ISSN : 0019-512X

THE INDIAN JOURNAL OF COMMERCE

Quarterly Publication of the Indian Commerce Association

Vol. 65 **No. 1** **January-March 2012**

Prof. Nawal Kishor – ***Managing Editor***

With Secretariat at : School of Management Studies
Indira Gandhi National Open University
Maidan Garhi, New Delhi - 110 068

The Indian Journal of Commerce
A Quarterly Refereed Journal

Aims and Objectives : The Indian Journal of Commerce, started in 1947, is the quarterly publication of the All India Commerce Association to disseminate knowledge and information in the area of trade, commerce, business and management practices. The Journal focusses on theoretical, applied and interdisciplinary research in commerce, business studies and management. It provides a forum for debate and deliberations of academics, industrialists and practitioners.

The Indian Journal of Commerce is published four times in a year i.e., March, June, September and December. The Indian Journal of Commerce is freely distributed to all members.

Membership to Indian Commerce Association

	Individual	**Institutional**	**Foreign**
Annual Members	500	600	US$100
Life Members	3000	15,000	

Subscriptions are to be paid in the form of Demand Draft, drawn in favour of The Managing Editor, Indian Journal of Commerce, payable at New Delhi.

Correspondence: All correspondence regarding publications, advertisement and membership subscriptions should be addressed to : The Managing Editor, Indian Journal of Commerce, School of Management Studies, Indira Gandhi National Open University (IGNOU), Maidan Garhi, New Delhi 110 068.

Notes for Contributors

Papers based on application oriented research or field studies in the areas of industry, commerce, business studies and management are invited. The length of a paper including tables, diagrams, illustrations, etc., should not exceed 20 double space pages. Short communications (not more than 5 double spaced pages) relating to review articles, report of conferences, summary/views on various governments reports, debatable issues, etc., are also published. Book reviews and summary of Ph.D. dissertations not exceeding two double spaced pages, are welcome. Manuscripts sent for publication in this journal should not have been published or sent for publications elsewhere. All correspondence will be held with the senior (first) author only.

Two copies of the manuscript typed in double space on A4 size bond paper should be submitted. Electronic version of the paper must accompany 3.5 inch high density floppy diskette in PC compatible WORD 7.0 document format. Paper without floppy/CD will be rejected.

All contributions submitted will be subjected to peer review. The decision of the Editorial Committee will be the final.

First page should consist of title of the paper, name(s), of author (s) with all details and abstract not exceeding 150 words. Second page should start with the title of the paper again, followed by the text.

In captions for tables, figures, and column heading in tables, the first letter of the first word should be capitalised and all other words should be in lower case (except proper nouns). For example Table 5. Price ratios between edible groundnut kernel and other edible nut kernels. **Footnotes** in the text should be numbered consecutively in plain Arabic superscripts. All the footnotes, if any, should be typed under the heading 'Footnotes; at the end of the paper immediately after 'Conclusion'.

Follow the Author-date (Harvard) system in-text reference: e.g. Hooda (1997) observed that ... A study (Grover et. al. 1998) found that .... When it is necessary to refer to a specific page (s), cite it in the text as : Hooda (1997 P.105) observed that ... A study Hooda 1997a, Hooda 1997b, Hooda 1997c, so on.

Only cited works should be included in the **'References'** which should appear alphabetically at the end of the paper. Follow the reference citation strictly in accordance to the following examples.

Book : Narasimham, N.V. 1994. *A model for the commodity price system analysis.* New Delhi : Himalaya Publications.

Journal Article : Alagh, Y.K. 1997. Agriculture trade and policies. *The Indian Journal of Commerce* L (192) : 1-11.

Government Publication : Government of India, Ministry of Communications, Department of Telecommunications 1995. Annual report 1994-95. New Delhi : Government of India, Ministry of Communications, Department of Telecommunications.

Chapter in a Book : Gilberto Mendoza, 1995, *A premier on marketing channels and margins.* Pages 257-276 in Prices, products and People (Gregory J. Scott, ed.) London. Lynne Rienner Publishers.

All manuscripts should be sent to the Managing Editor, The Indian Journal of Commerce, School of Management Studies, IGNOU, Maidan Garhi, New Delhi 110 068. **Tel: 011-29535266, E-mail nkishor@ignou.ac.in**

Lasertypeset by: Nath Graphics, 1/21, Sarvapriya Vihar, New Delhi 110 016.

Printed by: Prabhat Offset, 2622, Kucha Chellan, Daryaganj, New Delhi 110 002.

Published by Prof. Nawal Kishor on behalf of the Indian Commerce Association.

Regd. No. 4973/60 *Rs. 20/-*

65th ALL INDIA COMMERCE CONFERENCE

Annual Conference of
THE INDIAN COMMERCE ASSOCIATION
The KPB Hinduja College of Commerce, Mumbai
November 9–11, 2012

President	:	**Prof. Malbika Deo,** Head, Deptt. of Commerce, Pondicherry University, Kalapet, Puducherry-605014
Immediate Past President	:	**Prof. B. Ramesh**, Dean, Faculty of Commerce, Goa Univ., Goa.
Conference Secretary	:	**Dr. T.A. Shiware,** Principal, The KPB Hinduja College of Commerce, Mumbai. Tel.: 09867776669
Executive Vice President	:	**Dr. P.T. Choudhary**, Head, Deptt. of Commerce M.J. College, Jalgaon, Maharashtra.
Secretary	:	**Dr. Balwinder Singh**, Associate Professor, Deptt. of Commerce & Business Management, GNDU, Amritsar.
Joint Secretary	:	**Prof. Sandip K. Bhatt**, PG Deptt. of Business Studies Sardar Patel University, Vallabh Vidya Nagar Anand (Gujarat)
Managing Editor	:	**Prof. Nawal Kishor**, Director, School of Management Studies, IGNOU Maidan Garhi, New Delhi 110068.

Technical Sessions	***Chairpersons***	***Co-Chairpersons***
I Integrated Reporting: Challenges and Opportunities	**Dr. P. Indrasena Reddy** Deptt. of Commerce and Business Management Kakatiya University Warangal-506009 (AP) (M) 09390108179 isreddypeddi@gmail.com	**Dr. Ram Chandra Gowda** Deptt. of Commerce Bangalore University Bangalore (M) 09448008278 dr_mrg@rediffmail.com
II Foreign Direct Investment in Multi Brand Retailing	**Dr. S.L. Gupta** Professor, Deptt. of Management, Birla Institute of Technology (Deemed University) Campus-Noida (M) 09811230453 drslgupta@gmail.com	**Dr. Bharat Meghe** Associate Professor and Head Faculty of Commerce Kamla Nehru Mahavidyalaya Sakkaradara, Nagpur-440009 (M) 09422827935 bharatmeghe@yahoo.com
III Employer Branding: Emerging Dimensions	**Dr. Pushkar Nath** Professor, Deptt. of Commerce & Management, Gossner College, Ranchi-834008 (M) 08986883443, 09661153155 pushkarnathru@gmail.com	**Shri Vijaysinh. M. Vanar** Principal I.V. Patel College of Commerce College Road, District: Kheda Gujarat-387001 (M) 09879216684 vmvanar_1106@yahoo.com
IV Global Turbulence: India's Preparedness	**Prof. H.Venkateshwarlu** Department of Commerce Osmania University Hyderabad-500007 (AP) (M) 09848209660 harripuram@gmail.com	**Prof. Ashok K. Mohanty** Department of Commerce Berhampur University Berhampur (Gm.)-760007 (Orissa) (M) 09437097983 profashokmohanty@gmail.com
Seminar Infrastructural Development in India: The road map ahead	**Dr. N.D. Mathur** Professor, Deptt. of Economic Administration and Financial Management, University of Rajasthan, Jaipur-302004 (M) 09414071144 mathur.naresh@rediffmail.com	**Dr. Manas Pandey** Dean, Faculty of Manageement Studies VBS Purvanchal University Jaunpur (UP) (M) 09415207029 dr.manaspandey@gmail.com
Manubhai M Shah Memorial Research Gold Medals: TWO		
Empirical Researches in the area of Human Resource	**Dr. Ravinder Vinayek** Professor of Commerce Dean Academic Affairs M.D. University Rohtak-124001 (Haryana) (M) 09416052184 r_vinayek@rediffmail.com	**Dr. Debabrata Mitra** Professor Department of Commerce, University of North Bengal Raja Rammohunpur PO. North Bengal University Distt. Darjeeling-734013 (WB) (M) 09474877362 debabrata_nbu@yahoo.co.in

Those who wish to present their papers, at the Conference should send their full paper (up to 3,000 words) with abstract (up to 500 words) to the respective chairperson and Co-chairperson before September 30, 2012 through e-mail Soft Copy (MS Office) along with hard copy. You can also submit your paper online on the website of Indian Commerce Association www.icaindia.info link http://www.icaindia.info/SubmitPapers.aspx

THE INDIAN JOURNAL OF COMMERCE

Quarterly Publication of the Indian Commerce Association

Vol. 65 **No. 1** **January-March 2012**

Contents

Statement about Ownership and Other Particulars of the Journal – THE INDIAN JOURNAL OF COMMERCE

Form – 5

(Rule 8)

1.	*Printer's Name* *Nationality* *Address*	: : :	The Indian Commerce Association Indian SOMS, IGNOU, Maidan Garhi New Delhi-110 068
2.	*Place of Publication*	:	New Delhi
3.	*Periodicity of Publication*	:	Quarterly
4.	*Publisher's Name* *Nationality* *Address*	:	The Indian Commerce Association Indian SOMS, IGNOU, Maidan Garhi New Delhi-110 068
5.	*Chief Editor's Name* *Nationality* *Address*	:	Prof. Nawal Kishor Indian SOMS, IGNOU, Maidan Garhi New Delhi-110 068
6.	*Name and address of the individuals who own the newspaper and Partners or share-holders holding more than one percent of the total capital*	:	The Indian Commerce Association
7.	*Printed at*	:	Prabhat Offset Press 2622, Kucha Chellan, Daryaganj New Delhi-110 002

I, Nawal Kishor, hereby declare that the particulars given are true to the best of my knowledge and belief.

(Sd/-)
Prof. Nawal Kishor
(Signature of the Publisher)

The Indian Commerce Association

Membership Form

To

The Managing Editor
The Indian Journal of Commerce
School of Management Studies
Indira Gandhi National Open University
Maidangarhi
New Delhi 110068

Dear Sir,

You are requested to enroll me as (put a ✓ mark):

☐ Individual Life Member (Rs. 3,000)
☐ Institutional Annual Member (Rs. 600)
☐ Patron – Institutional Life Member (Rs. 15,000)

I am sending an amount of Rs. .... (in words)..................................

by DD No.. Dated...

drawn on (bank and branch)...

payable at New Delhi towards the membership of the Indian Commerce Association.

Personal Details (In Capital letters)

Name ....

Designation................................ Qualification...

Office Address: ....

....

.... Pincode............................

Mailing Address: ....

....

.... Pin Code...........................

Tel. No. .... Mobile No..

E-mail...

Yours Sincerely

Date: Signature of Applicant

Mode of Payment: Subscriptions are to be paid in the form of Demand Draft, drawn in favour of 'The Managing Editor, The Indian Journal of Commerce', payable at New Delhi.

Correspondence: All correspondence should be addressed to: The Managing Editor, The Indian Journal of Commerce, School of Management Studies, Indira Gandhi National Open University (IGNOU), Maidan Garhi, New Delhi 110 068.

The Indian Journal of Commerce is published four times in a year i.e. March, June, September and December. The Journal is freely distributed to all members of the Indian Commerce Association.

Indian Commerce Association

PROf. MANUBHAI M. SHAH MEMORIAL
AWARD FOR EXCELLENCE IN COMMERCE & BUSINESS MANAGMENT

Last Application/Nomination Date - 15th July 2012

Indian Commerce Association (ICA), the premier professional association of India, is pleased to announce *Prof. Manubhai M. Shah Memorial Award for Excellence in Commerce & Business Management (MMSMA).* The Award shall comprise a cash prize *of Rs.2,00,000/-* (Rupees two lacs) [together with a certificate and trophy] for outstanding research, fundamental or applied, of creative nature in the field of Commerce & Business Management.

Through the general body meeting of ICA held at Pondicherry at the time of 64th All India Commerce Conference, it has been resolved that award shall be instituted for an amount of Rs. 2,00,000 (Rs. Two lacs) to be awarded each year with effect from year 2012.

All heads of institutes and departments of commerce and management are requested to forward the names of eligible candidates along with their publications for consideration of the case by the review and screening committee.

lCA looks forward to wide participation and entries to make this award truly distinct and unique for perpetuating the high standards of academic and professional benchmarks in the field of business and management education which was so dear to the heart of Late Professor Manubhai M. Shah in whose memory this award has been instituted.

Procedure of Participation

1. Nomination/Application has to be made via Pro-forma, available at *Indian Commerce Association* website http://www.icaindia.info/mmsma.html
2. Each nomination, as per the prescribed pro-forma, should be accompanied by a detailed statement of work and attainments of the nominee and a critical assessment report (not more than 500 words) bringing out the importance of significant research and development contributions of the nominee made during the Ten (10) years preceding the year of the Award. Nominations not made as per the prescribed format are not acceptable.
3. Names of candidates may be proposed by:
   - Vice Chancellors of Indian Universities
   - Directors of Private Institutions/Universities
   - Chairpersons of Institutions of National importance and
   - Directors of the Indian Institutes of Management (IIM).
4. University Faculties should forward the name(s) of person(s) for the award working in their faculty/institutions only and route nominations through their respective Vice Chancellors, while the Faculties in IIMs are required to send their nominations through their Directors.
5. Every application/nomination shall be accompanied by a processing fee of Rs. l000/- (Non Refundable) through demand draft drawn in favour of “M M Shah Memorial Award – ICA A/c” payable at Amritsar. The last date for application/nomination is 15th July, 2012.

Eligibility Criteria

1. Any citizen of India engaged in research in any field of Commerce & Business Management up to the age of Sixty (60) years as reckoned on 3151 December of the year preceding the year of the award.
2. Overseas Citizens of India (OCI) and/or Persons of Indian Origin (PIO) working in India (or in collaboration with Indian citizen(s) if residing outside India) are also eligible.
3. The person(s), in the opinion of lCA, should have made conspicuously important and outstanding contributions to human knowledge and progress in the discipline & profession of Commerce & Business Management.

4. The contributions made through work done in India during the Ten (l0) years preceding the year of the grant of Award shall be considered.
5. The candidate must hold a Doctoral Degree from a recognized University established in India or abroad considered equivalent thereto, by the Association of lndian Universities.
6. Each published research work of the nominee shall be evaluated in terms of quality of the publication as well as the journal(s) in which they have been published.
7. Each published research work(s) would be evaluated in terms of the following criteria:
   - Originality of idea
   - Research methodology rigour
   - Discussion and interpretation
   - Linguistic presentation
   - Socio/Economic positive impact

Judging Module

The award shall be adjudged by a six member jury comprising of people of eminence and distinction being accomplished educationists, industrial stalwarts, professionals and bureaucrats to make an unbiased and comprehensive judgment of the eligible candidate.

Important Information

1. A candidate once nominated would be considered for a total period of three (3) years, if age-wise eligible.
2. The Award of the cash prize may be withheld by ICA in any year, if, in the opinion of the Jury, no sufficiently meritorious candidate(s) is/are found suitable in that year.
3. In the event, when the Jury selects more than one person or team(s) to receive the Award, the cash prize will be shared equally by each member of the joint team recommended for the Award.
4. The recipient(s) will be responsible for all individual expenses including applicable taxes, if any.
5. The Award shall be presented at the time of the Annual Conference of the ICA.
6. In all matters of Award of "Prof. Manubhai M. Shah Memorial Award", the decision of the ICA shall be final.

Brief about Indian Commerce Association

Indian Commerce Association, is one of the premier professional association of India, a congregation of commerce, management and economics professionals. The association was set up way back in 1947 and has evolved as a committed body making significant contributions in the field and overall economic set up. Having an enviable professional might the association has to its credit many celebrated achievements and notable contributions which have made a mark on the landscape of commerce education and profession. Continuing its societal and academic enrichment spree, ICA has initiated the process of institution of an award in the memory of one of its past luminary Late Professor Manubhai M. Shah on the pattern of S. S. Bhatnagar Award so as to recognize the contribution of Prof. M. M. Shah.

Contact Details

Dr. Balwinder Singh
Secretary
Indian Commerce Association
Associate Professor,
Department of Commerce & Business Management
Guru Nanak Dev University,
Amritsar- 143001
Phone (Off.) 0183-2255564
Mobile 09417272232, Email: bksaini@gmail.com

The Indian Journal of Commerce
Vol. 65, No. 1, January-March 2012

Applicability of Basic Dividend Policy Models in Diversified Sector of Corporate India

A. GAYATHRIDEVI AND T. MALLIKARJUNAPPA

The study tests the applicability of Lintner's model, Brittain' s cash flow model, Brittain' s explicit depreciation model and Darling,'s dividend models by using companies belonging to diversified sector as the sample for the period 1990-2010. These models have been applied for each company, for the pooled data of all companies and for each year of the study period. The company-wise and pooled regression results using absolute values show that profitability, lagged dividends and cash flows influence the dividend payments positively and significantly. The study reveals that liquidity has nothing to do with the dividend payments. The company-wise results as well as year-wise results using relative versions of the variables agree with the year-wise results of absolute values and show that dividends depend on lagged dividends for most of the years under study. The pooled regression results using relative versions of the variables reveal that profitability, lagged dividends and cash flows have significant positive relationship with dividends. Darling's model fails to provide a better explanation for the dividend behavior of companies.

Introduction

Dividend policy is a major and crucial decision in corporate finance. It discloses the choice regarding distribution of profit to the shareholders and ploughing back of profits to finance the future growth of firm. Many theoretical frameworks have been constructed by the eminent financial experts and their empirical studies prove that dividend decision depends on heterogeneous factors. Yet we do not have an acceptable explanation for the observed dividend behaviour of companies and the ''dividend puzzle" still remains unsolved (Pandey, 2003). Dividend decision does not remain the same across the countries and across time and industry within a particular country. In India, financial scholars have conducted empirical tests on determinants of dividend policy by applying different theoretical frameworks on different sectors. The empirical studies on dividends are not found on diversified sector which includes the best dividend paying companies. Therefore, in the present study, an attempt has been made to test the applicability of basic dividend models, by taking 15 companies belonging to diversified sector as the sample.

A. Gayathridevi is Teacher fellow, Dept. of Business Administration, Mangalore University, Mangalagangotri, 574 199 (Mangalore) and T. Mallikarjunappa is Professor, Dept of Business Administration, Mangalore University, Mangalagangotri, 574 199 (Mangalore)

Literature Review

Many researchers have analyzed the applicability of basic dividend models on dividend policy but they have taken absolute values of the variables. The literature on determinants of dividend policy has its roots in the paper of Lintner (1956) in which he found the current earnings and previous year's dividends are the most important determinants of a company's dividend decision. His study was later extended by Brittain (1964) who substituted profitability by cash flows and he also concluded that dividend decision is governed by cash flows and previous year's dividends. Miller and Modigliani (1961) presented the irrelevance proposition and proved that in a perfect capital market firm's dividend decision is not a thing of value at all. Fama and Babiak (1968) undertook a comprehensive study of the Lintner model's performance, using data for 392 major industrial firms over the period 1946 through 1964. They also found the Lintner model performed well.

Holder, Langrehr and Hexter (1998) found that larger firms tend to have higher pay out ratios than do smaller firms and there is negative relationship between the degree of insider ownership and pay outs, positive relationship between free cash flow and dividend pay out ratio. Dhanani (2005) examined the importance and relevance of the various theories of dividend policy for UK companies using survey approach and evaluated the extent to which corporate characteristics such as size, and industry influence managerial responses to the survey. The results supported dividend hypotheses relating to signaling and ownership structure, in preference to those about capital structure and investment decisions and agency issues. Adedeji (1998) examined that there is negative interaction between dividend payout ratio and investment and a positive interaction between dividend payout ratio and financial leverage. Baker and Powell (2000) concluded that the most important determinants of a firm's dividend policy were the level of current an expected future earnings and the pattern of past dividends.

Krishnamurthy and Sastry (1971) analysed dividend behavior of Indian chemical industry and found that Lintner's model provides a good explanation of dividend behavior. Mahapatra and Sahu (1993) analyzed the determinants of dividend policy using the models developed by Lintner (1956), Darling (1957) and Brittain (1964) found that cash flow is a major determinant of dividend followed by net earnings. Further, their analysis shows that past dividend and not past earnings is a significant factor in influencing the dividend decision of firms. Mollah and Mobarek (2007) found Brittain's dividend behavioural model as the best fit partial adjustment model in an emerging market. The study concluded that there is a very high degree of relationship between dividend changes, current earnings and lagged dividends. Bhat and Pandey (1994) found that the previous year's dividend rate plays a significant role in deciding the current year's dividend rate. Pal and Goyal (2007) found that lagged dividend, profit after tax, and interest are the most important factors affecting dividend decisions of Indian banking industry. Anil and Kapoor (2008) analyzed the determinants of dividend payout ratio of Indian Information Technology sector. The results indicate positive but insignificant relationship between profitability and dividend payout ratio, and positive and significant association between cash flows and dividend payout ratios. The results disclosed insignificant relationship with corporate taxes, sales growth and market-to-book value ratio. Pal and Goyal (2009) conducted a study on the determinants of dividend policy pertaining to Indian IT industry for the period 1996-97 to 2005-06 and concluded that lagged dividend, PAT, depreciation and sales are the most important factors affecting dividend decisions of the industry.

Amidu and Abor (2006) examined the determinants of dividend payout ratios of listed companies in Ghana and concluded that dividend payout policy decision of Ghanaian listed firms is influenced by the profitability, cash-flow position, growth prospects, and investment opportunities of the firms. Gayathridevi and Mallikarjunappa (2010a) studied the determinants of dividend policy of non-financial firms, forming part of BSE100 index. They found that there is significant and positive relationship between dividend policy and size, age, retained profits to paid-up capital, PAT to Sales, PBIT to total assets, Return on capital employed, cash profits to sales, EPS to face value, market capitalization, lagged dividends, and lagged PAT and a significant and negative relationship with debt equity ratio both at firm level and at aggregate level. Gayathridevi and Mallikarjunappa (2010b) tested the validity of dividend models for companies belonging to food and beverages sector and found that Lintner's model offers better explanation of dividend behavior in majority of the companies. They found a positive relationship of dividend policy with PAT, lagged dividends, and cash profits and negative relationship with depreciation in both forms. Their study shows that Brittain's cash flow and explicit depreciation models in pure form are equally good in explaining dividend behaviour. They concluded that cash flow model explains dividend behaviour better compared to explicit depreciation model in modified form.

Research Methodology

The initial sample of the study includes 16 companies belonging to diversified sector and all sample companies are NSE (National Stock Exchange of India Limited) listed companies. The financial data are collected from Prowess, a corporate database of Centre for Monitoring Indian Economy (CMIE) for the period 1988-89 to 2009-10. The final sample of the study includes 15 companies (Table-1). The companies which have paid dividends for a minimum of ten years are included in the final sample. Table-1 shows that five companies have paid dividends throughout the study period, nine companies have paid dividends for 20 and more than 20 years, 10 companies have paid dividends for 14 and more than 14 years and five companies have paid dividends for less than 14 years.

Table 1: List of companies and number of observations available for regression

S.No.	Name of company	Period of available data	N_1 in the period of available data	Dividend paid (years) in the period	Dividend paid during the period (%)	N_2 used in the regression
1	Aditya Birla Nuvo	1989-2010	22	22	100	21
2	Andhra Sugars	1989-2010	22	22	100	21
3	Apar Industries	1990-2010	21	12	57.14	20
4	Balmer Lawrie & Co	1989-2010	22	22	100	21
5	Batliboi	1989-2010	21	10	47.62	20
6	Bombay Burmah Trdg. Corpn.	1989-2010	21	20	95.24	20
7	Cimmco	1989-2010	20	10	50	19
8	D C M Shriram Consolidated	1991-2010	20	20	100	19
9	Gillanders Arbuthnot & Co.	1990-2010	21	21	100	20
10	Kesoram Industries	1989-2010	22	22	100	21
11	Nahar Industrial Enterprises	1991-2010	20	11	55	19
12	Standard Industries	1989-2010	20	14	70	19
13	Surya Roshni	1989-2010	22	22	100	21
14	Texmaco	1989-2010	22	13	59.09	21
15	Voltas	1989-2010	22	20	90.91	21

Note: N_1 and N_2 in table-1 denotes number of years for which data is available in the study period and number of observations used in the regression for each company.

The objective of the study is to test the applicability of Lintner' model, Brittain's cash flow model Brittain's explicit depreciation model and Darling's model in explaining the dividend behavior of companies belonging to diversified sector which are listed on NSE. We have studied the above models using the absolute values of variables in model 1, model 2, model 3 and model 4. We have used the amount of dividends as dependent variable in these models. We have also studied the above models by taking relative versions of the variables in model 5, model 6, model 7 and model 8. We have defined the dividend policy as equity dividends scaled by paid-up capital as there is direct relationship between dividends and paid-up capital and taken the same as dependent variable in these models. To test for significance of the regression co-efficients, 5% level of significance is used. The study draws the conclusions on the basis of significance of adjusted R^2, and p-values of independent variables. The eight models are tested for each company, for each year and for pooled data set of all companies.

Models

The regressand and regressors in the models 1, 2, 3 and 4 are absolute values. The regressand and regressors in the models 5, 6, 7 and 8 are relative versions of variables. We also pool the data of all 15 companies for the available number of years and form the pooled data set to know the overall results. The models tested are as follows.

1. Model 1- Model 1 is the Lintner' model and it uses current year's profits (P) and previous year's dividends (LD) as regressors.

$S_{it}=\alpha+\beta_1 P_{it}+\beta_2 LP_{it-1}+\beta_3 dp_{it}+\beta_4 \Delta S_{it}+\beta_5 CR_{it}+\varepsilon_i$ ——————4)

$$D_{it}=\alpha+\beta_1 P_{it}+\beta_2 LD_{it-1}+\varepsilon_i \quad \text{.................... (1)}$$

2. Model 2- Model-2 is the Brittain's cash flow model and this model uses current year's cash profits (C) and previous year's dividends (LD) as regressors.

$$D_{it}=\alpha+\beta_1 C_{it}+\beta_2 LD_{it-1}+\varepsilon_i \quad \text{.................... (2)}$$

3. Model 3- Model-3 is the Brittain's explicit depreciation model and this model uses current year's profits (P) and depreciation and amortization (dp) as the separate variables along with previous year's dividends (LD) as regressors.

$$D_{it}=\alpha+\beta_1 P_{it}+\beta_2 LD_{it-1}+\beta_3 dp_{it}+\varepsilon_i \quad \text{.................... (3)}$$

4. Model 4- Model-4 is the Darling's model and this model uses current year's profits (P), previous year's profits (LP), depreciation and amortization (dp), change in sales over the previous year (ΔS) and current ratio (CR) as regressors.

.... (4)

5. Model 5 uses current year's profits scaled by sales ( ) and previous year's dividends scaled by previous year's paid-up capital $\left({}^{LD}\!/_{P_{it-1}}\right)$ as regressors.

$$D/P_{it} = \alpha + \beta_1 P/S_{it} + \beta_2 LD/P_{it-1} + \varepsilon_i \quad \text{.................... (5)}$$

6. Model 6 uses the cash profits (sum of PAT and depreciation) scaled by sales (C/S_{it}) and previous year's dividends scaled by previous year's paid-up capital (LD/P_{it-1}) as regressors.

$$D/P_{it} = \alpha + \beta_1 C/S_{it} + \beta_2 LD/P_{it-1} + \varepsilon_i \quad \text{.................... (6)}$$

7. Model 7 uses current year's profits scaled by sales (P/S_{it}), depreciation deflated by fixed assets (dp/FA_{it}) and previous year's dividends scaled by previous year's paid-up capital (LD/P_{it-1}) as regressors.

$$D/P_{it} = \alpha + \beta_1 P/S_{it} + \beta_2 LD/P_{it-1} + \beta_3 dp/FA_{it} + \varepsilon_i \quad \text{.................... (7)}$$

8. Model 8 uses current year's profits scaled by sales (P/S_{it}), previous year's profits (LD/P_{it-1}), depreciation and amortization deflated by fixed assets (dp/FA_{it}), sales growth over the previous year (SG) and current ratio (CR) as regressors.

$$D/P_{it} = \alpha + \beta_1 P/S_{it} + \beta_2 LD/P_{it-1} + \beta_3 dp/FA_{it} + \beta_4 SG_{it} + CR_{it} + \varepsilon_i \quad \text{.................... (8)}$$

Analysis and Discussions

This study examines the dividend determinants of Indian companies belonging to diversified sector by applying basic dividend policy models. The analysis has been made for each company, each year and for pooled data set by taking absolute values and relative values of the variables. The summary of regression results of different models for company-wise analysis is reported in Table 2 and Table 3.

Table-2 shows the results of basic dividend policy models by using absolute value of variables. The analysis shows that Lintner's model, Brittain's cash flow model and Brittain's explicit depreciation model explain the dividend behavior significantly in 14 (93.33%) companies and they explain more than 49% of the variation in dividend policy in all these companies, whereas Darling's model explains the dividend behavior significantly in 13 (86.67%) companies and it explains more than 49% of the variation in dividend policy only in 12 (80%) companies. There is positive and significant relationship between dividend policy and lagged dividends in Lintner's model and Brittain's explicit depreciation model. There is positive and significant relationship of dividend policy with profitability as per Lintner's model and Darling's model, and with cash profits as per Brittain's cash flow model. However, there is positive and insignificant relationship between dividend policy and depreciation as per model-3 and model-4. Previous year's profits is positively but insignificantly related to dividend policy as per Darling's

Table 2: Company-wise results of different models using absolute values of variables.

	Model-1			Model-2			Model-3				Model-4					
	ARS	P	LD	ARS	LD	CP	ARS	P	LD	dp	ARS	P	dp	LP	Δ S	CR
T	15			15			15				15					
T & S	14	11	11	14	9	12	14	8	11	4	13	10	5	4	3	0
T & NS	1	4	4	1	6	3	1	7	4	11	2	5	10	11	12	15
P		14	15		13	15		13	15	10		15	11	12	11	8
P&S		11	11		8	12		8	11	4		10	5	3	2	0
P&NS		3	4		5	3		5	4	6		5	6	9	9	8
N		1	0		2	0		2	0	5		0	4	3	3	7
N&S		0	0		1	0		0	0	0		0	0	1	1	0
N&NS		1	0		1	0		2	0	5		0	4	2	2	7
ARS>49%	14			14			14				12					

Note: ARS denotes Adjusted R square. T denotes the number of companies used in the study. T & S denotes the number of companies whose p values are less than the level of significance, i.e. 0.05. T & NS denotes the number of companies whose p values are greater than the level of significance. p denotes the number of companies whose coefficients are positive. P&S denotes the number of companies whose coefficients are positive and significant. N denotes the number of companies whose coefficients are negative. N&S denotes the percentage of companies whose coefficients are significant and positive. N&NS denotes the percentage of companies whose coefficients are significant and negative. The details about the individual companies are not reported here. It is available with the authors. P-value are the values corresponding to the respective beta co-efficient of the independent variables taken in different regression equations. The interpretation of the p-values is based on the level of significance chosen for the study. In this study we have taken 5% level of significance. The same explanation holds good for other tables wherever they are reported.

model. The relationship of change in sales over the previous year, which is a proxy for working capital requirements, is positive but insignificant. Current ratio is not significant in explaining the dividend policy in any company. On the whole, Lintner's model has come out as a model of best fit in explaining the dividend policy using absolute values of the variables.

Table-3 reports the results of basic dividend policy models by using relative versions of variables. The analysis shows that model 5, model 6 and model 7 explain the dividend behavior significantly in 13 (86.67%) companies. They explain more than 49% of the variation in dividend policy in 11 (73.33%) companies in each case. Model 8 explains the dividend behavior significantly in 10 (66.67%) companies. It explains more than 49% of the variation in dividend policy only in eight (53.33%) companies. There is a positive and significant relationship between dividend policy and lagged dividends in model 5, model 6 and model 7. There is a positive and significant relationship of dividend policy with profitability as per model 5 and model 7. However, there is a positive and insignificant relationship between dividend policy and depreciation as per model 7 and model 8. Model 8 reports that previous year's profits is positively but insignificantly related to dividend policy. The relationship of annual sales growth, which is a proxy for working capital requirements, is positive but insignificant. Current ratio is significant in explaining the dividend policy only in one (0.067%) company. On the whole, model 5 is a model of best fit in explaining the dividend policy using relative values of the variables. Model 8 fails to explain the dividend policy in a better way.

Table 4 and table 5 report the analysis of results for each of the year with absolute values and relative values of the variables respectively. Table 4 reports that model 1, model 2 and model 3 explain the dividend policy significantly in all the 21(100%) years of the study and they explain more than 49% of the variation in dividend policy in all the years. Model 4 explains the dividend behavior significantly in 20 (95.24%) years, but it explains more than 49% of the variation in dividend policy only in 19 (90.5%) companies. There is a positive and significant relationship between dividend policy and lagged dividends in model 1, model 2 and model 3. There is a positive and insignificant relationship of dividend policy with profitability as per model 1, model 3 and model 4 and with cash profits as per model 2. CR, depreciation and sales change are not significant in explaining the dividend policy. Table 5 reports that model 5, model 6 and model 7 explain the dividend policy significantly in all years of the study. These models explain more than 49% of the variation in dividend policy in 19 (90.5%) years. However, model 8 is not a significant model of explaining the dividend policy in 14 (66.67%) years. Only lagged dividends has emerged as a strong variable explaining the dividend policy significantly.

Pooled regression results as per table 6 indicate that model 1 explains 88.9% of the variation in dividend policy, and there is positive and significant relationship between dividend policy and profitability and lagged dividend. The same findings are observed in the case of model 3 and 5. Intercept is significant only in the models which use absolute values, i.e., model 1-4 and

Table 3: Company-wise results of different models using relative values of variables.

	Model-5			Model-6			Model-7				Model-8					
	ARS	PAT /S	LD /P	ARS	CP /S	LD /P	ARS	PAT /S	LD /P	dp/ NFA	ARS	PAT /S	LP /S	dp/ NFA	(S1- s0)/s0	CR
T	15			15			15				15					
T & S	13	9	10	13	6	11	13	8	10	1	10	6	4	1	1	1
T & NS	2	6	5	2	9	4	2	7	5	14	5	9	11	14	14	14
P		14	15		14	14		14	14	10		13	12	9	11	9
P&S		9	10		6	11		8	10	1		6	3	1	1	0
P& NS		5	5		8	3		6	4	9		7	9	8	10	9
N		1	0		1	1		1	1	5		2	3	6	4	6
N&S		0	0		0	0		0	0	0		0	1	0	0	1
N&NS		1	0		1	1		1	1	5		2	2	6	4	5
ARS>49%	11			11			11				8					

Table 4: Year-wise results of different models using absolute values of variables.

	Model-1			Model-2			Model-2				Model-4					
	ARS	PAT	LD	ARS	CP	LD	ARS	PAT	LD	dp	ARS	PAT	LP	dp	S	CR
S	21	9	19	21	9	17	21	9	19	1	20	6	5	4	1	0
NS	0	12	2	0	12	4	0	12	2	20	1	15	16	17	20	21
P		21	21		19	21		20	21	11		20	14	18	12	5
P & S		9	19		9	17		9	19	1		6	5	4	1	0
P&NS		12	2		10	4		11	2	10		14	9	14	11	5
N		0	0		2	0		1	0	10		1	7	3	9	16
N&S		0	0		0	0		0	0	0		0	0	0	0	0
N&NS		0	0		2	0		1	0	10		1	7	3	9	16
ARS>49%	21			21			21				19					

Note: S denotes the number of years for which the coefficients are significant.

Table 5: Year-wise results of different models using relative values of variables.

	Model-5			Model-6			Model-7				Model-8					
	ARS	PAT /S	LD /P	ARS	CP /S	LD /P	ARS	PAT /S	LD /P	dp/ NFA	ARS	PAT /S	LPAT /S	dp/ NFA	$(S_1-s_0)/s_0$	CR
S	21	3	18	21	3	18	21	2	19	1	7	5	4	1	1	3
NS	0	18	3	0	18	3	0	19	2	20	14	16	17	20	20	18
P		18	21		18	21		19	21	8		15	10	9	14	6
P&S		3	18		3	18		2	19	0		5	3	1	0	0
P& NS		15	3		15	3		17	2	8		10	7	8	14	6
N		3	0		3	0		2	0	13		6	11	12	7	15
N&S		0	0		0	0		0	0	1		0	1	0	1	3
N& NS		3	0		3	0		2	0	12		6	10	12	6	12
ARS>49%	19			19			19				6					

Table 6: Pooled regression results

	Model-1	Model-2	Model-3	Model-4	Model-5	Model-6	Model-7	Model-8
ARS	0.889*	0.863*	0.893*	0.728*	0.728*	0.728*	0.727*	0.033*
intercept	0.905*	0.521*	1.161*	3.331*	0.022	0.022	0.025	0.414*
PAT	0.063*		0.714*	0.092*				
LD	0.66*	0.635*	0.067*					
CP		0.048*						
dp			-0.032*	0.058*				
LP				0.015*				
SChange				0.003				
CR				-0.51*				-0.024*
PAT/S					0.0001*		0.0001*	0.001
LD/P					0.998*	0.0001*	0.997*	
CP/S						0.998*		
dp/NFA							-0.034	0.002
LP/S								-1.01*
(S1-s0)/s0								0.016

Note: * denotes that the co-efficients are significantly different from zero at 5% level.

is not significant in the models which use relative values i.e., model 5-8. In models 1-4, the respective explanatory variables are positive and significant except current ratio, which is negative and not significant in model 4. As per model 2, there is positive and significant relationship between dividend policy and cash profits and the explanatory power of the model is 86.3% and model 3 explains 89.3% of the variation in dividend policy. Therefore, it is clear that the separation of cash profits as profits after tax and depreciation in model 3 improves the explanatory power of the model when absolute values are used. But this is not true when relative values of variables are used as in model-7. Darling's model failed to explain the dividend behavior when relative values are used.

Conclusion

From the findings of our study , it is clear that Lintner's model provides a better explanation of dividend policy with absolute and relative values of variables as far as company-wise results are concerned. The pooled regression results support the findings of Lintner's model and Brittain's model. Lagged dividend and profitability strongly influence the dividend policy. Therefore, like most of the developed countries, Lintner's model and Brittain's model can explain the corporate dividend behavior in the diversified sector In India. The limitation of the study is that only one sector is used in the study and the sample is less in number. Therefore, future study can be concentrated on different sectors and on different models and combination of variables.

REFERENCES

Adedeji A. 1998. Does the Pecking Order Hypothsis explain the dividend payout ratios of firms in the U.K?. *Journal Of Business Finance and Accounting*, 29 (9&10, (November. /December), 1127-1155.

Amidu, M. and Abor, J. 2006. Determinants of dividend payout ratios in Ghana, *Journal of Risk Finance*, 7 (2) : 136-145.

Anil. K. and Kapoor, S. 2008. Determinants of dividend payout ratios-A study of Indian Information Technology Sector. *International Research Journal of Finance and Economics*, ISSN 1450-2887, 15: 63-71.

Bhat R. and Pandey, I.M. 1994. Dividend decision, A study of managers' perceptions. *Decision*, 21 (1&2) : 67-86.

Brittain J.A. 1966. *Corporate dividend policy*. The Brooking Institution, Washington D.C.

Darling P.G. 1957. The influence of expectations and liquidity on dividend policy. *Journal of Political Economy*, 65 (3), (June) : 209-224.

Dhanani, A. 2005. Corporate dividend policy: The views of British Financial Managers. *Journal of Business Finance and Accounting*, 32 (7&8), (September/ October), 1625-1672.

Fama E. F and Babiak, H. 1968. Dividend policy- An empirical analysis. *American Statistical Association Journal*, 63 (324), (December) : 1132-1161.

Gayathridevi A. and Mallikarjunappa T. 2010a, *Determinants of corporate dividend policy decisions of Indian Firms*. Pages 265-278 in Ideas, Insights and Innovations on Management Research (An International Perspective) (David Jawahar P. ed.) Macmillan Publishers India Ltd, ISBN 023-032-889-X.

Gayathridevi A. and Mallikarjunappa T. 2010b. *A Study on dividend policy models in Indian food and beverages industry*. Pages 241-253 in Rediscovering Finance and Banking (James P. S., Roji George and Roshna Varghese. eds) New Delhi, Excel India Publishers, ISBN 978-93-80697-18-5.

Holder, M. E, Langrehr, F.W. and Hexter, J. L. 1998. Dividend policy determinants: An investigation of the influences of stake holder theory. *Financial Management*, 27 (3) : 73-82.

Krishnamurhty, K and Sastry, D.U. 1971. Some aspects of corporate behaviour in India: A cross section analysis of investment, dividend and external financing for the chemical industry: 1962-1967. *Indian Economic Review*, 6 (2), (October) : 152-183.

Lintner, J. 1956. Distribution of incomes of corporations among dividends, retained earnings and taxes. *American Economic Review*, 46 (2) : 97-113.

Mahapatra, R.P. and Sahu, P.K. 1993. A note on determinants of corporate dividend behaviour in India– An econometric analysis. *Decision*, 20 (1), (January-March) :1-22.

Miller, M. and Modigliani F. 1961. Dividend policy, growth and valuation of shares. *Journal of Business*, 34 (4) : 533-553.

Mollah, A. S. and Mobarek. 2007. Dividend policy and behaviour in an emerging market: An empirical investigation on the partial adjustment dividend behaviour models. *Finance India*, 21 (2), (June) : 477-495.

Pal, K. and Goyal, P. 2007. Leading determinants of dividend policy: a case study of the Indian banking industry. *Decision*, 34 (2), (July-December) : 87-112.

Pal, K. and Goyal, P. 2009. Corporate dividend policy in Indian IT industry. *Finance India*, XXIII (4), (December) : 1295-1316.

Pandey, I. M. 2003. Corporate dividend policy and behaviour: The Malaysian Evidence, *Asian Academy of Management Journal*, 8 (1), (January) : 17–32.

The Indian Journal of Commerce
Vol. 65, No. 1, January-March 2012

Currency Futures Traded on the NSE

DHAREN KUMAR PANDEY

The main theme of this paper is to assess the speed in which the growth of currency futures in India has accelerated. It also aims at examining the volatility of the currency futures. In order to study the growth of the currency futures, the number of contracts traded and open interest at NSE has been inclusively compared. Attempt has been made to check whether the daily returns of the NSE on currency futures are normally distributed. For this purpose the changes in the daily value of Rupee as compared to Dollar, Yen, Euro and Pound have been calculated for the period and the data have been used for the ANOVA Test to test the hypothesis that the returns are normally distributed. The currency futures have received a good response from the investors as well as the hedgers. Initially, currency futures were started for USD-INR contracts but trading in Euro-INR, Yen-INR and Pound-INR contracts have been introduced in January 2010. The risk involved is comparatively low in this case and currency futures has proved to be a good tool for hedging the risk involved in the currency of a country (currency risk).

Introduction

In order to facilitate direct hedging of currency risk in other currency pairs as well, it has been decided, as announced in the Second Quarter Review of Monetary Policy 2009-10 (Para 117), to permit the recognized stock exchanges to offer currency futures contracts in the currency pairs of Euro-INR, Japanese Yen (JPY)-INR and Pound Sterling (GBP)-INR, in addition to the USD-INR contracts, with immediate effect.

Pricing and Settlement of Currency Futures

According to the interest rate parity theory, the currency margin is dependent mainly on the prevailing interest rate (for investment for the given time period) in the two currencies. Therefore, the currency futures prices are determined with the help of the spot rates and interest rates prevailing at that time. The following formula is used to set the price for a contract for a given currency pair:

$$F = S\,(1 + R_Q \text{ x } T) \div (1 + R_B \text{ x } T)$$

where,

F = the price for the currency futures contract;

Dharen Kumar Pandey is Research Scholar, Faculty of Commerce, Banaras Hindu University, Varanasi-221005

S = the spot rate for the currency pair;

$\mathbf{R_Q}$ = the interest rate of the quote currency;

$\mathbf{R_B}$ = the interest rate of the base currency;

T = the time to maturity (in days).

After the expiry of the currency futures contracts, the currency futures are settled in cash in the underlying currency. This is due to the reason that the currency futures are based upon the exchange rate of both the currencies. The delivery is made in cash in the underlying currency.

Research Methodology

Currency futures have significantly gained importance all over the world. The futures market holds a great importance in the economy and, therefore, it becomes imperative that we analyse this important market and seek answers to a few basic questions. The main theme of the study is to assess the progress of the currency futures in India with a compact view over the volatility of the currency futures. In order to study the growth of the currency futures, the number of contracts traded and open interest for the available four currency futures contracts at the NSE have been inclusively compared. The correlation between the open interest and the contracts traded is used to conclude the growth of the currency futures. If both these values are increasing and correlated positively, then it means that the growth has been satisfactory. But if there is a negative correlation between the two values, the growth is not considered to be satisfactory. Attempt has been made to check whether the daily returns of the NSE on currency futures are normally distributed. ANOVA has been used to test the variance among the returns from various currencies.

$\mathbf{H_0}$: The returns of the currency futures are normally distributed.

$\mathbf{H_1}$: The returns of the currency futures are not normally distributed.

Analysis

Open Interest and Volume of Contracts Traded

Open interest is the total number of outstanding contracts that are held by the market partricipants at the end of the day. It is also considered as the number of futures contracts that have not yet been exercised, expired or fulfilled by delivery. It is often used to confirm the trends and trends reversals for futures markets. It measures the flow of money into the futures market. A sellor and a buyer forms one contract and hence in order to determine the total open interest in the market we need to know either the total of buyers or the sellers and not the sum of both. The open interest position that is reported each day represents the increase or decrease in the number of contracts for that day. An increasing open interest means that the new money is flowing in the marketplace and the present trend will continue. If the open interest is declining it implies that the market is liquidating and the prevailing price trend is coming to an end. The leveling off of open interest following a sustained price advance is often an early warning of the end to an uptrending or bull market.

The interpretations which can made on the basis of the open interest may be shown with the help of the Table 1.

Table 1: Open interest

Price	Open Interest	Interpretation
Rising	Rising	Market is Strong
Rising	Falling	Market is weakening
Falling	Rising	Market is Weak
Falling	Falling	Market is Strengthening

The number of contracts traded on a stock exchange shows the total volume of contracts traded. An increase in the number of contracts traded on an stock exchange expresses the growth of trade in that particular stock exchange for a particular currency future.

Figure 1 shows the open interest and contracts traded for the EURO-INR currency futures. We can easily see that both, the open interest and the volume of contracts traded, have been declining in this case. This is not a good indication towards the growth of currency futures. The correlation calculated between the open interest and the contracts traded gave a negative value of -0.32 which represents that although not so strong but a negative correlation between them indicates that the growth for EURO-INR currency futures is not satisfactory. Further study of other currency futures reveal that all have performed well but only the performance of the EURO-INR currency futures have been dissatisfactory.

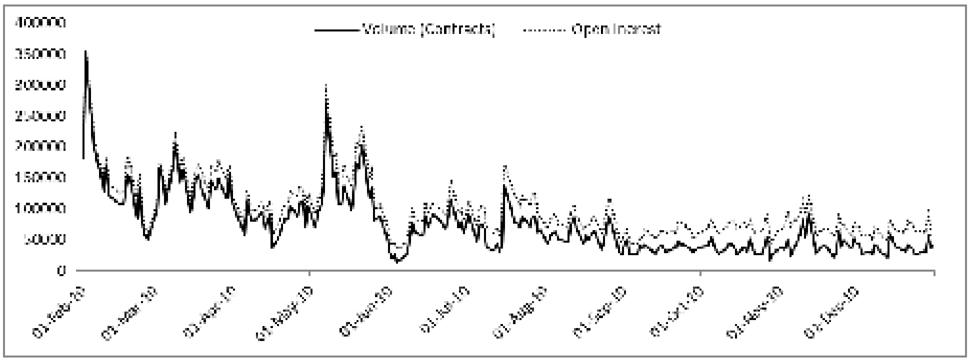

Figure 1: Volume and open interest for EURO-INR currency futures since February 2010

Figure 2 shows the open interest and volumes contracted for the GBP-INR currency futures and depicts that the currency futures have been growing at a steady rate. Both, the open interest and the volumes contacted, have been growing and thus indicating towards positivity. The correlation coefficient +0.33 also supports that there has been a positive relation between the open interest and contracted volumes which again concludes that the GBP-INR currency futures have been performing well.

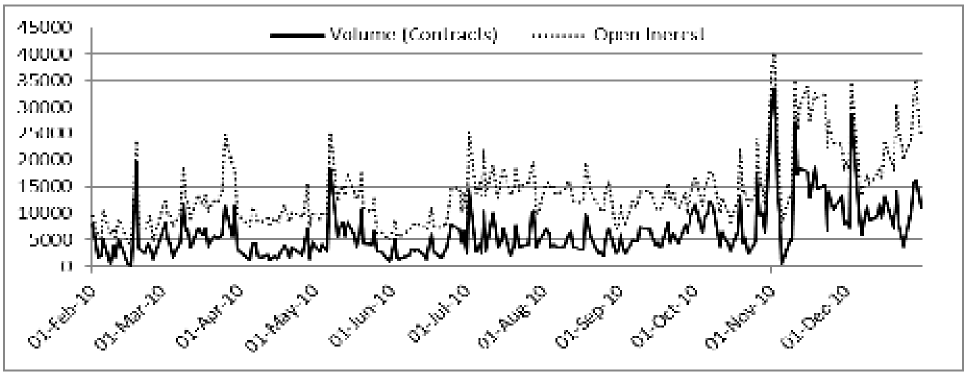

Figure 2: Volume and open interest for GBP-INR currency futures since February 2010

Figure 3 shows the open interest and volumes of contracts traded for the JPY-INR currency futures and depict that the currency futures have been growing but not steadily. There has been major downfalls during May 2010 when it got lowered and then again started rising up. But the correlation between the open interest and the contracted volumes is +0.57 thus concluding that a significant growth has taken place in the JPY-INR contracts during the period.

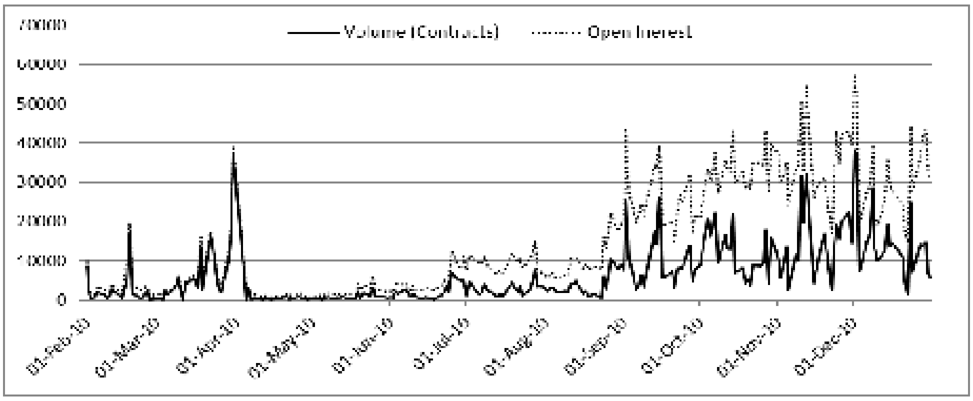

Figure 3: Volume and open interest for JPY-INR currency futures since February 2010

Figure 4 shows the open interest and contracted volumes of the USD-INR currency futures for the period August 2008 to December 2010. A good growth is noticed for the USD-INR currency futures. The correlation coefficient of +0.87 in fact shows that the growth of both, the open interest and the contracted volumes has been high. The one-and-a half year period experienced a good demand for the USD-INR currency futures.

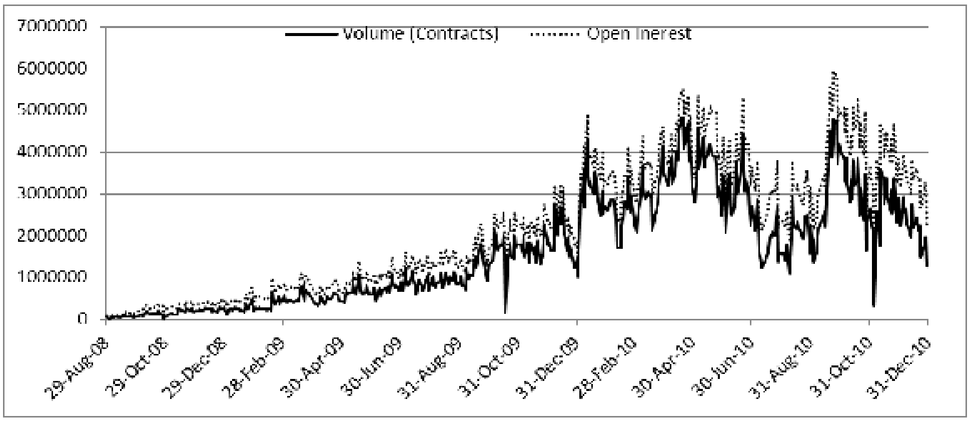

Figure 4: Volume and open interest for USD-INR currency futures since August 2008

Daily fluctuations in the Value of Rupee

The positive mean for Yen reveals that it has been more profitable for the investors. The negative mean in rest of the currencies tells that there has been an overall negative return for the whole period. However, US dollar has been performing well among these three currencies with negative average return. When it comes for volatility, the value of Rupee has been much volatile in case of Yen, then in case of Euro, Pound and US dollar respectively. Less volatility and a good average return has been seen for the US Dollar currency (Table 2).

Table 2: Descriptive statistics

	USD	GBP	EURO	JPY
Mean	-0.01371	-0.02678	-0.03039	0.035231
Median	0	-0.03074	-0.04827	0.091743
Standard Deviation	0.51999	0.661351	0.666456	0.909785
Sample Variance	0.270389	0.437386	0.444164	0.827709
Kurtosis	1.443739	2.197999	2.574248	1.179202
Skewness	0.058632	-0.08153	0.650772	-0.00375
Minimum	-2.16523	-2.74025	-1.81694	-3.14931
Maximum	1.630435	2.575663	2.889246	2.998411
No of Observations	223	223	223	223

The analysis of variance among the changes in value of Rupee for all the four currency reveals that the returns have been following a normal distribution and that there is no significant difference between the returns from these currencies. The results of the ANOVA are shown in Table 3.

Table 3: ANOVA results

Source of Variation	SS	df	MS	F	P-value	F crit.
Between Groups	0.614	3	0.205	0.413	0.743	2.615
Within Groups	439.482	888	0.495			
Total	440.095	891				

Conclusion

The Indian currency futures market has experienced an impressive growth since its introduction. The upward trend of the volumes and open interest for currency futures in NSE explains the whole story in detail. The growth of USD-INR currency futures since August 2008 led to the introduction of three other currency futures in January 2010. The GBP-INR, JPY-INR and the USD-INR currency futures have recorded a growth and thus confirmed that the introduction of currency futures have been a good step taken by the Government. But the EURO-INR currency futures have not motivated. It has been seen that the value of Rupee for Euro has been more volatile and also the return was negative and the least. Thus, the volatility in the value might have been the reason behind this dissatisfactory growth. The US Dollar has been least volatile and the return from it was also good. The correlation between the open interest and the contracts traded has been the maximum in this case. It is +0.87 thus signifying the growth of the USD-INR currency futures. The overall currency futures performance has been encouraging and thus a good future is expected for the currency futures. The correlation test also explained that the relationship between the open interest and traded volumes is very much significant and that the change in the value of currency is normally distributed thus illustrating that the risk is minimum in the currency futures contracts. The risk involved is comparatively low in this case and currency futures has proved to be a good tool for hedging the risk involved in the currency of a country (currency risk). It is hoped that the currency futures market will develop faster and it will be a good choice for all the market participants in the near future and it will find its way in the Indian economy.

REFERENCES

Choudhari, N. 2009. *Global recession and its impact on Indian financial market.* www.aima-ind.org/.../Nidhi_Choudhari_2408098 2820095705178.pdf.

Guru, A. 2009. *Indian derivative markets: some policy issues.* SSRN: http://ssrn.com/abstract=1428685.

Guru, A. 2009. *Forex derivative markets in India: Developments thus far and road ahead.* Retrieved from SSRN: http://ssrn.com/abstract=1420615

Jaiswal, K.S. & Saha, D. 2009. Currency futures trading in India. *Indian Journal of Finance, Vol. 3(4),* pp 28-34.

Naik, G. & Jain, S.K. 2002. Indian agricultural commodity futures market: A performance survey. *Economic and Political Weekly. Vol. 37 (30).* pp 3161-73.

Patil, R.H. 2003. Exchange traded interest rate derivatives. *Economic and Political Weekly. Money, Banking and Finance. Vol. 38 (8).* pp 755-60.

Pavaskar, M.G. 1970. Futures trading and price variations. *Economic and Political Weekly. Vol. 5 (9*). pp 425-28.

Report of the RBI-SEBI Standing Technical Committee on Exchange Traded Currency Futures. 2008.

The NSE Website.

Currency Futures (Reserve Bank) Directions, 2008.

Currency Futures (Reserve Bank) (Amendment) Directions, 2010.

Circulars of the RBI and the NSE.

The Indian Journal of Commerce
Vol. 65, No. 1, January-March 2012

A STUDY OF THE BRAND ASSOCIATION OF CUSTOMERS WITH PUBLIC SECTOR OIL MARKETING COMPANIES

M.S. PAHWA AND REKHA ATTRI

India's oil market has so far been dominated by Public Sector Oil marketing companies especially in the marketing of petroleum products. One particular customer behavior that has intrigued the marketers and researchers for long has been the indifference exhibited by fuel consumers while making choice amongst these three brands to refuel their vehicles. This research aims to study the level of brand association of the customers with public sector oil marketing companies. The results point towards the need to work on segmentation and marketing communication activities by these companies to build unique brand associations with different segments of the society.

Introduction

A successful brand is an identifiable product, service, person or place, augmented in such a way that the buyer or user perceives relevant, unique added values which match their needs most closely (Christodoulides & Chernatony, 2010). A brand signals to the customer the source of the product, and protects both the customer and the producer from competitors who would attempt to provide products that appear to be identical (Aaker, 1991). Advocates of brand equity contend that for a brand to have value, it must be valued by the customer. If the brand has no meaning to the customer, none of the other definitions of brand is meaningful (Cobb-Walgren et al., 1995; Keller, 2000).

The oil industry influences almost all aspects of business, economics and geopolitics throughout the world. India's oil market has so far been dominated by state firms such as the Indian Oil Corporation Ltd. (IOCL), Bharat Petroleum Corporation Ltd. (BPCL) and Hindustan Petroleum Corporation Ltd. (HPCL), especially in the marketing of petroleum products. These represent pretty strong brands amongst themselves, but one particular customer behavior that has intrigued the marketers and researchers for long has been the indifference exhibited by fuel consumers while making choice amongst these three brands to refuel their vehicles.

Dr. M.S. Pahwa is Associate Professor and Head, Department of Accounting and Finance, College of Management and Economic Studies, University of Petroleum and Energy Studies, Bidholi, Energy Acres, Dehradun and Ms. Rekha Attri is Asst. Professor, Core Business School, Vill. Bhonrasala, Sanver Road, Near LNCT, Indore, Madhya Pradesh.

With the rise in the disposable income of the Indian consumers and the ever increasing population of vehicles in the country there is going to be a huge increase in the demand for Auto fuels (SIAM-Society of Indian Automobile manufacturers, 2010).

Each of the Public Sector Oil Marketing Company (OMC) claims in their literature that all their activities are focused towards exhibiting certain brand values for which they are known or aspire to be known in the market place. For example HPCL claims to be known for High Quality, Personalised Vehicle care and Personalised Customer care; BPCL for Innovation, Care and Reliability (abbreviated in company literature as InCaRe); and IOCL for Care, Innovation, Passion and Trust (abbreviated in company literature as CIPT).

Since all brand decisions rely on in-depth understanding of customer to create a point of differentiation for sustainability over time, this research is carried out aiming to study the association level of the customer with the brand propositions/ values for the public sector oil marketing companies in the city of Indore in Madhya Pradesh, India. The results from this study would provide market insight to the OMCs regarding their current brand association level amongst the customers.

Review of Literature

It is now widely accepted in the literature that brands are built through a combination of rational and emotional elements and that emotions evoked by brands may enhance buying and consumption processes (Hirschman and Holbrook,1982). Brands may therefore be regarded as having duality appealing to both the head and the heart whereby "strong brands blend product performance and imagery to create a rich, varied, but complementary set of consumer responses to the brand". Research by Bhat and Reddy (1998) indicates that the value of a brand is a multidimensional construct which includes both functional and symbolic benefits. By attracting both rational and emotional concerns, a strong brand provides consumers with multiple access points to the brand while reducing competitive vulnerability. (Keller, 1998). Keller (1993, 1998) argues that brand knowledge comprises of two components, brand awareness and brand image. Brand awareness itself consists of two components, brand recognition and brand recall, whilst brand image is the perception about a brand as reflected by brand associations held in consumer memory. Aaker (1991) argued that brand associations are the category of brand assets and liabilities that include anything "linked" in memory to a brand. Consumers acquire, develop and refine brand values from a multitude of external sources and their own experience but it is generally accepted that advertising is a primary source of image creation. Whilst advertising is not an essential prerequisite for branding it can influence the acquisition and positioning of brand values that are symbolically attractive to consumers in relation to their expectations (McDonald, 1992; Meenaghan, 1995). Following the majority of cognitive psychologists, brand researchers believe that brand information is organised as a network in consumer memory (Collins & Quillian, 1969; Collins & Loftus, 1975; Tversky 1977). Such networks, which consist of associations like product features, logos and usage situations, and associative links (Solomon, 2006), show the unique value of branded goods and services to consumers (Aaker, 1997). The graphical representation of such a brand memory is called a brand concept map (BCM) (Roedder John et al., 2006). In the literature, qualitative and quantitative methods are used to measure brand image perception. Several qualitative techniques have been developed to elicit brand associations. These are defined as 'all brand-related thoughts, feelings, perceptions, images, experiences, beliefs, attitudes that become linked to the brand node' (Kotler & Keller, 2006). Marketers use free association tasks, asking respondents what comes to mind when they think of a certain brand (Green & Srinivasan, 1990). Projective techniques, like comparison tasks (Vriens & Frazier, 2003) or interpretation tasks, are used when consumers are reluctant to express their feelings. Brand personality, i.e. 'the specific mix of human traits that may be attributed to a particular brand' (Kotler & Keller, 2006), is also used to measure brand image through open-ended questions (Swait et al., 1993) or ratings of the 'Big Five', a scale of five factors developed by Aaker (1997) to assess the brand's personality. The qualitative mapping techniques, based on cognitive network theory, where attributes are either directly elicited from the consumer (consumer mapping) or produced using analytical methods (analytical mapping) are quite promising in this regard. An example is Zaltman Metaphor Elicitation Technique (ZMET) (Zaltman, 1997), which uses multiple verbal and non-verbal qualitative attribute elicitation methods to emphasise subconscious attributes. Quantitative mapping techniques are potentially more effective in this regard. While qualitative techniques only uncover the types of beliefs making up the brand image, quantitative techniques focus on their contribution to brand equity through measurement of strengths, favourability and uniqueness (Keller, 2003). Attitudinal research is used widely in marketing, for example in positioning and segmentation studies, advertising evaluation, and image tracking. Techniques of measuring beliefs about brands can be classified in various ways (Joyce, 1963). Free-choice questioning is subject to a variable nonresponse effect (Haley, 1985; Sudman and Bradbum, 1982) because the respondent chooses whether or not to indicate his or her beliefs about each brand. In contrast, scaling and ranking are both "forced-choice" procedures that require a definite response for every brand. For respondents unfamiliar with a brand, these procedures can give rise to errors due to guessing (Hughes, 1969; Morrison, 1979; Schmittlein, 1984; Towriss, 1984). Thus a free-choice approach may underreport the beliefs held by interviewees, whereas forced-choice techniques can add pseudobeliefs to the data. Comparative studies of brand attribute belief measurement have been confined mostly to measures of the degrees-of-association variety, which are essentially forced choice (Albaum, Best, and Hawkins, 1977; Haley and Case, 1979; Hawkins, Albaum, and Best, 1974; Holmes, 1974; Kalwani and Silk, 1982; Kassarjian and Nakanishi, 1967; Menezes and Elbert, 1979).

One of the key functions of brand management is to be ahead of competitors by imprinting the brand firmly on the consumer psyche and keep it there. A firm therefore requires understanding the consumer perceptions of its brand(s) vis-à-vis those of competitors. As there is no literature available on the study of brand associations of the customers with Public Sector Oil Marketing Companies operating in India, therefore this study is aimed at studying this construct with special reference to Indore.

Objective

The objective of this research is to study the brand association levels of the customers with the public sector oil marketing companies.

Research Methodology

The respondents were asked to respond to open ended questions like feelings about the public sector oil marketing companies, their products, marketing communication and promotional schemes. 5 point Likert scale was used to gather the level of agreement of the consumers with the various brand values promised by these oil marketing companies. The customer target population has been defined as the people who drive cars or motorcycles/scooters on the roads of Indore. Care was taken not to approach the respondents at the retail outlets of the petroleum companies so that the responses are unbiased.

Stratified probability sampling method was used for customer selection. The demographic variables were taken into account for better representation of sample. To ensure "respondent-friendly" structured questionnaire, it was pilot tested with 10 academicians and 20 customers before commencing the actual study. The sample size of about 400 customers was targeted for the survey. About 25 responses were discarded due to incomplete filling of questionnaire and the analysis was done on the remaining 375 responses. The primary data collected is analyzed using the following statistical tools using SPSS 17.0 (Statistical Package for Social Sciences).

Hypothesis

H_0: There is no significant difference in the level of brand association exhibited by the customers for the public sector oil marketing companies.

H_1: There is a significant difference in the level of brand association exhibited by the customers for the public sector oil marketing companies.

Analysis and Interpretation

Test for Reliability of the scale was carried out for measuring perceived Brand Value of the Oil marketing companies. Cronbach's alpha test statistics of 0.759 established the reliability of the scale for measuring the perceived brand value of the oil marketing companies.

The validity of the construct can further be established from the low to moderate coefficient of correlation ($r = 0.179$, $p = .001$) between brand association and purchase behaviour of the respondent. The Levene's test statistics of $F= 1.485$ at $p = 0.224$ for homogeneity of variance reveals that the variance obtained in the study of construct of brand association is not significantly different from the population at large.

Out of the total population of 375 respondents surveyed, 23.2% of the population belonged to group having income more than Rs. 1,00,000/- per month, 40% of the respondents belonged to the group having monthly income between Rs. 50,000/- to Rs. 1,00,000/- and rest 36.8% of the respondents belonged to the income group having a monthly income of less than Rs. 50,000/- .

Customer brand association with HPCL was studied for the items of High Quality, Personalised Vehicle care and Personalised customer care. Similarly the items of Innovation, Care and Reliability were used to measure the response of the consumers about the association of these brand values with BPCL. The items of Care, Innovation, Passion and Trust were used to measure the level of customer association with these brand values of IOCL. The responses for brand association were coded in the SPSS as 1 for "strongly agree", 2 for "agree", 3 for "neither agree nor disagree" , 4 for "disagree and 5 for "strongly disagree".

One way ANOVA test was carried out to study if there is a significant difference in the level of brand association exhibited by the customers for the public sector oil marketing companies.

In the ANOVA table (Table 1) the high F-statistic and the p value for all which is less than 0.05 is obtained. Hence the null hypothesis for hypothesis is rejected and it can be inferred that there is a significant difference in the level of brand association exhibited by the customers for the public sector oil marketing companies.

In order to identify this difference in the brand association, Post-Hoc test was conducted. The results of the test revealed the consumers having their income above 50,000/-pm agreed with the brand value of High quality for HPCL.The consumers with income below Rs. 50,000/- pm however neither agreed nor disagreed with the high quality brand value for HPCL.

Further the consumers having a monthly income less than Rs. 50,000/- could not associate with any brand value of HPCL as they neither agreed nor disagreed with any of the brand value surveyed for HPCL. Although the Post Hoc tests for personalized vehicle care and personalized customer care exhibit two distinct subsets but it was observed that the values for the degree of association with these brand values is almost uniform across all income groups and the consumers neither agreed nor disagreed with these brand propositions of HPCL. Table 2 depicts the income wise association of the customers with the brand values of HPCL.

Table 1: Variance in the perceived brand values of oil marketing companies

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
High Quality HPCL	Between Groups	16.600	2	8.300	19.983	.000
	Within Groups	154.510	372	.415		
	Total	171.109	374			
Vehicle Care HPCL	Between Groups	23.092	2	11.546	19.567	.000
	Within Groups	219.505	372	.590		
	Total	242.597	374			
Customer Care HPCL	Between Groups	13.598	2	6.799	16.536	.000
	Within Groups	152.951	372	.411		
	Total	166.549	374			
Innovation BPCL	Between Groups	10.781	2	5.390	10.436	.000
	Within Groups	192.152	372	.517		
	Total	202.933	374			
Care BPCL	Between Groups	10.704	2	5.352	6.977	.001
	Within Groups	285.360	372	.767		
	Total	296.064	374			
Reliable BPCL	Between Groups	15.952	2	7.976	14.031	.000
	Within Groups	211.477	372	.568		
	Total	227.429	374			
Care IOCL	Between Groups	9.818	2	4.909	8.828	.000
	Within Groups	206.859	372	.556		
	Total	216.877	374			
Innovation IOCL	Between Groups	23.358	2	11.679	17.912	.000
	Within Groups	242.546	372	.652		
	Total	265.904	374			
Passion IOCL	Between Groups	22.169	2	11.084	11.644	.000
	Within Groups	354.135	372	.952		
	Total	376.304	374			
Trust IOCL	Between Groups	25.607	2	12.804	17.064	.000
	Within Groups	279.129	372	.750		
	Total	304.736	374			

Table 2: Income wise association with brand values of HPCL

Agreement level with Brand Values	Above 1,00,000/- pm (%)	Between 50,000- 1,00,0000/- pm (%)	Less than 50,000/- pm (%)
Brand association with High Quality of HPCL			
Strongly Agree	6.9	9.3	4.3
Agree	60.9	48.7	27.5
Neither Agree Nor Disagree	32.2	42.0	58.5
Disagree	0	0	9.4
Strongly Disagree	Nil	Nil	Nil
Brand association with Personalised Vehicle Care of HPCL			
Strongly Agree	0	6.7	0
Agree	17.2	39.3	32.6
Neither Agree Nor Disagree	62.1	44.7	25.4
Disagree	20.7	9.3	42.0
Strongly Disagree	Nil	Nil	Nil
Brand Association with Personalised Customer Care of HPCL			
Strongly Agree	1.1	0	0
Agree	5.7	34.7	21.7
Neither Agree Nor Disagree	65.5	56.7	50.0
Disagree	27.6	8.7	28.3
Strongly Disagree	Nil	Nil	Nil

Though the post Hoc tests for association of customers with the brand values of Innovation, Care and Reliable showed the difference in the association levels of different income groups of the customers, but the customers having income above Rs. 1,00,000/- per month agreed more with the brand value of Reliability of BPCL as compared to the other two brand values of Innovation and Care. The respondents largely neither agreed nor disagreed with the brand values of Innovation and Care of BPCL. The income wise association of the customers with the brand values of BPCL is depicted in Table 3.

The Post Hoc tests for the consumer perception of the brand values of Care, Innovation, Passion and Trust confirmed that the respondents belonging to different income levels had varying level of brand associations with these brand values. The respondents having income between Rs. 50,000/- pm to Rs. 1,00,000/- pm agreed that they could associate the brand value of Care with IOCL. Similarly the respondents having income less than Rs. 50,000/ - pm and those having income between Rs. 50,000/- pm –Rs. 1,00,000 pm could positively associate the brand value of Trust with IOCL. The respondents having an income of above Rs. 1,00,000/- pm neither agreed nor disagreed with the association of brand values of Care and Trust with IOCL. Although income wise difference in the level of association with the brand values of Innovation and Passion was exhibited in the Post hoc results but the scores of different subsets are very close to the coding “3” pointing towards the fact that the respondents could not express a clear agreement or disagreement of associating these brand values with IOCL. Income wise association of the customers with the brand values of IOCL is depicted in Table 4.

Table 3: Income wise brand association with BPCL

Agreement level with Brand Values	Above 1,00,000/- pm (%)	Between 50,000- 1,00,0000/- pm (%)	Less than 50,000/- pm (%)
Association of Innovation Brand Value with BPCL			
Strongly Agree	0	6.7	0
Agree	19.5	30.0	14.5
Neither Agree Nor Disagree	55.2	46.0	60.9
Disagree	25.3	17.3	24.6
Strongly Disagree	Nil	Nil	Nil
Association of Care Brand Value with BPCL			
Strongly Agree	9.2	12.0	0
Agree	21.8	24.0	31.9
Neither Agree Nor Disagree	33.3	50.0	33.3
Disagree	35.6	14.0	34.8
Strongly Disagree	Nil	Nil	Nil
Association of Reliable Brand Value with BPCL			
Strongly Agree	19.5	5.3	0
Agree	34.5	42.7	29.7
Neither Agree Nor Disagree	33.3	42.0	55.8
Disagree	12.6	10.0	14.5
Strongly Disagree	Nil	Nil	Nil

Table 4: Income wise brand association with IOCL

Agreement level with Brand Values	Above 1,00,000/- pm (%)	Between 50,000- 1,00,0000/- pm (%)	Less than 50,000/- pm (%)
Association of Care Brand Value with IOCL			
Strongly Agree	3.4	6.7	1.4
Agree	67.8	46.0	26.8
Neither Agree Nor Disagree	14.9	36.7	52.9
Disagree	13.8	10.7	18.8
Strongly Disagree	Nil	Nil	Nil
Association of Innovation Brand Value with IOCL			
Strongly Agree	3.4	6.7	1.4
Agree	23.0	23.3	12.3
Neither Agree Nor Disagree	50.6	56.0	47.1
Disagree	23.0	14.0	29.7
Strongly Disagree	Nil	9.4	3.5
Association of Passion Brand Value with IOCL			
Strongly Agree	3.4	6.7	1.4
Agree	29.9	14.7	16.7

Contd...

Neither Agree Nor Disagree	25.3	59.3	37.7
Disagree	35.6	16.0	19.6
Strongly Disagree	5.7	3.3	24.6
Association of Trust Brand Value with IOCL			
Strongly Agree	14.9	6.7	1.4
Agree	42.5	43.3	55.1
Neither Agree Nor Disagree	16.1	36.7	28.3
Disagree	26.4	13.3	3.6
Strongly Disagree	Nil	Nil	11.6

The female respondents exhibited a higher agreement for associating the brand values of Care and Reliable with BPCL. The male respondents exhibited a higher agreement for associating the brand value of High Quality with HPCL. The association of brand values of Care and Trust were agreed more by the male respondents as compared to the female respondents. Of the three brand values of HPCL, the male respondents exhibited a higher level of agreement with high quality and personalised customer care while the females exhibited a higher level of agreement with personalised vehicle care brand value of HPCL. Of the three brand values of BPCL, the female respondents exhibited a higher level of agreement with reliable and care brand values while the male respondents agreed more with the innovation brand value of BPCL. The male respondents agreed more with Care and trust brand values from amongst the four brand values of IOCL.

The respondents having 4 wheelers exhibited a higher level of agreement with associating the brand values of high quality, personalised vehicle care and personalised customer care with HPCL as compared to the respondents having 2 wheelers who exhibited a higher agreement with associating brand values of Innovation, Care and Reliable with BPCL. The respondents having 4 wheelers also expressed high agreement with associating the brand values of Care and Trust with IOCL while the respondents having a two wheeler associated more with the brand values of Passion and Innovation of IOCL.

The respondents belonging to the business class exhibited higher level of agreement with associating the brand values of Innovation and Reliable with BPCL, Care, Passion and Trust with IOCL. The housewives exhibited a higher agreement with associating the brand values of high quality and personalised vehicle care with HPCL. They also exhibited a higher level of agreement with the care brand value of BPCL and Innovation brand value of IOCL. The respondents belonging to the service class expressed high agreement with the association of brand value of Personalised customer care with HPCL while the students agreed the most for associating the brand value of Care with BPCL.

The respondents in the age group of 39-48 years agreed the most for associating the brand values of Care, Innovation, Passion and Trust with IOCL. The respondents in the age group of 18-28 years exhibited a higher agreement for associating the brand value of Innovation and Care with BPCL.

Conclusion

Segment wise difference in the level of agreement with the brand values is noticed in the study which is despite the fact that these companies do not spend heavily on marketing communication activities. Since it has come out very clearly from the research that the perception of the brand values is different for different groups, it is important for the OMCs to have a clear distinction of their target market, based on the consumer behaviour and their consumption patterns. Thus the task that needs to be accomplished is to carry out a demographic segmentation and probe deeper into the unstated desires as regards to the fuel purchase by different segments of the society.

REFERENCES

Aaker, D., 1991. Managing brand equity: capitalizing on the value of a brand name, *The Free Press*, New York, pp. 13,27,40,48.

Aaker, J., 1997. Dimensions of brand personality, *Journal of Marketing Research*, Vol.34, No. 8, pp. 347–356.

Albaum, Gerald, Roger, Best, and Hawkins, Del, 1977. The measurement properties of semantic scale data, *Journal of the Market Research Society*, Vol.19, No.1, pp. 21-26.

Bhat, S., and Reddy, S., 1998. Symbolic and functional positioning of brands, *Journal of Consumer Marketing*, Vol.15, No. l, pp. 32-43.

Christodoulides, G., & chernatony, de. L., 2010. Consumer-based brand equity: conceptualisation and measurement, *International Journal of Market Research*, Vol. 52, No.1, pp. 43-66.

Cobb-Walgren, C. J., Ruble, C. A., & Donthu, N., 1995. Brand equity, brand preference, and purchase intent, *Journal of Advertising*, Vol.24, No.3, pp. 25-40.

Collins, A.M., & Loftus, E.F., 1975. A spreading-activation theory of semantic Processing, *Psychological Review*, Vol.82, No. 6, pp. 407–428.

Collins, A.M., & Quillian, M.R., 1969. Retrieval time from semantic memory, *Journal of Verbal Learning and Verbal Behaviour*, Vol.8, No. 1, pp. 240–248.

Green, P.E., & Srinivasan, V., 1990. Conjoint analysis in marketing: new developments with implications for eesearch and practice, *Journal of Marketing*, Vol.54, No. 4, pp. 3–19.

Haley, Russel I., and Case, Peter B., 1979. Testing thirteen attitude scales for agreement and brand discrimination, *Journal of Marketing*, Vol.43, No.3, pp. 20-32.

Haley, Russell I., 1985. Developing effective communications strategy, New York: Wiley Publication, pp.207.

Hawkins, Del., Gerald, Albaum, and Best, Roger, 1974. Stapel scale or semantic differential in marketing research? *Journal of Marketing Research*, Vol.11, No.8, pp. 318-322.

Hirschman, E., and Holbrook, M., 1982. Hedonic consumption: emerging concepts, methods and propositions, *Journal of Marketing*, Vol.46, pp. 92-101.

Holmes, Cliff, 1974. A statistical evaluation of rating scales, *Journal of the Market Research Society*, Vol.16, No. 4, pp. 87-107.

Hughes, G. David, 1969. Some confounding effects of forced choice scales, *Journal of Marketing Research*, Vol.6, No.5, pp. 223-226.

Joyce, Timothy, 1963. Techniques of brand image measurement, *New Developments in Research*, London: Market Research Society, pp.45-63.

Kalwani, Manohar U., and Alvin, J. Silk, 1982. On the reliability and predictive validity of purchase intention measures, *Marketing Science*, Vol.1, No.1, pp. 243-286.

Kassarjian, Harold H., and Nakanishi, Ma.Sao, 1967. A study of selected opinion measurement techniques, *Journal of Marketing Research*, Vol.4, No.5, pp.148-153.

Keller, K. 1993. Conceptualising, measuring, and managing customer-based brand equity, *Journal of Marketing*, Vol. 57, No.1, pp.1-22.

Keller, K. L., 2000. The brand report card, *Harvard Business Review*, Vol.78, No.1, pp. 147-157.

Keller, K., 1998. Strategic brand management: building, measuring, and managing equity, Prentice-Hall, pp.35-38.

Keller, K.L., 2003. Strategic brand management: building, measuring and managing brand equity, International Edition. New Jersey: Prentice Hall Publication, pp. 324.

Kotler, P. & Keller, K.L. 2006. Marketing management, 12th ed., upper saddle river, NJ: Prentice Hall Publication, pp.745.

McDonald, C., 1992. How advertising works - a review of current thinking, *NTC Publications, in association with the Advertising Association*, Henley-on-Thames, pp.102.

Meenaghan, T., 1995. The role of advertising in brand image development, *Journal of Product and Brand Management*, Vol.4, No.4, pp.20.

Menezes, Dennis, and Norbert F, Elbert, 1979. Alternative semantic scaling formats for measuring store image: An Evaluation, *Journal of Marketing Research*, Vol.16, No.2, pp. 80-87.

Morrison, Donald G., 1979. Purchase intentions and purchase behaviour, *Journal of Marketing,* Vol. 43, No.4, pp.65-74.

Roedder ,John, D., Loken, B., Kyeong-Heui, K., & Alokparna, Basu, M., 2006. brand concept maps: A methodology for identifying brand association networks, *Journal of Marketing Research*, Vo. 43, No.11, pp. 549–563.

Schmittlein, David C., 1984. Assessing validity and test-retest reliability for pick K of N' data, *Marketing Science*, Vol.3, No.2, pp. 23-40.

SIAM- Society of Indian Automobile Manufacturers, 2010. Industry statistics, www.siamindia.com.

Solomon, M., 2006. Consumer behaviour: buying, having, and being, Prentice Hall Publication, 8th ed., pp.145-149.

Sudman, Seymour, and Norman, M. Bradbum, 1982. Asking questions, San francisco: Jossey-Bass Inc. Publishers, pp. 24.

Swait, J., Erdem, T., Louviere, J. & Dubelar, C. 1993. The equalization price: A measure of consumer-perceived brand equity, *International Journal of Research in Marketing*, Vol.10, No.1, pp. 23–45.

Towriss, John, 1984. A new approach to the use of expectancy value models, *Journal of the Market Research Society*, Vol. 26, No.1, pp. 63-75.

Tversky, A., 1977. Features of similarity, *Psychological Review*, Vol.84, No.4, pp. 327–352.

Vriens, M., & Frazier, C., 2003. The hard impact of the soft touch: how to use brand positioning attributes in conjoint, *Marketing Research*, Vol.15, No. 2, pp. 23–27.

Zaltman, G., 1997. Rethinking market research: putting people back, *Journal of Marketing Research*, Vol.34, No.4, pp. 424–437.

The Indian Journal of Commerce
Vol. 65, No. 1, January-March 2012

Effectiveness of Sales Techniques for Financial Products

KULWANT SINGH PATHANIA AND ASHISH NAG

Companies make use of the sales techniques such as Face to face (the process of actually meeting your customer in person to inform them of your product, and to persuade them to purchase the product); Telemarketing (direct selling of your product by telephone based on either 'cold calling' or on a pre-screened list of prospective clients); Direct Mail (Involves sending direct mail that tells potential customers about business); and Internet (The key to getting customers to buy online is having a site that inspires visitors with confidence) are a few to mention. These broad techniques are further specialised multi-dimensionally in various ways. Since liberalisation, financial sector in India has shown tremendous growth. Policies of liberalisation and globalisation have led to competition which in turn has led all financial companies to innovate new methods to increase their share in the market. This paper discusses about the effectiveness of sales techniques.

Introduction

The success of every selling technique depends on company's ability to effectively utilize its organizational and human resources towards the goal of fulfilling the needs of its target customers in a dynamic environment. By repeating this process in an innovative way, a company can create dominant market presence, customer loyalty and satisfaction.

A number of studies have been conducted to study how risk tolerance varies with the individual demographics, such as gender, age, education, income etc. Most of these studies have, however, concentrated on exploring the gender differences in investment choices. While most research conducted prior to 1980 concluded that gender differences clearly exists, more recent research yield mixed results (Changanti and Parasuraman, 1996; and Powell and Ansic, 1997).

The impact of other demographic factors, such as age, education, income, and marital status on investment choice has not yet been investigated by researchers. The present study tries to study influence of age, gender, occupation, income and education on investment decision and types. The study also elaborated the influence of various sales techniques on purchase decisions across the socio-economic factors undertaken in the study.

Prof. Kulwant Singh Pathania is Professor of Commerce & Director UGC-Academic Staff College, H.P.U, Shimla and Ashish Nag is Assistant Professor, Department of Management, Central University of Himachal Pradesh, Dharamshala.

Objectives

The objectives of the present study are:

- to study the effect of socio-economic factors on investment decisions.
- to analyse the effect of various selling techniques on purchase decisions.

Research Methodology

The primary data were collected with the help of well structured questionnaire. The responses of the respondents were encoded and analysed statistically by performing various tests. To select the respondents, the study makes use of non probabilistic sampling methods. The sampling methods used were a mix of judgmental and convenient sampling. A total of 81 respondents (63 per cent male and 37 per cent female) belonging to a wide cross section were interviewed. To analyse the information obtained from the respondents, Mann-Whitney U test, Kruskal Wallis test, and Chi Square test were applied.

Analysis

The study looked upon the investment preference of the investors. The present study discussed the outcomes of the investment choice of respondents. To capture the investment choice, the respondents were asked to rank eight investment options (Insurance, Mutual Fund, Shares, Real Estate, Commodity, Gold, NSC and Savings Account) as per their preference scale (1-most preferred, 9-least preferred).

Gender-wise analysis of the results revealed a non significant relationship between the genders and preference for insurance, mutual fund, share, real estate, and commodity and National Saving Certificate. However, a significant relationship was established for gold and saving account attributing to the reason that while males preferred saving accounts and did not find gold as an attractive avenue for investment, females preferred gold and did not invest much in account, probably because they felt that gold is a secure investment and also because they have a special fascination towards it (Table 1).

Table 1: Mann-whitney test for gender

	Insurance	MF	Share	Real Estate	Commodity	Gold	NSC	Saving
Mann- U Whitney	675.000	716.500	667.500	690.500	626.000	549.000	728.500	546.500
Wilcoxon W	1140.000	2042.500	1993.500	2016.500	1091.000	1014.000	1193.500	1872.500
Z	-.932	-.486	-.977	-.810	-1.885	-2.182	-.367	-2.225
Asymp. Sig. (2-tailed)	.351	.627	.328	.418	.059	.029	.713	.026

Source: Data from Field Survey

Age-wise analysis of results revealed that investors of different age groups did not vary significantly in their choice of different investment avenues (Table 2). Education-wise, analysis revealed that undergraduates have shown inclination to invest in high-risk, high-returns investment. Graduates and post graduates have given preference to gold and real estate. Insurance remained the first preference irrespective of occupation. While investing in shares, difference among the investors, belonging to different educational background was found to be significant. Investors with less education preferred high risk investments, such as equity. The propensity to take risk decreased with an increase in the education level (Table 2). Occupation-wise analysis of results revealed that there is no significant difference among investors belonging to different occupations regarding different investment avenues. (Table 2).

Income-wise analysis of results revealed that people of different income groups do not vary significantly with respect to the investment avenues. People with low income (less than 1.2 Lakh) preferred to invest their money in high risk investments like shares and mutual fund. While people with income of 1.2 lakh -2.4 lakh preferred investing in gold and NSC and people in the income group of 2.4lakh-3.6 lakh preferred investing in real estate. (Table 2).

Table 2: Kruskal-Wallis test for age, education, occupation and income

	Insurance	MF	Share	Real Estate	Commo-dity	Gold	NSC	Saving
Age								
Chi-Square	6.047	1.423	3.189	1.664	1.251	6.515	1.021	.490
Df	3	3	3	3	3	3	3	3
Asymp. Sig.	.109	.700	.363	.645	.741	.089	.796	.921
Education								
Chi-Square	.560	7.686	8.359	2.458	.684	3.391	5.438	5.903
Df	3	3	3	3	3	3	3	3
Asymp. Sig.	.906	.053	.039	.483	.877	.335	.142	.116
Occupation								
Chi-Square	2.705	3.586	4.112	6.371	4.101	3.494	1.569	4.705
Df	3	3	3	3	3	3	3	3
Asymp. Sig.	.439	.310	.250	.095	.251	.322	.666	.195
Income								
Chi-Square	.848	3.320	1.419	7.711	.412	1.410	1.120	2.819
df	3	3	3	3	3	3	3	3
Asymp. Sig.	.838	.345	.701	.052	.938	.703	.772	.420

Source: Data from Field Survey

The study also looked at the various effective sales techniques that influence the decision making of the respondents. The respondents were asked to rank the sales technique (Phone Call, Advertisement, Face to face interaction, Canopy, SMS/Mails and others which influenced their investment decision in order of their preference (1- most preferred, 6- least preferred).

Analysis of results of investment decision regarding Insurance revealed that female's ranked canopy as the most favourable selling technique while making a decision on a new investment as it had the lowest mean rank of 33.06. In case of males, they preferred face to face selling with a mean rank of 35.1. The results also revealed that there was not much significant difference among the selling techniques employed. While decision of people of different age groups did vary significantly for phone call and some other medium of investment. (Table 3).

Table 3: Different selling techniques and insurance

		Insurance					
		Phone	Advertise-ment	F2F	Canopy	Mail/ SMS	Others
	No.	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank
Gender							
Females	27	34.5	36.83	37.46	33.06	34.87	37.5
Males	44	36.92	35.49	35.1	37.81	36.69	35.08
Total	71						
Mann-Whitney U Test							
Asymp. Sig.		0.169	0.78	0.614	0.295	0.708	0.169
Age							
Below25	5	48.7	23.1	30.5	48.6	40.7	23.3
25-35	28	35.77	37.95	33.48	33.09	37.38	36.23
35-50	26	34.5	39.37	39.25	34.81	33.17	37.5
Above50	12	34.5	29.54	37.13	40.13	36.96	37.5
Total	71						
Kruskal Wallis Test							
Asymp. Sig.		0.001	0.214	0.639	0.297	0.81	0.001
Education							
Matriculation	1	34.5	16.5	26.5	19	64	37.5
Sen Secondary	8	34.5	29.19	34.25	34.94	45.69	37.5
Graduation	33	37.73	34.67	31.5	37.39	40.45	34.27
Post Graduation	29	34.5	40.07	41.93	35.29	27.29	37.5
Total	71						
Kruskal Wallis Test							
Asymp. Sig.		0.314	0.343	0.177	0.779	0.011	0.314
Occupation							
Professional	15	39.23	37.63	34.43	38.27	34.83	32.77
Services	30	34.5	35.45	40.92	35.85	32.53	37.5
Self employed	20	34.5	36.88	30.9	32.5	41.55	37.5
Others	6	40.42	31.75	32.33	42.75	37.75	31.58
Total	71						
Kruskal Wallis Test							
Asymp. Sig.		0.058	0.931	0.293	0.63	0.465	0.058
Income							
Below1.2lakh	13	37.23	34.85	29.04	38.92	38.42	34.77
1.2lakh-2.4lakh	20	36.28	36.9	37.8	31.6	39.4	35.73
2.4lakh-3.6lakh	24	34.5	36.5	41.58	34.81	31	37.5
Above3.6lakh	14	37.04	34.93	30.32	41.61	37.46	34.96
Total	71						
Kruskal Wallis Test							
Asymp. Sig.		0.627	0.986	0.159	0.42	0.501	0.627

Source: Data from Field Survey

Analysis of results of investment decision regarding Mutual Fund revealed that maximum number of females opted for mutual fund. To test the influence of age on the selling techniques, Kruskal Wallis Test was performed which revealed that young (25-35) and middle aged (35-50) people were more influenced by advertising whereas those above 50years were most influenced by phone calls. (Table 4).

Table 4: Different selling techniques and mutual fund

		Mutual Fund					
		Phone	Adver-tisement	F2F	Canopy	Mail/ SMS	Others
	No.	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank
Gender							
Females	27	34.5	36.83	37.46	33.06	34.87	37.5
Males	44	36.92	35.49	35.1	37.81	36.69	35.08
Total	71						
Mann-Whitney U Test							
Asymp. Sig.		0.169	0.78	0.614	0.295	0.708	0.169
Age							
Below25	5	48.7	23.1	30.5	48.6	40.7	23.3
25-35	28	35.77	37.95	33.48	33.09	37.38	36.23
35-50	26	34.5	39.37	39.25	34.81	33.17	37.5
Above 50	12	34.5	29.54	37.13	40.13	36.96	37.5
Total	71						
Kruskal Wallis Test							
Asymp. Sig.		0.001	0.214	0.639	0.297	0.81	0.001
Education							
Matriculation	1	34.5	16.5	26.5	19	64	37.5
Sen Secondary	8	34.5	29.19	34.25	34.94	45.69	37.5
Graduation	33	37.73	34.67	31.5	37.39	40.45	34.27
Post Graduation	29	34.5	40.07	41.93	35.29	27.29	37.5
Total	71						
Kruskal Wallis Test							
Asymp. Sig.		0.314	0.343	0.177	0.779	0.011	0.314
Occupation							
Professional	15	39.23	37.63	34.43	38.27	34.83	32.77
Services	30	34.5	35.45	40.92	35.85	32.53	37.5
Self employed	20	34.5	36.88	30.9	32.5	41.55	37.5
Others	6	40.42	31.75	32.33	42.75	37.75	31.58
Total	71						
Kruskal Wallis Test							
Asymp. Sig.		0.058	0.931	0.293	0.63	0.465	0.058
Income							
Below1.2lakh	13	37.23	34.85	29.04	38.92	38.42	34.77
1.2lakh-2.4lakh	20	36.28	36.9	37.8	31.6	39.4	35.73
2.4lakh-3.6lakh	24	34.5	36.5	41.58	34.81	31	37.5
Above3.6lakh	14	37.04	34.93	30.32	41.61	37.46	34.96
Total	71						
Kruskal Wallis Test							
Asymp. Sig.		0.627	0.986	0.159	0.42	0.501	0.627

Source: Data from Field Survey

Analysis of results of investment decision regarding shares revealed that those having income below 1.2 lakh were mainly influenced by face to face selling with mean rank 11.5, those with income between 1.2 lakh and 2.4 lakh were influenced by phone calls, those between 2.4lakh and 3.6 lakh were influenced by some other factors and those with income above 3.6 lakh were influenced by canopy. (Table 5).

Table 5: Different selling techniques and shares

		Shares					
		Phone	Advertisement	F2F	Canopy	Mail/ SMS	Others
	No.	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank
Gender							
Females	11	16.64	16.23	15.59	15.95	16.5	17.5
Males	21	16.43	16.64	16.98	16.79	16.5	15.98
Total	32						
Mann-Whitney U Test							
Asymp. Sig.		.969[a]	.907[a]	.696[a]	.815[a]	1.000[a]	.667[a]
Age							
Below25	1	5	28.5	26.5	18.5	3.5	17.5
25-35	6	18.33	16.58	14.83	16.17	14.33	17.5
35-50	16	17	16.47	16.5	15.38	18.94	15.5
Above50	9	15.67	15.17	16.5	18.5	15.06	17.5
Total	32						
Kruskal Wallis Test							
Asymp. Sig.		0.385	0.431	0.57	0.753	0.191	0.559
Education							
Matriculation							
Senior Secondary	1	21	28.5	11.5	18.5	3.5	17.5
Graduation	9	17.44	13.89	15.39	19.94	15.06	15.72
Post Graduation	22	15.91	17.02	17.18	15	17.68	16.77
Total	32						
Kruskal Wallis Test							
Asymp. Sig.		0.714	0.162	0.671	0.206	0.188	0.77
Occupation							
Professional	6	18.33	18.5	14	18.33	14.33	14.83
Services	16	15	17.41	18.38	15.5	16.5	17.5
Self employed	8	17	13.94	15.88	18.38	16.5	15.5
Others	2	21	13.5	11.5	11.5	23	17.5
Total	32						
Kruskal Wallis Test							
Asymp. Sig.		0.605	0.603	0.47	0.521	0.632	0.431
Income							
Below1.2lakh	3	21	18.5	11.5	18.5	12.17	17.5
1.2lakh-2.4lakh	5	11.4	17.2	21.5	12.3	19.1	17.5
2.4lakh-3.6lakh	14	16.43	16.89	17.21	19.14	14.64	15.21
Above3.6lakh	10	17.8	15	14.5	14.3	19.1	17.5
Total	32						
Kruskal Wallis Test							
Asymp. Sig.		0.274	0.879	0.235	0.182	0.369	0.448

Source: Data from Field Survey

Analysis of results of investment decision regarding Real Estate revealed that graduates got most influenced by advertising while the post graduates were most influenced by phone calls for investing in real estate. (Table 6).

Table 6: Different selling techniques and real estate

	Real Estate						
	No.	Phone	Advertisement	F2F	Canopy	Mail/ SMS	Others
	No.	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank
Gender							
Females	2	5.5	2.75	5.5	4.5	5	4.5
Males	6	4.17	5.08	4.17	4.5	4.33	4.5
Total	8						
Mann-Whitney U Test							
Asymp. Sig.		.643[a]	.286[a]	.643[a]	1.000[a]	.857[a]	1.000[a]
Age							
Below25							
25-35							
35-50	3	3.17	5.17	4.83	5.67	3.67	4.5
Above50	5	5.3	4.1	4.3	3.8	5	4.5
Total	8						
Kruskal Wallis Test							
Asymp. Sig.		0.191	0.528	0.693	0.172	0.197	1
Education							
Matriculation							
Senior Secondary							
Graduation	4	5.25	4.13	4.5	3.63	5	4.5
Post Graduation	4	3.75	4.88	4.5	5.38	4	4.5
Total	8						
Kruskal Wallis Test							
Asymp. Sig.		0.343	0.647	1	0.186	0.317	1
Occupation							
Professional							
Services	7	4.36	4.93	4.07	4.5	4.43	4.5
Self employed							
Others	1	5.5	1.5	7.5	4.5	5	4.5
Total	8						
Kruskal Wallis Test							
Asymp. Sig.		0.633	0.166	0.083	1	0.705	1
Income							
Below1.2lakh							
1.2lakh-2.4lakh	2	2	7	3.5	6.25	3	4.5
2.4lakh-3.6lakh	2	5.5	2.75	5.5	4.5	5	4.5
Above3.6lakh	4	5.25	4.13	4.5	3.63	5	4.5
Total	8						
Kruskal Wallis Test							
Asymp. Sig.		0.187	0.167	0.558	0.269	0.223	1

Source: Data from Field Survey

Analysis of results of investment decision regarding Commodity revealed that males were more interested in investing in commodity than females. Results also revealed that people between the age of 25-35 were most influenced by advertisements, those between 35-50 were most influenced by canopies and those above 50 years of age were most influenced by mails/ SMS(Table 7).

Table 7: Different selling techniques and commodity

	Commodity						
	No.	Phone	Adver-tisement	F2F	Canopy	Mail/ SMS	Others
	No.	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank
Gender							
Females	0[a]	0	0	0	0	0	0
Males	3	2	2	2	2	2	2
Total	3						
Mann-Whitney U Test							
Asymp. Sig.							
Age							
Below25							
25-35	1	2	1	2	2	2.5	2
35-50	1	3	2.5	2	1	2.5	2
Above50	1	1	2.5	2	3	1	2
Total	3						
Kruskal Wallis Test							
Asymp. Sig.		0.368	0.368	1	0.368	0.368	1
Education							
Matriculation							
Senior Secondary							
Graduation	1	1	2.5	2	3	1	2
Post Graduation	2	2.5	1.75	2	1.5	2.5	2
Total	3						
Kruskal Wallis Test							
Asymp. Sig.		0.221	0.48	1	0.221	0.157	1
Occupation							
Professional							
Services	1	3	2.5	2	1	2.5	2
Self employed	2	1.5	1.75	2	2.5	1.75	2
Others							
Total	3						
Kruskal Wallis Test							
Asymp. Sig.		0.221	0.48	1	0.221	0.48	1
Income							
Below1.2lakh							
1.2lakh-2.4lakh	2	2.5	1.75	2	1.5	2.5	2
2.4lakh-3.6lakh							
Above3.6lakh	1	1	2.5	2	3	1	2
Total	3						
Kruskal Wallis Test							
Asymp. Sig.		0.221	0.48	1	0.221	0.157	1

Source: Data from Field Survey

Analysis of results of investment decision regarding in Gold revealed that there was a significant difference between the educational background and influence of canopy on their investment behaviour. Results also revealed that the professionals were most influenced by face to face selling, while people employed in services were most influenced by mails/SMS, the businessmen were most influenced by phone call and others were most influenced by face to face selling. (Table 8).

Table 8: Different selling techniques and gold

Gold							
	No.	Phone	Adver-tisement	F2F	Canopy	Mail/ SMS	Others
	No.	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank
Gender							
Females	19	21.26	21.42	20.3	20.68	20.45	21
Males	21	19.81	19.67	21.67	21.31	21.52	21
Total	40						
Mann-Whitney U Test							
Asymp. Sig.		0.657	0.576	0.639	0.853	0.525	1
Age							
Below25	1	12	20.5	24.5	24.5	22.5	21
25-35	12	22.75	16.25	23.75	21.29	19.08	21
35-50	19	18.08	22.29	19.58	23.5	22.5	21
Above50	8	23.94	22.63	20	13.88	19.94	21
Total	40						
Kruskal Wallis Test							
Asymp. Sig.		0.366	0.362	0.627	0.212	0.329	1
Education							
Matriculation	1	12	20.5	24.5	24.5	22.5	21
Sen Secondary	3	12	9.83	18.5	38.67	22.5	21
Graduation	20	21.95	20.43	21.28	19.65	20.45	21
Post Graduation	16	20.81	22.59	20.91	19.26	21.29	21
Total	40						
Kruskal Wallis Test							
Asymp. Sig.		0.375	0.241	0.945	0.035	0.904	1
Occupation							
Professional	9	20.67	24.22	18.25	23.3	22.5	21
Services	18	20.67	19.5	23.28	20.06	19.08	21
Self employed	11	17.5	19.09	21.23	21.36	22.5	21
Others	2	34.75	20.5	13	16	22.5	21
Total	40						
Kruskal Wallis Test							
Asymp. Sig.		0.193	0.642	0.33	0.802	0.258	1
Income							
Below1.2lakh	6	23.42	20.58	20.67	18.83	22.5	21
1.2lakh-2.4lakh	12	19.96	17.58	24.17	22.38	19.08	21
2.4lakh-3.6lakh	14	17	24.11	17.82	22.43	21.04	21
Above3.6lakh	8	25.25	18.5	21.94	18.39	22.5	21
Total	40						
Kruskal Wallis Test							
Asymp. Sig.		0.284	0.358	0.374	0.761	0.446	1

Source: Data from Field Survey

Analysis of results of investment decision regarding National Saving Certificate revealed that professionals and those employed in services were most influenced by advertisement; businessmen were most influenced by mails/SMS. Results also revealed that those having income below 1.2 lakh were most influenced by mail/SMS, those between 1.2 lakh and 2.4 lakh were most influenced by canopy, those between 2.4 lakh and 3.6 lakh were influenced by advertisement, while those having income above 3.6 lakh were most influenced by mails/SMS. (Table 9).

Table 9: Different selling techniques and national saving account

	National Saving Account						
	No.	Phone	Adver-tisement	F2F	Canopy	Mail/SMS	Others
	No.	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank
Gender							
Females	13	18	20.77	16.62	14.88	19.85	18
Males	22	18	16.36	18.82	19.84	16.91	18
Total	35						
Mann-Whitney U Test							
Asymp. Sig.		1	0.143	0.398	0.103	0.322	1
Age							
Below25	4	18	23.75	13.25	14.25	20.5	18
25-35	19	18	18.71	17.39	17.05	18.26	18
35-50	9	18	14.61	20.06	22	16.44	18
Above50	3	18	16	22	17	17.67	18
Total	35						
Kruskal Wallis Test							
Asymp. Sig.		1	0.324	0.348	0.406	0.88	1
Education							
Matriculation	4	18	19.88	17.63	14.25	20.5	18
SenSecondary	3	18	16.83	16.17	26.5	12	18
Graduation	17	18	18	17.88	17.38	19.35	18
Post Graduation	11	18	17.64	18.82	18	16.64	18
Total	35						
Kruskal Wallis Test							
Asymp. Sig.		1	0.966	0.955	0.297	0.464	1
Occupation							
Professional	7	18	14.21	19.5	15.43	22.57	18
Services	12	18	17.29	20.54	14.25	20.5	18
Self employed	13	18	20.96	15.27	20.88	14.62	18
Others	3	18	16.83	16.17	26.5	12	18
Total	35						
Kruskal Wallis Test							
Asymp. Sig.		1	0.386	0.308	0.068	0.084	1
Income							
Below1.2lakh	12	18	17.5	19.08	19.38	16.25	18
1.2lakh-2.4lakh	12	18	21.38	14.71	17	17.67	18
2.4lakh-3.6lakh	7	18	12	22	14.79	25	18
Above3.6lakh	4	18	19.88	17.63	22.5	12	18
Total	35						
Kruskal Wallis Test							
Asymp. Sig.		1	0.139	0.202	0.478	0.063	1

Source: Data from Field Survey

Analysis of results of investment decision regarding Savings Account revealed that undergraduates were most influenced by advertisement; graduates were influenced by canopy and post graduates by face to face selling. Results also revealed that professionals were highly influenced by advertisement, those employed in services were influenced by phone calls and businessmen were influenced by canopy. It also revealed that canopy significantly affects investment in saving account for people of different occupations. (Table 10).

Table 10: Different selling techniques and savings account

		Saving Account					
	No.	Phone	Adver-tisement	F2F	Canopy	Mail/ SMS	Others
	No.	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank	Means Rank
Gender							
Females	29	36.66	52.55	28.9	37.67	41	39.5
Males	48	40.42	31.34	46.13	40.65	38.56	39.5
Total	77						
Mann-Whitney U Test							
Asymp. Sig.		0.22	0	0	0.433	0.165	1
Age							
Below25	8	34	34.63	41.25	48.63	36.13	39.5
25-35	29	39.31	37.1	41.9	37.63	38.4	39.5
35-50	28	40.88	39.86	39.86	37.45	41	39.5
Above50	12	37.21	47.92	31.5	42.88	41	39.5
Total	77						
Kruskal Wallis Test							
Asymp. Sig.		0.572	0.372	0.388	0.279	0.282	1
Education							
Matriculation	3	34	34.63	41.25	48.63	41	39.5
SenSecondary	7	34	33.93	45.43	44.93	35.43	39.5
Graduation	34	40.79	39.85	39.53	37.88	38.71	39.5
Post Graduation	33	38.67	40.91	38	38.91	41	39.5
Total	77						
Kruskal Wallis Test							
Asymp. Sig.		0.544	0.805	0.792	0.494	0.275	1
Occupation							
Professional	19	36.03	31.76	38.68	49.05	41	39.5
Services	33	38.67	41.76	39.18	38.91	39.82	39.5
Self employed	20	43.63	39.57	43.57	31.67	37.29	39.5
Others	5	34	53.7	27.6	40	41	39.5
Total	77						
Kruskal Wallis Test							
Asymp. Sig.		0.234	0.114	0.341	0.01	0.421	1
Income							
Below1.2lakh	17	40.79	37.92	40.17	39.92	38.83	39.5
1.2lakh-2.4lakh	21	43.17	41.52	38	31.67	37.29	39.5
2.4lakh-3.6lakh	25	37.08	40.94	36.96	44.12	41	39.5
Above3.6lakh	14	34	35.93	45.43	42.46	41	39.5
Total	77						
Kruskal Wallis Test							
Asymp. Sig.		0.166	0.818	0.53	0.063	0.322	1

Source: Data from Field Survey

Conclusion

Gender-wise analysis of the results revealed significant relationship for gold and saving account. Education-wise analysis of results revealed that undergraduates have shown inclination to invest in high- risk, high returns investment. Graduates and post graduates have given preference to gold and real estate. Insurance remained the first preference irrespective of occupation. While investing in shares, difference among the investors, belonging to different educational background was found to be significant. Occupation-wise analysis of results revealed that there was no significant difference among investors belonging to different occupations regarding different investment avenues. Income-wise analysis of results revealed that people of different income groups do not vary significantly with respect to the investment avenues.

Analysis of results of investment decision regarding insurance revealed that females ranked canopy as the most favourable selling technique while males preferred face to face selling, people of different age groups did vary significantly for Phone call and some other medium of investment. Analysis of results of investment decision regarding mutual fund revealed that maximum number of females opted for mutual fund. Analysis of results of investment decision regarding shares revealed that those having income below 1.2 lakh were mainly influenced by face to face selling. Analysis of results of investment decision regarding Real Estate revealed that graduates got most influenced by advertising while the post graduates were most influenced by phone calls for investing in real estate. Analysis of results of investment decision regarding Commodity revealed that people between the ages of 25-35 were most influenced by advertisements. Analysis of results of investment decision regarding gold revealed that there was a significant difference between the educational background and influence of canopy on their investment behaviour. Analysis of results of investment decision regarding National Saving Certificate revealed that professionals and those employed in services were most influenced by advertisement; businessmen were most influenced by mails/SMS. Analysis of results of investment decision regarding Savings Account revealed that canopy significantly affected investment in saving account for people of different occupations.

REFERENCES

Bliss, R.T. and Potter, M.E. 2001. Mutual fund managers: does gender matters? from://www.panagora.com/research/research/2001crowel/2001cp_44.pdf.

Brynes, J. and Miller, D. 1999. Gender differences in risk taking: a meta analysis, *Psychological Bulletin*, Vol. 125, pp 367-383.

Gurdep,V.K, Aug 2005. Understanding consumers' attitude towards mobile advertising, *The ICFAI Journal of Marketing Management*, Hyderabad: pp38-46.

Hershey, J. and Schoemaker, P. 1980. Risk taking and problem contextin the domain of losses: an expected utility analysis, *Journal of Risk and Insurance,* Vol.47, No. 1, pp. 111-132.

Kalleberg, A. and Leichtm K. 1991. Gender and organizational performance determinants of small business survival and success, *Academy of Management Journal*, Vol. 34, pp. 136-161.

Lowe, J. 2000. JTL financial research**,** direct selling of financial products: market overview, *http:www.fs-cp.org.uk/pdf/000410 _directsellingreportwebsite.*

Mittal, M. and Vyas, R.K. December 2007. Demographics and investment choice among Indian investors, *The ICFAI Journal of Behavioral Finance,* Hyderabad, Vol IV, No. 4, pp51-65.

Powell, M. and Ansic, D. 1997. Gender differences in risk behaviour in financial decision making: an experiment analysis, *Journal of Economic Psychology*, Vol. 18, No.6, pp.605-628.

Ritter, R. 2002. Selling technique*, the Oxford Style Manual.* Oxford University Press *http: en.wikipedia.org/wiki/Selling_technique and accessed on 23 June, 2009.*

Weber, M. 1999. Behaviour finance, *Research for Practitioners*, Vol. 0-8, University of Mannheim.

The Indian Journal of Commerce
Vol. 65, No. 1, January-March 2012

Consumer's Perception of Corporate and Small Retail Outlets

P. Purushotham Rao and Arati Jadhav

The present paper focuses on perceptions of consumers towards corporate and small retail outlets for grocery shopping. An attempt has been made to examine whether the perceptions of consumers differ towards corporate and small retail outlets regarding various attributes relevant for store choice while shopping for groceries. The study has brought out that consumer perceptions towards corporate and small retail outlets differ for various attributes relevant for store choice for grocery shopping.

Introduction

There is a need to understand the consumers' attitudes and perception in relation to the emerging formats of retailing. Traditionally grocery purchases were limited to neighbourhood small kirana shops. However, now with the entry of corporate retail in the market food and grocery retail sector has witnessed a great surge in the number of food and grocery retail outlets. There are many consumers who will still prefer going to the traditional store but there are also many consumers who have already switched over to the new format due to the convenience, the greater variety and the overall shopping experience.

Consumers have different reasons to patronize different retail stores. The consumers have many reasons to select a particular store, the factors that are clubbed under the heads like convenience, merchandise, travel distance, price, promotions, service offerings etc., depending on the importance, the customer assigns to any of the attributes with the store, would influence the consumer's choice of store. The consumer behavior of grocery shopping shows that consumers follow a hybrid fashion, for store choice and there is limited loyalty when it comes to store patronage.

Review of Literature

Store choice is recognized as a cognitive process and is as much an information processing behavior as any other purchase decision. Perceptions about stores are driven by tangible characteristics like store format, distance

Prof. P. Purushotham Rao is Professor & Chaiman, Board of Studies in Commerce, Osmania University and Arati Jadhav is Research Scholar, Department of Commerce, Osmania University.

of store from home as well as intangible characteristics like environment of the store.

The corner grocer or the 'kirana' store is a key element in the retail in India due to the housewife's unwillingness to go long distances for purchasing daily needs. Sinha et al (2002) identified factors that influenced consumers' choice of a store. In Indian retailing, convenience and merchandise appear to be the most important factors influencing store choice, although ambience and service are also becoming important in some contexts.

Singh and Powell (2002) found that grocery shoppers consider quality to be most important followed by price, locality, range of products and parking.Grocery industry is strongly driven by price competitiveness (Taylor 2003).

The major drivers for choosing a grocery store in India seem to be nearness to place of residence and the comfort level that the respondents has in dealing with the store owner(Sinha and Banerjee 2004) Product selection, assortment and courtesy of personnel are also very important in determining format choice with cleanliness being the most important attribute regardless of format of grocery shops (Carpenter and Moore 2006).

Indian consumer is also known to be extremely value-conscious with 80 per cent of his wallet consisting of essential and need-based purchase which he can get from the store next-door; the big question is whether he would travel all the way to the big store (Tarun and Chopra, 2007). In fact there might be emergence of several India-specific retail business models and formats in view of the unique peculiarities of the behavior of Indian consumers.

Objective

The main objective of the study is to analyse the perceptions of consumers about small and corporate retail outlets.

Hypothesis

There is no difference in the perceptions of consumers towards corporate and small retail outlets.

Research Methodology

The study is based on primary data collected through a structured questionnaire. A questionnaire was administered to the consumers shopping at corporate retail outlets and also consumers' shopping at small retail shops to get an insight view into their purchasing patterns as well as their perceptions towards corporate and small retail outlets. The consumers' survey was conducted through interviews of 600 consumers; 500 consumers who shopped at small retail shops and 100 consumers who shopped at corporate retail outlets. Selection of consumers was based on convenience sampling.

The data was collected outside the retail outlets, where the respondents were consumers who had completed their shopping in the retail store and willing to respond to the questions. The data has been collected from various locations in twin cities of Hyderabad & Secunderabad , so as to cover all major corporate retail outlets and small retail outlets in their proximity. Information obtained from consumers was analyzed through MS Excel and SPSS computer package. Statistical tools like cross tabulation, percentages, chi-square test and Spearman's rank correlation were used.

Table 1: Preferred retail outlet

Type of consumers	Monthly grocery purchasing			Emergency Purchases		
	Corporate retail outlet	Small local shop	Total	Corporate retail outlet	Small local shop	Total
Corporate	83 (83.0)	17 (17.0)	100 (100.0)	29 (29.0)	71 (71.0)	100 (100.0)
Small shop	258 (51.6)	242 (48.4)	500 (100.0)	134 (26.8)	366 (73.2)	500 (100.0)
Total	341 (56.8)	259 (43.2)	600 (100.0)	163 (27.2)	437 (72.8)	600 (100.0)

Source: Primary Data
(Figure in parentheses is in percentages)

The Table 1 shows the preference of a retail outlet for monthly grocery purchases by the respondents. Of the total corporate consumers majority 83 percent of the respondents have stated that they do their monthly grocery purchases from corporate retail outlet and 17 percent of the respondents stated that they do monthly purchases from small local shop. In case of small local shop consumers 48.4 percent of the respondents are doing monthly purchases from small local shop and 51.6 percent of the respondents are doing monthly purchases from corporate retail outlet. Of the total respondents 56.8 percent stated that they make their monthly purchases from a corporate retail outlet.

It can be understood from the table that corporate retail outlet is the preferred store format by consumers for their monthly grocery shopping. The study also shows that the consumers have switched to corporate retail outlets from the traditional small retail stores. The table also shows that Consumers do not shop exclusively from one retail outlet but they shop from both the retail outlets.

The Table 1 shows the preference of a retail outlet for emergency purchases by the respondents. Of the total corporate consumers majority 71 percent of the respondents have stated that they do their emergency purchases from small local shop and 29 percent of the respondents stated that they do emergency purchases from corporate retail outlet. In case of small local shop consumers majority 73.2 percent of the respondents were doing emergency purchases from small local shop and 26.8 percent of the respondents were doing emergency purchases from corporate retail outlet. Of the total respondents majority 72.8 percent stated that they do their emergency purchases from the neighbourhood small local shop. It is understood from the table that there is no change in the consumers' preference for small local shop for emergency purchases.

Table 2: Reasons for buying from small shop and corporate retail outlet

Reasons	Small Shop				Corporate Retail Outlet			
	Yes	Percent	No	Percent	Yes	Percent	No	Percent
Wider product range/ brands	188	37.6	312	62.4	82	82.0	18	18.0
Better product quality	173	34.6	327	65.4	78	78.0	22	22.0
Low prices	136	27.2	364	72.8	68	68.0	32	32.0
Savings	108	21.6	392	78.4	62	62.0	38	38.0
Mode of payment	84	16.8	416	83.2	48	48.0	52	52.0
Promotional schemes	101	20.2	399	79.8	57	57.0	43	43.0
Proximity to residence	440	88.0	60	12.0	22	22.0	78	78.0
Easy access	350	70.0	150	30.0	34	34.0	66	66.0
Convenient timings	270	54.0	230	46.0	44	44.0	56	56.0
Better ambience	47	9.4	453	90.6	60	60.0	40	40.0
Sufficient parking	248	49.6	252	50.4	53	53.0	47	47.0
Home delivery	360	72.0	140	28.0	11	11.0	89	89.0
One stop shopping	0	0	0	0	65	65.0	35	35.0
Family shopping	0	0	0	0	54	54.0	46	46.0
Credit facility	340	68.0	160	32.0	0	0	0	0

Source: Primary Data

The Table 2 indicates the various reasons stated by consumers for shopping at small local shops. Of the total respondents majority stated that the main reason for shopping at small shop are proximity to residence(88 %), home delivery (72%), easy access(70%), credit availability(68%), and convenient timings (54%).Other reasons reported by the remaining respondents include sufficient parking, product range brands, low prices etc. The personal relation with the owner of the outlet is also the reason given by the respondents. The consumers who shop for groceries prefer to touch, see and feel the staples which is possible in small retail shops, whereas in corporate retail outlets everything is sold in packages.It is evident from the study that small local shops do well on location but poorly on consumer perception of product quality, brands, promotional schemes, and ambience and low prices.

The Table 2 indicates the various reasons for shopping at corporate retail outlet. Of the total respondents majority stated that the main reason for shopping at corporate retail outlet are wider product range / brands(82%), followed by better product quality (78%), low prices(68%), one stop shopping(65%),savings (62%) and better ambience(60%). Remaining respondents cited various reasons such as promotional schemes, family shopping, variety of mode of payment, sufficient parking for shopping at corporate retail outlet. Respondents also stated that they buy from corporate retail outlets as they can reach the shelves, pick products check the quality, the expiry date, product features, and also compare prices of products which is not possible in small retail outlets.

It is evident from the study that corporate retail outlets do well on consumer perception of product quality, brands, one stop shopping, discounts/ low prices, promotional schemes, savings and ambience. But corporate retail outlets Score less on consumer perception of location as they do not have locational advantage like small local shops.

Table 3: Perceptions about corporate retail outlet

Type of consumers	Corporate retail outlets		Total
	Benefiting customers	Exploiting/ trapping customers	
Corporate	85 (85.0)	15 (15.0)	100 (100.0)
Small shop	382 (76.4)	118 (23.6)	500 (100.0)
Total	467 (77.8)	133 (22.2)	600 (100.0)

Source: Primary Data
(Figure in parentheses is in percentages)

The Table 3 shows the opinion of consumers about whether the corporate retail outlets are really benefiting or exploiting the consumers. Of the total corporate consumers 85 percent of the respondents stated that the consumers are benefitted by shopping at corporate retail outlets, whereas few respondents 15 percent stated that corporate retail outlets are exploiting the consumers. In case of small shop consumers 76.4 percent of the respondents stated that corporate retail outlets are benefitting the consumers. Remaining 23.6 percent stated hat corporate retail outlets are exploiting, trapping the consumers. It is understood from the table that there is not much difference in the opinion of both the consumers groups, respondents from both groups agree that consumers are really benefitted by corporate retail outlets.

Table 4: Co-existence of small shops corporate retail outlets

Type of consumers	Corporate retail outlets		Total
	Benefiting customers	Exploiting/ trapping customers	
Corporate	84 (84.0)	16 (16.0)	100 (100.0)
Small shop	435 (87.0)	65 (13.0)	500 (100.0)
Total	519 (86.5)	81 (13.5)	600 (100.0)

Source: Primary Data

The Table 4 shows the opinion of consumers as whether small local shops as well as corporate retail outlets can co- exist in the twin cities. In case of corporate consumers 84 percent respondents believe that small local shops and corporate retail outlets can co- exist. Remaining 16 percent respondents did not agree that both can co- exist. In case of small shop consumers 87 percent believe that small local shops and corporate retail outlets can co-exist in the twin cities. Remaining 13 percent did not agree that both can co- exist. It is understood from the table that majority of the respondents agree that small local shops as well as major corporate retail outlets can co exist.

Consumers' Perceptions

An attempt has been made to examine whether there is any significant difference in the perceptions of consumers towards corporate and small retail outlets regarding various attributes relevant for store choice like wider product range/ brands, better product quality, low prices, savings, mode of payment, promotional scheme, proximity to residence, easy access, convenient timings, better ambience, sufficient parking, home delivery for choice of store. These 12 common attributes were taken after detailed literature review on consumers' perception of grocery store attributes and choice of store format. The attributes were ranked and spearman's rank order correlation is employed to see if there is difference in the perceptions of consumers towards corporate and small retail outlets.

Table 5: Consumers perceptions towards corporate and small retail outlets

Attributes	Corporate retail outlet			Small retail outlet		
	Number	Percent	Rank	Number	Percent	Rank
Wider product range / more brands	82	82.0	1	188	37.6	6
Better product quality/ new stocks	78	78.0	2	173	34.6	7
Low prices	68	68.0	3	136	27.2	8
Savings from the outlet	62	62.0	4	108	21.6	9
Variety of mode of payment	48	48.0	8	84	16.8	11
Promotional schemes	57	57.0	6	101	20.2	10
Proximity to residence	22	22.0	11	440	88.0	1
Easy access	34	34.0	10	350	70.0	3
Convenient timings	44	44.0	9	270	54.0	4
Better ambience	60	60.0	5	47	9.4	12
Sufficient parking	53	53.0	7	248	49.6	5
Home delivery	11	11.0	12	360	72.0	2

Source: Primary Data

The Table 5 shows the various attributes and consumers perceptions towards corporate and small retail outlets. The 12 attributes are ranked for corporate and small retail outlets. Corporate retail outlets score high on consumer's perception of wider product range/ brands, better product quality, low prices, savings, and better ambience. Small retail outlets score high on proximity, easy access and home delivery.

In order to examine the hypothesis relating to consumers perceptions about corporate retail outlets and small retail outlets a Spearman's Rank Order Correlation is employed. A Spearman's Rank Order correlation was run to determine the relationship between 12 items pertaining to Consumer Perception regarding corporate and small retail outlets. The results show a negative correlation (-.580), which was statistically significant, $P = .048$.

The Spearman's Rank Correlation -.580 with p value of .048 indicates that the hull hypothesis is rejected. It shows that there is difference in the consumer's perceptions towards corporate and small retail outlets.

Conclusion

The study shows that the consumers have switched to corporate retail outlets from the traditional small retail stores. The analysis also shows that corporate retailers score better over small retailers, which is indicative that the consumers' need for better attributes in terms of their demand for wider range, quality, offers, cleanliness, and value for money is very high. Small retail outlets score on proximity, easy access and home delivery.

The study shows that there is significant difference in the consumer's perceptions towards corporate and small retail outlets. The opinion towards corporate retail is much more favourable, which may result in preferring hypermarkets, supermarkets or malls.

REFERENCES

Carpenter, J.M., Moore, M. 2006. Consumer demographics, store attributes, and retail formatchoice in the US grocery market, *International Journal of Retail & Distribution Management*, Vol.34, No. 6, pp. 434-452.

Sinha, P.K., Banerjee, A. 2004. Store choice behaviour in an evolving market, *International Journal of Retail & Distribution Management*, Vol. 32, No.10, pp. 482-494.

Sinha, P.K., Bannerjee, A. and Uniyal. D.P. 2002. Deciding where to buy: Store choice behaviour of Indian shoppers, *Vikalpa*, 27(2), pp. 13-28.

Singh, S., Powell, J. 2002. Shopping from dusk till dawn, *Marketing Week*, May 2002.

Taylor, R. 2003. Top of mind: saving Americas grocers, *Brandweek*, Vol. 44, No.18, pp. 78-96.

Tarun, K.S., Chopra, S.L. 2007. Beyond the Retail Hype, *Indian Management*, pp. 12-27.

The Indian Journal of Commerce
Vol. 65, No. 1, January-March 2012

ECONOMIC VALUE ADDED AS A PERFORMANCE MEASUREMENT TOOL IN BANKS

A.K. Vashisht and Meenu Gupta

The main objective of this paper is to evaluate the effectiveness of EVA vis-à-vis other performance indicators as a predictor of maximization of shareholder's wealth of private and public sector banks in India. The study employs multiple correlation and regression analysis to examine year-wise effectiveness of EVA as a performance measurement tool in banks. The results obtained from an analysis are carried out on the secondary financial data from year ended 2003 to 2008 for all 27 public sector banks and top 20 private sector banks selected on the basis of highest market capitalization. The results indicate that EVA has a highly positive significant relation with Market Value Added (MVA) after the year 2003-04. It has been observed that from the year 2004-05 onwards, some of the banks have been able to establish a clear and positive relation with EVA/EC.

Introduction

The efficiency of the banking system has been one of the major issues in the new monetary and financial environment. Many researchers have attempted to measure the productivity and efficiency of the banking industry through outputs, performance, cost and efficiency. In the past, methods like Return on Capital Employed, Return on Net Worth, Return on Investment, Earning per share, Profit before depreciation, interest and taxes were the most important performance measures. However, with increasing competition and presence of a policy environment facilitating tapping of economies of scale are focusing their efforts on creating shareholder value in Indian banking system. Due to limitations of traditional performance measures, a modern measure known as Economic Value Added has emerged as a performance tool of financial management and performance measurement in banks.

Economic Value Added (EVA) is relatively new concept in the field of finance theory. It was mooted by Stern Stewart & Co., a global consulting firm in 1989. EVA or related measure of economic profits as metrics for corporate planning and executive compensation is being used by a number of companies like Coca-cola, Eli Lilly,Quaker Oats,Monsanto,Bausch & Lomb and Toys "R"US in the US, Diageo and Siemens in Europe etc. The banks like HDFC bank, ICICI bank, UTI bank, GTB etc. also apply EVA for measuring

Prof. A.K.Vashisht is Professor, University Business School, Panjab University, Chandigarh and Ms Meenu Gupta is Assistant Professor, G.G.D.S.D. college, Chandigarh

the financial performance of the banks. An enterprise may exist without making profit but cannot survive without adding value. EVA is an economic profit measure that includes a charge for the opportunity cost of capital and offers a means of measuring and communicating performance that may be used in setting managerial performance targets, paying bonus, and valuing capital projects or companies (Peixoto, 2002). EVA is a modified version of residual income or economic profit.

The framework of Economic Value Added includes Net Operating Profit after tax and capital charge on capital invested. This helps the management to consider the effects on their decision based on the balance sheet as well as income statements and gives them a basis for weighing trade-off between the two statements.

EVA differs from conventional measures in two ways:

(1) EVA may be called as residual income measure as it explicitly charges for the use of the capital.

(2) It adjusts reported earnings to minimize accounting distortions and reflect the true value of the firm.

Literature Review

Verma (2001) observed that Indian banks' EVA had a stronger correlation with invested capital and thus highlights the fact that market was more focusing on value creation. Verma (2002) found that with bank merger, market immediately reacted sharply by increasing their capitalization and shareholders of both banks.

Worthington and West (2004) found returns to be more closely associated with earnings than net cash flow, residual income and EVA. Kyriazis and Anastassis (2007) revealed that Net Operating Income (NOI) appeared to be more relevant than EVA. EVA though useful as performance evaluation tool, need not necessarily be more correlated with shareholder's value than established accounting variables. Reddy (2007) revealed that the MVA of cement companies has not only been affected by select independent variables but also influenced by other factors. Sakthivel (2008) concluded that the market returns connected with the high volatility make the shareholders unprotected that made them to hesitate from the equity investment. Peixoto (2002) indicated that EVA does not have more information content than traditional performance measures in explaining Equity Market Value. Fernandez (2003) revealed the average correlation between the increase in the MVA and EVA, NOPAT, and WACC. Anupam (2004) showed that EVA was not superior to traditional performance measures in its association with the MVA. Pal (2005) evidences to support Stern Stewart's claim that EVA is superior to traditional performance measures in its association with equity market value. Ismail (2006) found that NOPAT and Net Income (NI) outperform EVA and RI in explaining stock return.

Rodríguez et.al (2007) indicated that EVA and FVA were able to match its results in discounted terms to the NPV, but FVA goes beyond to achieve alignment of results also in annual terms, making it more useful as a control instrument. Asogwa (2009) showed that the REP model performed better than the standard probit model. It suggested that dividend policy matters more for listed banks shareholder value than profitability and growth.

Objective

The objective of this paper is to evaluate the year wise effectiveness of Economic Value Added vis-à-vis other traditional performance measures as a predictor of shareholders' wealth of banks.

Hypotheses

The hypotheses of the study are:

H01 : EVA is not a superior measure as compared to traditional performance measures.

H02 : There is no relationship of Market Value Added with Economic Value Added.

H03 : There is no relationship of Market Value Added with other traditional performance measures.

Research Methodology

The study is confined to the Indian banks, both from the Public as well as Private sector. The total sample for the present study is comprised of 47 banks, with 27 Public sector banks and 20 top private sector banks selected on the basis of market capitalization. Out of 47 banks, 17 banks are not listed on stock exchange. Finally, 30 banks are listed and selected for measuring the year-wise relationship of EVA vis-à-vis traditional performance measures as a predictor of shareholder wealth. The secondary data has been collected from various sources like CMIE prowess data base, financial journals, annual reports of the banks and statistical tables relating to banks in India. The study employs multiple correlation and backward linear multiple regression analysis to examine whether EVA is more strongly associated with MVA(Market Value Added) or not as compared to other traditional performance measures. The present study covers a period of 6 years from the year 2002-03 to the year 2007-08.

In the present study MVA and EVA are considered as modern financial measures and ROCE, RONW, PBDIT, and EPS are considered as traditional performance measures. To evaluate the effectiveness of EVA with traditional performance measures, MVA has been considered as dependent variable and EVA, ROCE, RONW, PBDIT and EPS as independent variables.

i. **Economic Value Added** = EVA is the excess of operating profits over the cost of capital employed. It is calculated as:

   $EVA = NOPAT – (WACC \times ECE)$

   Where

   Net Operating Profit After Tax (NOPAT) = Profit before tax + R&D expenses on current and capital account + Interest expended + Extra- ordinary Expenses - Extra-ordinary income - Cash operating taxes – depreciation provision written back

Invested Capital (IC) = Net fixed assets + Non-banking assets + Current assets + Investment -Current Liabilities & provisions – Miscellaneous expenses not written off.

Invested capital reflects an estimate of the total funds held on behalf of shareholders, lenders and any other financing sources.

Weighted Average Cost Of Capital (WACC) = It is the weighted average cost of borrowings and equity as in the balance sheet.

WACC = Proportion of Equity * Cost of Equity + Proportion of debt * Cost of Debt

Cost of Equity = $R_j = R_f + \beta(R_m - R_f)$

Cost of Debt = Interest Expended (1-t) / Total Debt

Cost of borrowings – depends on the rate of interest on borrowings

Cost of equity-normally estimated using Capital Assets Pricing Model (CAPM) that estimates the expected return commensurate with the riskiness of the assets.

Market Value Added

MVA = TMC (D + E) - ECE

Where

TMC is Total market value; D is Book value of Long term debt; E is Market value of equity; ECE is Economic capital employed

The book value of long term debt has been taken as a surrogate of the market value of the debt because of the absence of the available data.

ii. Return on Capital Employed (ROCE)

ROCE = (PBIT/ ACE) x 100

Where, PBIT is Profit before interest and tax

ACE is Average Capital Employed

iii. Return on Net worth (RONW)

RONW = [NPAT/ ANW] x 100

Where, NPAT is Net profit after tax

ANW is Average Net worth

iv. Profit before Depreciation, Interest and Taxes (PBDIT)

PBDIT = PBIT + D

Where, PBIT is Profit before Interest and Taxes

D is Depreciation

v. Earning per share (EPS)

EPS = NI / ESO

Where, NI is Net income after taxes and preference dividend

ESO is Number of equity shares outstanding

To make MVA and EVA comparable to the other variables like ROCE, RONW, the absolute value of MVA and EVA have been converted into the ratio by dividing them with the Economic capital of the firm.

Results and Discussion

Year-Wise Relationship of MVA with EVA and Traditional Measures

The results of correlation analysis have been summarized in Table 1. The analysis points out that the Economic Value Added/ Economic Capital and Earning per Share are the significant variables.

The results for the years 2002-03 and 2003-04 have not shown any significant variable. Hence, all the null hypotheses have been accepted which proves that EVA/EC is not a superior measure of performance and has no relation with MVA/EC. Moreover, nothing can be said regarding other traditional performance measures, viz. ROCE, RONW, PBDIT, PBIT and EPS.

The regression results for the years 2004-05 and 2005-06 reveal that Economic Value Added/Economic Capital is a significant variable. Hence, null hypothesis has been rejected which proves that EVA/EC has a significant relationship with MVA/EC for the years 2005 and 2006. In the year 2006-07, EPS and EVA/EC have appeared as significant variables at 1% level, hence, the null hypothesis stands almost rejected. It proves that EVA/EC and EPS are superior measures of performance and have a significant relationship with MVA/EC. However, in the year 2007-08, EVA/EC was the only independent variable which has found to be significant and having relationship with MVA/EC. The correlation of other traditional variables with MVA has not been significant. The null hypothesis has been rejected for the year 2007-08 which proves EVA/EC is a superior measure of performance and has a significant relationship with MVA/EC.

Thus, correlation analysis for the whole period under study finds Economic Value Added as a superior measure, and it is highly and positively related with the dependent variable, i.e., Market Value Added after the year 2003-04. It can be said that from the year 2004-05 onwards, some of the banks have been able to establish a clear and positive relation with Economic Value Added/Economic Capital.

Table 1: Correlation results

Number of Years	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Independent Variables						
EVA/EC	0.203	(0.046)	0.373*	0.371*	0.708**	0.642**
ROCE	(0.089)	(0.020)	(0.010)	(0.027)	0.101	0.020
RONW	(0.105)	(0.072)	(0.125)	0.147	(0.150)	0.053
PBDIT	0.250	0.332	0.227	0.136	0.165	0.034
PBIT	0.248	0.320	0.222	0.132	0.163	0.051
EPS	0.004	0.036	(0.119)	0.286	0.506**	0.251

Source: Computed

Note: ** 1% level of significance, * 5% level of significance, ( ) denotes negative sign

Effect of EVA vis-à-vis Traditional Measures on MVA from 2002-03 to 2007-08

The main findings of the regression analysis of exogenous variables, i.e., Economic Value Added/ Economic Capital, Return on Capital Employed, Return on Net Worth, Profit before Depreciation, Interest and Taxes, Profit before Interest and Taxes and Earning per Share have been summarized in Table 2. The regression analysis points out that EVA/EC is a superior measure method of measuring the performance of a bank over the traditional performance measures in terms of relationship with MVA/EC from the years 2004-08.

During the years 2002-03 and 2003-04, none of the performance measures appeared as significant. However, during the years 2004-05 and 2005-06, EVA/EC appeared as one of the most significant variable which influenced the MVA/EC. In this case, null hypothesis has been rejected which proves EVA is a superior measure of performance as compared to traditional performance measures, and has a significant relationship with MVA.

During the year 2006-07, EVA/EC was found statistically significant at 1% level, whereas ROCE and EPS showed their significance at 5% level. These variables explained 64% variation in the MVA/EC. ROCE appeared as a significant variable but its relationship with MVA/EC was negative during the year 2007. EVA/EC revealed 47.7% variation in the dependent variable (MVA/EC) during the year 2007-08. Thus, EVA/EC is the only statistically significant variable which rejects the null hypothesis. It can be said that EVA/EC is a superior measure of performance as compared to traditional performance measures. It has shown a significant relationship with MVA/EC.

Before 2003-04, among the traditional performance measures, none of the variables has emerged as the most superior method of measuring the performance of the banks. EPS and ROCE have failed to establish any significant relationship with MVA/EC except during the year 2006-07. After the year 2003-04, EVA/EC appeared as the most significant variable after the adjustment of inter-correlated variable(s). It is the main determinant of MVA/EC in four out of six years taken under study. The results of the main findings are similar to those provided by Chari (2009), Lee (2009), Shil (2009), Kumar and Pal (2008), Mittal et al.(2008), Modesti (2007), Irala (2007), Irala (2006), Fraker (2006), Grant (2006), which supported EVA more than the traditional performance measures.

Table 2: Regression results

Years	2004-05	2005-06	2006-07	2007-08
EVA/EC	2.13*	2.11*	4.91**	4.43**
Independent Variables			Year 2006-07	
ROCE			(2.01)*	
EPS			2.68**	

Source: Computed

*Note:*** 1% level of significance, * 5% level of significance, ( ) denotes negative sign

Conclusion

Economic Value Added (EVA) is relatively new concept in the field of finance theory. It was mooted by Stern Stewart & Co., a global consulting firm in 1989. The framework of Economic Value Added includes Net Operating Profit after tax and capital charge on capital invested. In the study, the relationship of MVA/EC with EVA/EC and traditional performance measures with the help of Correlation and Multiple Regression analysis under different classifications of banks for the years 2003-08 has been studied.

The results show EVA/EC as a superior measure of performance and as a predictor of shareholders' wealth of the banks under study from the year 2004-05 onwards. None of the independent variables appeared significant during the years 2002-03 and 2003-04. Thus, for the selected banks under study there seems to be some evidence to support Stern and Stewart's claim that Economic Value Added/ Economic Capital is superior to traditional performance measures in its association with the Market Value Added/ Economic Capital. It could be for the reason that now the Indian banks have started reporting Economic Value Added as a part of their published reports.

REFERENCES

Asogwa, Robert Chikwendu. 2009. Measuring the determinants of value creation for publicly listed banks in Nigeria: A random effects probit (REP) Model Analysis: 1-22. *Citied from*www.csf.itesm.mx/…/Economía%20para%20la%20Toma_sep%20Dic%202009.doc.

Anupam.2004. *EVA as a tool for measuring financial performance in selected Indian Companies*, Unpublished PhD Thesis. Chandigarh. University Business School. Panjab University.

Bacidore, Jeffrey M.; Boquist, John A.; Milbourn, Todd, T. and Thakor, Anjan, V.1997. The search for the best financial performance measure. *Financial Analysts Journal*, 11-20.

Chari, Latha. 2009. Measuring value enhancement through economic value added: evidence from literature. *The ICFAI Journal of Applied Finance*, 15(9): 46-62.

Fernandez, P. 2003. Economic value added, economic profit and cash value added do not measure shareholder value creation. *The ICFAI Journal of Applied Finance,* 9(3):74-88.

Lee , Seoki; and Kim , Woo Gon. 2009. EVA, refined EVA, MVA, or traditional performance measures for the hospitality Industry? *International Journal of Hospitality Management*, 28(3): 439-445.

Hoque, Mahfuzul; Akter, Mahmuda and Shil, Nikhil Chandra . 2004. Value-based measure: an application of EVA in small manufacturing company in Bangladesh, http://mpra.ub.uni-muenchen.de/7711/ MPRA Paper No. 7711, posted 12. March 2008.

Ismail, Ahmad. 2006. Is economic value added more associated with stock return than accounting earnings? The UK evidence. *International Journal of Managerial Finance*, 2(4): 343-353.

Joseph, T.L.Ooi and Liow, Kim-Hiang. 2000. The economic performance of property companies. RICS' Cutting Edge Conference in London, Singapore 117566:.1-13.

Kim, Woo Gon. 2006. EVA and traditional accounting measures: which metric is a better predictor of market value of hospitality companies? *Journal of Hospitality & Tourism Research*, 30(1): 34-49. DOI: 10.1177/1096348005284268.

Kyriazis, Dimitris and Anastassis, Christos. 2007. The validity of economic value approach: an empirical application. *European Financial Management*, 13(1): 71-100.

Mittal, R.K.; Sinha, Neena; and Singh, Archana. 2008. An analysis of linkage between economic value added and corporate social responsibility. *Management Decision*, 46(9): 1437–1443. ISSN: 0025-1747. DOI: 10.1108/00251740810912037.

Modesti, Paola. 2007. EVA and NPV: Some comparative remarks. University of Parma. paola.modesti@unipr.it. Accessed on 12.06.08.

Pal, Karam. 2005. Awareness and applicability of EVA among Indian corporates: A survey-based analysis. *Jagan Institute of Management Studies*, 4-11.

Pal, Karam and Kumar, Ashok. 2008. Awareness of economic value added among Indian corporate managers: evidences from a primary survey. *The ICFAI Journal of Applied Finance*, 14(8): 53-65. Available at SSRN: http://ssrn.com/abstract=1185022.

Peixoto, S. 2002. Economic value added: An application to Portuguese Public Companies. *European Financial Management,* 13(1): 1-17.

Pietge, Stephan. 2003. EVA as a measure for shareholder value and executive Compensation - A critical view. *Economics / Business: Investment and Finance*. Bachelor Thesis. USA.

Rakshit, Debdar. 2006. EVA based performance measurement: A case study of Dabur India Limited. *Vidyasagar University Journal of Commerce*, 33: 40-60.

Reddy, Ramachandra and Reddy, Yuvaraja. 2007. Financial performance through market value added approach *the Management Accountant*, 56-59.

Rodriguez Sandias, Alfonso; Fernandez Lopez, Sara and Otero Gonzalez, Luis. Financial value added. SSRN: http://ssrn.com/abstract=296061 or doi:10.2138/ssrn.296061.

Shil, Nikhil Chandra.2009. Performance measures: An application of economic value added. *International Journal of Business and Management*, 4(3):169-177.

Sakthivel, N. 2008. Shareholder's value creation: An overview. *Banking and Finance. The Management Accountant*, 353-355.

Verma, B.P. 2001. EVA For Banks: A way to get some more value. *ET Investment Banking Analyst* : 1-4.

Verma, B.P. 2002. Economic value added by Indian Banks: A Study. http://www.utiicm.com/Cmc/PDFs/2002/bpv%5E59.pdf.

Visaltanachoti, Nuttawat and Luoz, Robin. 2008. Economic value added and sector returns. *Asian Academy of Management Journal of Accounting and Finance,* 4(2): 21-41.

Wallace, James, S. 1997. Adopting residual income – based compensation plans: Do you get what you pay for. *Journal of Accounting and Economics*, 24(3): 275-300.

Worthington, Andrew C. and West, Tracey. 2004. Australian evidence concerning the information content of economic value-added. *Australian Journal of Management*, 29(2): 201-224.

Annexure 1

Sample Banks

Public Sector Banks	Private Sector Banks (2002[1])
Allahabad Bank	Bank of Punjab
Andhra Bank	Bank of Rajasthan
Bank of Baroda	Centurion Bank
Bank of India	City Union Bank
Bank of Maharashtra	Dhanalakshmi Bank
Canara Bank	Federal Bank
Central Bank of India	Global Trust Bank
Corporation Bank	HDFC Bank
Dena Bank	ICICI Bank
Indian Bank	IDBI Bank
Indian Overseas Bank	Indusind Bank
Oriental Bank of Commerce	J & K Bank
Punjab & Sind Bank	Karnataka Bank
Punjab National Bank	Karur Vysya Bank
Syndicate Bank	Lakshmi Vilas Bank
UCO Bank	Nedungadi Bank
Union Bank of India	South Indian Bank
United Bank of India	United West Bank
Vijaya Bank	UTI Bank
State Bank of Bikaner & Jaipur	ING Vysya Bank
State Bank of Hyderabad	
State Bank of Indore	
State Bank of Mysore	
State Bank of Patiala	
State Bank of Saurashtra	
State Bank of Travancore	
IDBI Bank	

[1] The year 2002 has been taken as the base year; and private banks have been selected on the basis of market capitalization of 2002.

The Indian Journal of Commerce
Vol. 65, No. 1, January-March 2012

DETERMINANTS OF PROFITABILITY OF INDIAN AND FOREIGN FIRMS UNDER THE CURRENT REGULATORY FRAMEWORK

(With Special Reference to Food Industry in India)

RAJU DEEPA AND RAMACHANDAN AZHAGAIAH

The government of India, at present, follows a liberal policy in encouraging foreign investment and attracting foreign enterprises at par with their Indian counterparts. Changes have been made in the foreign investment policy to create a more favourable fiscal environment for foreign collaborations and investment. Therefore, it becomes necessary to analyse the status of foreign firms in India and the marketing variables determining its profitability as distinguished from the Indian firms. This study has been carried out with particular reference to food industry in India. 157 firms belonging to food industry are analysed and the result shows that the type of firms does not influence its profitability. The business environment in India gives equal opportunity for both the Indian and foreign firms. However the foreign firms in India are found to have less stable market share when compared to their Indian counterparts therefore there is a need to increase their market share to prosper in Indian market at par with Indian firms.

Introduction

With the liberal policy, the government of India encourages foreign investment which is expected to improve and supplement infrastructural facility and increase the employment opportunities thereby leading to economic development. With the introduction of FEMA, foreign collaborations and investments have become much easier. Licensing procedure has also been made easier. Foreign firms are treated at par with Indian firms. As per the report "Doing Business 2010" developed by International Bank for Reconstruction and Development and World Bank, India placed in 133th of 183 economies surveyed for ease of doing business. At this juncture it becomes necessary to analyse whether these foreign firms are able to compete with Indian firms and capture major market share and increase their profitability. This paper attempts to analyse how far the Indian and foreign firms are able to prosper in Indian market with the present set of legislative framework and policy framework. The marketing strategy suitable for these firms to increase their profitability is also analysed.

Mrs. Raju Deepa is Research Scholar and Dr. Ramachandan Azhagaiah is Associate Professor of Commerce, Kanchi Mamunivar Centre for Post Graduate Studies (Autonomous Centre with Potential for Excellence by UGC) (Government of Puducherry) Affiliated to Pondicherry Central University, Puducherry – 605 008, India.

Food Industry in India

India has diverse agro-climatic conditions and has a large and diverse raw material base suitable for food processing companies. India is becoming the eastern hub of the food industry. National Food Security Act (NFSA) is envisaged as a path-breaking legislation, aimed at protecting all children, women and men in India from hunger and food deprivation. There were thirteen various laws governing the food industry in India until the introduction of Food Safety & Standard Act, 2006 which now lay down the standard for food safety. The firms entering the food industry should get a licence or should be registered. The government is planning to allow100% FDI in food processing sector and also to provide tax benefits. Foreign direct investment (FDI) in agriculture has increased six-fold, rising from $96.4 million in 2004 to $656 million in 2008, recording the US as the largest source country followed by the Germany and the UK. The agriculture related FDI flows are shown in Table 1.

Table 1: Agriculture related FDI inflows in India

FDI Inflows in India	in $ million	% to total
Sugar	5.0	0.76
Vegetable oil	44.1	6.72
Tea and coffee	52.4	7.99
Hybrid seeds and plantation	1.2	0.18
Horticulture	4.1	0.62
Food processing	150	22.86
Fermentation industries	388.7	59.23
TOTAL	656.2	100

Source: FDI in agriculture, *The Financial Express*, January 21, 2010: 9.

Objectives

The present study is attempted with the following objectives:

- to study the relative market share of Indian and foreign firms in Indian Food Industry.
- to examine the influence of firm type (i.e. Indian or foreign) on profitability in Food Industry.
- to analyse the determinants of profitability of Indian and foreign firms in Food Industry.

Hypotheses

$\mathbf{H_o^1}$ = *There is no significant influence of firm type on the profitability of firms of food industry in India.*

$\mathbf{H_o^2}$ = *There is no significant relationship between marketing intensity and profitability of the firms of food industry in India.*

H_o^3 = *There is no significant relationship between market share and profitability of the firms of food industry in India.*

H_o^4 = *There is no significant relationship between age and profitability of the firms of food industry in India.*

Research Methodology

The study is based on secondary data, which are collected from Centre for Monitoring Indian Economy (*CMIE*) Prowess package for a period of 10 years on year to year basis ranging from 2000-2001 to 2009-2010.

Multi-stage sampling technique is used for the study and the different stages followed are mentioned below:

Stage 1: 1711 food & beverage firms as on September 23rd, 2011 are taken as the total population.

Stage 2: Out of 1711 food & beverage firms, 341 BSE listed firms alone are considered. 98 firms belonging to NSE are not included in the study for obvious reasons.

Stage 3: Among the 341 BSE listed firms, only 157 firms were found have complete data required for the study for the study period. Therefore, these 157 BSE listed firms constitute the final sample. The sample constitutes 142 Indian firms and 15 foreign firms, indicating that Indian firms dominate food industry in India and have less foreign competitors.

Descriptive statistics such as mean, median and standard deviation are used to neutralize the fluctuation in the value of explained as well as explaining variables. ANCOVA is used to study the impact of firm type on profitability of food industry in India. Correlation co-efficient is used to study one-to-one relationship between the variables. Multiple regression is also used to study various variables that determine the profitability *(P)* of the firms. Appropriate ratios as stated below are used to calculate individual relative properties of the selected variables. Description of ratios used in the study is shown in Table 2.

Table 2: Description of ratios used

Variables	Ratios
Profitability (P)	PBITD / Total Assets
Marketing Intensity (MAR_INS)	Selling & Distribution Expenses / Sales
Market Share (MAR_SH)	Sales of the Firm / Total Sales of the Industry
Age (AG)	Total No. of Years from the Date of Incorporation

Dependent Variable

Profitability: ***P*** is used as the dependent variable and is calculated in proportion to total assets, which would portray the real picture on the ability to efficiently use their investment in asset to earn profit. To calculate *P* Profit before Interest, Tax and Depreciation (PBITD) has been used since it displays the real profit earned and as there is tax rate difference between foreign and Indian firms in India.

Independent Variables

Marketing Intensity (MAR-INS): The amount spent on selling and distribution shows how aggressively the firms market their product (Hsiao-Ping Chu, 2011). Therefore, the proportion of selling and distribution expenses in relation to their sales figure is measured and its impact on *P* is studied.

Market Share: *MAR_SH* shows the market coverage ratio of the firms which, in turn, increases the profitability of the firms. The Boston Consulting Group (BCG) has made an analysis of how the domestic firms are able to master their home market and what the MNCs have to learn from them. They have proved that domestic firms have the advantage of better understanding their local environment than MNCs. Therefore, the relative *MAR_SH* of domestic and foreign firms in India and their impact on *P* under the present regulatory framework is studied.

Age: The *AG* shows the number of years the firms has been carrying out business in India, which may help them to better understand the local business environment, culture and tradition of the home country. It also shows how they have positioned their products in the mind of the people. This also helps in increasing their *P*. So the relation between *AG* and *P* is studied.

Regression Equation

$$P = \alpha + \beta_1 MAR\_INS\_\beta_2 MAR\_SH + \beta_3 AG + \varepsilon$$

The Relative Market Share of Indian and Foreign Firms

The trend line of relative share of Indian and foreign firms in Indian market over the study period shows that the market share has fallen drastically from the year 2004 in spite of the various measures taken by the Indian government to facilitate the foreign trade in India (Figure 1). The Indian firms stand in a superior position to foreign firms and are capable of retaining/withholding the market share over the period of study.

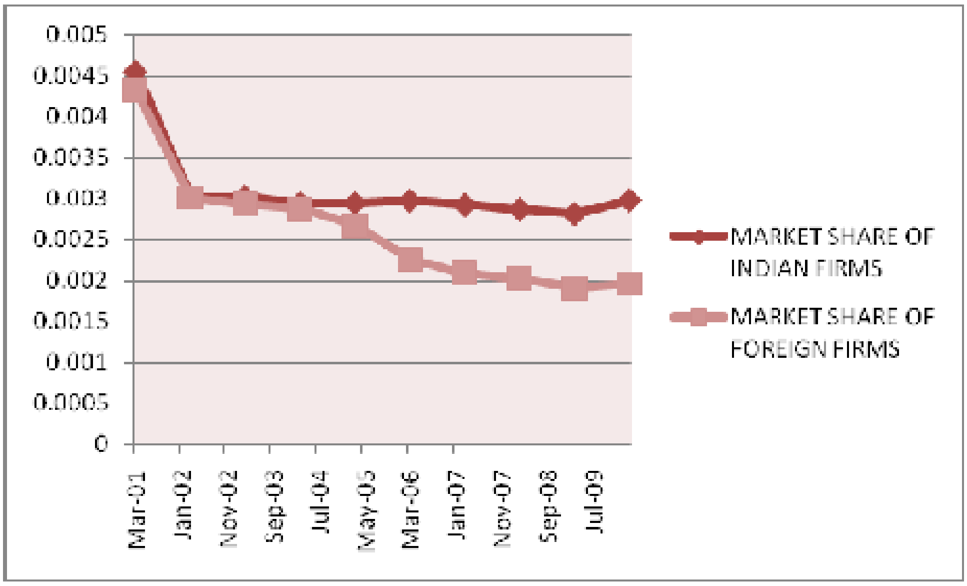

Figure 1: Trend line showing the relative market share of Indian and foreign firms

Analysis of Impact of Firm Type on Profitability

The descriptive statistics shows that the standard deviation of *MAR_INS* (6.223) is high while *P* shows lesser deviation (.067) (Table 3), indicating that there is much of variation in the amount spent on selling and distribution but it does result in relative increase in *P*. *MAR_SH* however shows lesser deviation (.01), indicating that there is less variation in *MAR_SH* among the Indian and foreign firms.

Table 3: Overall descriptive statistics of variables

Variables	N	Minimum	Maximum	Mean	Std. Deviation
P	157	-.149	.450	.10069	.067576
MAR_INS	157	-.104	43.938	1.21750	6.223338
MAR_SH	157	.000	.115	.00306	.010121
AG	157	0	53	14.95	11.161

The ANCOVA result shows that the type of firms *(FR_TYPE)* (i.e. Indian or foreign) does not significantly influence the *P* of the firms. *MAR_SH* has highly significant 'F' value (19.039) at 1% level, indicating that *P* varies significantly with the variation in *MAR_SH* (Table 4).

Table 4: ANCOVA result showing the influence of the independent variables on *P*

Variables	'F' value	Sig.
Intercept	60.705	.000
MAR_INS	.083	.773
MAR_SH	19.039**	.000
AG	1.580	.211
FR_TYPE	.409	.523

Source: Computed results based on compiled data collected from CMIE prowess Pvt. Ltd.

**Significant at 0.01 level;*Significant at 0.05 level

Determinants of Profitability of Indian Firms

To find out which marketing strategy will help the firms to increase their *P*, whether they have to aggressively spend money on selling and distribution or try to expand their *MAR_SH* or try to persist in the market for a longer period. The correlation result shows that *MAR_SH* has highly significant correlation (.311) with *P* in case of Indian firms while the other variables are insignificantly correlated (Table 5).

The regression result shows that *MAR_SH* only has highly significant co-efficient (1.839) with *P*. The F value (4.946) is highly significant (Table 6), indicating that the dependent variable, *P* varies significantly with changes in predictor variable. However, the model fit is .077 indicating that there are other extraneous variables determining the *P* of Indian firms in food industry.

Table 5: Correlations matrix of determinants of *P* for Indian firms

Variables	*P*	*MAR_INS*	*MAR_SH*	*AG*
P	1	.025	.311**	.008
		.769	.000	.928
MAR_INS	.025	1	.030	-.099
	.769		.727	.239
MAR_SH	.311**	.030	1	-.031
	.000	.727		.712
AG	.008	-.099	-.031	1
	.928	.239	.712	

Source: Computed results based on compiled data collected from CMIE prowess Pvt. Ltd.

**. Correlation is significant at the 0.01 level (2-tailed).

Table 6: Results of regression on determinants of *P* of Indian firms

Variables	Un standardized Coefficients B	t	Sig.
(Constant)	.092	10.488	.000
MAR_INS	.000	.217	.829
MAR_SH	1.839**	3.838	.000
AG	.000	.235	.815
R Square			.097
Adjusted R Square			.077
F value			4.946** (.003)

Source: Computed results based on compiled data collected from CMIE prowess Pvt. Ltd.
Note: Figures in parentheses are 'p' values;**Significant at 0.01 level;*Significant at 0.05 level.

Determinants of Profitability of Foreign Firms

The correlation matrix shows that *MAR_INS* (.818) and *AG* (.516) have significant correlation with *P (Table 7)*. The correlation matrix shows that apart from increasing *MAR_INS* the foreign firms should also see that they persistently carry out business in India to increase *P*.

Table 7: Correlations matrix of determinants of *P* for foreign firms

Variables	*P*	*MAR_INS*	*MAR_SH*	*AG*
P	1	.042	.818**	.516*
		.883	.000	.049
MAR_INS	.042	1	.003	.071
	.883		.991	.800
MAR_SH	.818**	.003	1	.558*
	.000	.991		.031
AG	.516*	.071	.558*	1
	.049	.800	.031	

Source: Computed results based on compiled data collected from CMIE prowess Pvt. Ltd.
**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

The regression result shows that *MAR_SH* has highly significant co-efficient (15.103) with *P*. The F value (7.650) is also highly significant and the model fit is over 50% (adj R^2 value is 0 .588) (Table 8), indicating that these predictor variables determine over 50% of influence unlike the case of Indian firms where the model fit is very poor.

Table 8: Results of regression on determinants of *P* of foreign firms

Variables	Un standardized Coefficients B	t	Sig.
(Constant)	.060	1.996	.071
MAR_INS	.007	.194	.850
MAR_SH	15.103**	3.730	.003
AG	.001	.399	.697
R Square			.676
Adjusted R Square			.588
F value			7.650** (.005)

Source: Computed results based on compiled data collected from CMIE prowess Pvt. Ltd.
Note: Figures in parentheses are 'p' values;**Significant at 0.01 level;*Significant at 0.05 level.

Limitations of the Study

- Analysis of the study is based on data collected from CMIE Prowess Package. The quality of the study depends purely upon the accuracy, reliability and quality of secondary data source referred.
- The firms chosen are restricted to 157 due to limitations such as lack of continuous listing, non-availability of data pertaining to those firms in the data source.
- The total industrial sales are calculated only for 402 firms that had sales figures for all the 10 years included in the period of study though the food industry constitutes 1711 firms.

Suggestions

- Irrespective of the type, both the Indian firms and foreign firms should concentrate on increasing their *MAR_SH* instead of aggressively promoting their products in the present market.
- The foreign firms should also try to carry on business persistently to position their product more effectively.
- The Indian firms have other extraneous variables excepting these marketing variables used in the study that determine their *P*, which remain unresolved leaving scope for further research.

Conclusion

Though the government treats the foreign firms at par with their Indian counterparts they still find it difficult to acquire a larger market share and are unable to compete with their Indian counterparts. The trend line also stresses the same, indicating that the *MAR_SH* keeps on decreasing over the study period while the Indian firms are able to maintain a stable rate. This indicates that the foreign firms have much to learn from the Indian firms to prosper in the Indian soil. With all the efforts made by the Indian government it is in the hands of these firms to understand the business environment and adapt to it. However, there is a red carpet welcoming environment created in India, with all new Acts implemented, to facilitate these foreign firms to flourish in the years to come with more smiling face.

REFERENCES

Andras, T.L. and S.S. Srinivasan. 2003. Advertising intensity and R&D intensity: Differences across industries and their impact on firm's performance. *International Journal of Business and Economics* 2(2): 167-176.

Coate, M.B. and N. Uri. 1987. A simultaneous equations study of research and development intensity. *Technological forecasting and social change* 31(2), (April): 131-142.

Hsiao-Ping Chu. 2011. Is enlarging the market share the best strategy for maximizing profits, *African Journal of Business Management* 5(20): 7992-99.

Mavrommati, A. and A. Papadopoulos. 2005. Measuring advertising intensity and intangible capital in the Greek food industry. *Applied Economics* 37(15): 1777-1787.

Venkatraman, N. and J.E. Prescott. 1990. The market share-profitability relationship: testing temporal stability across business cycles. *Journal of Management* 16 (4), (December): 783-805.

www.indiajuris.com

www.bcg.com

www.indianfoodindustry.net

www.indiainbusiness.nic.in/.../Food_Processing_and_Agribusiness.pdf

The Indian Journal of Commerce
Vol. 65, No. 1, January-March 2012

CRM in Indian Banking

Jasveen Kaur

Customer Relationship Management is emerging as the core marketing activity for business operating in fiercely competitive environment. CRM is a customer-focused business strategy designed to optimize revenue, profitability, customer loyalty and develops marketing strategies to delight the customers. In the light of above observations, this exploratory study focuses on determining the strategic benefits of implementing the CRM program to the bankers in India, as a strive towards customer satisfaction and retention.

Introduction

Marketing in the new millennium, lays thrust on the customer needs so much so that 'customer-driven marketing' has become synonymous with marketing. The emphasis, today, is on understanding and fulfilling consumer needs to an extent as it strikes a balance between customer value-delivered and company profitability. Satisfaction of customer's needs provides the rationale for an enterprise's existence. Markets, worldwide, have become highly competitive and companies are desperately looking for ways and means to differentiate their offerings from their competitors (Kotler, 2008). Therefore, worldwide, service firms have been the pioneers in adopting the practice of CRM practices and developing customer retention strategies. In India too, the service firms took some of the early initiatives in CRM, especially in the financial services. CRM is emerging as the core marketing activity for service firms operating in fiercely competitive environment (Shainesh et. al., 2001).

Customer Relationship Management (CRM)

The available researches show that successful and continuing relationships are characterized by trust, commitment and satisfaction. (Morgan and Hunt, 1994) Driven by the challenges of competition, rising customer expectations and shrinking margins, banks have been using technology to reduce cost and enhance efficiency, productivity and customer convergence. (Shainesh and Choudhary, 2001).

Research Methodology

For the analysis of the perception of the bankers, a comparative analysis of the CRM strategy being practiced in the three bank segments (viz., Public sector banks, Private sector banks, and Foreign banks) has been done.

Dr. Jasveen Kaur is Reader, Department of Commerce and Management, Guru Nanak Dev University, Amritsar, Punjab

For the present study, the banks from the region of the North India, comprising of Delhi and NCR region, Chandigarh and Amritsar have been considered as the universe of the study. The 20 banks consisting of 7 public sector, 8 private sector and 5 foreign banks, with 4-7 branches from each of the selected bank have been selected for collecting information. The actual sample size of bank respondents has been of 95 (public sector: 34; private sector: 38; foreign banks: 23). The selection of the sample units has been made on the basis of non-probability sampling technique, viz., judgment and convenience sampling. Snowball sampling technique has also been applied for the smooth progression of data collection.

Hypotheses

H_0 : There is no significant difference among the bankers of three bank segments with respect to the extent of usage of the concept of CRM in the bank.

H_0 : There is no significant difference among the bankers of three bank segments with respect to the duration of CRM strategy in the selected banks.

H_0 : There is no significant difference among the bankers of three bank segments with respect to the duration of CRM strategy in the selected banks branches.

Findings

58.9 per cent of the bankers have stated that their banks have been practicing the concept of CRM significantly (Table 1). This is followed by 23.2 per cent of the respondents who have stated that the concept of CRM is being practiced 'completely' in their banks. There are 10.5 per cent respondents who have admitted that CRM is being practiced 'moderately' by their banks, followed by 7.4 per cent of the bankers; who feel that their banks practice the concept of CRM 'partially'.

Table 1: CRM strategy in the Banks

Usage	Bank type			Total
	Public	Private	Foreign	
Partially	4	2	1	7
	(11.8)	(5.3)	(4.3)	(7.4)
Moderately	4	6	0	10
	(11.8)	(15.8)	(0.0)	(10.5)
Significantly	22	24	10	56
	(64.7)	(63.2)	(43.5)	(58.9)
Completely	4	6	12	22
	(11.8)	(15.8)	(52.2)	(23.2)
N	34	38	23	95

Chi-Square Value: 17.274

Significant at 1% level of Significance (.008) (the normal figures indicate frequencies; and figures in parentheses indicate percentages).

(**Note:** It may be noted that the use of the Chi-Square in Goodness of Fit Tests is an approximation of the multinomial probability distribution and carries with it some restrictions with respect to sample size if a good approximation is to be achieved. Traditionally, statisticians have recommended that expected frequencies should be equal to or greater than five (5), in order to achieve an acceptable approximation. Research, however, indicates that this is not at all necessary when the number of degrees of freedom is two (2) or more; see John T. Roscoe, "Fundamental research statistics for behavioral sciences," Holt, Rinehart and Winston, Inc., 1975, pp.251-52).

Bank-wise analysis shows that in case of public sector banks, 64.7 per cent of the respondents have stated that their banks are 'significantly' practicing the concept of CRM. This is followed by respondents with similar percentages (11.8 per cent); who have stated the use of the concept of CRM as 'completely'; 'partially' and 'significantly' in their banks. In the private sector banks, 63.2 per cent of the bankers have mentioned that the concept of CRM is being practiced 'significantly' by their banks. This is followed by the banks practicing the concept 'completely' (15.8%); 'moderately' (15.8%) and 'partially' (5.3%). In case of foreign banks, 52.2 per cent bankers have responded that their banks practice the concept of CRM 'completely'. A considerable percentage (43.5%) views the concept being practiced 'significantly'. There are 4.3 per cent bankers who have stated that the concept is practiced 'partially' by their banks.

It has been found that the Chi-square value is significant at 1% level of significance. So, the null hypothesis has not been accepted. It can be comprehended that statistically, there are significant differences in the practice of CRM strategy among the bankers in the three banks' sectors. From the above analysis, it can, therefore, be inferred that though foreign sector banks are relatively new, yet they have focused their policies and strategies on CRM 'completely' as compared to other two sectors, viz., public and private. In case of public and private sector banks, the extent of usage of the CRM concept has been significant.

The table 2 reveals that 36.8 per cent of the respondents have been practicing CRM for more than 7 years. This is followed by 33.7 per cent of the respondents who have been practicing the concept of CRM for 1-3 years; 17.9 per cent for 3-5 years; and 7.4 per cent for 5-7 years and 4.2 per cent for less than a year.

Table 2: Duration of the CRM in the selected banks

Time Period	Bank type			Total
	Public	Private	Foreign	
Less than a year	1	1	2	4
	(2.9)	(2.6)	(8.7)	(4.2)
1-3 years	9	17	6	32
	(26.5)	(44.7)	(26.1)	(33.7)
3- 5 years	2	11	4	17
	(5.9)	(28.9)	(17.4)	(17.9)
5-7 years	5	2	0	7
	(14.7)	(5.3)	(0.0)	(7.4)
More than 7 years	17	7	11	35
	(50.0)	(18.4)	(47.8)	(36.8)
N	34	38	23	95

Chi-Square Value: 19.349
Significant at 1% Level of Significance(.013)

Bank-wise analysis indicates that in case of public sector banks 50 per cent of the respondents have been practicing CRM for more than 7 years. This is followed by 26.5 per cent of the bankers who have been involved in the practice of CRM for 1-3 years; 14.7 per cent have been following the practice for 5-7 years; 5.9 per cent for 3-5 years and 2.9 per cent have been indulging in this practice for less than a year. In case of private sector banks scenario; most of the respondents (44.7%) have been practicing CRM for 1-3 years; followed by 3-5 years (28.9%); for more than 7 years (18.4%). In case of foreign banks, 47.8 per cent of the respondents have been practicing CRM for more than 7 years; followed by 26.1 per cent of the banks which have been doing so for 1-3 years; 17.4 per cent for 3-5 years and 8.7 per cent for 5- 7 years.

It has been found that the Chi-square value is significant at 1% level of significance. So, the null hypothesis has not been accepted. It can be inferred statistically, that there are significant differences among the three bank segments with regard to the duration of CRM strategy being practiced.

The Table 3 depicts that majority of the banks (67.37%) have stated that CRM benefits banks to 'build relationship with high-valued customers'. This is followed by the bankers' perception that CRM helps them in 'achieving greater customer satisfaction by customized offerings' (63.16%); 'achieving customers' loyalty' (57.89%); 'attracting new customers' (55.79%); 'maximizing customer lifetime value' (53.68%); 'promoting customer retention' (49.47%); 'enhancing customer portfolio' (42.11%). The less important reasons for using CRM strategy by the bankers are:- 'staying in close contact with the customers regularly' (33.68%); 'offering additional benefits and incentives to the key customers' (30.53%); 'providing specific training to manage better customer relations' (20.00%) and 'probing\ finding organizational\ operational bottlenecks' (9.47%).

Table 3: Reasons for using CRM strategy

Variables	Bank type			
	Public	Private	Foreign	Total
Achieving customer's loyalty	22 (64.71)	18 (47.37)	15 (65.22)	55 (57.89)
Maximizing customer lifetime value	13 (38.24)	20 (52.63)	18 (78.26)	51 (53.68)
attracting new customers	18 (52.94)	25 (65.79)	10 (43.48)	53 (55.79)
building relationship with high-valued customers	21 (61.76)	27 (71.05)	16 (69.57)	64 (67.37)
achieving greater customer satisfaction by customized offerings	21 (61.76)	27 (71.05)	12 (52.17)	60 (63.16)
staying in close contact with the customers regularly	15 (44.12)	9 (23.68)	8 (34.78)	32 (33.68)
providing specific training to manage better customer relations	6 (17.65)	5 (13.16)	8 (34.78)	19 (20.00)
promoting customer retention	18 (52.94)	23 (60.53)	6 (26.09)	47 (49.47)
offering additional benefits and incentives to the key customers	12 (35.29)	6 (15.79)	11 (47.83)	29 (30.53)
enhancing customer portfolio	16 (47.06)	13 (34.21)	11 (47.83)	40 (42.11)
probing\ finding organizational\ operational bottlenecks	1 (2.94)	5 (13.16)	3 (13.04)	9 (9.47)
N	34	38	23	95

Note: Total percentage is more than 100 due to multiples responses.

Bank-wise analysis reveals that the majority of the respondents in public sector banks have perceived the reasons for using CRM strategy may be for 'achieving customer's loyalty' (64.71%); 'building relationships with high-valued customers' (61.76%) and 'achieving greater customer satisfaction by customized offerings' (61.76%). This is followed by bankers' perception that CRM benefits them in 'attracting new customers' (52.94%); 'promoting customer retention' (52.94%); 'enhancing customer portfolio' (47.06%); 'staying in close contact with the customers regularly' (44.12%); 'offering additional benefits' and 'incentives to the key customers' (35.29%); 'providing specific training to manage better customer relations' (17.65%) and 'probing\ finding organizational\ operational bottlenecks' (2.94%).

The majority of the respondents in private sector banks have perceived that CRM benefits banks in 'building relationships with high- valued customers' (71.05%) and 'achieving greater customer satisfaction by customized offerings' (71.05%). This is followed by the bankers' perception that CRM benefits them in 'attracting new customers' (65.79%); 'promoting customer retention' (60.53%); 'maximizing customer lifetime value' (52.63%); 'achieving customer's loyalty' (47.37%); 'enhancing customer portfolio' (34.21%); 'staying in close contact with the customers regularly' (23.68%); 'offering additional benefits and incentives to the key customers' (15.79%); 'providing 'specific training to manage better customer relations' (13.16%) and 'probing\ finding organizational\ operational bottlenecks' (13.16%) in that order.

The majority of the respondents in the foreign banks have perceived that CRM benefits bankers in 'maximizing customer lifetime value' (78.26%); 'building relationship with high-valued customers' (69.57%); 'achieving customer's loyalty' (65.22%); 'achieving greater customer satisfaction by customized offerings' (52.17%); 'enhancing customer portfolio' (47.83%); 'offering additional benefits and incentives to key customers' (47.83%); 'attracting new customers' (43.48%); 'staying in close contact with the customers regularly' (34.78%); 'providing specific training to manage better customer relations' (34.78%) in that order and 'probing\finding organizational\ operational bottlenecks'.

From the above analysis it can, therefore, be concluded that foreign banks and public sector banks, perceive that CRM strategy is a better tool for achieving customers' loyalty (i.e. 65.22% and 64.71% respectively), as compared to private sector banks (47.37%). The CRM strategy as a tool for maximizing customer lifetime value is being perceived by large number of respondents of foreign banks (78.26%), whereas most of the private sector banks (65.79%) perceive that it as a better tool for attracting new customers. The bankers' perception of the CRM strategy in building relationships with high-valued customers is comparatively higher in all the three banking sectors, percentage being 71.05 percent in case of private sector banks, followed by foreign banks (69.57%), and public sector banks (61.76%). The bankers' perception of CRM strategy in promoting customer retention is higher in private sector banks (60.53%), as compared to public sector banks (52.94%) and foreign banks (26.09%).

The table 4 depicts that 72.63 per cent of the respondents have stated that as a result of implementation of CRM in the bank, they have attained 'higher customer satisfaction'. The business values attained by most of the banks are 'gained customers' trust' (66.32%); 'better customer services' (60.0%); 'increase in the number of customers' (55.79%); 'reduced customer complaints' (52.63%); 'increase in the bank deposits' (50.53%); 'increase in the bank's goodwill and status' (50.53%) and 'increased customers' credit' (30.53%).

Bank-wise analysis reveals that in public sector banks, 76.47 per cent of the respondents have stated that as a result of implementation of CRM in the bank, they have attained 'higher customer satisfaction'. This is followed by 73.53 per cent of the bankers, who have mentioned that they have attained 'gained customers' trust'; 64.71 per cent attained 'better customer services'; 64.71 per cent found an 'increase in the number of customers'; 61.76 per cent attained 'increase in the bank deposits'; 58.82 per cent have stated an 'increase in the bank's goodwill and status'; 55.88 per cent 'reduced customer complaints' and 44.12 per cent of the banks attained 'increased customers' credit'.

Table 4: Business values attained by the CRM program in the bank

Strategic Benefits	Bank type			
	Public	Private	Foreign	Total
Increase in bank deposits	21 (61.76)	21 (55.26)	6 (26.09)	48 (50.53)
Gained customers' trust	25 (73.53)	23 (60.53)	15 (65.22)	63 (66.32)
Increased customers' credit	15 (44.12)	6 (15.79)	8 (34.78)	29 (30.53)
Increase in number of customers	22 (64.71)	18 (47.37)	13 (56.52)	53 (55.79)
Better customer service	22 (64.71)	23 (60.53)	12 (52.17)	57 (60.00)
Higher customer satisfaction	26 (76.47)	26 (68.42)	17 (73.91)	69 (72.63)
Reduced customer complaints	19 (55.88)	14 (36.84)	17 (73.91)	50 (52.63)
Increase in bank's goodwill and status	20 (58.82)	20 (52.63)	8 (34.78)	48 (50.53)
N	34	38	23	95

Note: Total percentage is more than 100 due to multiples responses.

In case of private sector banks, 68.42 per cent of the respondents have stated that as a result of implementation of CRM in the banks, they have attained 'higher customer satisfaction'. The business values reached by most of the respondents are 'gained customers' trust' (60.53%); 'better customer services' (60.53%); 'increase in the bank deposits' (55.26%); 'increase in the bank's goodwill and status' (52.63%); per cent have seen an 'increase in the number of customers' (47.37%); 'reduced customer complaints' (36.84%) and 'increased customers' credit' (15.79%).

In case of foreign banks, 73.91 per cent of the respondents have stated that as a result of implementation of CRM in the banks, they have attained 'higher customer satisfaction' and 'reduced customer complaints'. The business attained by most of the respondents are 'gained customers' trust' (65.22%); 'increase in the number of customers' (56.52%); 'better customer services' (52.17 'increase in the bank's goodwill and status' (34.78%); 'increased customers' credit' (34.78%) and 'increase in the bank deposits' (26.09%).

From the above analysis, it can, therefore, be inferred that the business values attained by the banker as a result of implementation of CRM program in the bank\branch has been in the form following strategic benefits to the banker: - getting higher customer satisfaction, gaining customer trusts, providing better customer service, increase in the number of customers, reducing customer complaints and thereby enhancing banks' goodwill and status.

The table 5 reveals that most of the respondents have stated that there has been 'change in job responsibilities of different functionaries at the branch' (57.89%); and 'launch of new products/ new services' (54.74%); following the CRM implementations. This is followed by 'changes in the customer feedback form/process' (42.11%); 'changes in customer portfolio or product portfolio' (30.53%); 'changes in the contribution made by different procures/ sections/employees' (28.42%) and per cent have found 'changes in procedures' (26.32%).

Table 5: Kinds of changes made at banks branches following CRM implementation

Kinds of Changes	Bank type			
	Public	Private	Foreign	Total
Launch of new products\new services	20 (58.82)	20 (52.63)	12 (52.17)	52 (54.74)
Changes in procedures	12 (35.29)	6 (15.79)	7 (30.43)	25 (26.32)
Changes in customer feedback form\process	18 (52.94)	12 (31.58)	10 (43.48)	48 (42.11)
Changes in customer portfolio or product portfolio	10 (29.41)	7 (18.42)	12 (52.17)	29 (30.53)
Changes in contribution made by different procures\sections\employees	11 (32.35)	9 (23.68)	7 (30.43)	27 (28.42)
Changes in the job responsibilities of different functionaries at the branch	21 (61.76)	20 (52.63)	14 (60.87)	55 (57.89)
N	34	38	23	95

Note: Total percentage is more than 100 due to multiples responses.

Bank-wise analysis depicts that in public sector banks, 61.76 per cent of the respondents have stated that there has been 'changes in job responsibilities of different functionaries at the branch' following the CRM implementations. This is followed by 'launch of new products/new services (58.82%); 'changes in the customer feedback form/process' (52.94%); 'changes in procedures' (35.29%); 'changes in the contribution made by different procures/sections/employees' (32.35%) and 'changes in customer portfolio or product portfolio' (29.41%).

In case of private sector banks, 52.63 per cent of the bankers have mentioned that there has been 'changes in job responsibilities of different functionaries at the branch' following the CRM implementations. This is followed by 'launch of new products/new services (52.63%); 'changes in the customer feedback form/process' (31.58%); 'changes in the contribution made by different procures/sections/employees' (23.68%); 'changes in customer portfolio or product portfolio' (18.42%) and 'changes in procedures' (15.79%).

In case of foreign banks, 60.87 per cent of the bankers have stated that there have been 'changes in job responsibilities of different functionaries at the branch' following the CRM implementations. This is followed by 'launch of new products/new services (52.17%); 'changes in customer portfolio or product portfolio' (52.17%); 'changes in the customer feedback form/process' (43.48%); 'changes in the contribution made by different procures/sections/ employees' (30.43%) and 'changes in procedures' (30.43%).

From the above analysis, it can be summed up, that the main kind of strategic changes made at banks' branch following the implementation of CRM program have been in the form of launching new products\ new services, changes in the job responsibilities of different functionaries at the branch and changes in the customer feedback form\process and banking procedures.

96.8 per cent of the respondents have confirmed to believe that CRM is the key to success of all the business in future; while 3.2 per cent have given their disagreement.

Bank-wise analysis reveals that in public sector banks, all of the respondents believe that CRM is the key to success of all the business in future. In case of private sector banks, 92.1 per cent of the respondents are of the opinion that CRM is the key to success of all the business in future. While, in case of foreign sector banks, all of the respondents have opined that CRM is the key to success of all the business in future.

Conclusion

CRM is a new-age marketing/ business strategy' aimed at winning customers forever, where companies greet the customers, create products to suit their needs, work hard to develop life-time customers through the principles of customer delight, customer approval, customer enthusiasm, customization, customer service, customer satisfaction, customer loyalty, customer retention, etc. Therefore, it is clearly evident that CRM is going to be developed as a new age marketing tool to determine banks' competitive edge.

From the study of bankers' perception, it can be concluded that CRM is a strategy that is being implemented by the banks in India for effective service delivery to their customers to achieve higher levels of customer satisfaction and strive for customer delight.

REFERENCES

Agrawal, Mohan L. 1997. Relationship marketing in Indian service organizations: The natural facilitators and the levels, *Management* and *Change*, Vol. 1, No. 1, April, pp. 101-107.

Anonymous, 2006. www.iba.org.

Arya, P.P. 2002. Economic reforms in India: From first to second generation and beyond, Deep & Deep Publications, New Delhi.

Banerjee, Alok 2005. Customer relationship management, *IBA Bulletin Indian Banking Association*, Vol. XXVII, No. 9.

Battista, P. and Verhun, D. 2000. Customer relationship management: The promise and the reality, *CRM Management,* May, pp. 34-37.

Choudhary, Avijit and Shainesh, G. 2001. Implementing a technology based CRM solution: The ICICI experience, In Sheth, Jagdish N., Parvatiyar, Atul, Shainesh, G., (eds.), *Customer Relationship Management: Emerging Concepts, Tools and Applications*, Tata McGraw-Hill Co. Ltd., New Delhi.

Hunt, S.D. and Morgan, R.M. 1994. Relationship marketing in the era of network competition, *Marketing Management*, Vol. 3 No. 1, pp. 19- 28.

Jagdish N. Sheth, Atul Parvatiyar, G. Shainesh, 2001. Customer relationship management: Emerging concepts, tools and applications, Tata McGraw Hill Publishing Company Limited, New Delhi.

Kaur, Jasveen, 2002. The changing scenario of Indian banking industry in wake of banking sector reforms, in edited book by Arya,P.P., Tandon, B.B., *Economic Reforms in India: From First Generation and Bey*ond, Deep & Deep Publications, New Delhi.

Kaur, Jasveen 2010. Comparative analysis of service quality dimensions of CRM strategy for customer satisfaction in the banking industry in India, in the *Quarter Journal, Sandesh-Mast Nath of Management*, ISSN No- 0975\6515, Refereed Journal of Shri Baba Mastnath Institute of Management.

Kotler, Philip 1973. The majors tasks of marketing management, Journal of Marketing, Vol. 37, October, pp. 42-49.

Kotler, Philip 2001. Marketing management – The millenium edition, Prentice Hall Ltd., India.

Menon, Kalyani and Connor, Aidan 2007. Building customers affective commitment towards retail banks: The role of CRM in each moment of truth, *Journal of Financial Services Marketing*, Vol. 12, No. 2 157-168 www.Palgrave-journals.com.fsm

Morgan, R.M. and Hunt, S.D. 1994. The commitment-trust theory of relationship marketing, *Journal of Marketing*, Vol. 58 No. 3, pp. 20-38.

Murty, G.R.K. 2002. CRM in banks a tool to edge out competition, *IBA Bulletin,* A monthly journal, The Indian Banks Association Vol. XXIV No. 7, July.

Nadkarni, S.S. 1993. Key to banking success, *Business India,* (15th Annual Issue), pp. 99-100.

Rodrik, Dani and Subramanian, Arvind 2003. The primacy of institutions (and what this does and does not mean). *Finance and Development* (June), 31-34.

Rosenberg, Larry and Czepiel, John 1984. A marketing approach to customer retention, Journal of consumer Marketing, spring, pp. 45-51.

Shainesh, G. and Mohan, Ramneesh 2001. Status of customer relationship management in India: A survey of service firms, In Sheth, Jagdish N., Parvatiyar, Atul, Shainesh, G., (eds.), *Customer Relationship Management: Emerging Concepts, Tools and Applications*, Tata McGraw-Hill Co. Ltd., New Delhi.

Venketeshvaran, C.S. 1994. Bank marketing: A view from other side, In Purusthathaman, C.N. (Eds.), "*Recent Trends in Banking*", Discovery Publishing House, New Delhi.

The Indian Journal of Commerce
Vol. 65, No. 1, January-March 2012

A COMPARATIVE STUDY OF PUBLIC AND PRIVATE LIFE INSURANCE COMPANIES IN INDIA

M. SELVA KUMAR AND J. VIMAL PRIYAN

The insurance sector, along with other elements of marketing, as well as financial infrastructure, have been touched and influenced by the process of liberalization and globalization in India. The customer is the king in the market. Life insurance companies deal in intangible products. With the entry of private players, the competition is becoming intense. In order to satisfy the customers, every company is trying to implement new creations and innovative product characteristics to attract customers. In this research paper, an attempt is made to analyse the performance of public and private life insurance companies in India.

Introduction

Life insurance is a professional service which is characterized by high involvement of the consumers, due to the importance of tailoring specific need, the variability of the products available, the complexity involved in the policies and processes and ultimately the need to involve the consumer in every aspect of the transaction. Life insurance more fondly known as Life Assurance has, in recent times ceased to be only a 'Protection' or 'Legacy' for the family and has turned into an important investment outlet.

India's economic development made it a most lucrative insurance market in the world. Before the year 1999, there was monopoly of state run Life Insurance Corporation of India (LIC) transacting life business. Today, there are number of private life insurance companies. The competition from these companies were threatening to the existence of LIC. Since the liberalization of the industry the insurance industry has never looked back and today stand as the one of the most competitive and exploring industry in India.

Objective

The objective of the present study is to compare the performance of public and private life insurance companies.

Dr. M. Selva Kumar is Assistant Professor in P.G Commerce, Ayya Nadar Janaki Ammal College, Sivakasi and Mr. J. Vimal Priyan is Research Scholar at Bharathiar University, Coimbatore.

Hypotheses

For the purpose of this study, the following null hypotheses are formed:

- There is no significant difference in the growth rate of fresh business premium between public and private life insurance companies.
- There is no significant difference in the growth of number of new policies issued among public and private life insurance companies.
- There is no significant difference in the growth rate of total life insurance premium among public and private life insurance companies.

Tools Employed

An attempt is made to analyse whether there is any significant difference in the growth of fresh business premium, number of new policies issued and total life insurance premium among public and private life insurance companies or not. For this purpose, Mann – Whitney – U – Test was applied.

Mann – Whitney – U – Test is a non – parametric test. It makes it possible to work with very small samples. It requires less restrictive assumptions concerning the level of data measurement. It is used to determine whether there is any significant difference between the two independent samples, and each from one population is used.

$$U = n_1 n_2 + \frac{n_1 (n_1+1)}{2} - S_1$$

N_1 = number of samples from first population

N_2 = number of samples from second population

S_1 = sum of ranks of samples from first population

For the values of n_1 and n_2 Mann – Whitney – U – test table values provide probability associated with the calculated values of U.

If the probability for the calculated value of U is not provided in the table, the value of U' for the other group can be calculated as follows :

$$U' = n_1 n_2 - U$$

The value of U' will be the same if 'U' is calculated by using the sum of the ranks of sample of second population as follows:

$$U = n_1 n_2 + \frac{n_2 (n_2+1)}{2} - S_2$$

N_1 = number of samples from first population

N_2 = number of samples from second population

S_2 = sum of ranks of samples from second population

Results and Discussion

In December 1999, a bill was passed in the parliament with the passage of Insurance Regulatory and Development Authority for its reform process. However with the setting up of IRDA, the government has once again deregulated the sector by opening it for the private players.

Table 1 shows the details of registered private life insurers in India as on 31st August, 2010.

Table 1 : Players in life insurance business in India

Sl. No	Name of the company	Date of registration	Foreign Partners
1.	Life Insurance Corporation of India	01.09.1956	—
2.	HDFC Standard	23.10.2000	Standard Life Assurance, UK
3.	Max New York	15.11.2000	New York Life, USA
4.	ICICI-Prudential	24.11.2000	Prudential Plc, UK
5.	Kotak Mahindra Old Mutual	10.01.2001	Old Mutual, South Africa
6.	Birla Sun Life	31.01.2001	Sun Life, Canada
7.	TATA-AIG	12.02.2001	American International Assurance Co., USA
8.	SBI Life	29.03.2001	BNP Paribas Assurance SA, France
9.	ING Vysya	02.08.2001	ING Insurance International B.V., Netherlands
10.	Bajaj Allianz Life	03.08.2001	Allianz, Germany
11.	Metlife India	06.08.2001	Metlife International Holdings Ltd., USA
12.	Reliance	03.01.2002	—
13.	AVIVA	14.05.2002	Aviva International Holdings Ltd., UK
14.	Sahara	06.02.2004	—
15.	Shriram	17.11.2005	Sanlam, South Africa
16.	Bharti AXA	14.07.2006	AXA Holdings, France
17.	Future Generali India	04.09.2007	Generali, Italy
18.	IDBI Federal	19.12.2007	Ageas, Europe
19.	Canara HSBC OBC	08.05.2008	HSBC, UK
20.	Aegon Religare	27.06.2008	Aegon Netherlands
21.	DLF Pramerica	27.06.2008	Prudential of America, USA
22.	Star Union Dai-ichi	26.12.2008	Dai-ichi Mutual Life Insurance, Japan
23.	IndiaFirst	05.11.2009	Legal & General Middle East Limited, UK

Source: Annual Report of IRDA, 2009-10.

As a global sweet spot, India attracts the attention of every major insurer. The country started in 20th place in the global insurance league table when the market opened to private players in 2000, and it moved up to 11th place in 2010. Since 2000, a total of 22 life insurance companies have set up operations in India. Most major multinational insurers are represented through joint ventures (the only option for foreigners), and all but two new players are licensed as joint ventures. Total foreign direct investment in insurance companies stands at close to IRs51 billion (about US$1.1 billion). While the state-owned Life Insurance Corporation (LIC) still holds a significant majority of market share, other companies have established footholds.

Table 2 shows the details of market share of public and private life insurance companies as on 30th November, 2010.

Table 2: Market share

Sl. No.	Life Insurance Companies	Per Cent
1.	Life insurance corporation of India	72.1
2.	ICICI pru life	5.3
3.	SBI life	5.1
4.	HDFC life	2.8
5.	Bajaj Allianz	2.6
6.	Reliance life	2.3
7.	Other private life insurance companies	9.8

Source: Annual Report of IRDA, 2009-10

Fresh Business Premium

The fresh premium of LIC of India was increased from year to year. It was Rs. 15976.76 crore in 2002-03 and was increased to 71,521.90 in 2009-10. But the growth rate of fresh premium of LIC of India shows the fluctuating trend. The growth rate was -18.44 per cent in 2002-03 and it was increased to 8.58 per cent in 2003-04. There is a persistent boost till 2006-07 and again it was decreased in 2007-08. Compared to the previous year, it was increased by 45.85 per cent in 2009-10. In private sector also there is a continual increase in the fresh business premium during the years from 2001-02 to 2009-10. It was Rs. 965.69 crore in 2002-03 and was increased to Rs. 38,372.12 crore in 2009-10. The rate of growth of private sector also shows the downward trend. The rate of growth was 259.65 per cent in 2002-03 and it was decreased to12.36 in 2009-10. Compared to LIC of India, the growth rate of fresh business premium of private life insurance companies was low.

Table 3 displays the details of fresh business premium collected by public and private life insurance companies from 2002 -03 to 2009-10.

Table 3: Fresh business premium

(in crore)

Life Insurer	LIC	Growth Rate (Per cent)	Private	Growth Rate (per cent)
2002-03	15976.76	-18.44	965.69	259.65
2003-04	17347.62	8.58	2440.71	152.74
2004-05	20653.06	19.05	5564.57	127.99
2005-06	28515.87	38.07	10269.67	84.55
2006-07	56223.56	97.17	19425.65	88.84
2007-08	59996.57	6.71	33715.95	73.56
2008-09	53179.08	-11.36	34152.00	1.29
2009-10	71521.90	34.49	38372.12	12.36

Source: Annual Report of IRDA, 2009-10.

New Policies

During 2009-10, life insurers had issued 532 lakh new policies, out of which, LIC issued 389 lakh policies (73.02 per cent of total policies issued) and the private life insurers issued 144 lakh policies (26.98 per cent). While LIC reported an increase of 8.21 per cent (-4.52 per cent in 2008-09) in the number of policies issued over the previous year, the private sector insurers reported a decline of 4.32 per cent (13.19 per cent increase in 2008-09) in the number of new policies issued. Overall, the industry witnessed a 4.52 per cent increase (0.10 per cent in 2008-09) in the number of new policies issued.

Table 4 illustrates the number of new policies issued by public and private life insurance companies from 2002-03 to 2009-10.

Table 4: Number of new policies issued

(in lakh)

Year	LIC	Growth Rate (Per cent)	Private	Growth Rate (per cent)
2002-03	245.46	96.75	8.25	3.25
2003-04	269.68	9.87	16.59	101.05
2004-05	239.78	-11.09	22.33	34.62
2005-06	315.91	31.75	38.71	73.37
2006-07	382.29	21.01	79.22	104.64
2007-08	376.13	-1.61	132.62	67.40
2008-09	359.13	-4.52	150.11	13.19
2009-10	388.63	8.21	143.62	-4.32

Source: Statistical Hand book of Insurance 2009-10.

Total Life Insurance Premium

Table 5 indicates that the total life insurance premium of LIC of India was 54628.49 crore in 2002-03 and it was increased to 186077.31 crore in 2009-10. There is instability in the growth rate of LIC of India. It was 5.01% in 2008-09 and it was increased to 18.30% during the year 2009-10. The total life insurance premium of private insurance companies was 1119.06 crore in 2002-03 and it was increased to 265450.37 crore in 2009-10. The growth rate of private insurance companies was reduced from year to year. It was 25.09% in 2008-09 and decreased to 19.69% in 2009-10. Compared to LIC of India, the growth rate of total premium of private life insurance companies was high.

Table 5 shows the details of total insurance premium of public and private insurance companies.

Table 5: Total life insurance premium

(in crore)

Year	LIC	Growth Rate (Per cent)	Private	Growth Rate (per cent)
2002-03	54628.49	9.65	1119.06	310.59
2003-04	63533.43	16.30	3120.33	178.83
2004-05	75127.29	18.25	7727.51	147.65
2005-06	90792.22	20.85	15083.54	95.19
2006-07	127822.84	40.79	28242.48	87.24
2007-08	149789.99	17.19	51561.42	82.57
2008-09	157288.04	5.01	64497.43	25.09
2009-10	186077.31	18.30	265450.37	19.69

Source: Statistical Hand book of Insurance 2009-10.

Comparative Analysis

In order to know whether there is any statistically significant difference in the growth rates of public and private life insurance companies in terms of fresh business premium, number of new policies issued and total life insurance premium, Mann – Whitney – U – Test was used.

For testing the null hypothesis, the U value was calculated. The results of Mann – Whitney – U – Test is given in Table 6.

Table 6: Results of mann whitney U-test

Hypotheses	Particulars	Tabulated U value	Result
$H_0 1$	Fresh business premium	0.025	Accepted
$H_0 2$	Number of new policies issued	0.439	Accepted
$H_0 3$	Total life insurance premium	0.001	Rejected

Source: Calculated value

$H_0$1 : The tabulated probability for n_1 = 8, n_2 = 8 and U' = 13 is 0.025, which is greater than 0.05 (5% level of significance) hence, the null hypothesis framed for this study is accepted. That means that there is no significant difference in the growth rates of fresh business premium in public and private life insurance companies.

$H_0$2 : The tabulated probability for n_1 = 8, n_2 = 8 and U' = 30 is 0.439, which is greater than 0.05 (5% level of significance) hence, the null hypothesis framed for this study is accepted. That means that there is no significant difference in the growth of number of new policies issued among public and private life insurance companies.

$H_0$3 : The tabulated probability for n_1 = 8, n_2 = 8 and U = 3 is 0.001, which is less than 0.05 (5% level of significance) hence, the null hypothesis framed for this study is rejected. That means that there is significant difference in the growth rate of total life insurance premium among public and private life insurance companies.

Conclusion

Life insurance has today become a mainstay of any market economy since it offers plenty of scope for garnering large sums of money for long periods of time. Though privatization of the insurance sector is feared to affect the prospects of the LIC, the study shows that the LIC continues to dominate the sector. Private sector insurance companies also tried to increase their market share.

REFERENCES

Ayem Perumal S. 2010. Impact of economic globalisation and consumer expectation in life insurance, *Southern Economist*, Vol. 48, No. 21, March 1.

Ifran Ahmed, 2008. Indian insurance industry: challenges and prospects, *Monthly Public Opinion Surveys*, January.

Madhukar Palli, 2006. A study on assessing life insurance potential in India, *Bimaquest*, Vol. 6, Issue 2, July.

Selva Kumar, M. and Vimal Priyan, J. 2010. Indian life insurance industry: prospect for private sector, *The Journal of Insurance Institute of India*, No. XXXVI, January – June.

The Indian Journal of Commerce
Vol. 65, No. 1, January-March 2012

An Analysis of the Impact of the Global Financial Crisis on the Namibian Tourism

UDAI LAL PALIWAL AND BONIFACE SIMASIKU MUTUMBA

Tourism is especially vulnerable to economic uncertainty and volatility as most travel and tourism involve discretionary expenses. During tough economic times people conserve their cash to cover the essentials of life, food, shelter and family necessities.The world financial crisis, which occupied the first pages of newspapers all over the world for several months, was attributed as a major blow to the tourism sector. There was a drop in demand from both business and leisure tourists. This paper analyses trends of tourism in Namibia, the impact of the global financial crisis on tourism and suggests some measures to promote growth of tourism in Namibia.

Introduction

Tourism has been one of the fastest growing industries in the world and contributes significantly to the economies of both developing and developed countries (Fernando & Meedeniya, 2009). Tourism is seen as a sector that can play an important role, not just in increased Gross Domestic Product (GDP), but also in terms of poverty alleviation. It can offer income and employment through labour intensive jobs and small-scale business opportunities, while also spreading opportunities to areas that are not always economically dynamic such as remote locations with aesthetic or cultural value (Fernando & Meedeniya, 2009).

The substantial growth of the tourism activity clearly marks tourism as one of the most remarkable economic and social phenomena of the past century. There has been a growth in tourist arrivals in all the countries over the current decade and the growth momentum is expected to be maintained (UNWTO, 2010) in the next decade (Table 1). The number of international arrivals shows an evolution from a mere 25 million in 1950 to an approximate 806 million in 2005, corresponding to an average annual growth rate of 6.5% (UNWTO, 2010a). United Nations World Tourism Organization (UNWTO) further estimates that international arrivals are expected to reach nearly 1.56 billion by 2020 of which 1.2 billion will be intraregional and 378 million will be long – haul travellers (UNWTO, 2010b). However, in this process new destinations are steadily increasing their market share while more mature

Dr Udai Lal Paliwal is Associate Professor & Deputy Dean, Faculty of Economics and Management Sciences, University of Namibia, Windhoek, Namibia and Dr Boniface Simasiku Mutumba is Pro – Vice Chancellor, Administration and Finance, University of Namibia, Windhoek, Namibia

regions such as Europe (52%) and the America (19%) tend to have lesser growth. According to UNWTO (2010a) the share of Europe and the America in world tourism has decreased to 68% from more than 95% in 1950. The declining share of Europe and the America in world tourism showcases the excellent opportunities for developing countries.

Table 1 also shows that expected tourist arrival growth in Africa (5.54%) is less than that of South Asia (6.43%), East Asia and Pacific (6.56%), and Middle East (6.59%). It indicates that there is a need for greater attention at policy formulation level to create an enabling environment for tourism by marketing the tourist destinations adequately and increasing investment in tourism including foreign direct investment.

Table 1: International tourist arrivals

	Arrivals (# millions)			Average Growth		
	1995	2010	2020	1995-2010	2010-2020	1995-2020
Europe	336	527	717	3.05%	3.13%	3.08%
Americas	110	190	282	3.71%	4.03%	3.84%
Middle East	14	36	69	6.50%	6.72%	6.59%
East Asia and Pacific	81	195	397	6.03%	7.37%	6.56%
South Asia	4	11	19	6.98%	5.62%	6.43%
Africa	20	47	77	5.86%	5.06%	5.54%
World	565	1006	1561	3.92%	4.49%	4.15%

Source: UNWTO, 2010 (b)

By the end of 2007 the tourism sector contributed 10.3% of global GDP (Olsen, 2009) and constituted nearly 30% of service sector exports (UNWTO, 2010c). According to the World Travel and Tourism Council (WTTC) research, the travel and tourism industry employed (directly and indirectly) over 225 million people globally (WTTC, 2006).

Objectives

The objectives of this research paper are to:

- identify the tourism trends in Namibia.
- determine the impact of the global financial crisis on tourism in Namibia.
- suggest measures to promote growth of tourism in Namibia.

Research Methodology

The study is based on both primary and secondary data collected from a variety of sources including a literature survey, questionnaires and unstructured interviews with selected officials from the Namibia Tourism Board. The trends in the tourism industry in Namibia over a period of ten years including the impact of global financial crisis and FIFA 2010 world cup were considered.

Tourism in Namibia

With a landmass of 824,292 square kilometers and a population of slightly more than 2.2 million, Namibia is the second most sparsely populated country in the world (NTB, 2010). Namibia's unique landscape, rich cultural diversity and efficient service providers ensure that the country is increasingly becoming the favoured destination for many regional and overseas tourists (NTB, 2010). Namibia has some unique features such as blue sky, wide open spaces and beautiful scenery, which many other destinations may not have. Lonely Planet, the influential international travel guide publisher, chose the "land of the brave" as fifth of the top ten value-for-money destinations for 2011 (Kisting, 2010).

According to WTTC (2006) Namibia is the 13th fastest growing country in the world in terms of travel and tourism demand. The tourism industry is one of the major contributors to Namibia's GDP, the second largest contributor after mining (NTB, 2010). Spending by inbound international visitors is approximately 20 per cent of total exports and 3.7 per cent of total GDP. The WTTC further estimated that the broader perspective of the Travel & Tourism economy (direct and indirect), which includes the spill-over employment associated with industry capital investment and government spending accounts for 17.9 per cent of total employment. The number of foreign arrivals in Namibia has nearly quadrupled in the past two decades (//Naobeb, 2010). Factors contributing to steady growth of tourism in Namibia include improvement in air and road infrastructure, as well as tourist facilities and the success of community based tourism (WTTC, 2006).

As depicted in Table 2, Namibia was placed at 93 out of 130 countries of the World tourism competiveness index 2008. Registering an improvement it was placed at 82 among 133 countries in 2009. Among African countries it was placed sixth in 2009 (Blanke & Chiesa, 2009). This might be helpful in branding the country as a favored destination in the long term.

Table 2: Tourism competitiveness index: Namibia and neighbouring countries (Rank)

Country	World		Africa
	2008	2009	2009
Ranks out of	130	133	30
Mauritius	41	40	1
Republic of South Africa	60	61	2
Botswana	87	79	5
Namibia	93	82	6
Zambia	107	100	10
Zimbabwe	117	121	20

Source: Blanke & Chiesa, 2009

Tourism Trends

Namibia achieved independence in 1990 and since then has been trying to transform from a purely natural resource based economy to a more diversified economy including processing of minerals, agro processing and tourism. Important tourist destinations in Namibia include Etosha (a wildlife reserve), Swakopmund (a holiday destination on the coast of Atlantic ocean), Walvisbay (also a coastal town, sea port and famous for Dune 7), Sossusvlei (Namib Desert), Fish River Canyon (the second largest Canyon in the world) and Windhoek (a holiday and business destination).

Tourism in Namibia has steadily grown over the last one and half decade, except in 2003 when there was a dip due to the political instability following the killings of three French tourists by Unita bandits (NTB (2007). Figure 1 shows the trend of total foreign arrivals and tourists (numbers) in Namibia from 1993 to 2009. It is evident from Figure 1 that both total foreign arrivals and tourist arrivals have recorded continued growth except for in 2003 and 2008 when there was no growth, maybe due to the global financial crisis.

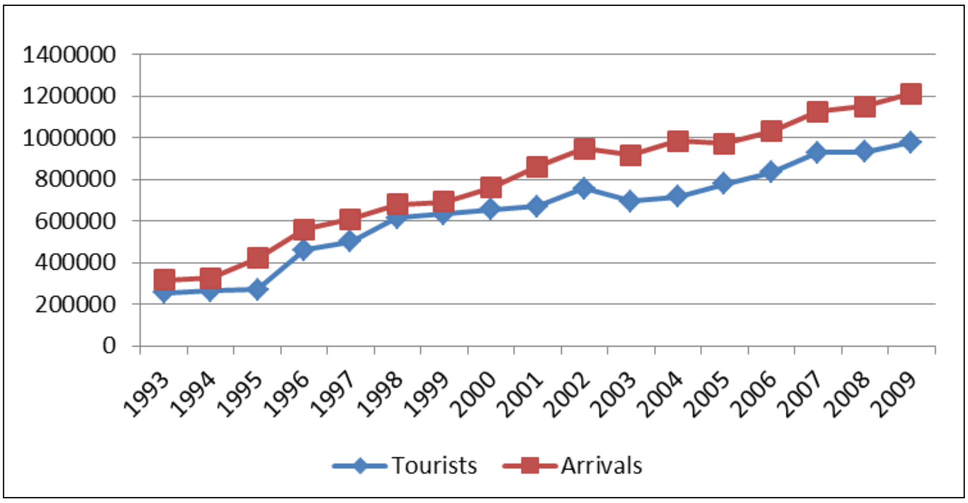

Figure 1: Trend of foreign arrivals and tourists (Numbers) in Namibia

Source: (NTB, 2002& NTB 2010)

Locations Visited: Windhoek (82.1%), Swakopmund (49.9%), Walvis Bay (36.7%), Etosha (31.7%) and Sossusvlei (23.6%) are the most commonly visited locations in Namibia with less than 20% of tourists visiting locations in the south, and less than 5% of tourists visiting the north and northeast. Most holiday visitors visited Windhoek and Swakopmund. South African and 'Other Africa' visitors were less likely to visit Etosha, and more likely to visit some southern Namibia locations, while almost all other foreign tourists visited Etosha and Swakopmund (NTB, 2002a).

Nature of Tourist Attractions and Travel Planning: Visitor's exit survey found 'nature/landscape touring' as the most important activity by one-third of tourists, followed by game viewing and shopping. Over half the visitors to Namibia organised their trips themselves (57%). For those who used a travel agent (43%), over two-thirds used a tailor-made package. 'Word of mouth' publicity from friends/relatives was the main source of information on Namibia followed by information from travel agents, the Internet and guidebooks. Namibian Embassies/High Commissions and the Namibia

Tourist Board were not commonly mentioned as sources of information for visits. On average over two-thirds (72.7%) of tourists were very satisfied with Namibia's services with regard to safety and security, shopping, handicrafts, car rental services, restaurants, accommodation, game viewing, national parks personnel and customs and immigration performance. The only area where the satisfaction level fell to average was the availability and quality of public transport (NTB 2002).

Nationality of Tourist Arrivals: In Namibia about three fourths of tourists come from Africa, about one fifth from Europe and about 5 percent from other countries. Within the figure for tourists from Africa, about 30% come from Republic of South Africa (RSA), about 30% from Angola and the remaining 15% from other African countries. Within the figure for tourists from Europe the largest number (about 8%) come from Germany, followed by the UK (about 3%), and within the figure for tourists from other countries the largest number (about 2%) come from the USA. It appears that besides tourist destinations ethnic and cultural ties are an important contributing factor to tourist arrivals.

During the past ten years more than 60% of tourist arrivals originated from two of Namibia's neighbouring countries, namely Angola and Republic of South Africa (RSA). Angola and RSA are the largest neighbours of Namibia having strong historical, cultural and ethnic ties with Namibia. Namibia also has economic ties with Angola and RSA through multilateral agreements such as the Southern African Development Community (SADC) and the Southern African Customs Union (SACU). This makes Namibian tourism arrivals heavily dependent on Angola and RSA.

Growth of Tourist Arrivals: It may be seen that over this decade there have been ups and downs in growth (Table 3). The average growth rate was highest from 2001 to 2002 (12.93%), it turned negative from 2002 to 2003 , went up to 11.47% from 2006 to 2007 and dipped low at 0.24% from 2007 to 2008. It again rose to 5.27% from 2008 to 2009 with an overall growth of 4.86% from 2001 to 2009. More specifically, long-haul arrivals from the USA and others turned negative (-3.72%and -1.25%) and Europe negligible (1.17%) from 2008 to 2009. Thus, growth from 2008 to 2009 of 5.27% was mainly due to a heavy influx of tourists from Republic of South Africa.

Table 3: Growth of tourist arrivals in Namibia (2001 – 09)

	Average growth rate (%): Year on year basis								AGR
Nationality	2002/ 01	2003/ 02	2004/ 03	2005/ 04	2006/ 05	2007/ 06	2008/ 07	2009/ 08	2009/ 2001
Africa	10.33	-11.11	4.86	9.12	4.46	9.79	-1.99	6.99	3.82
RSA	0.86	-8.97	4.86	-0.79	3.87	4.23	-2.80	17.59	2.11
Europe	25.49	0.75	4.86	-1.59	14.08	16.55	4.89	1.17	7.93
Germany	15.59	-5.23	4.86	0.60	11.42	17.89	1.40	0.53	5.61
Others	12.19	10.86	4.86	3.30	26.83	16.88	14.47	-1.25	10.71
USA	6.29	22.33	4.86	-2.98	36.27	18.48	7.82	-3.72	10.47
Total	12.93	-8.19	4.86	6.71	7.13	11.47	0.24	5.27	4.86

Source: Calculations based on NTB data

Average Length of Stay: It may be observed that the period of average stay was less than 20 days, except for those coming from China and Russia. As most of the visitors from these two countries come for business purposes and hey stay for a longer period. Visitors from Zimbabwe also stayed close to 40 days, may be they visit family and friends.

Mode of Transport: More than two third of tourists used road network to enter Namibia and less than one third came by air. However, there is growth in air arrivals, which is a positive indication as these are long haul tourists coming from Europe and the USA. It may be noted that tourists using air mostly come from distant countries for leisure and holiday and contribute more significantly to the tourism economy. As most of the neighbouring country arrivals are for visiting friends and relatives they mostly travel by road. This group of tourists is not expected to contribute significantly to tourism receipts as they stay with friends or relatives.

It may be noted that only 17% of tourists coming from African countries used air, while the proportion of tourists from Europe and other countries using air was 67% and 56% respectively.

Purpose of Visit: About 48% of tourists who visited Namibia in 2009 came for leisure and holidays, recording a decrease of about 15.79% from 2002 arrivals. This decline is not encouraging and may have adverse impact on tourism revenues despite increased number of arrivals, as holiday tourists are expected to spend more as compared to other segments.

It may be observed that while the proportion of tourists coming for leisure, recreation and holidays (World 51%, Namibia 48%) and business and profession (World 15%, Namibia 13%) are comparable, the proportion of those visiting friends and relatives in Namibia (37%) compared to world (27%) is high. This supports the earlier conclusion that close cultural and ethnic ties are at the root of tourist arrivals from neighbouring countries.

More than 80% of European tourists and about 68% of tourists from other countries visit Namibia for holiday, while only 32.7% of African tourists visit Namibia for holiday. This trend signals that the focus of tourism marketing should be more towards Europe, the USA and other countries to attract more tourists for leisure and holiday visits.

Trends of Tourist Arrivals

There has been downward trend in leisure and holiday arrivals. This may be an alarming trend and the reasons of this need to be investigated in depth, in order to put strategies in place to reverse the trend and ensure sustainable growth of tourism in Namibia.

It may be noted from Table 4 that the contribution of tourism to GDP for Namibia and other countries is not substantial except for Mauritius (23.75%) and Zimbabwe (8.4%). Similarly tourism receipts per tourist are also less in Botswana, Namibia, Zambia and Zimbabwe; compared to Angola, Mauritius and Republic of South Africa. This may be due to a large percentage of tourists visiting friends and relatives in Namibia. There is also an indication of potential to attract more foreign tourists by offering value added services to increase receipts per tourist as well as the contribution of tourism to GDP.

Table 4: Tourist arrivals: A comparison with neighbouring countries (2008)

Country	Area (square km)	Population (mn.)* bn.)*	GDP (USD (1000)	Tourist Arrivals (mn. USD)	Tourism Receipts % of GDP	Tourism Receipts as (USD)	Receipts per tourist
Angola	1246700	14	114.34	294	285	0.25	969
Mauritius	2040	1.2	6.1	930	1449	23.75	1558
RSA	1221037	46.9	585.5	9592	7925	1.35	826
Botswana	581730	1.7	25.39	1500	553	2.18	369
Namibia	824292	2.2	13.53	931	378	2.79	406
Zambia	752612	10.5	5.4	812	146	2.70	180
Zimbabwe	390757	13.2	3.5	1956	294	8.40	150

Source: Calculations based on UNWTO and SADC country profiles (*latest available figures)

Table 5 presents the findings of interview with Namibia tourism board officials, which summarizes the factors that affected the growth of tourism in Namibia.

Table 5: Obstacles to growth of tourism in Namibia

Choice	Score	Comments
Inadequate government funding	5	Without enough funding, marketing effort is severely affected, which is resulting in less tourists coming to Namibia.
Inadequate private investment	4	No major hotels and other developments
Lack of skilled human capital	5	Lack of skilled human capital is a serious concern. It is impacting both front and back office operations.
High price of tourism products	3	Though Namibia is regarded as a value for money destination, the prices are not reasonable enough especially for domestic market.
High cost of air travel	3	Flight tickets are expensive and are affecting at least regional tourists
Difficulty obtaining VISAs and permits	5	Obtaining Visas and permits is a nightmare for tourists coming to Namibia. People don't have time to wait long for visas, and opt to go to other countries
Others: Accessibility	5	Access to different destinations within Namibia is a challenge if you do not have your own transport.

Note: The responses were sought on a 5 point scale, on which 5 indicated 'biggest obstacle' and 1 indicated 'not an obstacle' in the opinion of the respondent.

Source: Interview with NTB official (20th December, 2010)

Global Financial Crisis and Tourism

According to the International Monetary Fund the current crisis in the world's financial markets is the worst in 75 years. Most significantly, it is the 21st century's first global financial crisis that is putting financial capitalism ideology to its first test (Sharma, 2009). According to International Labour Organization (ILO) as quoted in UNWTO's world tourism barometer "unemployment remains high in most of Europe and North America and civil unrest is growing so tourism demand from the advanced economies is bound to be influenced" (UNWTO, 2010d).

According to "UNWTO market monitoring" as quoted in Badr, Zakareya and Saleh (2009), "the plummeting results of international tourism during the last part of 2008 have continued during 2009. International tourist arrivals are estimated to have declined by as much as 8% in the first two months of 2009, bringing overall international tourism to the level of 2007". Badr, Zakareya and Saleh (2009) further concluded that both tourism arrivals and receipts have a positive relation with the GDP growth in the source countries. Therefore, as an adverse impact of global financial crisis (GFC), average nights per tourist, average tourism expenditure and inter-travel period are among the key variables affected.

According to the African Development Bank (AfDB, 2009), the current financial and economic crisis has affected the drivers of Africa's recent growth performance. Demand for and prices of African commodities are falling, capital flows are declining, and the promised increase in aid has not materialized. The sectors most affected by the crisis are mining, tourism, textile and manufacturing. Enterprise closing and the cancellations and postponements of projects are becoming widespread in African countries. Substantial job losses are registered, with negative effects on household's standard of living. Though, low level of financial integration meant that African economies were relatively isolated from the direct impact of the financial crisis, tourism has suffered a big hit from the crisis as a result of declining incomes in developed and emerging countries from where most tourist flows originate. Both arrivals and tourism receipts have declined substantially in many countries. Kenya announced a 25 % to 30% decline in tourist arrivals. Kenya Airways posted a 62.7% drop in profit for the half-year at the end of September 2008. Egypt also announced a 40% cancellation rate of hotel reservations. The Seychelles announced a 10% fall in tourism revenue (AfDB, 2009).

The decline in tourism sector may have a negative impact on services sector, which was becoming a key growth engine prior to the financial crisis. Even in the 27 EU member states, the number of nights spent in hotels and similar establishments decreased by more than five per cent in 2009 compared to 2008. The number of hotel nights spent by residents in their own country in 2009 fell by 1.6 per cent and hotel nights spent by non-residents fell by 9.1 per cent compared to the previous year (Sawyer, 2010).

Table 6: International tourist arrival trend by sub - region (% increase)

	2008/07	2009/08	2010/09 (YTD)
World	2.1	-4.6	6.8
Europe	0.5	-5.6	2.6
Asia and Pacific	1.1	-1.5	14.2
Americas	2.7	-4.9	8
Africa	2.8	3.3	9.4
Middle East	19.2	-5.1	16.2

Source: UNWTO, 2009

According to UNWTO (2009), the most important consequences of the global financial crisis are related with declines in arrivals, tourism receipts and reservations; shorter length of stays and modifications in consumer segments. Except for Africa, which recorded a 3.3% growth in tourist arrivals (Table 6); all world regions witnessed negative growth in tourist arrivals in 2009. Europe (-5.6%), the Middle East (-5.1%) and the Americas (-4.9%) were the hardest hit regions. In 2009 international tourist arrivals declined by 4.2% to 880 million and tourism receipts declined by 5.7% to US$ 852 billion (UNWTO, 2010e). In 2009 Africa was the only region with positive growth in arrivals; however, most of the tourist arrivals were intra region.

The trend of bed occupancy rates in hotels in Namibia Shows that the bed occupancy decreased slightly from 32 % in 2008 to 31% in 2009, it further reduced to 28% for the 10 months up to October 2010 (NTB, 2010b).

As a measure to mitigate the impact of the global financial crisis on tourism in Namibia, Namibia Tourism Board (NTB) engaged industry stakeholders / service providers to come up with specials and / or discounts for domestic tourists.

Suggestions

Kotler (1997) argued that, regardless of the initial success of brand position in the market, any firm may have to reposition it later. Similarly, Trout (2000) stated that, today is more the time for repositioning than positioning, which is strongly due to the changing marketing environment that influences any organization including the tourism industry. Given the effect of the global financial crisis, it is time to think about repositioning tourism products rather than introducing new products.

Taking into consideration the changes in the global environment and the results of opinion survey; besides usual tourism promotion measures adopted by NTB, a strong branding and marketing effort is needed on the one side and an equally strong effort is needed to make visits to Namibia a pleasure and affordable. The following specific suggestions may prove to be effective in promoting growth of tourism in Namibia.

- To increase Namibia's international presence and to target new markets focused marketing and branding should be done. Participation in international exhibitions should be increased.

- To promote private sector investment including foreign direct investment, fiscal and financial incentives should be introduced.
- To facilitate travel, granting of VISAs online should be initiated. Government of Republic of South Africa may be requested to abolish transit VISA, a new irritant as most of the foreign tourists come through Johannesburg.
- To promote domestic tourism and as an incentive for foreign tourists also there is a need of increasing hotel beds and reducing hotel tariffs.
- Activities such as carnivals, cultural festivals, sporting activities etc. should be organized during holiday season to make visit to Namibia a pleasure and life long experience.

Conclusion

The tourism industry is more susceptible to disaster, crises and shock events (Wang, 2009) as most of tourism expenditure is discretionary and during difficult times it is the first to be revisited. According to UNWTO (2010b), the growth of international tourism arrivals significantly outpaces growth of economic output as measured by GDP. In years when world economic growth exceeds 4%, the growth of tourism volume tends to be higher. When GDP growth falls below 2%, tourism growth tends to be even lower.

With the word 'recession' floating around, companies are looking for ways to reduce spending and have tightened their travel budgets by cutting back on air travels, enforcing stricter travel allowances and substituting trips with web and video conferencing (Thomas & Pakkeerappa, 2009).

REFERENCES

AfDB, 2009. Impact of the global financial and economic crisis on Africa, ECON.

Office of the chief economist, African Development Bank, February 2009.

Badr, A., Zakareya, E. Saleh, M. 2009. Impact of global economic crisis on tourism sector in egypt: A System Dynamics Approach, Economic Issues Program; The Egyptian Cabinet Information and Decision Support Center, November 2009.

Beirman, D. 2008. Tourism and global economic crisis – 2008. http://www.eturbonews.com/5604/tourism-and-global-economic-crisis-2008.

Blanke, J. Chiesa, T. 2009. The travel & tourism competitiveness report 2009: Managing in a Time of Turbulence. World Economic Forum, Geneva. 2009.

Fernando, K. and Meedeniya, A. 2009. Tourism fall out in Sri Lanka due to global recession and other reasons, and its implications for poverty reduction, Background Paper for Conference on the "The Impact of the Global Economic Slowdown on Poverty and Sustainable Development in Asia and the Pacific", 28-30 Sept 2009, Hanoi. www.cepa.lk.

Kisting D. 2010. Namibia gets top tourist accolade, the Namibian, 22- 12 – 2010.

Kotler, P. 1997. Marketing management: analysis, planning, implementation, and control, Prentice Hall (Upper Saddle River, NJ. 9th edition, 1997.

//Naobeb D. 2010. Twenty years of booming tourism, the Namibian, 19 – 03 – 2010.

Ndaitwah, N. 2010. Twenty years of booming tourism, the Namibian, 19 – 03 – 2010.

NTB, 2002. Tourist arrival statistics report, 2002, Namibia Tourism Board, 2002.

NTB, 2002a. Visitor exit survey 2002, Namibia tourism board, Windhoek, Namibia.

NTB, 2007. Namibia Statistics report 2006 – 2007, Ministry of Environment and Tourism, Republic of Namibia, Windhoek.

NTB. 2009. Report of the consultative workshop on tourism training, Namibia Tourism Board, Windhoek, Namibia, July 2009.

NTB, 2010. Fast Facts Namibia: Africa Information & Data. http://www.namibiatourism.com.na/media-gallery.

NTB, 2010a. Occupancy rates by regions, Namibia Tourism Board, Windhoek, Namibia, February, 2010.

NTB, 2010b. Occupancy rates by regions, Namibia Tourism Board, Windhoek, Namibia, December 2010.

Olsen, L. 2009. The employment effects of climate change and climate change responses: a role for international labour standards. International Labour Organization 2009, Geneva.

SA Tourism, 2010. Impact of 2010 FIFA world cup, South African tourism, December, 2010.

Sawyer, C. L. 2010. New figures confirm impact of financial crisis on tourism in EU. http://sofiaecho.com/search.php?stext=Clive Leviev-Sawyer.

Sharma, S. 2009. Impact of Global Economic Crisis on Tourism Destination, *www.neplasestourism.com.*

Thomas, J. and Pakkeerappa, P. 2009. Economic recession and its impact on tourism, *Atna Journal of Tourism Studies,* 4(4), 57 – 64.

Trout, J. 2000. The power of simplicity: A management guide to cutting through the nonsense and doing things right, McGraw-Hill, UK, 2000.

UNWTO, 2006. Tourism market trends, World Tourism Organization, Madrid, 2006

UNWTO, 2009. Impact of the global economic crisis on local tourism destinations: survey report, World Tourism Organization, Madrid, June 209.

UNWTO, 2010a. Historical perspective of world tourism available at http://www.unwto.org/facts/eng/historical.htm.

UNWTO, 2010b. Tourism vision 2020 - facts and figures available at http://www.unwto.org/facts/eng/vision.htm.

UNWTO, 2010c. Tourism and the world economy. http://www.directorytourism.com/articles_30_Tourism-and-the-world-economy.html.

UNWTO, 2010d. UNWTO world tourism barometer, 8(3), October, 2010, http://www.unwto.org/facts/eng/barometer.htm.

UNWTO, 2010e. UNWTO Tourism highlights, 2010 edition, www.unwto.org/facts

Wang Y. S. 2009. The impact of crisis events and macroeconomic activity on Taiwan's international inbound tourism demand, Tourism Management 30 (2009) 75–82.

WTCC 2006. Namibia: the impact of travel & tourism on jobs and the economy. World Travel & Tourism Council, London. United Kingdom.