures include the repatriation of capital made easier and at lower cost and better protection of intellectual property rights. According to figures released by UNACTD (2010) growth in the equity FDI inflows to India have increased nearly thirteen fold between the financial year 2003-04 an that of 2009-10. Yet, one may wonder why China still continues to outperform India in attracting FDI given the advantages of the latter in having a democratic system, a significant speaking workforce and dispute a lower FDI restrictiveness index.The answer appears to be related to domestic conditions with in India. These include - bureaucratic barriers at the state level and lack of coordination between state and central governments. For instance issues such as land acquisition, land use charge, power connection, building approval plans are all decided at state level. In its 2010-2011 global competitiveness report. The World Economic Forum (2010) lists the "inadequate supply of infrastructural" as the principal problematic factor as doing business in India followed by "Corruption" and the "inefficient government bureaucracy".

TRENDS OF FDI INFLOW IN INDIA

In the response to the policy of liberalization the FDI has now been allowed in all sectors (except a negative list) resulting inflows of FDI increased US $ 97 in the year of liberalization, than after it is increased continuously, except in the years 1998-99, 1999-00 and 2002-03, 2003-04.

CHART- 2: FOREIGN DIRECT INVESTMENT INFLOW IN INDIA (1991-2010)



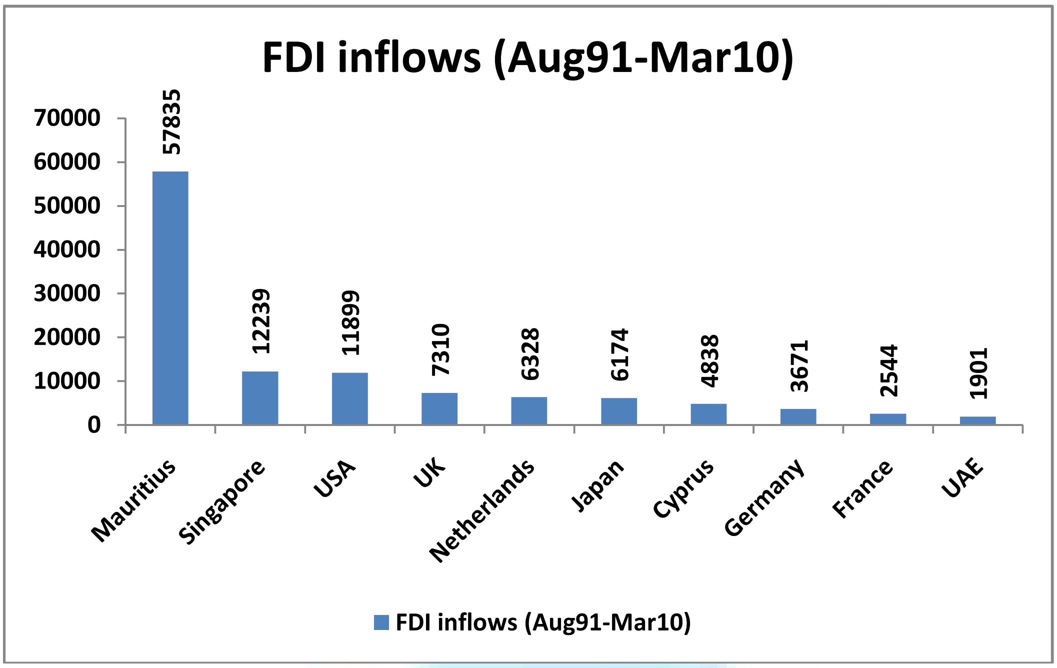
Source: Department Of industrial Policy & Promotion, Govt. Of India

The inflows of FDI declined to US $ 2462 million in 1998-99 and US $ 2155 million in 1999-2000. Several restriction imposed on India by US on account of nuclear test at Pokhran, slow down of economy, political instability, restrictions imposed on FDI regarding RRIMS (Trade Related Investment Measures) etc. are the some of the contributing factors for this declining trend in the years 1998-99, 1999-00. . These are the four years when the inflows growth rate of FDI is negative after liberalization.

SOURCES OF FDI IN INDIA

There is a clear strong worldwide competition for attracting FDI. Generally FDI means capital inflows & outflows from or to abroad those is invested in the production capacity of the host economy and are usually preferred over other forms of external finance because they are non debt crating non volatile and their return depends on the performance of the project financed by the investors.

CHART-3: COUNTRY WISE FDI INFLOW SINCE LIBERALIZATION



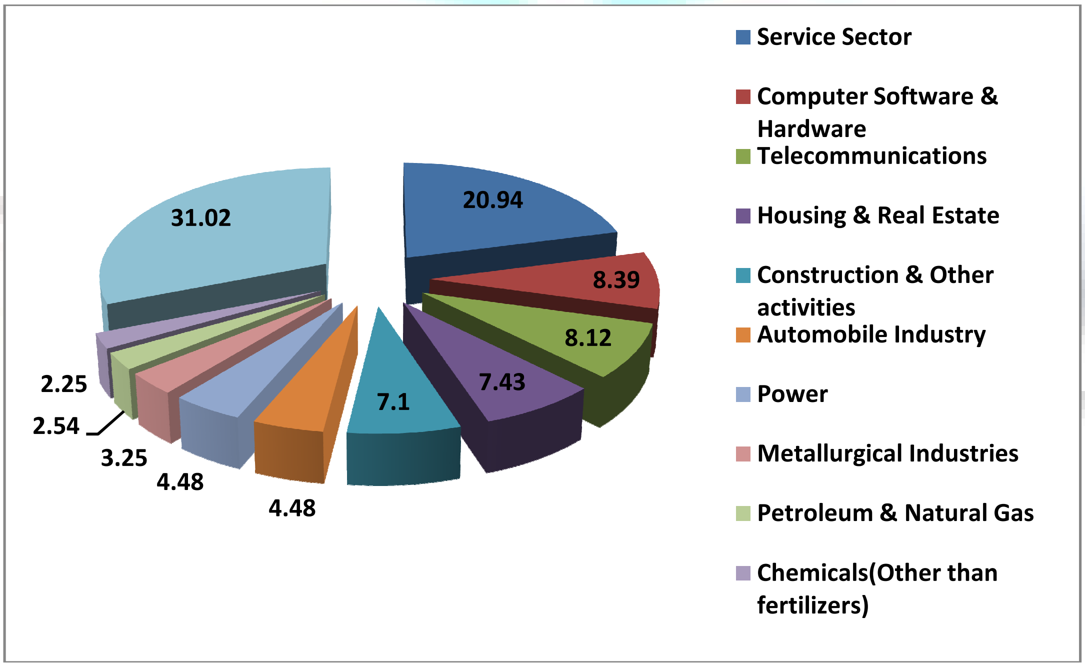
Source: Department Of industrial Policy & Promotion, Govt. Of India

Among the top ten counties, Mauritius has been the largest direct investor in India. Firms based in Mauritius invested US $ 57835 million in India between Aug 1991 to Mar 2010 or over 39 percent of the total FDI inflows during that period. Mauritius has low rate of taxation and an agreement with India on double taxation avoidance regime. To make advantage of that situation, many companies have set up dummy companies in Mauritius before investing in India. The Singapore is the second largest investor in India. The total capital flows from Singapore was US $ 12239 million between Aug 1991 to Mar 2010 which accounts the 8.4 percent of the FDI inflows. The United States is the third largest investor in India. The total capital flows from the US was US $ 11899 million, which accounts the 8.1 percent of the FDI inflows most of the US investments are directed to the fuel, telecom, electrical equipments, food processing and service sector. The United Kingdom and the Netherlands are India's fourth and fifth largest FDI inflows. The investment to these counties to India are primarily concerned in the power/energy, telecom and transportation sectors. Japan was the sixth largest source of cumulative FDI inflows in India between Aug 1991 to Mar 2010. These top ten countries accounts almost 80 percent of total FDI inflow to India.

SECTOR WISE FDI INFLOW

It would be interesting to analyze the sector wise FDI inflow in India as shown in the Chart 3. Sector wise FDI inflow in India, Chart 3reveal that for the entire period form Jan 2000 to Dec 2010. Service sector is at top. It indicates that the majority of inflows during the period of Jan 2000 to Dec 2010 have been in service sector amounts to US $ 26454 million, which is almost 21 percent of the total FDI inflow. Computer Software & Hardware is the second highest attracting sector after service sectors. It gets a US $ 10600 million FDI inflow which is 8.39 percent of the total FDI inflow.

CHART 4: SECTOR WISE FDI INFLOWS FROM APRIL 2000 TO DECEMBER 2010



Source: Department Of industrial Policy & Promotion, Govt. Of India

Telecommunications and Housing & Real Estates placed at Third and Forth amounted to US $ 9380 and US $ 8963 million respectively which accounts 8.12 percent and 7.43 percent. Construction and other activities, Automobile Industry, Power, Metallurgical Industries, these industries are placed at fifth, sixth, seventh and eighth place they all contribute almost 20 percent of FDI inflow. Ninth and tenth place is occupied by Petroleum and Natural Gas, Chemicals (other than fertilizers) these two sectors constitute 5 percent of total FDI inflow to India. These top ten sectors constitutes almost 70 percent of total FDI inflow to India.

CONCLUSION & SUGGESTIONS

The study illustrate that there has been positive impact of FDI on overall growth of the economy. India has registered tremendous growth in FDI inflows during last decade and total inflow cross the level of US $ 30 million. But when it is compared with other countries and continents the figures of FDI inflows are not encouraging.India's share in world FDI rose to 1.3 per cent in 2007 as compared to 0.7 per cent in 1996; this can be attributed to the economic reform process of the country for the last eighteen years.China is the most attractive destination and the major recipient of global FDI inflows among emerging nations. India is at 5thposition among the major emerging destinations of global FDI inflows.The study also provides possible reasons behind China's great show of FDI and the lessons India should learn from China for better utilization.The majority of foreign investors prefer China over India for investment opportunities as China has a bigger market size than India, offers easy accessibility to export market, government incentives, developed infrastructure, cost-effectiveness and macro-economic climate, India on the other hand has talented management system, rule of law, transparent system of work, cultural affinity and regularity environment.

Although China attracts considerably more FDI than India, there is reason to believe that India is emerging as an increasingly attractive location of FDI. This is despite problems related to its poor quality of infrastructure, inefficient government bureaucracy and labour market inflexibilities. Yet FDI inflows alone are insufficient to translating is not higher growth unless they can be efficiency channeled into growth mechanisms notably through spillover effects.Never the less, recent trends in both China and India have shown that FDI is increasing being courted as a means of stimulating high economic growth. It should be noted that without a competitive development strategy. FDI alone will not be a solution in itself to economic development in either country.

The study suggests the policy makers to focus more on attracting diverse type of FDI.The policy makers should design policies where foreign investment can be utilized as means of enhancing domestic production, savings, and exports; as medium of technological learning and technology diffusion and in providing access to the external markets.The government should push for the speedy improvement of infrastructure sectors requirements which are important for diversification of business activities.FDI is beneficial to India's growth. India needs to create a talent pool and suitable investment climate for the foreign direct investment, and it needs to develop infrastructure that will encourage the investors. That will bring more FDI into India.Government should open doors to foreign companies in the export oriented services which could increase the demand of unskilled workers and low skilled services and also increases the wage level in these services.Finally, it is suggested that the policy makers should ensure optimum utilization of funds and timely implementation of projects. It is also observed that the realization approved FDI into actual disbursement is quite low. It is also suggested that the govt. while pursuing prudent policies must also exercise strict control over inefficient bureaucracy, red-tapism and the rampant corruption, so that investors' confidence can be maintained for attracting more FDI inflows to India. Last but not least, the study suggests that this government ensures FDI quality rather than its magnitude.

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CONSTRAINTS IN FINANCING OF SMEs: A CONCEPTUAL PAPER IN THE PERSPECTIVE OF PAKISTAN

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ABSTRACT

The limited availability of financing and least financing channels to Small Business Enterprises (SMEs) is significant issue for policy developers and has been a deeper interest for researchers all over the world. Desired financing for smooth and efficient running of the operations of SMEs is major barrier as compared to large size firms. The conceptual paper focuses upon the factors, which hinder the lending institutions to fulfill the financing needs of SME and tries to discuss pros and cons of such obstacles faced by SME in Pakistan. It is obvious from literature review that financing facilities and improvement of SME have positive relation almost all over the world i.e. in respect of fiscal growth and employment. Relationship among factors and lending facilities is major concern of this paper. Goal of this study is to provide theoretical analysis and justification of those factors, which hinder the financing facilities to SMEs in Pakistan. This paper also focuses upon the requirement of lending institutions in different areas upon which the financing facilities are decided and challenges in this regard. The methodology in this paper will also equip the researcher to get better information on specific financial need of SMEs to quench the thirst of lending institutions requirement in friendly manner so that growth and prosperity of country will be achieved.

KEYWORDS
SMEs, financing facilities.

1. INTRODUCTION OF SMEs

Small Business Enterprises (SMEs)have been a topic of utmost significance as they perform key role in development of any country irrespective of the nature of economy (developing or developed). SMEs not only provide major revenue to economy but also generate employment opportunities.Nowadays,a country cannot get standard of growth without active role of SME sectorand that is why it always remainsindebted to this sector. SME sector is key player that promotes positive trade balance, competitive advantage, increased export level, job opportunities, diversified businesses, entrepreneurship trend in country, acceleration in the economic development and gigantic poverty reduction factorin country (Mudassir, Marryam 2012).

Pakistani economy undoubtedly is SME economy as it is the second most important sector of economy after agriculture. Around 3.2 million are registered business that offered 99% of employment opportunities according to Federal Bureau of Statistics (FBS). FBS claims that contribution of SME in Pakistan is significant in 2011; SME contributed 40% in GDP with RS 140 billion in exports. Share in GDP was 10% more in 2011 as compared to previous three years. Punjab was leader in SME as 65% business activitieswere being operated in Punjab while the rest was there in other three provinces.

The limited availability of financing and minimal financing channels to SMEs are significant issue for policy developers and have a deeper interest for researchers all over the world.

SME sector was major indicator of progress in country during 2005. Pakistan was ranked 135th out of 174 countries on Human Development Index (HDI). Contribution in growth rate from SMEs is higher than the contribution made by large size businesses.This sector has also increased prosperity level in low or middle income masses of Pakistan. SME sector contributed approximately 30% in GDP in 2007 and this contribution rose up to 40% till 2011.As per the claim of International Trade Center, SMEs have provided 35% of employment opportunities in Pakistan. A large number of researchers have argued that SME is disadvantageous toget desired external finance as compared to large size firms. This happens because of different nature of financing requirementsof SMEs. (Naveed and Anas 2012)

Large firms have advantage of access to the capital market and get a quick financing at low cost but this is not the case with SMEs in Pakistan owing to high level of regulatory and other constrains. Equity portion of SMEs at market level is very minimal that compels them to get financing from government grants, banks' loans and different types of interest-bearing financing. Such nature of different accesses leads the SMEs towards fluctuations in their own policies. The essential requirements from lending institutions do not exactly match the ability of SMEs by making it tougher to get financing at appropriate and affordable terms and conditions.

There are diverse types of financingsavailable to SMEs in Pakistan, which are channelized through financial institutions. Government of Pakistan also tried to deal with the problems of limited availability of financing, lack of awareness by strengthening this sector throughSmall and Medium Enterprises Development Authority (SMEDA). Afew burning questionsarise here;do the essential requirements formulated by financial institutions meet the desires of Pakistani SMEs?Do the essential requirements set by lending bodies are aligned with the abilities of SMEs? Are SMEs able enough to get financing by meeting essential requirementsfrom financial lenders? Are owners or managers of SMEs are competent to meet the banks' requirements and switch the opinions of lending institutions in favor of their business? If all these question are not in the favor of SMEs then how they would elaborate constrains faced by them. This conceptual study will answer all of these questions. Specifically, this study is more inclined to get the theoretical improvement in framework and analysis in context of small and medium business enterprises along with factors affecting the lending institutions to grant loans in Pakistan. The challenges and issues about the requirements of lending bodies to SMEs are also important.

2. LITERATURE REVIEW

2.1 DEFINITION OF SME

Different countries across the globe try to interpret the definition of SMEs in respect of their economic, social and infrastructural setup. The definition of developing and developed countries varies and not challenged anywhere owing to their unique circumstances. Pakistan's Small and Medium Enterprises Policy 2007 elaborates the definition in two respects i.e. number of employees and annual turnover. In national policy of SME business is up to size of 250 employees, paid up capital up to Rs. 25 million and annual turnover up to Rs. 250 million. SMEs are also further divided into different categories by different people i.e. micro, small and medium size businesses.

TABLE 2: SME DEFINITIONBY SME POLICY 2007

Business type	Number of employee	Amount of capital	Annual turnover
SMEs	Up to 250	Up to RS. 25 millions	RS. 250 millions

2.2 FACILITIES AVAILABLE TO SME IN PAKISTAN

Diverse nature of businesses in SME requires different types of customized financing for their unique operations. This leads the banking sector and financial institutions to launch broader types or products to fulfill the requirements of SMEs. According to SMEDA reports, financing needs of SMEs are poised on three stages like start up, expansion and rehabilitation. Recently, banks are major players to provide the financing to SMEs but Islamic financing products are also getting popularity with the passage of time. Limited and regional facilities of Islamic financing reduce the usage of conventional loans in SMEs. The facilities available to most segments of SME in Pakistan include conventional loans, operating and financial lease, leasing of hire purchase, bill of exchange, banker acceptance, revolving credit facility and factoring.

Government of Pakistan is also providing facilities to SMEs for prosperity of economy.Small and Medium Enterprises Development Authority (SMEDA) was incorporated in 1998 under the Ministry of Industry and Production. It has brought a revolution and launched different programs and policies to support and strengthen SMEs in Pakistan with clear-cut objectives. SMEDA provides different facilities to this sector including the accessto international grants, facilitation in securing financing,identification of opportunity on the basis of demand and supply, conduct seminar and training workshops and support in business development.

International agencies and donors also play a major part to enhance the effectiveness and efficiency of SME sector. Pakistan gets grants from different international and regional institutes to foster the financing and infrastructural harmony in SME. Most im0protanaly, the use of such aid in efficient manner is questionable in context of Pakistan and requires much attention of higher authorities. Some of the international donor agencies are listed below:

- United National industrial development organization (UNIDO)
- U.S agency for international development (USAID)
- Canadian international development agency

2.3 MAJOR CHALLENGES FACED TO SME IN PAKISTAN

SME sectorin Pakistan faces three types of challenges i.e. asset financing, regulatory requirements and infrastructural. Asset financing is prominent among all and requires immediate action of government to boost this flourishing section of economy. Government is trying to put concentration on this segment through international collaboration and enthusiastic efforts. Government of Pakistan has launched different entities through Trade Development Authority of Pakistan, SMEDA, NPO and PSICto boost the performance of sectorwith crystal clear objectives but despite of all these sincere efforts and measures,the goal to get the maximum benefits from this sector is quite far from true destination and requires attention on priority basis.

Asset Financing:

- Collateral issue
- Absence of suitable banking product aligned SME needs
- Lack of awareness and access for SME
- Absence of credit enhancement and other alternative

RegulatoryEnvironment for SMEs:

- Taxation
- Labor law

Infrastructural Challenges:

- Less trained management and HR skill
- Skilled labor

2.4 THE BARRIERS TO SME ACCESS TO FINANCE OPERATION

Literature review on economic growth and firms financing shows that shortcomings to get finance is key constraint to SME growth. Schiffer and Weder (2001) argued empirically that large firms have greater edge in borrowing-related decisions from market than SME and this particular obstacle is ranked at top in the growth of SME.Furthermore, World Bank also claims that credit availability to SME is most pressing issue in any economy especially developing counties. These constraints are owing to financial sector policy biases, limited knowledge on the part of banks, information differences and high degree of exposure involved in lending to SMEs. Stiglitz & Weiss (1981) verified that finance to SMEs may be tough decision for lending bodies because of informational asymmetry and adverse selection problems. Beck et al. (2005) described that size, age, policy and management of SME are key factors that determine nature of constraint in finance related issues.

Lending entities are often classified into two categories i.e. a transaction lending that primarily focuses upon quantitative nature of data (financial statements) and relationship lending that significantly focuses upon qualitative nature of information. SMEs mostly get financing through relationship lending in developing counties. (Berger, 2005)

3. THEORETICAL FRAMEWORK OF THE STUDY

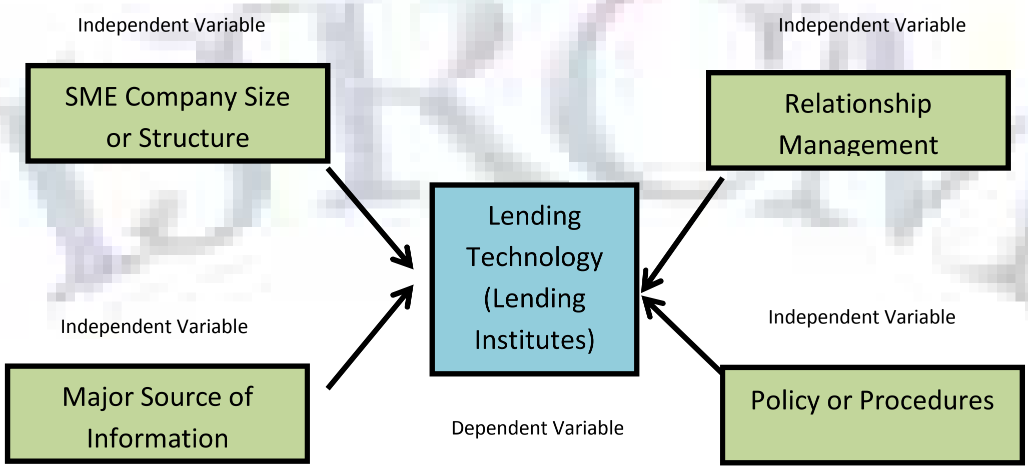

TABLE: 3 SMES SIZE OR STRUCTURE

Micro size of SMEs	1-5
Small size of SMEs	5-100
Medium size of SMEs	100-250

3.1: EFFECT OF COMPANY STRUCTURE ON LENDING DECISIONS

Kunt and V (2005) haveconducted a survey at firm level in fifty four economies and found that major constraints of SMEs are financial, regulatory and corruption, which hinder the optimal growth rate in specific economy. The study revealed major constraintsin getting financing from lending entities are firm size.Smaller firms are severely affected to finance their operations owing to their size in contrast with large firms. In developing countries, legal or regulatory constraints along with corruption issues affect more than firm size. The study also described that corruption of any kind in banking staff also affect the firm's growth in short-run and it often happeneddue to asymmetric information. The paper also suggested to improve regulatory and financing development in best interest of small and medium size businesses.

Burger and Gregory (2006) discussed the finance availability issue to SMEs and behavior of lending technologies to finance the operations of SMEs. Banking lending decisions are mostly dependent upon the structure and environment in which they operate the business. Small businessesare more likely to get financing on the basis of soft information (relationship lending).

Bakker at el. (2004) tried to focus upon the lending decisions of banking on factoring. Factoring is a particular type of lending that is granted on the basis of account receivables and getting popularity with the passage of time especially in working capital needs. Though factoring ratio varies across the globe but a significant amount of lending is involved in this mechanism. This paper argue with solid empirically evidence that factor has advantage over other types of lending in SMEs in developing countries.

Klapper (2006) found empirically that factoring is larger in percentage in developed countries rather than developing countries and mitigates the issue of collateral financing by diversifying the risk of SMEs.

Berger (2006) argued banking lending decisionsare sometime based uponsome defined rules to accept or reject the application especially in SMEs. Some banks use credit score to reduce cost. This mechanism excludes the SME sector to get finance due to low credit score. Large firms with better infrastructure get better grades and access the availability of credit easily. Some banks use the credit score calculated by other banks and decide credit extension on their discretion that may not be beneficial to small and medium size businesses.

Uchida at el. (2006) conducted the study in Japan to ascertain the relevancy of different lending institutes that promote SME sector. Small banks and other lending institutions having impelled amount of soft information usually decide about lending to SME sector on the basis of soft information (relationship lending).

3.2 IMPACT OF POLICY TO GET FINANCING

Nadar at el. (2011) focused on virtual teams in manufacturing SMEs and found a positive effect on the performance of businesses. The SMEs having policies in favor of virtual teams had more growth rate as compared to ones without policies for virtual teams. The paper concluded that policies of SMEswere prominent factor in profitability and growth.

Karl (2011) studied the impact of generic strategies (cost, differentiation) on the performance of SMEs. The author conducted longitudinal study form 1991-2002 and found that combination of strategies is viable option for long-run and the firms consistent in specific policy (strategy) have advantage over other firms, which have no policy during the entire period.

Paul at el. (2011) studied critical factors affecting Customer Relationship Management (CRM) on SMEs and traced relationship between CRM and efficiency of SMEs through quantitative methods in Ireland. Online survey was conducted on 1,485 SMEs and it was concluded that SMEswere not following CRM practices at the extent of large firms but the tendency to follow the CRM practices was increasing with the passage of time.

Maria (2012) has conducted a study on the policies of small firms about innovation. Typically, innovation has been found to be associated with large businesses but it doesn't mean that there is no active role of SMEs in the area on innovation. Through quantitative study, it has been made obvious that SMEshave been also the main producers of innovation in every field.

Evelyn (2012)has ascertained different reasons for not accepting loan application from SMEs by the banks in Tanzania. Interview method has been used to collect theprimary data along with secondary data, which has concluded that lack of awareness, poor presentation of documents, improper collateral, different financial product of banks and limited knowledgehave been the main reasons.

3.3 IMPACT OR REGULATOR REQUIREMENT ON LENDING DECISIONS

Mudassir (2012) has investigated relationship in lending to SMEs and large businesses. Pakistan is facing the problems of high inflation rate and high interest rate at the same time. Loan availability between SME and large businesses have negative relation, which shows that SMEs have faced the limited availability of credit during period of high inflation owing to intense legal requirements by the lending institutions.

It is eminent that the growth of SMEs is a better mechanism to eradicate poverty in the country. Maryam (2012) has found empirically that SMEs have larger impact on poverty reduction in trade liberalization contrast to large size businesses.

Ammar (2012) has traced down the factors limiting the growth of SMEs in Pakistan. Pakistan has been ranked below average in Asia in the context of SMEs supporting activities (budget, employee, facilities). The paper has also revealed many obstacles in growth of SME sector and shed light on legal and regulatory requirement fulfilled by SMEs.

3.4 RELATIONSHIP LENDING (SOFT INFORMATION)

It has been proved that SMEs mostly get relationship lending owing to their weak or smaller size infrastructure that does not support the entity to get financing from capital market. Especially, relationship lending is common in developing countries including Pakistan, Bangladesh and Nigeria. SME sector should focus on soft information (relationship lending) rather than transaction lending. SME must adopt policies to get financing through this mechanism for the future growth and better financing terms and conditions. (Paul et al. 2011)

4. CONCLUSION

This particular study focuses upon the conceptual framework of factors, which influence lending institutes to channelize the finance towards SMEs in Pakistan. Theoretical conclusion drawn from the literature supports that company size (structure), relationship to lending technologies, source of information, policy or procedure adopted, monitoring strategies adopted by lending institutions haverelationship and huge impact on decision making processes of lending institutions. Lending bodies formulate specific strategies according to the said factors and channelize resources by analyzing information gathered on the basis of these factors. Our findings would help the SMEs to shape their policies according to the requirementsof lending institutions in the best interest of SMEs. Small and Medium Enterprises may launch proposals to get financing by in-depth analysis of such constraints and factors. They may also immune to rejection of financing needs at affordable terms and conditions.The findings of this paper would also help lending entities to understand specific financial needs of SMEs and devise financial products aligned with SMEs requirements. SME sector should focus on soft information (relationship lending) rather than transaction lending. SMEs must adopt policies to get financing through this mechanism for the future growth and better financing conditions. It may be imagined that easy access to lending institutes would help Pakistani SMEs to boost economic activity, uplift living standard of masses, dramatic increase in export, better employment opportunities, positive GDP with poverty alleviation as a target in long-run.

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A SIMPLE PRICING MODEL FOR CALL OPTIONS TRADED IN NSE NIFTY OPTION MARKET: THEORY, MODEL & EMPIRICAL TEST

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ABSTRACT

A simple option pricing model is suggested based on correlation of underlying stock with actual market behavior as reflected by market index, thereby market factor coefficient to enable the traders to quote the prices. The simplicity and ease of the proposed model may appeal to the traders, operators and other market participants. Daily option Prices at different strike prices for the underlying stocks are calculated by applying daily Market Factor coefficient, exercise price, strike price and time to maturity. Model is tested with call option prices of select underlying stocks which constitute Nifty index of the National Stock Exchange of India. Option prices produced by the proposed model are close to the actual price for varied range of strike prices. The Model works perfectly to call in-the-money, at-the-money, and near out-of-money. Pricing difference is tested through tools such as Mean Error, percentage mean error, Root Mean Square, Thiel's U statistic. Regression analysis is also explored with traded prices on Call option prices obtained by the model. The simplicity and workability of the proposed model are its main advantages over the existing models.

JEL CODES

G13, G14.

KEYWORDS

Deep in-the-money call option, Derivative trading, Market factor coefficient, NSE Nifty, Option pricing model.

INTRODUCTION

An Option means a choice. Options belong to a class of instruments referred to as 'Derivatives' because they derive their value from an underlying commodity or financial assets. By definition, "derivative is a contract or an agreement for exchange of payments, whose value derives from the value of an underlying asset or underlying reference rates or indices". Price of a derivative instrument is contingent on the value of its underlying asset. The underlying commodities and financial assets can range from products like wheat and cotton to precious items like gold, silver, petroleum and financial assets like stocks, bonds and currencies. The underlying assets on options include stocks, stock indices, foreign currencies, debt instruments, and commodities and futures contracts. These are called stock options, index options, commodity options and futures options. Options have richer history. Forward contract dated back to Mesopotamian tablets (1750 B.C.). Phoenicians, Grecians, Romans traded options. Organized exchanges began trading option on equities in 1973.

An option in a financial market is created through a financial contract. This financial contract gives a right to its holder to enter into a trade at or before a future specified date. An option provides a downside protection against risk and also an upside benefit from movements in the underlying asset prices; that is as a hedge against unexpected changes in market and tool against erosion of capital.

An option is a contract in which the seller of the contract grants the buyer, the right to purchase from the seller a designated instrument or an asset a specific price which is agreed upon at the time of entering into contract. Option buyer has the right but not an obligation to buy or sell. If the writer gives the buyer of the option the right to purchase from him the underlying assets, it is call option. If the writer gives the buyer of the option the right to sell the underlying asset, the contract is termed as put option.

In 'The *Theory of Option in Stocks and Shares'*, Castelli referred to option pricing techniques. Louis Bacheliers's applications of stochastic phenomena, Wiener's mathematical development by path integrals method are some earlier major achievements in the analytical evaluation of options. *Theorie de la speculation* deals with the probabilistic modeling of financial markets and leads to Brownian motion and the mathematical modeling of financial market. Paul Levy and William terms the Brownian motion process the Bachelier Wiener Process. Samuelson's log normal model for stock prices formed the basis of the Black-Scholes Model option. Ito developed and improved Multiple Wiener Integral termed as Ito calculus and the stochastic differential equation. Ito calculus is front-runner to the theory of stochastic calculus. It is an alternative approach to binomial trees.

At the time of introducing an option contract, the exchange specifies the period during which the option can be traded or exercised, the period is termed as Expiration period and date at which contract matures is Exercise date. The price at which the underlying asset may be bought or sold is exercise or strike price. Option premium or option price is the amount which the buyer of the option, whether it be a call or put has to pay to the option writer. Intrinsic value of an option is the value of the profits that are likely from the option. The difference between the option premium and intrinsic value is referred as time value. An option whose exercise price is equal to current spot price is said to be at-the-money. A call option is in-the-money when the strike price is below the current spot price of the underlying asset. A put option is in-the-money where the strike price is above the current spot price of the underlying asset. A call option is said to be out-of-the-money when the strike price is above the spot price of the underlying asset. Put option is said to be out-of-the money when the strike price is below the current spot price of the underlying asset.

There are varied kinds of options—American options, European options, Bermudian options, Exotic or path dependent options, Look Back options, Barrier Options, Asian options. *American option* can be exercised any time before its expiration date while the *European option* can only be exercised on its expiration date. *Bermudian option* is partly American and partly European which can be exercised on a limited number of occasions, as stated in the contract, also known as quasi-American option. *Asian option* (Average Rate option) is a typical option that enables the holder the right to deal at the average price of the underlying asset during the holding period of option. Since the volatility of the average rate is less than the price of the underlying asset, these options are cheaper. In *compound option* an option holder is given the choice to acquire an option on an option. *Exotic or path dependent* options have values that depend on the history of an asset price and not just its value on exercise. *Barrier option*, a path dependent option which can be cancelled or activated depending upon the price of the underlying asset at various situations. *Up and out Options* are the natures of put options which stand to be cancelled if the price of the underlying asset exceeds a certain level. *Up and in options* are of no value, if the price of the subject asset rises above a certain level. *Down* and *out* options are calls which are treated as cancelled price moved down to a certain level. *Look Back option* is a special type of option which enables the holder the right to buy at the lowest price and right to sell at the highest price of the underlying asset during the tenure of the option. *Chooser option is* the option in which the holder is given the chance to choose the same as a put or call option within a certain time period. In the *Flex option* the traders agree to non-standard terms. Trading and pricing of stock options have occupied dominant place in derivative market. Numerous pricing models have been developed, studied and tested. The Black-Scholes model is based on the geometric Brownian motion and follows a Gaussian distribution; it provides a closed form analytical expression for valuation of European style options. It is an option valuation model not a theorem. The model is developed based on assumptions and there are limitations with any such model. When the assumptions of the model are relaxed, discrepancy occurs. According to John C Hull "An option pricing model is no more than a tool used by traders for understanding the volatility environment and for pricing illiquid securities consistently with the market prices of actively traded securities. If traders stopped using Black-Scholes and switched to another plausible model—the prices quoted in the market would not change appreciably".

REVIEW OF LITERATURE
Mandelbrot(1963) observed that the asset prices returns are highly leptokurtic. Numbers of studies were conducted to test the Black-Scholes model and other pricing models. Latane and Rendleman(1976) observed that out-of–money put options are generally overpriced in the market. *Macbeth* and *Merville*(1979) found that implied volatilities tended to be relatively high for in-the-money options and relatively low for the out-of-the-money options. A high implied volatility is indicative of a relatively high option price and low implied volatility is a low option price. *Rubinstein*(1985) in his study on trades reported on Chicago Board Option Exchange during the period 1976 to 1978 found that for out-of-the-money options, short maturity options had significantly higher implied volatilities than long maturity options. Study of *Whaley*(1986) showed that, overall the deviation between actual market prices and theoretical prices not significant. The model under prices in-the-money options. Some models assumed that volatility of stock price process is not constant but stochastic. Heston(1993) derived an option pricing formula when the log of underlying price distribution followed a Gamma process. Some option pricing models are based on series expansions of the underlying prices to obtain the model. Corrado and Su (1996) used a Gram-Charlier expansion of the normal distribution of returns. Popova and Ritchken (1998) created bounds on option prices when the underlying asset had the Paretian stable distribution. The study by Raj and Thurston(1998) on an intra day basis found that model under prices both calls and puts. Heston and Nandi (2000) developed a closed form option pricing formula based on a Generalized Autoregressive Conditional Heteroskedastic (GARCH) process and found lower valuation errors. Savickas (2001) developed option pricing formula based on the Weibull distribution. Anurag & Satish(2002), Gururaj and Chug(2002) Varma(2002), Narayana Rao(2003) Schenbagaraman(2003), analyse the volatility and pricing efficiency of options in India. Varma(2003) studies the pricing of volatility in the Indian Index Options market found that volatility is severely misprices and the Indian option market has moved from naïve model to Black Scholes Model. Actual Stock price movement does not follow lognormal distribution. Ait-Sahalia and Duarte(2003) consider call price as a one dimensional function of the strike price alone, by using only options with equal time to maturity and assuming that interest rate and dividend yield are deterministic function of time. Yatchew and Hardle(2006) introduced non parametric least squares estimator. They assume the call price to be a function only depending of strike price. Gatheral(2006) defines profession of models someone who finds equations that fit prices in the market prices with minimal errors. Taleb and Goldstein (2007) show that most professional operators and fund managers use a mental measure of mean deviation as a substitute for variance. Broadie & Detemple(2004), Han(2008),Mitra(2009), Garcia, Ghysels, & Renault(2010) in their models relaxed some of the assumptions of Black Scholes-Merton Model.

NEED FOR AND OBJECTIVES OF STUDY
For option traders theories should arise from practice. Option price as far as traders are concerned depends on market conditions thereby on stocks and indices. In effect market conditions and related parameters. Option traders normally do not depend on theories. Traders may take decisions based on market conditions, but avoid fragility of theories. Traders specializing in using the put call parity to convert puts into calls or calls into put termed as converters. Dealers who basically operated as market makers can able to operate and hedge most of their risk by hedging option with options or cover their position by offsetting.
Operationally price is not valuation. Valuation requires theoretical frame work with its assumptions and the structure of a model. For traders, a price means marked to buy or sell an option. Traders are engineers, whether rational or even not interested in any form of probabilistic rationality. Traders produce a price of an option compatible with the instruments in the market, other market parameters, with a holding time that is stochastic. Many of the option pricing models are highly complex and involve rigorous mathematical computation. With many number of sophisticated algorithms, traders are perplexed with to choose which model they have to quote the price in the market. As such there arises need for simple option pricing model.
The study seeks to contribute the existing literature in many ways. Study is to examine the market factor, subsequently the pricing of option.

OBJECTIVES OF THE STUDY

1. To develop a model for pricing of call option to traders, professional and other market participants as reflected by Market Factor Coefficient (φ)based on the underlying assumptions.
2. To find the price of varied series of options of different stocks that constitutes NIFTY Index based on the proposed model.
3. To compare prices predicted by the model and observed prices in the market and its effectiveness.

RESEARCH METHODOLOGY
ASSUMPTIONS: In developing the model there are some underlying assumptions:
- Value of the option depends on market conditions or market forces. Traders quote their price based on such market conditions.
- Call Option is function of market factor coefficient (φ). Option price depends on current stock price, exercise price, time to maturity, market factor coefficient which in turn depends on market movement.
- Fund required for option transaction by long or short is on borrowed fund, rate of which is considered as rate equivalent to risk free interest rate. Since the trader has already decided to buy or sell option, it is assumed that rate has no impact on option price. As such no adjustment on this factor is required.
- Transaction cost in buying and selling the option do not be reflected in the price quoted by the trader.
- Traders normally do not exercise the option. Position is covered by offsetting or reverse transaction i.e., buy or sell.
- Corporate actions like dividend declaration, bonus issue, right issue, stock split, take over, acquisition, buyout, bankruptcy, window dressing are taken care of by the market thereby reflects in market and stock price reflects such changes or adjustment. It is assumed that no adjustment is required on this count.
- The option markets are efficient. Market factors reflect in fair value of the option. Volatility of the underlying stock has considered in the market factor coefficient.
- Number of contracts traded by the trader depends of on the availability of fund at his disposal. Options are tradable only for some strikes in the region.
- Traders may take decisions based on market conditions. Traders produce a price of an option compatible with market parameters.

For determining the market factor coefficient, historical data is considered in the estimation procedure. The current market price of the stock depends on market conditions. Options are tradable only for some strikes in certain range *(p,q) around the actual Spot Value St*. In a bullish regime actual Spot *St* will be near to *q.* In bearish regime it is closer to *p.* In practice the number of tradable options for given expiry could be small.
Let '*St*' current price of the stock traded on the day, when the trader marked to buy or sell option.
Xi^c and Xj^p are assumed to be set of exercise prices (X) for call or put options
Where
i = 1, 2… ……..Xq
j = 1, 2………… Xp
Let 'k_m' be the market index and 'k_j' be the closing price of the stock for 'd' number of days observed and recorded in intervals such as 0 to 7 days, 0 to 14 days, or any *0 to'd'* number of days etc. the option trader decided to trade on that call option. *For index options, closing price of the index option taken as k_m , and highest price during the traded day taken as'k_j.'* There are mainly three series of option contract available in the Indian market be gets matured in one month, two months or three months.

day	k_j	k_m	$(k_j - \bar{k_j})$	$(k_m - \bar{k_m})$	$(k_j - \bar{k_j})(k_m - \bar{k_m})$	$(k_m - \bar{k_m})^2$
0 1 2 3 d						
	$\sum k_j$	$\sum k_m$			$\sum (k_j - \bar{k_j})(k_m - \bar{k_m})$	$\sum (k_m - \bar{k_m})^2$

$$\bar{k_j} = \frac{\sum k_j}{n}$$

$$\bar{k_m} = \frac{\sum k_m}{n}$$

Market factor coefficient (φ_n) = $\dfrac{\sum (k_j - \bar{k_j})(k_m - \bar{k_m})}{\sum (k_m - \bar{k_m})^2}$ (1)

t Time to maturity from trading day to expiry date
e Exponential factor
St Current stock price of the stock on the day
X Strike Price

(φ_n) = Market factor coefficient for the day

N (φ) = Normal distribution of market factor coefficient φ from normal distribution Table

Market Coefficient (φ_n)is calculated up to the time trader decides to buy or sell the option based on the elapsed number of days

Proposed call option model $C = S_t N(\varphi_n) - Xe^{-t} N(\varphi_n)$

MAIN ADVANTAGES OF THE PROPOSED MODEL

1. Its simple form.
2. Ease of the model's implementation.
3. Practical application.
4. Adjustment factor and volatility taken care in the market factor coefficient.

DATA

The proposed model is tested using the actual values traded in the NSE option market. National Stock Exchange (NSE)of India promoted by financial institutions and erstwhile IDBI incorporated as per the provisions of the Companies Act, 1956 started operations in 1994 and within a year became largest exchanges in India operates in fully transparent and regulated environment marked by 50 stock index namely Nifty.

Derivatives occupy substantial share in the world of finance and in the Indian market, derivatives are governed by Securities Contract (Regulation) Act, 1956(SCRA). The SCRA was amended in 1999 to include derivatives within the purview of securities. Government of India accepted the recommendation of L C Gupta Committee Report on Derivatives (1997). The report suggested introduction of stock index futures as an initial step to be followed by other products, once the market stabilizes. Futures on bench market indices were introduced in June 2000. Index options in June 2001 followed by options on individual stocks in July 2001 and stock futures on individual stocks in November 2001.

The study covers call options written on select underlying stocks which constitute Nifty Index covering software industry, heavy chemicals, banking sector, FMCG, automobiles, during the period. Data for the study has collected from the website of the National Stock Exchange of India, www.nseindia.com. The date, time, contract month, option type, strike price has collected from the data source. Trading days has considered for analysis and computation and not calendar days. The number of trading days per year is assumed 250 days. Historical data is used for calculating the market factor coefficient φ_n Each stock moves variedly depending on market conditions. For calculating the market factor coefficient (φ_n) , the values prevailed to the time when the option trader marked the price (decided to buy or sell) is to be taken for stock price (k_j) and market index (k_m). Closing price of stock (k_j) and the closing price of market index (k_m), for traded days (n) or any other traded days is considered for computation of the market factor coefficient (φ_n). Exercise or strike price (X) of available series is taken for calculation and St as current stock price.The Normal distribution of Market Factor Coefficient φ , from the normal distribution table viz, N (φ).

Using market data to test any asset pricing model involves
''An asset is incorrectly priced by the model.
Asset is incorrectly priced by the market.
Both the model and market price the asset incorrectly".

DATA ANALYSIS

The study investigates the pricing of call option series written on underlying stocks of the five Indian companies namely, Reliance, Infosys, State Bank of India, Hindustan Lever Limited, Tata Motors applying the proposed model using data in the month of November 2012 in the National Stock Exchange of India. From the equity segment of NSE, daily closing prices of Reliance, Infosys , Hindustan Lever limited, State Bank of India, Tata Motors and also that Nifty index were collected and daily market factor coefficient viz., φ_n has calculated as per eqn.(1) That is in finding out (φ_1) based on the values observed in day 0,1 and for φ_2 based on the values observed in day 0,1, and 2 and so on. After computing φ_n values for such days, daily theoretical prices for different strike prices of the options are computed based on the model suggested considering time to maturity, exercise price and current stock price. Observed values and theoretical prices of different series of options are tabulated. One of the ways to measure accuracy of the formulae is to compare the calculated values with actual call option prices in the market. The differences between actual and computed values are errors. One with lower error can be considered better. In the study errors are measured using Mean Error(eqn.3), Percentage Mean Error(eqn.4), Root Mean Square Error(eqn.5) and Thiel's U statistic(eqn.6).

MEAN ERROR (ME)

It can be computed by adding all error values and dividing total error by the number of observations.

$$ME = \frac{1}{N}\sum_{n=1}^{N} e_n$$

$$ME = \frac{1}{N}\sum_{n=1}^{N}(O_{tp} - O_a) \qquad (3)$$

Where

O_{tp} = the theoretical/predicted price of the option

O_a = Actual price for observation.

N= Number of observations.

PERCENTAGE MEAN ERROR(PME)

$$PME = \frac{1}{N}\sum_{n=1}^{N}(O_{tp} - O_a)/O_a \qquad (4)$$

ROOT MEAN SQUARE ERROR (RMSE)

It is square root value of mean squared error and similar to standard deviation.

$$RMSE = \sqrt{\frac{1}{N}\sum_{n=1} e^2{}_n}$$

$$RMSE = \sqrt{\frac{1}{N}\sum_{j=1}^{N}(O_{tp} - O_a)^2} \qquad (5)$$

THIEL'S U STATISTIC

Henri Thiel (1961) developed an inequality coefficient for measuring the degree to which one time series differs from another. "*Theil's U statistics is independent of the scale of the variables; it is also consutrcted in such a way that it necessarily lies between zero and one, with zero indicating perfect fit*". Thiel's U statistic is computed as under :

Thiels inequality coefficient (Thiel's U)

$$= \frac{\sqrt{\frac{1}{N}\sum_{n=1}^{N}(O_{tp} - O_a)^2}}{\sqrt{\frac{1}{N}\sum_{j=1}^{N}(O_{tp})^2} + \sqrt{\frac{1}{N}\sum_{j=1}^{N}(O_a)^2}} \qquad (6)$$

A value close to zero indicates a good fit, whereas, value greater than, 1 indicates that the technique is actually worse than using a naive forecast. In comparing the two methods, the method that produces lower U statistic may be considered better than the other.

The analysis further involves regressing actual traded prices against the prices predicted by the model

Regression Model $Ycall = a_0 + a_1 Ycall + \varepsilon$ (7)

Zero intercept, unit slope and high R^2 means a good fit. SPSS packages has extensively used in exploring regression analysis.

RESULTS AND ANALYSES

Market Price of the underlying stocks, and that of Nifty index for the period under study is tabulated in Table 1

TABLE 1: CLOSING MARKET PRICE OF UNDERLYING STOCKS, NIFTY INDEX DURING THE PERIOD

Day	NIFTY	Reliance	Infosys	HLL	SBI	Tata Motors
0	5645	807	2365	537	2116	267
1	5698	808	2388	533	2152	270
2	5704	806	2378	533	2145	270
3	5724	805	2382	533	2173	267
4	5760	801	2404	535	2217	269
5	5739	797	2375	533	2242	284
6	5686	788	2349	529	2155	281
7	5684	787	2359	530	2190	281

Daily market factor coefficient (φn) for the period under study based on Market Index, i.e.,Nifty and market price of the underlying stocks is tabulated in Table 2. Time to maturity, exponential factors are also exhibited in Table 2. For the stockof Reliance, the Market factor coefficient shows positive values and in later period it shows negative trends. For the stock of Hindustan Level Limited, market factor coefficient (φn) is exhibiting negative in decreasing manner. While for Infosys, State Bank of India, Tata Motors market factor coefficient(φn) has not showing any specific pattern.

TABLE 2: MARKET FACTOR COEFFICIENT (φ_n) OF UNDERLYING STOCKS ON DAILY BASIS

Day	(φ_n)	Reliance	Infosys	HinduLever	SBI	Tata Motors	Time to maturity (Days)	Exponential Factor e^{-t}
1	(φ_1)	0.0189	0.4340	(-)0.0755	0.6792	0.0566	17	0.9343
2	(φ_2)	0.0046	0.3045	(-)0.0708	0.5654	0.0531	16	0.9380
3	(φ_3)	(-)0.0201	0.1653	(-)0.0560	0.6733	0.0145	15	0.9418
4	(φ_4)	(-)0.0518	0.3107	(-)0.0195	0.8633	0.0109	14	0.9455
5	(φ_5)	(-)0.0749	(-)0.0395	(-)0.0215	1.0491	0.0628	13	0.9493
6	(φ_6)	(-)0.0285	0.3157	(-)0.0071	1.0289	0.0331	12	0.9531
7	(φ_7)	0 .007449	0.3407	0.0010	0.9280	0.0116	11	0.9570

Theoretical call option prices at different exercise prices of underlying stocks were calculated based on the suggested model and presented in Table 3. For the options of Reliance, at Exercise Price of 780, the theoretical prices predicted by the model is in the band of 40.23 to 20.39. But the options actually traded in the market from 39.20 to 19.90. During the period, the stock prices were traded between 787 and 808 and options are deep in-the-money. At exercise price 820, at which option is near-*in-the-money, the* actual traded prices ranges from 21.26 to 1.14 and the prices predicted by the model from 13.85 to 5.20. The prices predicted by the model are over pricing. At exercise price 860, wherein the options of Reliance acts as far *out-of-money* and the options are worthless as predicted by the model.

Stock price of Infosys swings 2349 to 2404, and at exercise price 2350, which is *near in-the-money,* option prices predicted by the model works out 128.49 to 69.73. But the actual traded prices observed in the market during the period are in the price band of 42 to 81. 5. But at exercise price of 2450, near *out-of-money*, in the initial period model over prices and exhibits under pricing in later periods. At the exercise price of 2550, ie., far *out-of-money*, the model under prices in majority trading days.

Stock price of Hindustan Lever Ltd, traded in the vicinity of 530 to 540. At the exercise price of 520, option is deep in-*the-money*, the prices predicted by the model moves from 22.16 to 16.19. During the period under study, actual traded prices of options observed in the market range of 21.45 to 15.55. There is small variation in option prices between actual traded prices and those predicted by the model.

TABLE 3: THEORETICAL CALL OPTION PRICES PREDICTED BY THE SUGGESTED MODEL AT DIFFERENT EXERCISE PRICE

Stock/Exercise Price	1	2	3	4	5	6	7
Reliance							
780	40.23	37.32	34.63	30.45	26.58	21.78	20.39
820	21.26	19.10	16.10	12.32	8.73	3.15	1.14
860	2.00	(-) 0.34	(-) 2.40	(-)5.80	(-) 9.10	(-)15.47	(-)18.12
Infosys							
2350	128.49	107.63	95.48	113.57	69.80	68.10	69.73
2450	66.09	49.50	42.20	54.60	23.83	8.67	9.14
2550	3.70	(-)8.61	(-)11.08	(-) 4.38	(-)22.14	(-)50.79	(-)51.79
Hindustan Lever							
520	22.16	21.34	20.19	21.33	19.34	16.60	16.19
540	13.38	12.49	11.19	12.09	9.85	7.12	6.62
560	4.60	3.64	2.67	2.72	1.11	(-) 2.35	(-)3.00
SBI							
2100	142.75	125.12	146.34	186.72	211.97	130.24	148.43
2200	72.55	58.13	75.74	110.45	130.98	49.37	69.64
2300	2.34	(-)8.89	5.14	34.17	50.00	(-)44.66	(-)9.14
Tata Motors							
250	19.03	18.50	15.95	16.45	24.50	23.47	21.07
270	9.27	8.72	6.43	6.92	14.55	12.14	11.40
290	(-)0.49	(-)1.05	(-)3.10	(-)2.62	4.62	2.36	1.75

In the case of Hindustan Lever Ltd., *in-the-money option* prices predicted by the model and the observed prices shows a little variation. At exercise price of 540, option of HLL acts as *at-the-money* and the prices produced by the model is overpricing. At the exercise price of 560, the model predicts the option worthless at the end of the period.

TABLE 4: DIFFERENCES IN CALL OPTION PRICES AS PER SUGGESTED MODEL AND ACTUAL TRADING PRICES

Stock/Exercise Price							
	1	2	3	4	5	6	7
Reliance							
780 model	40.23	37.32	34.63	30.45	26.58	21.78	20.39
Actual	39.20	37.20	35.75	31.20	27.75	21.30	19.90
difference	*1.03*	*0.12*	*(-)1.12*	*(-)0.75*	*(-) 1.17*	*0.48*	*0.49*
820 Model	21.26	19.10	16.10	12.32	8.73	3.15	1.14
Actual	13.85	12.40	11.70	10.50	8.45	5.80	5.20
diff	*7.41*	*6.70*	*4.40*	*1.82*	*0.28*	*(-) 2.65*	*(-) 4.06*
860 Model	2.00	(-) 0.34	(-) 2.40	(-)5.80	(-) 9.10	(-)15.47	(-)18.12
Actual	3.70	3.20	3.00	2.85	2.15	1.60	1.45
diff	*(-)1.7*	*(-)3.54*	*(-)5.40*	*(-)8.65*	*(-)11.25*	*(-)17.07*	*(-)19.57*
Infosys							
2350 Model	128.49	107.63	95.48	113.57	69.80	68.10	69.73
Actual	76.95	67.25	73.25	81.25	58.50	42.00	45.10
diff	*51.54*	*40.38*	*22.23*	*32.32*	*11.30*	*26.10*	*24.63*
2450 Model	66.09	49.50	42.20	54.60	23.83	8.67	9.14
Actual	29.00	23.90	26.55	28.90	17.85	11.50	11.55
diff	*37.09*	*25.60*	*15.65*	*25.70*	*5.98*	*(-) 2.83*	*(-) 2.41*
2550 Model	3.70	(-)8.61	(-)11.08	(-) 4.38	(-)22.14	(-)50.79	(-)51.79
Actual	9.15	7.20	8.15	8.50	4.65	3.30	3.15
diff	*(-)5.45*	*(-)15.81*	*(-)19.23*	*(-)12.88*	*(-)26.79*	*(-)54.09*	*(-)54.94*
Hindustan Lev							
520 Model	22.16	21.34	20.19	21.33	19.34	16.60	16.19
Actual	21.45	20.75	19.80	20.10	19.90	16.85	15.55
diff	*0.71*	*0.59*	*0.39*	*1.23*	*(-)0.56*	*(-)0.25*	*0.64*
540 Model	13.38	12.49	11.19	12.09	9.85	7.12	6.62
Actual	9.35	8.85	8.10	8.30	7.90	6.25	5.35
diff	*4.03*	*3.64*	*3.09*	*3.79*	*1.95*	*0.87*	*1.27*
560 Model	4.60	3.64	2.67	2.72	1.11	(-) 2.35	(-)3.00
Actual	3.40	3.10	2.65	2.55	2.40	1.85	1.60
diff	*1.2*	*0.54*	*0.02*	*0.17*	*(-)1.29*	*(-)4.2*	*(-)4.60*
SBI							
2100 Model	142.75	125.12	146.34	186.72	211.97	130.24	148.43
Actual	107.05	100.30	118.60	146.50	168.85	88.30	106.85
Diff	*35.70*	*24.82*	*27.74*	*40.22*	*43.12*	*41.94*	*41.58*
2200 Model	72.55	58.13	75.74	110.45	130.98	49.37	69.64
Actual	54.85	50.40	62.50	81 .45	98.50	35.80	43.90
diff	*17.70*	*7.73*	*13.24*	*29.00*	*32.48*	*13.57*	*25.74*
2300 Model	2.34	(-)8.89	5.14	34.17	50.00	(-)44.66	(-) 9.14
Actual	24.30	22.10	27.75	38.05	47.10	11.90	14.20
diff	*(-)21.96*	*(-)30.99*	*(-)22.61*	*(-)3.88*	*2.90*	*(-)56.56*	*(-)23.34*
Tata Motors							
250 Model	19.03	18.50	15.95	16.45	24.50	23.47	21.07
Actual	24.75	24.30	22.50	23.25	35.65	32.50	32.00
diff	*(-) 5.72*	*(-)5.80*	*(-)6.55*	*(-)6.80*	*(-)11.15*	*(-)9.03*	*(-)10.93*
Tata Motors							
270 Model	9.27	8.72	6.43	6.92	14.55	12.14	11.40
Actual	11.05	10.95	9.75	10.10	18.20	15.35	14.75
diff	*(-) 1.78*	*(-)2.23*	*(-)3.32*	*(-)3.18*	*(-)3.65*	*(-)3.21*	*(-)3.35*
290 Model	(-) 0.49	(-)1.05	(-) 3.10	(-)2.62	4.62	2.36	1.75
Actual	3.60	3.70	3.25	3.15	6.35	4.65	4.15
diff	(-) 4.09	(-)4.75	(-)6.35	(-)5.77	(-)1.73	(-) 2.29	(-) 2.40

Stock price of State Bank of India traded in the band of 2116 to 2242 in the NSE market. At exercise price of 2100, option prices predicted by the suggested model are in the range of 125.12 to 211.97 and observed prices in the market in between 88.30 and 146.50. At the exercise price of 2200 that is near *out-of-money* prices predicted by the model overprices heavily . At exercise price of 2300 the model severely under prices.

In the case of Tata Motors, option is in-the-money at exercise price of 250, the suggested model shows under pricing. *At-the-money call* (270) and far *out-of-money* (290) also shows under pricing.

Result of error matrices for the call options showing Mean Error(ME), Percentage Mean Error(PME), Root Mean Square, Thiel's U Statistic of options at different strike prices is presented in Table 5.

TABLE 5: ERROR MATRICES OF THE CALL OPTION PRICES AS PER THE SUGGESTED MODEL

Stock/Exercise Price	Mean Error	Percentage Mean Error	Root Mean Square Error(RMSE)	Thiel's U Statistic
Reliance				
780	(-) 0.13	(-)0.30%	0.8222	0.0132
820	1.99	6.00%	4.5678	0.1913
860	(-) 9.60	(-)511.41%	11.4663	0.9073
Infosys				
2350	29.79	47.60%	32.1630	0.1997
2450	14.97	52.99%	20.6537	0.3207
2550	(-) 27.03	(-)660.85%	32.6829	0.9089
HLL				
520	0.39	2.01%	0.6869	0.0176
540	2.66	32.91%	2.9173	0.1576
560	(-) 1.17	(-) 72.59%	2.4560	0.4374
SBI				
2100	36.45	31.56%	37.0807	0.1320
2200	19.92	33.42%	21.6827	0.2391
2300	(-) 22.30	(-)136.45%	28.5884	0.4931
TataMotors				
250	(-)8.00	(-) 28.37%	8.2879	0.1713
270	(-)2.96	(-) 23.68%	3.0267	0.1288
290	(-)3.91	(-)107.84%	4.2578	0.6090

In the case of options of Reliance at exercise price of 780, the mean error is (-) 0.13 and average level of under pricing is (-)0.3%, which is acceptable. Whereas at the exercise price of 820, the option is *in-the-money* and mean error is 1.99 and percentage mean error of 6% as such errors are acceptable. The Model overprices by 47.66% and 52.99% for the options of Infosys at exercise price of 2350 and 2450 respectively with mean error of 29.79 and 14.97. Whereas at exercise price of 2550, the mean error is as high as (-) 27.03, model under prices highly for the *out-of-money* options of Infosys. The average level of over pricing in the case of in-the-money options of Hindustan Lever Limited (520) is 2.01% and mean error 0.30 which is negligible. Prices predicted by the model is in line with the price actually traded in the market. At exercise price 540(HLL), mean error is 2.66 which comparatively low. At exercise price of 560 the model under prices by 72.59%. In the Banking sector that is for State Bank of India, mean error is 36.45 at exercise price of 2100 and 19.92 at exercise price of 2200. That is average overpricing by 31.56% and 33.42%. Whereas mean error is (-) 22.3 at exercise price of 2300 with average under pricing by 136.54%. In the case of Tata Motors, the model under prices by 28.37% at exercise price of 250, and 23.68% at exercise price of 270. But the model severely under prices in the case of far out-of-money call options of Tata Motors.

For the deep *in-the-money* options of Reliance (780), Root Mean Square Error is 0.8222 and Thiel's U Statistic 0.0132. Lower value of RMSE and U Statistic means that model indicating high degree of fitness. That is the model works well for the *deep in-the-money call options*. At exercise price 820, that is, near in-the-money, RMSE is 4.5678 and Thiel's U Statistic 0.1913. Comparatively low value of RMSE and Thiel's U Statistic, the model fits to the observed traded prices in the case of the *near in-the-money options.* RMSE is as low as 0.6869 and Thiel's U Statistic 0.0176 in the case of deep *in-the-money* options of Hindustan Lever Limited (520) which again confirms that the model gives high degree of fitness in the case of deep in the money call options. For *the at-the-money* call of HLL(540) RMSE is 2.9173 with U statistic 0.1576 which augments the conformity of the prices predicted by the model with traded prices in the market. For the near in-the-money options of Infosys Thiel's U Statistic gives 0.20, that is model fitness is not high. In the case of in-the-money options of SBI, Thiel's U statistic works to 0.1320 indicating degree of fitness. Options of Tata Motors shows fitness with mode in the case of deep in-the-money and near in-the-money.

For the out of-money options of Reliance at 820, RMSE is 11.4663 and U statistic 0.9073 indicates high degree of mis fitness between prices predicted by the model and observed prices. For the out of money options HLL(560) there is high degree of mis fitness with U statistic of 0.4374. For the far out-of-money options of Infosys (2550), Thiel's U statistic 0.91, that is high degree of misfitness.

TABLE 6: MODEL FITNESS/MISFITNESS OF DIFFERENT CALL OPTIONS DIFFERENT STOCKS

Types of option	Reliance	Infosys	Hindustan Lever	State Bank of India	Tata Motors
deep *in- the-money* option	Model Fitness- High	Fitness-medium	Fitness high		Fitness high
near in-the-money option	Fitness medium			Fitness-high	Fitness-high
at-*the-money option*			Fitness-medium		
near out of-money		Fitness-low		Fitness medium	
far out-of-money	misfitness-high	misfitness-high	Misfitness –high	Mis fitness-high	Misfitness-high

TABLE 7: REGRESSION ANALYSIS CALL OPTION ACTUAL TRADED PRICES WITH SUGGESTED MODEL

Stock/ Exercise Price	Intercept (sig t)	Slope (sig t)	R^2	F-statistic (Sig F)
Reliance				
780	0.143 (0.932)	0.991 (0.000)	0.987	378.272 (0.000)
820	-10.819 (0.000)	2.320 (0.000)	0.991	566.043 (0.000)
860	(-)21.726(0.002)	6.287 (0.006)	0.804	20.556 (0.000)
Infosys				
2350	4.494 (0.845)	1.398 (0.009)	0.777	17.410 (0.009)
2450	(-)24.620 (0.022)	2.857 (0.000)	0.937	73.825 (0.000)
2550	(-)73.395 (0.000)	8.360 (0.001)	0.913	52.205 (0.001)
HLL				
520	(-)0.783 (0.755)	1.061 (0.000)	0.937	74.373 (0.000)
540	(-)3.617 (0.041)	1.811 (0.000)	0.958	115.196 (0.000)
560	(-)9.882 (0.001)	4.477 (0.000)	0.937	74.976 (0.000)
SBI				
2100	25.661 (0.113)	1.090 (0.000)	0.952	99.668 (0.000)
2200	2.053 (0.822)	1.293 (0.000)	0.974	92.001 (0.000)
2300	(-)58.457 (0.001)	2.360 (0.001)	0.958	55.842 (0.001)
Tata Motors				
250	3.305 (0.182)	0.594 (0.001)	0.926	62.194 (0.001)
270	(-)1.548 (0.207)	0.890 (0.000)	0.960	121.15 (0.000)
290	(-)9.496 (0.002)	2.358 (0.002)	0.879	36.266 (0.002)

In regression analysis a good fit is marked by unit slope, zero intercept and high R^2. Regression results are tabulated in Table 7. Deep *in-the-money* option of Reliance(780) gives intercept of 0.143 with slope of 0.991 and R^2 of 0.987. That is slope is near to unity, the model fits to the deep *in-the-money* call options. In the case of deep in the money options of HLL(520) gives negative intercept(-0.783) and slope greater than unity(1.061) means that model over prices slightly. For the at-the-money call option of HLL(540) R^2 works to 0.958, a measure of good fitness. R^2 Values of SBI are more than 0.95.

CONCLUSIONS

The aim of the research was to provide a simple option pricing model to traders and other market participants in the market, to enable them to quote the optimum price through market prices of the underlying stock with market index, Nifty, thereby daily Market Factor Coefficient. From the tables of Normal distribution Table the N (φn) is arrived out. Strike price, exercise price, time to maturity are also taken into the model. There are various models which help us to get the price close to the true price of an option. Each has their own assumptions and limitations besides relaxing and addition to the established Black-Scholes-Merton Model (BSM). With many sophisticated algorithms traders are perplexed with to choose which model and to quote the price in the market. Many of the models are highly complex and involve rigorous mathematical computations. Daily theoretical prices of the different options were calculated and mean error, percentage, mean error, root mean square error, Thiel's U statistic were calculated. In the case of Reliance *deep-in-the-money option,* study revealed that pricing shows little variation. It is further revealed that the options of Tata Motors, the model generally under prices. But in the case of HLL prices produced by the model and observed prices did not exhibit marked variation. Study noted that for the *out-of-money options*, in majority cases the prices produced by the model are worthless. Study concluded that the model fitness is high in the case of *deep in-the-money* and fit well to the near *in-the-money options.* For the near *out-of-money* also model is workable. But in many of the days for the far *out-of-money* options the model feasibility is not viable.

It is true that no research is complete and co comprehensive, as any duration, sample size reflects on the incompetence to cover the horizon. In the study the data collected was over a limited period. In the present study, the idea is to introduce an option pricing model with limited mathematical computations and rigor relaxing and adding certain assumptions of the BSM Model.

LIMITATIONS OF THE STUDY

For computing the market factor coefficient (φ), market index NSE Nifty has considered. As there are many number of indices, such as BSE Sensex, Dow Jones, Nasdaq, IBEX Index(Spain), FRSE MIB(Italy) etc.,covering segment wise, sector wise and also nation wise, applying different bench mark index may or may not have impact on values of market factor coefficients (φ). Study is resorted only for a limited number of days. Relaxation and addition of assumptions may give divergent values.

SCOPE FOR FURTHER RESEARCH

In the present study the data was collected from the NSE Nifty, that is representing the characters of emerging markets. In many of the studies on option pricing model, data were from the matured markets such as United States of America, United Kingdom, Japan. Further research on the proposed model can be extended both to mature markets and emerging markets such as FTSEMIB(Italy) , IBEX Index(Spain)

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AFFECT OF SALES PROMOTIONAL TOOLS ON PURCHASE INTENTIONS OF CONSUMERS

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ABSTRACT

This manuscript explores factors that influence customer's intentions to buy. The purchase of the respondent may affect by different promotional tools e.g. Attitude toward Price Discount (Atpd), Attitude towards Free Sample (Atfs,), Attitude towards Coupons (Atc) & Social Surrounding (SS). The purpose of this study was to look at the power of sale promotion on buying behavior. Total 150 respondents were selected using orderly casual sampling method. The information were obtained using self-administrated questionnaires we summaries and evaluate the past history of sales promotion tools. An experimental study in which the contributions of the dependent variables are investigated is reported. We found that the Attitude towards price discount, Attitude towards free sample and Social Surrounding have effect on Purchase Intention.

KEYWORDS

Promotional Tools, Purchase Intention, Power of Sales Promotion on buying Behavior, Sales Promotion.

1. INTRODUCTION

Purchase Intention (PI) offers and interest-creating actions usually these are temporary marketing events other than publicity, individual advertising and straight advertising. The objective of PI is to excite, inspire and demands the buy and extra most wanted behavioral response of the customers." The study on selling instrument in surely vital to know the most influencing tool to try to win through competitors. Through such information marketers and retailers can plan well their possessions for getting the maximum returns. Thus this study mean to examine the liking of customer on diverse promotional tool, marketers and retailers will be able to awake of the customer attitude so by this they can use the right and the most helpful advertisement method to attract consumers. From the consumer point of view, this study will expose the customer thoughts toward PI and thus lift up the knowledge of consumers of their attitude that influenced by PI. By pamphlets concession coupon, consumers are likely to be attracted to the stores. Beside, in-store show, rate or price saving policies such as in addition pack, free of charge sample, and price allowance, have important direct and indirect effect on manufactured goods trial and re-buy likewise. Hence, promotion practitioners should influence the power of these apparatus in sketch consumers to the items that offer them (i.e. The promotional tools).It is clear, every pointer together with the vast success recorded by the countrywide jumbo sales fair that customers are value purchaser, and are willing to look for out outlets that offer the best worth for cash, and also willing to postpone definite purchases pending they can be purchased at a low-priced rate; such knowledge of the market can help businesses in their pricing decisions as well as terms of payment.

Mass of the respondent be decided that while they acquire brand that propose free sample, they experience they were getting a high-class purchase and a free of charge sample have permitted them to purchase the manufactured goods before than planned. There were also a few statement has not much change in the proportion among both group which are disagreed and agreed were not significant. However, Shimp (2003) stated a sample which is offered free has control on customers' buying actions. Shopping incorporates a group of people practice outside the residence and there is connection among time spend and with societal companion (Nichollset al., 2002). a number of customers may well to sight the shopping skill as a source of pleasure and an chance for common communication (Kim, 2002). For youth, shopping at the shopping center is a location for vacation (Lowreyet al., 2005; Matthews et al., 2000) and Taylor and Cosenza (2002) said that shoes option reflect public class and incorrect option is a societal crime. In a hectic sale promotion, it is observed that a few buyers be by you, as others by family (Dholakia, 1999) and Lowrey et al. (2005) propose together shopping among nearness or association group could give up striking results on the ritualistic behaviors.

The objectives of PI will be reaching to an improved degree while it is completed now and then, while the consumer do not expecting it. If consumer is able of expect when a PI act can done, the outcome achieved will reduce. Therefore it is necessary for the buyer not to be able to anticipate PI, and so not to incorporate such incentives to the product uniqueness. But it does not signify that PI is something improvised by the organization. PI act have to be correctly designed, prepared and incorporated in the establishment's promotion plan. The organizations have to learn the uniqueness of the division where it operates as well as its own uniqueness. No fewer important know the competitor uniqueness, the act they take out, the promotions they use, and the consumers' uniqueness. The important thing is to know the listeners being addressees, their actions, psychological and demographic distinctiveness, between others. By this it is possible to conclude and plan the promotional strategy to be developed. The organization will choose the best PI technique(s) to get to its objectives. It is essential for the organization to determine clearly the reason to be reach throughout PI. Once these have been documented, the advisability of employ one promotion technique or one more can result. Objective might in turn be of many kinds. The purpose may be to increase the visitors increase product's use or encourage trying out a new product, between others. But, it is also relevant to differentiate between temporary and lasting objectives. The former are generally meant at respond to the competition's support incentive or receiving rid of stock. Long-term objectives focus on raising the market share. The PI technique to be developed will be different depending on the objectives. There is a wide range of possibilities.

2. LITERATURE REVIEW

PI describes promotional methods using special short-term techniques to persuade members of a target market to respond or undertake certain activity. (draypin.inc) A lot of proper theoretical efforts have been heading for defining PI as effort to boost sale in temporary (Bawa and Shoemaker, 1987) There is as well a sizeable strand of the text that examine customer' response tools of PI, e.g. coupons (Bawa and Shoemaker, 1987), price discount, and samples (Mela et al., 1997; Gilbert and Jackaria, 2002). The effect of Pi was developed by the variables of apparent getting hold of value and pi (Thaler, 1985). Understanding customer's apparent worth and purchase willingness aid in additional explore the effects from PI. These growths lead to a thought of affiliation with PI effects.

The advertisement effect has a positive and significant power on loyalty, which is reliable by the prior text. Fascinatingly, advertisement effect has the most significant mass to loyalty in our tested model. One detail is there was the global economic disaster at the time of the survey. At that time, most consumers care how much they would pay and ignored low service quality and an uncomfortable shopping environment during the period of PI. The significant weights of promotion effects reveal loyalty rather, as loyalty is on the reward of a promotion. This means department stores require remaining their annual sales to build customer devotion. This kind of promotion may advantage their customers, but the provider pay more price for the prize plan, thus falling their profit. A significant and positive relationship exists among promotion effects and perceived switching cost. The power of promotion effects on the switch cost is stronger than the other two barriers. The combined benefit, such as bonuses, coupons, and free gifts from the original provider, will be lost when customers switch to a new supplier. Therefore, the promotion effects can erect customers' switching barrier.

2.1 Purchase Intention

"PI offers and interest-creating actions usually these are temporary marketing events other than publicity, individual advertising and straight advertising. The objective of PI is to excite, inspire and demands the buy and extra most wanted behavioral response of the customers." PI offer a straight encouragement to do by providing additional value above what is build into the manufactured goods at its usual cost. The temporary inducement is offered typically at an occasion where buying decisions are made. Not only are PI very common in the current competitive market conditions, they are increasing at a fast pace. These promotions are straight inducements. In spite of the directness, PI is quite complex and a wealthy instrument of marketing with numerous artistic possibilities limited only by the mind's eye of promotion planners.

2.2 Attitude towards Coupons

A coupon is a label or ticket that can be exchange for a discount or refund when purchasing a product (Wikipedia). They acknowledged that a brand offers coupon would be a reason for them to buy. It followed that respondents agreed when they buy a brand that offers coupon, they feel they are getting a good buy. While in the statement of "I have preferred brand, but most of the time I buy a brand that offers coupon", there were least people agreed. This is proved by the research of Gilbert and Jackaria (2002) who reported that coupon ranked last as the promotional least widely used by consumer. The data in showed that the score of total Atc of the respondents were commonly in range of lower than 23 points

H1: Those with more price/promotion knowledge use coupons more.

2.3 Attitude towards Price Discount

A price which is particularly cheap, or lower than the normal price. (lexicon.ft.com)

Bucklin, Gupta and Siddarth (1998) also indicated that price discounts induced households to switch brands and buy earlier than designed. This lessons also concerned in indentifying about the group of Atpd. The level of the total Atpd was then categorize into two equal groups. Respondents who scored above the mean scale were categorized as having favorable Atpd and respondents who scored below of the mean scale were categorized as having unfavorable Atpd.

H2: There is Positive effect of price discount on PI.

2.4 Attitude towards Free Sample

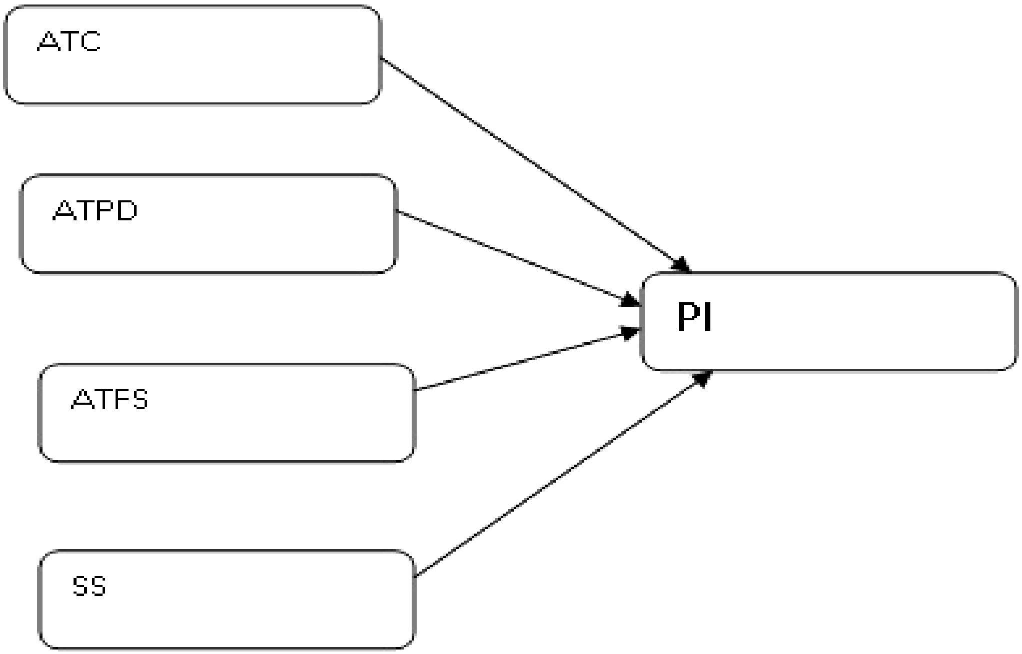
A free sample is a small sized version of a product that is given away at no cost. A company will give away a free sample so people can try it and hopefully like it enough to purchase the full sized product. Free samples are usually given away by mail or in stores during a promotion. A free samples has allowed them to buy more quantities of the same product" the respondents disagreed this statement. However, Shimp (2003) reported that free sample had influence on consumers' buying actions. The scale of the sum Atfs score cut point for two equal groups was mean the group who scored higher than the mean scale has favorable Atfs and respondents who scored below of the mean scale were classified as having unfavorable Atfs.

H3. There is a Relationship between PI & Free Sample

2.5 Social Surrounding

Shopping incorporates a societal skill away from home and there is a association between time consumed and with social friend (Nichollset al., 2002). A few customers might observed the shopping practice as a chance for social dealings and a pleasure (Kim, 2002). For the majority of youth, shopping in the shopping mall is place to spend or vacation (Lowreyet al., 2005; Matthews et al., 2000) and. In a hard sale encouragement, it is observed that some buyers are single, while others with family members (Dholakia, 1999) and Lowrey et al. (2005) propose counting shopping with friendship or kinship groups could yield attractive results on the ritualistic behaviors. Companion shoppers also play the role of retail salespersons by promoting the shoppers to purchase the product with satisfaction (Lauren and Joan, 2011).

H4. Major relationship between shoppers with friends during PI.



4. RESEARCH AND METHODOLOGY

The current research is descriptive in its nature. Descriptive research can be explained as describing something, some phenomenon or any particular satiation Descriptive researches are those researches that describing the existing situation instead of interpreting and making judgments (Creswell,1994).The main objective of the descriptive research is to verify the developed hypothesis that reflect the current situation. This type of research provides information about the current scenario and focus on past or present for example quality of life in a community or customer attitudes towards any marketing activity (Kumar, 2005).

4.1 Sample/Data

In order to collect the data for understanding the situation about adoption of PRIN, a sample of 150 respondents will ask to participate in a self-administrated questionnaire. The population for current research is Consumers, Students, Land Lords and Businessman in Pakistan. The current study utilizes a non-probability sampling technique that is convenience sampling. Convenience sampling is a sampling technique that obtains and collects his relevant information from the sample or the unit of study that are conveniently available (Zikmud, 1997). Convenience sampling is normally used for collecting a large number of completed surveys speedily and with economy (Lym et al., 2010). It has ensured that sample member possess two main qualification to participates in the self administrated survey. First, the sample member should know well about PI. We select these sample members from different area of city of Pakistan. Two main groups will target to collect the sample data like students and land lords. The selection of students and land lords are based on the previous result of studies on PI.

4.2 Instrument and Scales

The survey instrument of the current study address two major purpose: First is to analyze the relationship of different variables in the adoption of PRIN. Second, to collect information about the different characteristics of the respondent that can be used to understand the variations in different categories. The survey instrument contains two sections. Section 1 includes different personal and demographic variables. This section will obtain the respondent's information about gender, age, income and education.

Section 2 includes variables that are important in our study. These variables include attitude toward coupons, attitude toward price discount, attitude toward free sample, and Social Surroundings toward PI.

TABLE 1: SCALES OF STUDY

NO.	VARIABLES	ITEMS	REFRENCES
1	Attitude Toward Coupons	1) If a brand offers coupon that could be a reason for me to buy it. 2) A coupon has allowed me to buy another brand which I do not regularly buy. 3) When I buy a brand that offers coupon, I feel I am getting a good buy. 4) A coupon has allowed me to buy the product earlier than planned. 5) Compared to most people, I am more likely to buy brands that offer Coupon.	Gilbert, D. C., & Jackaria, N. (2002).
2	Attitude Toward Price Discount	1) If a brand offers price discount that could be a reason for me to buy it. 2) A price discount has allowed me to buy another brand which I do not regularly buy. 3) When I buy a brand that offers price discount, I feel I am getting a good buy. 4) A price discount has allowed me to buy more quantities of the same product. 5) A price discount has allowed me to buy the product earlier than planned.	Gupta, S. (1988).
3	Attitude Toward Free Sample	1) If brands offers free sample that could be a reason for me to buy it. 2) When I buy a brand that offers free sample, I feel I am getting a good buy. 3) A free sample has allowed me to buy another brand which I do not regularly buy. 4) I usually buy the same brand even when I have a free sample on the other brands. 5) A free sample has allowed me to buy the product earlier than planned.	Shimp (2003)
4	Social Surrounding	1) How much friends/family influences you on purchasing/buying any brand. 2) If any of your relative give negative comment about the brand you going to purchase will it effects on your purchase. 3) Compare to most people I mostly like to buy brand that society likes. 4) SocSurrinfluences you to buy other brand which you normally ignore it.	Dholakia, R.R. (1999),
5	Purchase Intention	1) Once I find the produce I Like I buy it regularly. 2) In general, I try to get the best overall quality. 3) I buy as much as possible at sale price. 4) It is funny to buy something new and exciting. 5) I usually buy the lower price products.	Osman,S (2011)

4.3 Procedure

The questionnaire was distributed among 200 respondents in BAHAWALPUR. These respondents are selected based on the criteria above mentioned. Before giving the questionnaire, the purpose of study and questions were explained to the respondents so they can easily fill the questionnaire with relevant responses. A total of 150 questionnaires were selected and rest of the questionnaires was not included in further analysis due to incomplete or invalid responses. After collecting the completed questionnaires, these questionnaires were coded and entered in SPSS sheet for regression analysis.

4.4 Reliability Analysis

Overall Cronbach's alpha of all variables are more than acceptable and recommended value 0.50 by Nunnally (1970) 0.60 by Moss et al. (1998). This shows that all the 24 items were reliable and valid to measure the opinion of consumers toward prin.

TABLE 2: RELIABILITY OF MEASUREMENTS INSTRUMENT

Scales	Items	Cronbach's Alpha
Attitude Toward Coupons	5	0.696
Attitude Toward Price Discount	5	0.617
Attitude Toward Free Sample	5	0.650
Social Surrounding	4	0.629
Purchase Intention	5	0.638

5. PROFILE OF RESPONDENTS

Personal and Demographic information such as gender, age, income, level of education. And occupation are presented in the following table

TABLE 3: PROFILE OF RESPONDENTS

Variable	Category	Frequency	Percentage
Gender	Male	105	70
	Female	45	30
Age Of Respondent	18-25	116	77.3
	25-32	19	12.7
	32-41	13	8.7
	41-Above	2	1.3
Occupation Of Respondent	Business Man	10	6.7
	Service Provider	11	7.3
	Land lord	22	14.7
	Other	107	71.3
Level Of Education	MATRIC	8	5.3
	INTER	19	12.7
	BACHLORS	84	56
	MASTERS	39	26
Monthly Income Of Respondent	0-25000	96	64
	25000-50000	24	16
	50000-75000	24	16
	75000-Above	6	4

5.1 Hypothesis Testing

5.1.1. Attitude towards Coupon And Purchase Intention

According to the Result of the study the variable Attitude towards Coupon has a significant Result with Prin. Has a significant positive relationship with (β=0.182) and ($p<0.05$).That Mean Attitude towards Coupon contribute more than 18% to Prin.

Results of the Current Study Validate H1

5.1.2. Attitude towards Price Discount And Purchase Intention

According to the Result of the study the variable Atpd has a significant Result with Pi. Has a significant positive relationship with (β=0.225) and (p<0.05). That Mean Atpd contributes more than 22% to Pi.

Results of the Current Study Validate H2.

5.1.3 Attitude towards Free Sample And Purchase Intention

While considering the significance between powerful Atfs the Result of the current study shows no significant relationship between these two Atfs and Pi with (β=0.145) and (p>0.095).

Result of Current Study Reject H3.

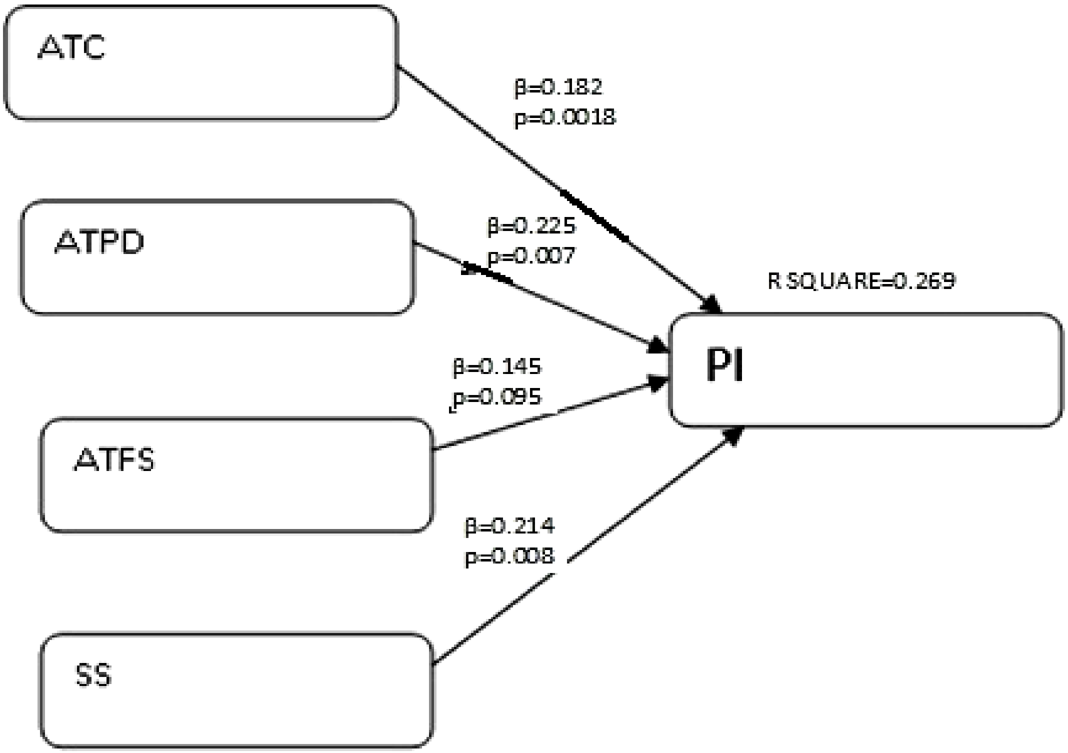
5.1.4. Social Surrounding and Purchase Intention

According to the Result of the study the variable SS has a significant Result with Pi. Has a significant positive relationship with (β=0.214) and (p<0.05). That Mean Atpd contributes more than 21% to Pi.

Results of the Current Study Validate H4

TABLE 4: REGRESSION RESULTS

Hypothesis	Model Variables	Estimate	S.E	C.R	p	Results
H1	ATC → PI	0.182	0.051	2.403	0.018	Supported
H2	ATPS → PI	0.225	0.075	2.746	0.007	Supported
H3	ATFS → PI	0.145	0.085	1.681	0.095	Not Supported
H4	SS → PI	0.214	0.053	2.702	0.008	Supported



DISCUSSION

This study tells us that higher percentage of strongly agree and agree for price discount. Most of the respondents agreed that brand which offer price discount is the reason for them to buy and by this purchase they feel that they buy good buy but some of respondents disagree this statement. In addition some respondents have their favorite brands but one time they buy that brand which offer price discount and this approach allowed them to buy the product before they planned to buy. However some of respondents disagreed and buy their favorite brand when they have price discount on other brands. By these statements we suggest that Prin is the better technique to attract the consumers of other competitors. The scale of attitude toward price discount is categorize in two steps the respondents who have score above then mean 23 points then they have favorable Atpd and who have below then 23 points have unfavorable attitude toward price discount.

Some of the respondents acknowledge that the brand offer coupons are reason for them to buy. Some respondents agreed when they buy the brand which offer coupon some of the respondents buy the same brand even when they have coupons on extra brands. The respondents follow the declaration "I have favorite brand but most of the I buy the brand which suggest the coupon." The level of attitude toward coupon is categorize in two steps the respondents who have score above then mean 23 points then they have favorable attitude towards coupon and who have below then 23 points have unfavorable attitude toward coupon.

Majority of the respondents agreed when they buy the brand which offers the free sample. Free sample allowed the respondents to buy the product earlier than they planned. In this research report some of the respondents agreed that free sample allowed them to buy the more quantities of the product. Free sample have influence on consumer buying behavior. The scale of the total attitude towards free

Samples get point for two equal groups was 23 points which mean the group who scored higher than the mean scale of 23 has favorable Atfs and respondents who scored below of the mean scale were classified as having unfavorable Atfs.

Shopping outside is a social experience. There is a relation between buying behavior and social companions. There is also some relation between time spend outside and social companions. Some consumers may view shopping experience as the enjoyment and they seem to be having opportunity of social interaction. For teenagers shopping is enjoyment and hangs out. Some of the buyers go alone for shopping and some of the buyers go with their family and some of them with their social companions and friends. Social companions play an important role in buying behavior. Some of the respondents like to go for shopping alone as compare to those who go for shopping with friends and family.

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SOCIAL MEDIA MARKETING: AN IMPORTANT PHASE IN MODERN BUSINESS MANAGEMENT

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ABSTRACT
Social media has risen to a great level in India since last few years. Marketers in the west have already taken advantage of Social Media. But Indian marketers are still lagging behind in this foray. According to a survey done by DEI Worldwide in 2008, among US consumers, "companies not engaging in social media as part of their online marketing strategy are missing an opportunity to reach consumers". Social Media Marketing is emerging as an innovation in the marketing field. In India Social Media Marketing is catching fire since last 3 to 4 years. But still some companies are finding ways and means to manage it professionally. Hence, the need arise to study the state of social media use in marketing activities by Indian companies. By scouting the secondary data this study presents the state of social media marketing in India. This paper discusses about the concepts of social media and social media marketing and other aspects like the growth and benefits, role and relevance of social media in marketing, social media marketing strategies and it also presents an overview on the state of social media in India.

KEYWORDS
social media, social media marketing, growth and benefits of social media, social media marketing strategy.

INTRODUCTION
In this fast changing environment, technology has made various innovations to make things simple and easy to do. They have played a major role to support people, especially businessmen, towards doing from their simplest down to the most complicated business transaction which they do in their day-to day living.
When we talk about technology and business, one major idea which comes into our mind is the use of social networking sites to explore wider horizons brought about by our chosen fields of endeavour.
Social media marketing is the latest buzz in the advertising world. If you own a business, you are probably one of the hundreds who want to put it online. Once you have an online business, you need to promote it. While online marketing may seem fun, it also requires some good strategies. Internet marketing can be a tad bit worrisome sometimes. This is mainly because; it requires a strong virtual presence of the venture.
Social networking sites are great places on the internet for marketing. Primarily, they can be used to build relationships and connect with a wider section of people, home and abroad. What most people are not aware of is they are incredibly good platforms for social media marketing.
Facebook is perhaps the giant of all social networking websites. Facebook profiles contain a greater amount of detail providing greater opportunities. Unlike Facebook, Twitter is more about being concise and attention grabbing. Post innovative headlines and company news on your twitter profile to increase more traffic to your website. If used strategically, Twitter can be a very effective social media marketing tool.
Twitter and Facebook can help you to promote your business greatly. Social networking websites are very effective because of the huge connectivity. If you can the word around, you can be sure that it will spread in no time. Interpersonal communications and sharing of interests will widen your network and draw customers.
The internet is the nerve centre of the modern advertisement scenario. One can use it strategically to do some good internet advertising. The video hosting giant YouTube goes a long way in helping to promote your business or your cyber image. YouTube videos are viewed by millions everyday widening the platform for advertisement and promotion.
The explosion of social media phenomenon is as mind boggling as that and the pace at which it is growing is maddening. Trust and goodwill are the basis of social networking, and by marketing in the realm of social media these fundamental notions need to be adhered. It is probably the only marketing stage that encourages perfect communication and accountability among sellers as well as consumers. Global companies have recognized Social Media Marketing as a potential marketing platform, utilized them with innovations to power their advertising campaign with social media marketing.

OBJECTIVES
- To understand the concept of Social Media and Social Media Marketing
- To know the benefits of Social Media Marketing
- To know the role of Social Media in modern Marketing
- To understand the Social Media Marketing Strategies

METHODOLOGY
The data relevant for the study has been collected from secondary sources. It is been extracted from among different published sources such as journals, magazines, research articles.

SOCIAL MEDIA
Social Media is the future of communication, a countless array of internet based tools and platforms that increase and enhance the sharing of information. This new form of media makes the transfer of text, photos, audio, video, and information in general increasingly fluid among internet users. Social Media has relevance not only for regular internet users, but business as well.
Platforms like Facebook, Twitter, and Linkedin have created online communities where people can share as much or as little personal information as they desire with other members. The result is an enormous amount of information that can be easily shared, searched, promoted, disputed, and created.
Social media has become a platform that is easily accessible to anyone with internet access. Increased communication for organizations fosters brand awareness and often, improved customer service. Additionally, social media serves as a relatively inexpensive platform for organizations to implement marketing campaigns.

SOCIAL MEDIA MARKETING

The right meaning of social media marketing is hard to truly describe, but a popular definition says that it is the methodical use of marketing with other technological concepts and techniques to achieve specific goals for a company. In simple terms social marketing, means building a business through many different media, like viral videos, ad films, ad copies and blogs.

While social media marketing was originally developed from the desire companies had to capitalize on commercial marketing techniques, it has recently developed into a more integrative and comprehensive discipline that draws on a wide array of technology, from the traditional to the most cutting edge methods out there.

Not all types of social media marketing work immediately. While you may have to wait a minimum of three months to see any kind of change, it is worth it in the long run when you see what social marketing can do for your business.

A corporate message spreads from user to user and presumably resonates because it appears to come from a trusted, third-party source, as opposed to the brand or company itself. Hence, this form of marketing is driven by word-of-mouth, meaning it results in earned media rather than paid media.

BENEFITS OF SOCIAL MEDIA MARKETING

When it comes to social media marketing, believe it or not, some people still need to be convinced it serves a purpose other self-aggrandizement. Despite reams of empirical evidence that suggest social media marketing leads to increased sales, increased leads, increased brand awareness and improved communication with clients and customers.

The statistics from CompTIA’s Social Business: Trends and Opportunities study showed the following results:

Enhanced communication with consumers, cited by 61 percent of responding companies

Cost savings (51 percent)

Brand positioning (49 percent)

Real-time customer satisfaction (48 percent)

Potential lead generation (43 percent)

Granted, the CompTIA survey only queried 400 business and IT executives, so it can hardly be considered a true measure of social media effectiveness, but it does provide some startling insights. First, almost 2/3 of those queried said it improved communication with customers and clients. These companies have no reason to inflate their results from using social media marketing. They are investing time and money in their networks just as everyone else is. If it wasn’t working they would be the first to say so.

Second, every other category showed that nearly half of the companies who use social media were seeing serious benefits from it. This does not take into account how effective their social media campaigns are or who their social media managers are, but it could certainly be argued that the results could even be increased if they were more focused.

Social Media Marketing is increasing becoming important tool that every business can use to advertise their business and; if implemented with traditional marketing help towards success and growth for business.

ROLE OF SOCIAL MEDIA IN MARKETING

In this fast changing environment, technology has made various innovations to make things simple and easy to do. They have played a major role to support people, especially businessmen, towards doing from their simplest down to the most complicated business transaction which they do in their day- to day living.

When we talk about technology and business, one major idea which comes into our mind is the use of social networking sites to explore wider horizons brought about by our chosen fields of endeavour. The major roles of networking sites (Twitter, Facebook, Google+ and others) towards having a profitable business are:

1. Advertising – Social networking sites by nature provide an online space for you to showcase your products. These sites provide folders or albums where you could advertise what you want your costumers to know. If your business for example has something to do with freelance photography jobs, these sites could be a perfect avenue for a cheap online brochure where you could showcase photo samples or designs together with their prices or description so everyone would have the chance to be exposed to what you could offer them.

2. Socializing – Establishing a good rapport with the society builds your credibility as a businessman. This task can also be provided by famous and reliable networking sites primarily because several people sign-up for an account in to meet someone ,who in some ways, share the same line of interest with them so as to establish good partnership.

3. Sharing and Mentoring – Whether you are a newbie or an expert into your business, the social media can provide opportunities for you to either enhance or share your skills towards everything that has something to do with your line of proficiency. A perfect example would be to post tip or inquiry about your business and encouraging other members to comment regarding your post. From their ideas and reactions, you could pick something worthwhile which could possibly help you towards improving your chosen career.

4. Outsourcing – If for example your business is somewhat service related such as picture taking services for special events, social media sites can once again work for your outsourcing services. There are sites that enable other members to post inquires or opportunities that your line of business could accommodate. Once you find wall posts with this kind of nature, you could send a message to the member and verify the reliability of your target client before offering your service.

5. Saving – This job is basically the best role that social networking sites would offer. Since we live in an advanced technological world, these social networking websites enable you to save time to transact and move from one place to another just to do the first four tasks that were previously mentioned. Apart from that, they also help you save money as there are several sites that could help you create, advertise and establish your reliability as a business owner without spending money.

GROWTH OF SOCIAL MEDIA IN INDIA - AN OVERVIEW

India boasts millions of social network users, with the number of new users rising steadily, but in a country of more than 1 billion people, many of whom are not internet users at all, these figures are a drop in the ocean.

According to “eMarketer”, it estimates that more than 76 million people in India will use social networking sites at least monthly this year, up 51.7% from last year's total. Double-digit growth in users will mean that by 2014, 83% of internet users in the country will regularly access social networks. That is a significantly higher penetration of internet users using social sites than is expected in the US the same year, where eMarketer projects the share will be just 68%.

Social network users and penetration in India, 2010-2014:

- 2010: 33.1 million (+38.8% change / 52.3% of internet users / 2.8% of population)
- 2011: 50.2 million (+51.5% / 60.3% / 4.2%)
- 2012: 76.1 million (+51.7% / 71.0% / 6.3%)
- 2013: 105.0 million (+37.9% / 78.9% / 8.6%)
- 2014: 129.3 million (+23.2% / 83.0% / 10.5%)

But as a share of the population, India's social network user numbers are tiny and will remain so. This year, a mere 6.3% of consumers in the country will use social networks (compared to 49.9% in the US) and that figure will just barely break 10% by 2014, when more than half the populations of the US, Canada, South Korea and Australia will be on social networking sites.

SOCIAL MEDIA MARKETING STRATEGIES

According to the annual Global Social Media Check-Up released by Burson-Marsteller, the study looks into social media adaptation of the Fortune Global 100 and acts as a guideline for social media marketing strategy. By understanding what the 100 largest global companies are doing on social media we can see what areas all businesses need to focus on in order to compete.

TWEETS ON TOP

One of the key insights to come out of the study was the level of interaction on twitter compared to other social media. The top global companies were mentioned over 10million times in one month, more than half of this interaction was on Twitter. Twitter has always been the most immediate of social engagement platforms.

The simplicity of 140 character tweets makes it the ideal place for companies and customers to discuss topics of the day. A single tweet can set off plenty of interaction. So it's understandable that Twitter is the place where most people talk. But more than 50% of the interaction, in a market that contains 5 big players, is a huge portion. Twitter is designed in a way that encourages interaction and these results show that a focus on Twitter is a requirement in every social media marketing strategy.

VIDEO ON THE GROW

Another interesting insight was the growth in video usage by fortune 100 companies. YouTube is a platform that is often forgotten in social media marketing strategy, but it's becoming more and more important for the bigger companies. The study found that 79% of Fortune 100 companies have branded YouTube account, that's 50% more than last year.

Companies have often cited a lack of interest as the reason they don't include YouTube in their social media marketing strategy. The common mistake was to assume YouTube was just for amusing little videos of cats playing piano. But this study shows that corporate YouTube channels average over 2 million views, which demonstrates that there is plenty of interest. And as video content production by big companies grows, it will become more and more relevant.

NEED TO BE ON ALL PLATFORMS

One of the basics of social media marketing strategy is that you need as much presence as possible. And this study rams home that idea. It shows that large companies waste no time in adapting to new social media platforms. The study shows that 48% of the companies have Google+ accounts. That's an impressive figure, especially when you consider that business pages were only launched 4 months before the survey. It also shows that 25% had Pinterest accounts. A large group considering Pinterest is a relatively niche market. The key lesson for social media marketing strategy is to ensure you stay up to date with emerging trends, because if you're not you could be left behind.

Overall, the study clearly indicates a huge social media push by all of the biggest companies in the world. The fact that they are using so many channels to engage with their market, and that those channels are expanding, demonstrates that social media is becoming more and more central to all marketing strategy.

Social media has been a great leveler for smaller companies. Because it allows direct interaction with customers, smaller companies have been able to use it to match their rivals at a fairly low cost. These trends demonstrate a big push by the larger companies, so it's important that small companies stay on top of their social media marketing strategy.

There is so much more to it than just creating a profile, adding some photos, and updating your page every so often. Discover the benefits of social media, connect with your customers, engage with prospects, promote your products and services and market your brand.

CONCLUSION

The first aim of any business is to be known amongst their target audience. This is no different for online businesses that strive to shine out amidst billions of sites. Online businesses aim to market their site in several different manners to gain them more customers and business. One such marketing technique is social media marketing.

Social media marketing is a term that defines marketing that is done via social networks, such as online communities, networks, blogs and many other marketing tools to raise awareness amongst their potential clients. These sites are used to publicize, make sales, create connections between the business and target market, and to handle customer service. Some common tools used to perform social media marketing are Twitter, Facebook, LinkedIn, Flickr, Orkut and YouTube.

The three main aspects of social media marketing are firstly, it creates a buzz and attracts readers with catchy and impressive messages. This buzz spreads through the Internet through contact between users who in turn pass it on to their own contacts. Within moments, these messages spread like wild fire.

Another aspect is that it gathers all fans of a brand or company together and allows them to interact with one another, create an identity and communicate their interest for this brand or set of products. It is also based on online conversations that cater around the business, and brings together current and potential customers. Their loyalty would also in turn promote one's brand and raise awareness amongst other possible clients.

In conclusion, social media marketing is effective and natural. It is a great source of web traffic, and achieves great results at a low cost. This form of marketing would work well with any other advertising campaign.

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