

# GURUKUL BUSINESS REVIEW (GBR)

*The Journal of FMS, Gurukul Kangri University, Haridwar.*

## CONTENTS

1. VEDANTIC MARKETING : A NEED FOR CORPORATE RESILIENCE <i>DEBASISH MOHAPATRA, L.K.JENA &amp; JYOTHSNA PRIYADARSINI.....</i>	2
2. JOB SATISFACTION AND PRODUCTIVITY AMONG FACULTY OF COMMERCE AND MANAGEMENT SCIENCES IN PUNJAB <i>HARPREET SINGH &amp; HARJEET KAUR.....</i>	8
3. RESTRUCTURING: A STRATEGIC PERSPECTIVE CASE STUDY OF TATA GROUP <i>PAWAN TANEJA, GAUTAM BANSAL &amp; R. K. GUPTA.....</i>	11
4. E-SUPPLY CHAIN MANAGEMENT : A RE-ENGINEERING APPROACH <i>A.K. PANDEY &amp; SUDHANSHU JOSHI.....</i>	20
5. CAPITAL STRUCTURE ANALYSIS OF OIL INDUSTRY- A CASE STUDY OF HINDUSTAN PETROLEUM CORPORATION LIMITED (INDIA) <i>S. K. KHATIK.....</i>	26
6. THE MARKETING PERCEPTION OF BRAND 'INDIA': A STUDY OF TELEVISION MARKET <i>BIKRAM JIT SINGH MANN.....</i>	35
7. CONSUMER ATTITUDE TOWARDS WEB ADVERTISING <i>GURMEET SINGH &amp; HARISH GAUTAM.....</i>	39
8. IPO MARKET IN INDIA : EMERGING DIMENSIONS <i>BALWINDER SINGH &amp; SHELLY SINGH.....</i>	45
9. MANAGING INNOVATION THROUGH CORPORATE VENTURING (XEROX CASE) <i>SANDEEP KUMAR SHARMA &amp; SHAIFALI SHARMA.....</i>	53
10. INDIAN DEPOSITORY RECEIPTS: ONE MORE STEP IN GLOBALIZATION <i>MANDEEP KAUR &amp; SWEETY NARANG.....</i>	59
11. CONSUMER'S PREFERENCE FOR READING NEWSPAPERS IN SHIMLA TOWN- A PRIMARY PROBE <i>JAI SINGH PARMAR &amp; YASHVANT GUPTA .....</i>	65
12. CHALLENGES AND OPPORTUNITIES OF SERVICE MARKETING NEED FOR SUSTAINABLE COMPETITIVE STRATEGY <i>SOM DEO.....</i>	72
13. ETHICS AT WORK PLACE- A CASE STUDY <i>ASHUTOSH PRIYA &amp; MRINALINI SHAH.....</i>	77
14. WHAT A LEADER CAN DO <i>M.P. SHIVA KUMAR.....</i>	86
15. BLOCKADE FOR CAREER ADVANCEMENT IN JAPANESE ORGANIZATION ABROAD: THE CASE OF MALAYSIAN SUBSIDIARIES <i>RADUAN CHEROSE &amp; NARESH KUMAR.....</i>	93



\*\*\*\*\*

## VEDANTIC MARKETING : A NEED FOR CORPORATE RESILIENCE

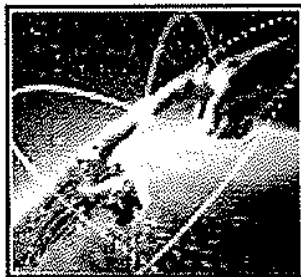
DEBASISH MOHAPATRA\*  
 L.K.JENA\*\*  
 JYOTHSNA PRIYADARSINI\*\*\*

### Table of Contents

- Abstract
- Prologue
- 4P's in Vedantic Marketing
- Ten Commandments in Vedantic marketing
- Concluding Remarks
- References

### Abstract

*The greatness of management lies in the fact that by conscious effort it is possible to remove the evil in it. Magnetized with an elective so called "Spirituality and self development for the global manager" (an elective paper of IIMB) taught by Prof. Ramnath Narayanswamy which is finding a lot of takers among the Indian student population. The course explores issues such as the importance of spirituality, the nature of self development and whether or not a manager can be in consonance with his purpose of being. It also focuses on the manager's role and responsibility at multiple levels on becoming a powerful agent of social change and transformation. Taking this outlook the article aims at holistic integration involving a deeper connect between the organization and its customers at the level of the soul based on a strong foundation of values. In the Indian context, exploring spirituality becomes crucial since the roots of*



*spirituality have deep and historical roots. The Bhagavad Gita has always propagated the principle "Karmanya vadhikaraaste" the tenet that the effort towards the goal is most important and results are supposed to be provided by God.*

*Veda means knowledge and Anta means end of Vedas of which Vedanta means the essence of Vedas, Upanishads which was taught in Bhagavad-Gita. Vedantic marketing is a superset of the preaching of Vedas extended to the business environment, customer relationship and societal marketing.*

### Prologue

Organizations can no longer continue to market their products oblivious to the needs of society. The organizational pyramids have inverted. Organizations have started redesigning their products from customer angle. However, avarice customer centric business processes and services ignoring their negative impacts on the society in cases of unreasonable and selfish customer demand, is not conducive.

Vedantic marketing inspires conducting all the marketing activities under the spiritual guidance of scriptures; such as Vedas, Bhagavad-Gita, and Upanishads etc. The marketing activity designed under this format is much above operational efficiency, target achieving and leadership in market share. It is even above the

	Traditional Marketing	Vedantic Marketing
PRODUCT	Customer satisfaction	Benefit to society
PRICE	Customer cost	Contribution ( by customer) to society (for a noble cause)
PLACE	Customer convenience	Spread of benefit in society
PROMOTION	Customer communication	Empowerment of society

\* Manager, LPG Project, HPCL, Rajahmundry, Gummladodi, Gokavaram, Andhra Pradesh

\*\* Faculty, ICFAI National College, Rajahmundry, Gummladodi, Gokavaram, Andhra Pradesh.

\*\*\* Faculty, ICFAI National College, Rajahmundry, Gummladodi, Gokavaram, Andhra Pradesh.

societal marketing, such as marketing of eco-friendly products. Vedantic marketing aims at transforming the

*To kick start Vedantic marketing, just like the traditional marketing Vedantic marketing also identifies 4Ps and 4Cs in its own perspective.*

organization and its marketing activities to a pure "soul" with a strong value system and interface with the environment in a manner justifying its "purpose".

#### 4P's in Vedantic Marketing

As the marketing concept reiterates, the 4 Ps in the marketer's view point corresponding to the 4Cs customer's view point, suggested by Robert Lautenberg are explored by Vedantic



Marketing fusing the nobility and pious attempt by the marketer through creating a greater conscientiousness towards society at large in all their endeavors.

#### The Indian Professional Cuisine: Atithi Devo Bhavah .

Marketing Management guru Philip Kotler opines, Still customer is our king. In the brink of 21st century in which technology has superseded creating an aura of multifarious products and brands, but the ultimate pie is

The Indian genomes portray its formal ethos through (GUEST IS GOD) which aims at creating awareness about the effects of tourism through sensitizing people about preservation of our rich heritage & culture, cleanliness and warm hospitality. It also re-instills a sense of responsibility towards tourists and re-enforces the confidence of foreign tourist towards India as a preferred holiday destination.

how to create a customer centric atmosphere and maintain it with gusto?

A pioneer initiative taken by Ministry of Tourism,

Government of India will help to tap the full potential of tourism in India. It has introduced "Atithi Devo Bhavah Program" - A nation wide campaign that aims at sensitizing key stakeholders towards tourists, through a process of training and orientation. The endeavor is to boost tourism in India, which in turn would act as a catalyst for India's economic growth. Vedantic Marketing also embraces the customer relationship concept as "Athithi devo bhava" in addition to other concepts.

#### Vociferous Voice of Lord Sri Krishna: (Reflection in Professional Management)

**The immortal atman** - Like Arjuna in Kurukshetra, Vedantic marketing organizations (the marketing dept is being referred as the marketing organization by the authors) should stay focused, they should not be perturbed by the destruction of their stakeholders by their own action. If any stakeholder is causing hindrance to your noble "purpose", it is better to destroy them. The Vedantic marketing setup would not hesitate to eliminate even its own employees who are hindrances to its propagation of noble purpose. A noble corporation is like "Atman", the birth and death of a few marketing channels or markets are like the pleasant and painful experiences of life.

The yogas giving the quintessence of Vedanta, cited in Bhagavad Gita are incorporated by Vedantic Marketing in its sense are as follows:

#### 1. Sole deeds; the ultimate: Karmanyae Vadhika Raste.....

Vedantic marketing deals on purpose of the business not on outcome of it. "Karmanyae Vadhika raste maa phaleso kaadachan". In other words "Do the task so that it will help or benefit the society, don't do it merely for money or recognition, those will come naturally". "Your business is with the deed, not with the result".

#### 2. Supreme Power: The Knowledge in the angle of Gyana Yoga:

Vyavasayatmika buddir ekeha Kuru-nandana Bahu-sakha hy anantas-ca buddayo vyavasayinam

(O Arjuna! In those following this path, the Budhi (the understanding) that has the nature of producing conviction, is directed towards the single objective. In those with out any spiritual conviction, the understanding gets scattered and pursues countless ends)

The marketer should think beyond and have a complete knowledge of vision, mission and purpose of its existence. A marketer who has a spiritual world view, a firm faith in divine intelligence based on the instruction of the scripture and the guru, has got a fixed goal that doesn't vary. He is like a man who has a correct idea of the destination and has selected the correct road to it. He is therefore at peace, knowing that he is on the right road. A worldly minded man, on the other hand, may not often have a fixed world view. He cares only for gains, enjoyments and pursuit of ambitions. So with out any conviction about the nature of the universe and his own destiny in it, he pursues these diverse satisfactions, the objects of which change from time to time.

### 3. Action speaks louder than words; | insinuation of Karma Yoga

**Tasmad asaktah satatam karyam karma samacara  
Asakto hy acaran karma param apnoti purusah**

(Therefore perform action always with out attachment. For, by working with out attachment a man attains the supreme)

All enlightened men too should work with. Look at Isvara himself. He has no wants, but he is ever engaged in works for the shake of the Jivas in Samsara. So an enlightened man, though he might have risen above all considerations of self interest, should work unattached and with out any return in view, but at the same time evincing just the same zeal and energy with which a man desirous of selfish returns works. Otherwise he will be creating conflict of ideas and ideals among common people. Thus while the leaders in the marketing organization attain perfection through their unselfish actions, they should set themselves as example for their front line for constant perseveration. **.Na hi kascit ksanam api jatu tisthaty akarma krt  
Karyate hy avasah karma sarvah praktijair**

### gunaih

(No man can ever remain even for a moment with out performing action. The impulses of nature deprive him of freedom in this respect and compel him to act)

Thus the marketing personnel is encouraged to be positive and aggressive instead of relying on the wrong

steps of the competitor. With the conviction to benefit the society / mankind, the marketing force in such organizations can hardly relax but strive for its actions in value delivery. An enlightened marketer should not cause confusion in the minds of ignorant customers. Himself working with equanimity, he should make them interested in all activities.

It sees to secure a single pointed ness of mind through detachment in work. If you can work with out an eye on the fruits, your mind will get more and more ingathered and concentrated gradually. But lack of interest in selfish returns should never make you lethargic or slipshod in work. Karma yoga consists in maximum efficiency combined with detachment. The man who discharges his duty in above manner acquires neither merit nor demerit, but evolves spiritually. Vedantic Marketing doesn't believe in Sales officer's incentives, commissions as it depends on the marketer's motivation arising out of his sense of devotion for the noble purpose.

### 4. Zeroing on the Zero (Karma Sanyasa Yoga)

Attainment of detachment of action is the very essence of spiritual life and once this is acquired, it is immaterial whether one abandons actions externally or continues to perform well. For one who is truly detached

Vedantic marketing aims at empowerment of its customers, with an unbiased knowledge. Several cos have started working in this direction. Indian petroleum companies as HPCL train its rural customers about safe usage of LPG through interesting programs as Dance-drama, magic shows or film shows. General Motor's decent marketing is a commitment to helping consumers find products best suited to them whether or not GM has such a product.

becomes, through that detachment, fit to be united with the self of all- the supreme being who is the goal of all spiritual striving. He is no longer affected by action. The shell of self centeredness is broken in him, giving way to a feeling of identity of interest and experience with all. The present phrase also means the same. A sense of intense kinship and sharing with all. This is contrary to the intense rivalry among the sales force in our traditional sales organization. The sales force who practice the above concept in a Vedantic marketing organization, would love to share his rich experiences, strategies, plans, feedbacks in his area with all other territory members to peruse the same oneness of purpose i.e. "Service to the customers through service to the society or mankind"

#### 5. Notion of "Swoham" in Dhyana Yoga

Spiritual views articulate that Yoga is difficult of attainment by means of uncontrolled mind. But for those who have their minds under control, it is possible of attainment if they strive with proper minds. The marketing department should adapt the forces of meditation for achieving its goals. Since the forces of distraction are too many for the marketing dept who operate at an external interface of the company inhibited solely by competitors and selfish stakeholders, practicing Dhyana Yoga is essential for reinforcing the "purpose" in the minds of the frontline marketing staff.

#### 6) Know thyself - knowledge and Realization; The Gyan Vigyan yoga

The marketers should aspire and strive to know the difference between good and bad through the knowledge they acquired and they will succeed ultimately after failing many times. As per the Yogis striving diligently, he is cleansed of all his sins and gains spiritual perfection after passing through several embodiments. Finally he reaches the highest state. The marketing organization should continually strive to refine its activity towards total customer satisfaction through maintaining six sigma.

#### 8. Renunciation of action in Knowledge; Gyana Karma Sanyasa Yoga

Tyaktva karma-phalasangam nitya-tpo nirasrayah.  
Karmany abhipravtto pi nai va kicit karoti sah.

(With out attachment to the fruits of action, ever satisfied and free from calculations, he is verily doing nothing, even though engaged in actions.)

The marketer should always keep in the mind the vision and mission of the organization and that should be reflected in every action.

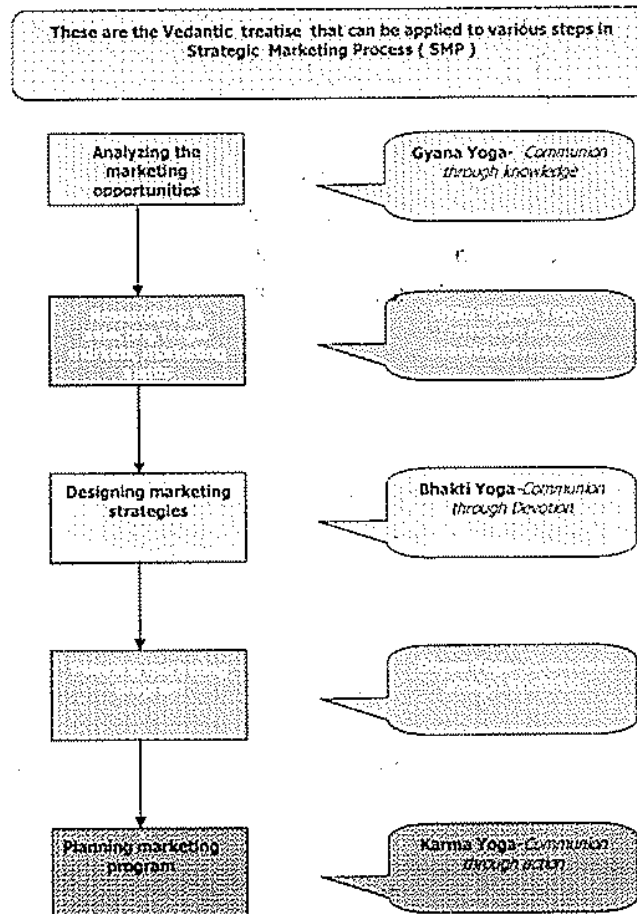
Yadrccha-labha-samlusto dvandv atito vimatsarah  
Samah siddhav asiddhau ca krtva pi na nibadhyate

(Satisfied with whatever comes with out calculations, rising above the contrasting conditions of life and alike in success and in failure, a man though working, incurs no sin.)

The above is canalization of the marketing effort in Vedantic-marketing. The sales force does not aim at the mundane number of customer contacts, prospective sales calls or establishment of new channels for its market penetration. It aims at discovering the customer bases who would benefit from its product, the modifications suggested by its existing customers, the requirements of its potential customers within the gambit of absolute benefit to the mankind. Thus the activities of market research and coherent interaction between the marketing dept and R&D dept are considered crucial under Vedantic marketing.

#### Ten Commandments in Vedantic marketing

1. Strategic Marketing Processes: SMP in a Vedantic marketing organization is based on the following pillars which are reinforced with the core concepts of Vedanta as below -
2. Organizations invest heavily in building a strong marketing dept. Marketing dept is the face of any organization. The entire company's strengths/ weaknesses, the glamour or the ugliness is perceived by the external world viewing the activities of the marketing dept. Though various attributes are being attached to the marketing i.e. "Aggressive", "Friendly", "flexible", "creative", a "Vedantic" attribute is the strongest of such attributes.
3. Vedantic marketing is nothing but imbibing profound values or a strong value system in any



- company's marketing effort. As per Vedanta, Soul is ever alive and all other cosmetic creations as body, attire etc perishes. So also the marketing mission, the marketing culture is the soul and should be towards providing value to the mankind, society and the customers in the same order of priority. This soul can change forms and places, but should co-exist uniformly in all its products / services globally. When the company's format is benefit to the world at large; the extension of the product to any global market is much simpler. Example: Dabur is focusing on marketing of food products based on nutritional values rather on taste and is succeeding in other countries because of its ayurvedic format.
4. Veda preaches about a strong value system as the pillars for soul searching. Truth, honesty and commitment are the ultimate in establishing

5. a permanent, indelible link with the customer. As per Vedantic treatise, any human behaviour is a resultant of the interaction between the five sensory organs & five action organs of the two parties and the environment. Since, one can do very little about other party's organs or the environment, controlling your own sensory or action organs holds the key for ensuring a favorable behaviour. A customer's buying habit is a predictable pattern of its behaviour which is the interaction between the organs of the company, customer and the environment. Control your (marketing organizations) organs to evince a favorable buying habit for your products and services in a given environment.
6. Fruits of "Satsang" - A person's image is impacted positively when he conducts himself being in the company of "Sanths or Sadhus". Michel porter has also established the

"Diamond" (bonding of several forces as raw material, skill, favorable government policy, culture etc) as the reason for the success of a particular industry in a particular country i.e.: heavy industries in Germany, Leather industries in Italy, Electronics in Japan. Thus a compelling strategy for the marketing organization is to look for the satang or right cluster i.e.: network with ethical companies for an ethical purpose with an ethical force, so as to enjoy the fruits of "Satsang". It needs very little investment for brand building when you are viewed with the Satsang.

7. Vedanta preaches about limited commitments in life. Satvik food, good thought and service to mankind is all that is needed to bring fulfillment. Vedantic marketing should aim for limited commitments with maximum efficiency i.e. focused action, forceful or powerful agenda.
8. Be away from "sadaripus" in your marketing dept for a Vedantic status. The marketing organization should be devoid of the six evils namely, Kama (desire), Krodha (anger), Moha (attachment), Lova (Greed), Mada (addiction), Macharjeya (luxury).
9. In the Vedantic marketing dept, the marketing personnel are more than motivated, they are inspired inwardly, thrilled with the mission of the Organization, ethical practices in marketing the product etc .
10. The work culture in such a marketing organization follows Daivi work culture .It involves fearlessness, purity, self-control & sacrifice, straight forwardness, self denial, calmness, absence from fault-finding, absence of greed, gentleness, modesty, absence of envy and pride .

#### Concluding Remarks

Human fraternity in their pursuit of efficiency and optimisation have discovered ultimately that satisfaction through service to self( body and mind), service to society and service to the mankind as the

biggest achievement . This doctrine only motivates top companies and tycoons as Bill Gates, Narayan Murthy to be genuinely investing billions of dollars for social cause. Marketing the goods and services most effectively for the benefit of the society and mankind is the ultimate that any marketing effort can aspire. For god's sake, please do not mistake this as Charity. Vedantic marketing ensures a profitable sustenance through huge volumes of business from a large delighted, loyal customer base. Large volumes in turn ensure optimization of production, the "HR" costs for such an inspired marketing department is also minimal and the service-oriented image of the company need very little investment in brand building . And for God's sake , please do not fall into the trap of superficial Vedantic marketing where many companies camouflage their intentions of economizing (avoiding) customer service under those efficient (indifferent) 24 X 7 call centers who have no answer to customer's solution apart from just registering the complaint and wishing you a good day! The undeclared hidden costs in the life long schemes declared by the cell phone companies are only one of the innumerable recent happenings that wear the mask of a friendly product. There is an odd bank branch which attracts a large customer base opening as a "Sunday branch" but within six months notifies discontinuation of the Sunday service. Vedantic marketing would loathe this "Hypocrisy in customer service". After all Honesty helps and absolute honesty Enthralls!

#### References

- Shrimad Vagavad Gita - English Translation by Swami Tapasyananda.  
Philip Kotler, Marketing management.  
Shri Parthasarathy, Vedantic treatise.

## JOB SATISFACTION AND PRODUCTIVITY AMONG FACULTY OF COMMERCE AND MANAGEMENT SCIENCES IN PUNJAB

HARPREET SINGH\*  
HARJEET KAUR\*\*

### Table of Contents

- Abstract
- Introduction
- Results
- Conclusion
- References

### Abstract

*This paper examines how employees working in the self-financed colleges are having a difficult time because these organizations are facing a severe resource crunch because of inadequate admissions and/or they do not receive the necessary encouragement from the government. Through a literature review, it analyzes how for the employees working in such institutions, lack of job satisfaction can happen due to many factors like personnel problems, lack of professionalism and ambiguities in their job roles.*

### Introduction

The future college work environment will pose some significant challenges for employers and employees as well to the students. Job satisfaction, motivation, productivity, and retention are important in any profession. The teachers believe it is uncommon for the profession to experience these problems because of the current level of productivity in Punjab. Many teachers feel blessed to have chosen a profession that gives them personal and professional satisfaction everyday, and not in the monetary sense. Motivation and productivity is an economic aspect in the teaching profession. The increasing numbers of mainstream teachers, perhaps due to choice of teaching profession not by choice always, rather for not being able to get a job in the industry, have also lessened the satisfaction and productivity of commerce and management teachers working especially in self-financed institutes

because as the demand of mainstream teachers increase in relatively high grade institutes, those working in the colleges with less package also can aspire to get a better job in some good institutions. Today, jobs for ambitious and spiritually aware individuals do not only mean receiving a satisfying paycheck. It looks at how job satisfaction is determined by various other factors and why today all the community colleges worldwide face the challenge of motivating their administrative staff, boosting their morale and maintaining high levels of job satisfaction among their administrative staff including managerial and executive members. It shows how the constant lack of interest in the job results in an alarming decrease in the degree of job satisfaction and ineffective leadership which directly affects the production level. It analyzes some ways of increasing job satisfaction of faculty and the role of the Head of the institution. There are two categories under which the research can be undertaken to measure the job satisfaction among the teachers:

1. Effects of personality variables and personal characteristics on job satisfaction.
2. Working conditions and specific work activities are causes of teacher burnout and job dissatisfaction.

In this paper, the emphasis on second category has been taken. Overall job satisfaction has been measured through answers to such questions as "How do you view your job? Delighted? Pleased? Satisfied? Equally satisfied and dissatisfied? Dissatisfied? Unhappy? Terrible?" The studies of faculty satisfaction with specific instructional and non-instructional job responsibilities and working conditions have shown some consistent and widespread patterns of both satisfaction and dissatisfaction.

### Results

The results were derived in percentage terms from the

\*Professor, Lovely Institute of Management.

\*\*Professor, Amardeep Shergill Memorial college, Mukandpur.



primary data collected through a structured questionnaire as well as unstructured interviews. The various responses have been tabulated below followed by interpretations.

Satisfaction level w.r.t salary package (%)					
Very satisfied	Satisfied	Neutral	Less satisfied	Not satisfied at all	Can't reply
25	18	17	13	12	16

Table # 1

It is clear from the table that less than half the faculty is towards more satisfaction side. It is significant to note that about one sixth of the faculty do not wished to reply. It may be because of fear of self-image or loss of job.

Institute you are working in (Overall) (%)					
Very satisfied	Satisfied	Neutral	Less satisfied	Not satisfied at all	Can't reply
23	18	24	13	6	0

Table#2

This question was asked in reference to their overall satisfaction in their institute to analyse their chances of switching over to some better institute, if given a chance, but within Punjab. It is evident that around 39% teachers are not satisfied at the place of their working presently and hence want to switch over.

Availability Of Resources (Physical Infrastructure) (%)					
Very satisfied	Satisfied	Neutral	Less satisfied	Not satisfied at all	Can't reply
41	16	23	11	9	0

Table#3

As only one fifth of the faculty is responding lack of satisfaction over availability of resources i.e. physical infrastructure, it indicates that the self-financed colleges of Punjab has developed overall very good physical infrastructure. Therefore, the dissatisfaction among the teachers as shown in the Table: 2 is not because of facilities in terms of infrastructure but due to salary and work culture.

Organizational Environment (%)					
Very satisfied	Satisfied	Neutral	Less satisfied	Not satisfied at all	Can't reply
28	19	23	23	6	1

Table#4

This was a reference to the employer-employee relationship, peer culture and teacher-taught relations. About one third of the teachers feel that their institutes are not having conducive work culture, good enough for academic environment. When explored further, the respondents were of the view that major reason of poor environment is improper admission procedure. Anyone meeting the minimum eligibility conditions as

stipulated by the government. The students are selected on the basis of merit as demanded by the courses they are teaching. Another prominent reason, in their view was lack of recognition of their efforts by their employers.

Workload (%)					
Very satisfied	Satisfied	Neutral	Less satisfied	Not satisfied at all	Can't reply
15	29	12	36	8	1

Table#5

This was a question in reference to their teaching workload as well as other non-teaching assignments given to them by their college officials. Less than half the faculty members of self-financed management institutes are satisfied. Majority of the teachers feels that they are given weekly teaching load more than as approved by affiliating university or is as per norms. Moreover, the non-teaching assignments are consuming more of their time so they are not left with any time for self-advancement.

Opportunities for monetary growth (%)					
Very satisfied	Satisfied	Neutral	Less satisfied	Not satisfied at all	Not sure
23	17	5	22	13	21

Table#6

The teachers were not satisfied with respect to career opportunities in monetary terms. They felt that teaching does not fetch more income than their counterparts in the industry get. It is significant to note that about one fifth of the respondents are not sure at all about the monetary growth in their present institutes. Moreover, some colleges are not offering the salary to their teachers as per the government approved pay grades which is adding to their job dissatisfaction.

Basic Level Of Performance Of Students Institutions Admit (%)					
Very satisfied	Satisfied	Neutral	Less satisfied	Not satisfied at all	Can't reply
11	13	26	8	42	1

Table#7

Only one fourth of the faculty feels that the students of their institute are of satisfying quality with respect to their intelligence quotient, educational background, sincerity towards society and response to the tasks given to them. The job dissatisfaction is largely because of intake of poor quality students.

Inn. Inst. Syllabus (%)					
Very satisfied	Satisfied	Neutral	Less satisfied	Not satisfied at all	Can't reply
19	42	16	13	9	1

Table#8

Majority of the teacher find the syllabus of the affiliating

university updated, up to the mark and leaves sufficient scope of learning for the students.

### **Conclusion**

It can be concluded that the builders of the nation, as the teachers are called, are not overall satisfied with respect to the salary and other parameters of the job satisfaction. This is primarily in those areas where the regulations of the government or the affiliating university are not followed in spirit. Moreover, the employers need to be more concerned about the welfare schemes of their employees. Some of the most innovative steps

taken to solve the issue of job dissatisfaction of teachers may be to provide people with short term training packages alongwith their financial and non-financial incentives which would ease some of the pressures on the existing teachers. Legislations may also be passed to safeguard the interests of the faculty. In spite of all these reasons of dissatisfaction, which were believed to lower their performance than their potential, Punjab continues to witness an upsurge in the growth of management professionals both quantitatively as well as qualitatively.

## RESTRUCTURING: A STRATEGIC PERSPECTIVE CASE STUDY OF TATA GROUP

PAWAN TANEJA\*  
GAUTAM BANSAL\*\*  
R. K. GUPTA\*\*\*

### Table of Contents

- Abstract
- Introduction
- Tata Group
- Restructuring Initiatives - Successes & Challenges
- Companies given time to Restructure
- Rationalizing the Product Portfolio
- Focus on Core Business
- Birds Eye View
- References

### Abstract

*Corporate restructuring is increasingly becoming a common phenomenon around the world. In recent years, unprecedented number of companies across the world has restructured their assets, operations, liabilities, and other obligations in response to either new competitive challenges in their markets, or major shifts in their business environment. The impact of corporate restructuring goes beyond the managers and the shareholders of the companies, particularly when one consider the web of relationship between restructured companies and their corporate customers, suppliers, and competitors. In this case an effort has been made by us to unfold TATA group, the oldest and the largest business group of India. The group has been made significant mark in the last 60 years and has been a lesson for many business groups not only in India but also throughout the world. This group banks on its capability of coping up with the changes in the business field and has undergone considerable changes in the area of organizational, financial and business restructuring.*

### Introduction

In recent years, unprecedented number of companies across the world has restructured their assets,

operations, liabilities and other obligations in response to either new competitive challenges in their markets, or major shifts in their business environment. The scope of corporate restructuring has also become increasingly global, as heightened competition in international product, capital and labour markets applies tremendous pressure on companies worldwide, to increase their competitiveness and maximize their market value.

In an economic context, the word 'structure' implies a specific, stable relationship among the key elements of a particular function or process. This structure defines the constraints, under which institutions function in their day-to-day operations, and their pursuit for better economic performance. The word restructure means the purposeful process of changing the structure of an institution, in pursuit of a long-run strategy. Restructuring of a company is a set of discrete decisive measures taken, in order to increase the competitiveness of the enterprise, and thereby enhance its value.

The impact of corporate restructuring goes beyond the managers and the shareholders of the companies, particularly when one consider the web of relationship between restructured companies and their corporate customers, suppliers, and competitors. Through its impact on firms' market value, restructuring would have impact on millions of investors, lenders and shareholders who provide capital to these firms. In today's business world, managers are expected to be alert enough to identify any critical situation facing the company and respond with a restructuring plan. Understanding and adopting best practices in corporate restructuring is a key to achieving competitive advantage, and for creating value to the shareholders. Regarding the above mentioned factors we had tried to highlight that how TATA's largest industrial group of

---

\*Assistant Professor, Punjab College of Technical Education, Ludhiana  
\*\*Professor, DCS, Punjab University, Chandigarh.

India has adopted the path of restructuring and there by gaining competitive advantage in the highly cluttered market.

### TATA GROUP

In 1991, Mr. Ratan Tata took over as head of the Tata group in the backdrop of an economy that was still euphoric from unlocking of the shackles of the industrial licensing era. Yet, realization soon dawned on corporate India that more freedom also meant more competition and they would need to restructure themselves and be more focused to survive in the new age. For Mr. Tata, the problem was more acute than that faced by other group heads. The Tata group was a loose collection of companies enjoying greater autonomy from the group CEO than probably any other group in the country. He had his task cut out for him. He had to focus on changing the group culture as well as restructure the product portfolio of the group. The proverbial chicken and egg problem was where to begin first. He chose to focus on group culture first. This meanwhile gave the companies time to carry on an internal restructuring exercise before the group could decide whether they were adding value in the new economic circumstances or not.

### Restructuring Initiatives - Successes & Challenges

As the initial euphoria of opening up of the economy since 1991 subsided, corporate India was hit by the negative effects of facing up to global competition. Global deflation and reduced margins were soon to be the reality for corporate India. As we have stated in our earlier strategy reports, corporate India was left with only one option – restructure and cut costs or perish. History is full of examples of industrial groups that thrived in the Industrial Raj but failed to adjust to the competitive era of a liberalized economy. On the other hand, there were groups that restructured themselves and survived and have prospered in the greater freedom that they enjoy now. We have looked at the Tata group as probably the best example of a group that has gone through substantial restructuring over the past few years and has survived the slowdown in economy and the lower margins. It is now trimmer and ready to venture into new areas. We believe the restructuring of the

Tata group had four elements:

1. Changing the group ethos: Restructuring of the Tata group is more interesting because the issues were not only of adjusting to a different economic environment but also of trying to make the group more cohesive.
2. Restructuring of companies internally: This included cutting costs and improving efficiencies to make the companies viable in the new economic environment.
3. Restructuring of the product portfolio of the group by identifying seven Core business areas and selling off businesses that did not fit within these seven areas.
4. Impetus to strategic cooperations in the form of Mergers, takeovers, joint ventures and alliances.

### Changing The Group Ethos

We believe this is always more difficult than selling product portfolios. The process involved replacing existing managements in many companies with younger and more dynamic management. It also brought about a more common set of values across companies so that companies within the group thought and acted like one. There have been four distinct changes in the Tata group culture over the past few years:

**1. Greater say in management of companies:** The Tata group operated as a confederation of loose entities where the professional management of each of the Tata companies in operation had total control on the companies and ran it at their freedom. However, they still fell back on the Tata name when it suited their purpose like raising funds or asking the central Tata management for a bail-out. There is now greater control on strategic decisions taken by the companies within the Tata group including appointment of CEOs. However, management autonomy enjoyed by professionals in the Tata group in day-to-day functioning of the companies is still much higher than that in most other groups in India.

**2. Raising ownership limits:** The Tatas managed most of the companies with very small stakes. One of the anecdotes a decade ago used to be the fact that the Birlas had a higher stake in Tisco than the Tatas. While the brand name of the Tatas ensured that there would be very little threat to loss of management control, the Tatas decided to increase stake in most major companies. They now have a stake of at least 26% in

all major companies making it morally and legally easier to manage them.

**3. Creating common brand equity:** The Tata name has historically been associated with a reputation for honesty and integrity. However, there was no formal set of values running across the various companies in the group. There is now a common code of operation in the group that is followed by all the companies and reflects what the Tata brand name should stand for. This is both at the company level (adopted by the Board of every company) as well as at the individual level (agreed upon by every employee in the Tata group). We believe inculcation of a common set of values that all companies follow has been the most difficult task in the restructuring process.

**4. Creating common standards:** This involved having a common quality standard, which each company would adopt, so that the consumer had the assurance of getting a certain minimum from any Tata product.

#### Internal Restructuring

For most investors this is the more visible and exciting part of restructuring of a company or a group. However, we must remind investors that given the protected nature of the economy, it was more important to create the psychological framework so that there was minimal resistance to the changes that were being implemented at the company levels. During the last two years, the Tata group, Board of Directors and the Management of the Company have been totally focussed on rebuilding financial health of the company. The major elements of these efforts have been -

1. Bringing in adequate funds to enable the Company to pay all its creditors without default and to restore the Company's capital adequacy to meet the statutory norms;
2. Restructuring the Company's operations to focus on its core competence of financing of vehicles; and
3. Laying the foundation for future growth.

#### Bringing in funds

The Balance Sheet of the Company as on 30th June 2001, revealed total borrowings to the tune of Rs 2600 crores. This included short-term borrowings of nearly Rs.1300 crores, inclusive of fixed deposits of Rs.735

crores. Much of this borrowing went to finance the stock Market activities of its subsidiaries. The Company was therefore faced with an immediate liquidity crisis to repay its short-term lenders who pulled out their money on maturity. The Company could not renew fixed deposits in view of inadequate capital adequacy. The group brought in Rs.300 crores as inter corporate loans and gave support for nearly Rs.400 crores of additional funds to enable the Company to pay each and every creditor without default.

#### Restoring the Capital Adequacy to meet the norms of the Reserve Bank of India

The Prudential norms of the regulatory authority stipulates that an NBFC should have a Capital Adequacy Ratio of atleast 12%. To enable this, Tata Sons Limited and Tata Industries Limited have converted the inter corporate loans of Rs.300 crores given by them, mentioned above, into an interest-free advance towards equity. At this annual general meeting we are requesting shareholders to approve a Preferential Offer of equity shares to Tata Sons and Tata Industries to convert this advance. The price of Rs.26.53 per share has been worked out as stipulated in the guidelines of SEBI for Preferential Offers. Since this amount has been brought in only to save the Company, both from a liquidity angle and from a capital adequacy angle, the Company has applied to SEBI to exempt the two Companies from the Open Offer requirements prescribed under the SEBI regulations. To further help to ensure capital adequacy, we have also taken several steps, as detailed below, to shrink the size of the Balance Sheet. As a result, the capital adequacy as on 31st March, 2003 stood at 16.5%, if we include the advance towards the equity brought in by the Tata Group.

**Restructuring Programme:** Core competence of the company was to provide the finances for the purchase of vehicles. There has been substantial progress in the restructuring of the company's operations during the last one-year. As on date, company have sold majority shareholding in his subsidiary Tata Finance Amex Limited and will shortly be selling the shareholding in Tata Home finance Limited. Company had also sold credit card operations, disposed off

substantial real estate and investments and assigned a large corporate lease to a financial institution. Except for the Windmills, which we are not in a position to sell because of certain regulatory constraints, they are now totally focused on asset financing. In order to reduce the substantial level of borrowings, which, as I alluded to earlier, stood at Rs.2600 crores two years back, we have done securitization of our Hire Purchase portfolio to the extent of nearly Rs.300 crores in 2002-2003.

As a result of all the sales and the securitization, the total size of the balance sheet has shrunk from Rs.2750 crores as on 30th June, 2001 to just below Rs.2000 crores as on 31st March, 2003. With this shrinkage, the infusion of capital from the group, as well as a Redeemable Preference Shares Issue, the company's borrowings have reduced substantially in the last two years by Rs.1000 crores to Rs.1600 crores. This reduction in leverage in the balance Sheet will contribute significantly to stability and reduce interest costs. A major thrust area for cost reduction is the cost of borrowings. The average interest rate paid by the company in 2002-03 was 12.5%. The poor shape of the company's balance sheet did not enable it to obtain low cost borrowings. To some extent this was alleviated by Tata sons guaranteeing a part of the company's borrowings. On the other hand, the company was caught in a vice since there was a significant reduction in the interest rates charged in the marketplace by its competitors, which the company found hard to match. With the substantial improvement in its balance sheet, as well as the results of the first quarter, the company is striving to reduce its effective cost of borrowing and is targeting a rate of 9% by the end of the year. Securitization of contracts has also enabled us to bring down borrowing costs. This will enable us to lend at rates closer to the market rates, which, in turn, will enable us to both increase the volumes as well as improve the quality of our portfolio. Significant cost cutting has been achieved in the last two years. Uneconomic branches have been shut down, other branches have been moved from high cost to low cost locations, manpower has been right-sized from 1016 in April 2001, to 640 as on date.

#### **Laying the foundation for future growth**

As shareholders are aware, the area of retail financing

is seeing a tremendous increase in competition, specially from banks which have the advantage of lower cost of funds. A leading international consultancy firm, which was commissioned to study both international and Indian trends, advised that the future structure of the industry will mainly see two categories of lenders succeeding viz. those banks which focus on retail lending, and Finance Companies with close links with manufacturers who can offer value added services in association with the manufacturers. Independent NBFCs will find the going increasingly tough. In this context, your company has decided to work closely with Tata Motors Limited.

The company made a profit after tax of Rs.1.21 crores during the first quarter of the current year. It is a small beginning on the path of return to profitability and reflects the success of the restructuring done so far. It has been a tough two years but hopefully we now see the light at the end of the tunnel.

#### **Companies Given Time To Restructure**

As mentioned earlier, the group decided to carry out restructuring at the cultural level before considering the product portfolio. This gave the companies time to restructure and adjust to the changing environment. The restructuring in all companies had a common theme – become globally competitive, gain the top 3 position in the market and work to ensure returns on capital employed higher than costs. One of the best examples of restructuring is probably Tisco, which found itself suddenly open to competition from global players. In the late 1990s, the company sold off its cement business as well as its stake in Tata Timken in a move to streamline its non-steel presence. In its steel business, the company undertook a major restructuring program involving modernization of its facilities, changing product mix to higher value products and cost cutting. The company has now emerged amongst the lowest cost producers of steel in the world. Telco has similarly been an example of a company that withstood the slowdown in its business due to restructuring efforts. The restructuring effort was 3-fold divestment of non-core holdings, cost cutting revamping of product portfolio. The cost cutting initiatives included manpower reduction by nearly 30% and material cost

savings by value engineering efforts and rationalization of processes and supplier base. The revamp of product portfolio through new offerings in the multi axle vehicles helped wean market share away from Ashok Leyland. We have seen similar restructuring efforts in the other Tata group companies. Indian Hotels has shifted towards a lower capital employment strategy by expanding through management contracts/joint ventures. It has, of course, also reduced manpower and restructured global operations in the USA and Sri Lanka. In Tata Tea, the acquisition of Tetley provides a global distribution reach to the company and enhances its presence in the branded tea market. Tata Tea has the world's largest integrated tea operation. Tata Power is expanding into a national energy company and has also firmed up plans to leverage its existing infrastructure in the telecom space. TCS is Asia's largest software services exporter and is looking at growing both up the value chain as well as inorganically (example: its acquisition of CMC).

#### **Rationalizing The Product Portfolio**

Ratan Tata is taking his Rs 40,000-crore (Rs 400 billion) group into the last leg of restructuring. He is giving the finishing touches to a five-year-old restructuring plan that will completely alter the structure of the group. At the heart of Tata's plan is a move to reduce the number of group companies to around 30 from the 80-odd now through mergers, closures and sale. The group is trying to reduce the number of companies from 80 in the group, as it is difficult to manage so many companies. It is also planned to merge some companies and divest stakes in those firms which are in non-core areas. The plan also includes focusing on 8-12 group companies in seven business sectors — materials, engineering, energy, chemicals, consumer products, services, communication and information systems — which, in turn, will have about two-three subsidiaries each. Clearly, the main group companies by 2007 will be Tata Steel, Tata Engineering (now Tata Motor), Tata Power, Tata Chemicals, Tata Tea, Indian Hotels, Tata Teleservices and Tata Consultancy Services. The holding pattern in companies like Voltas or Rallis will be is not yet clear.

A Tata group spokesperson said, "The group is looking at several ways to reduce the portfolio and the

structure." Several investment subsidiaries will be merged. Companies in similar lines of businesses will be brought together. "We will consolidate our holdings and reduce cross-holdings in the group," he added. Consequently, there will be changes in the holding pattern as well. For instance, group firms in the automobile business could be controlled by Tata Engineering and those in energy by Tata Power. Tata Sons, which has hiked its stakes to 26-30 per cent in all the main group companies, would continue to shore up its holdings to more comfortable levels.

#### **Focus on Core Business**

The Tata group has been amongst the most ruthless in terms of exiting from non-core businesses. This has included sale of some businesses as well as selling out its stake to its MNC joint venture partners. We list below some of the prominent examples of businesses sold:

- Toiletries (Tomco) and cosmetics (Lakme) to Hindustan Lever
- Cement - ACC to Gujarat Ambuja and Tisco to Lafarge
- Oil (Hitech Drilling) to Aban Lloyd
- Pharmaceuticals (Merind) to Wockhardt
- Paints (Goodlass Nerolac) to Kansai
- White Goods to Electrolux & UPS (Tata Liebert) to Emerson
- Stakes in bearings (Tata Timken) to Timken, IT (Tata IBM) to IBM and telecom hardware to Lucent

#### **Future Focus On Knowledge-based Businesses**

Apart from focusing on the identified seven core business areas, the group is exploring prospects in the following 'knowledge-based' businesses:

- Information Technology — This will not only include computer services but also design and application areas.
- Telecom — Here the group is interested only in being a service provider and sees no role in telecom hardware.
- Convergence — In the IT/telecom convergence, the group will focus on connectivity.
- Biotechnology — Here they would also like to explore convergence between conventional and non-conventional medicines.

Within the seven core areas, the company will be exploring new and profitable offshoots e.g. in metals

they will look at opportunities in advanced metals and composites. The following is an encapsulated recap of the strides that the Tata Group and its major companies took in the year 2004.

#### Products and services

Tata Group companies continued to respond to the needs of its customers and clients with agility while launching a variety of new products and services

Tata Motors had a bunch of significant launches this year. It introduced the New Indica V2, the Indigo Advent, the Indigo Marina and the Sumo Victa. It also launched the Indica and Indigo in South Africa.

Tata Asset Management launched its Tata Equity P/E Fund, which identifies suitable investment opportunities by analysing undervalued stocks on the basis of price-to-earnings ratio.

Indian Hotels launched Indione, its 'smart basics' hotels in an innovative attempt to redefine the hospitality landscape with a new category that is comfortable yet affordable.

Tata group opened India's first luxury homes complex, Wellington Mews, in Mumbai.

The company launched the Taj Exotica Resort and Spa in Mauritius. This property is spread over 27 acres on Wolmar Beach and laps the turquoise waters of Tamarin Bay.

Titan touched a new milestone in creativity by launching Flip, India's first dual-face watch, with dual functionality and styling.

VSNL announced the launch of Tata Indicom's 'global calling card', which allows Indians travelling abroad to make calls to India or any other international destination from any mobile, landline or pay phone.

Tata Chemicals launched Tata Kisan Sansar, a chain of one-stop resource centres for farmers that offer end-to-end agricultural solutions.

Tata Teleservices became the first company in the Indian telecom market to launch Push-To-Talk™ services, which allow customers to call a group of people at one time by simply pressing a button.

Tata AIG Life unveiled 'operation quantum leap', an aggressive business growth strategy for the next three years. It has set its sights on becoming a top player in the private insurance sector and on securing a market share of 20 per cent by 2007.

#### New partnerships and Strategic Alliances

The Tata group is targeting an overseas sales of \$5 billion this fiscal through a strategy that will encompass a mix of acquisitions, joint ventures and exports. The group had recorded sales of \$3 billion last year. All major Tata Group companies would have to engage with the issue of being a global player. Some may decide to go global, while others may decide to concentrate on the domestic market, depending on the industry in which they operate.

"Even those companies, which decide to concentrate on the local market, will continue to access technology and other resources globally. We are discussing within our group which companies will go global, when they will do so, in which geographies they will operate and how will they go about it," Mr. Rosling said, Executive Director, Tata sons.

The four companies that are driving the group's overseas sales are Tata Consultancy Services, Tata Motors, Tata Steel and Indian Hotels. Two major acquisitions by the group in the recent past have been the announcement by Tata Steel to acquire the Singapore-based NatSteel Ltd and the acquisition of the commercial vehicles unit of Daewoo Motors by Tata Motors.

Many Tata companies forged new alliances and grew through acquisitions. These are some of the noteworthy development the Tata Group is planning to infuse additional capital in the region of Rs 100 crore -Rs 200 crore into Rallis India as part of a financial restructuring package for the loss-making agrochemical company. The capital infusion will be done in the debt-equity ratio of 1:1, enabling the company to shore up the equity capital base of Rs 12 crore, according to sources familiar with the matter. The Tata Group, which holds 48% in Rallis, may employ a three-pronged turnaround strategy for the company. This include large-scale cost-reduction measures, a sharp focus on the core pesticide business and restoring the company's cash flow.

Tata Steel acquired NatSteel, the dominant steel producer of Singapore, for Rs 1,313 crore. This was part of the company's quest to increase its global footprint.

Tata Motors acquired South Korea's second largest heavy truck maker, the Daewoo Commercial Vehicle



Company. The new entity then went on to launch a heavy duty truck model, Novus, in the South Korean market.

VSNL acquired Tyco Global Network, among the world's most advanced and extensive submarine cable systems, for \$130 million. In March, purchased Chennai-based Dishnet DSL's internet service provider division for Rs 270 crore.

"We are looking at greenfield projects, acquisitions as well as alliances to achieve the \$5-billion international sales figure this year, but we will be selective about geographies. We expect overseas sales to increase to \$10 billion in the next few years," Mr Alan Rosling, Executive Director, Tata Sons.

The four companies that are driving the group's overseas sales are Tata Consultancy Services, Tata Motors, Tata Steel and Indian Hotels. Two major acquisitions by the group in the recent past have been the announcement by Tata Steel to acquire the Singapore-based NatSteel Ltd and the acquisition of the commercial vehicles unit of Daewoo Motors by Tata Motors.

Tata Consultancy Services has a clearly defined agenda going forward. It is aiming to become a \$3 billion company by March 2006. It is aggressively scouting for global software companies of reasonable size, while planning to merge all IT companies of the Tata group.

TCS is believed to be in negotiations with large companies in the aviation and telecom software space in Europe. It is hoping to finalise the multi-million dollar deals at the earliest.

TCS is focused on inorganic growth, particularly in the European market. Some of the global giants in the telecom and aviation space are looking at divesting their captive businesses to cut cost over a period of three years. TCS is interested in such companies, which will give us synergies and long-term business. Before a US listing, the group will have to re-examine whether it needs to merge other group IT companies like Tata Elxsi and Tata Infotech and possibly merge them with TCS.

On future outlook for the company, officials said the company is poised to cross the \$2 billion mark in the current fiscal. In case, the group restructuring (read merger) takes place in 2005, TCS will touch \$3 billion turnover in the fiscal ending March 2006. And, if it also manages to acquire a European company of

reasonable size, the turnover will be much more. The size of the company TCS is looking to acquire is \$100-500 million. This will give us a headstart in that geography.

### Step Towards Globalizations

The Tata group has drawn up a strategy to focus on expanding its business globally during the current calendar year. Mr Tata said the group's goals for the year would be to achieve significant further turnover growth, with substantial improvement in profits through consistently providing high-quality products and services, and a total commitment to better serve customers, while at the same time maintain high ethical standards and values.

On the road to globalisation and venturing into new frontiers, Mr Tata said, "This year, we will also be focusing on expanding our businesses internationally. This will demand that our products and services are globally competitive and that our enterprises operate to international standards in terms of quality and customer service." While a majority of the Tata group companies have established their presence overseas, others have already kicked off plans for venturing into new frontiers. Tata Steel, which is considered as one of the lowest-cost steel producers in the world, is poised to make the entire world a playing field. The company plans to take the acquisition route to globalisation in the immediate future. Similarly, Tata Motors has set a new direction to the globalisation of the Indian auto industry by entering into an agreement with Rover UK besides foraying into new markets like Sri Lanka and Malaysia. This has given the company quick access to the European market with a huge distribution network. Now, the company plans to enter new markets like China and CIS countries. Indian Hotels Company Ltd (IHCL), which owns the Taj Group of Hotels, has already chalked out a strategy to expand its operations internationally, focussing mainly on premium properties. As a part of its overseas expansion plans, IHCL is adding six new properties in different locations around the world, thereby increasing the number to 18 by 2005. The Tata group hit the high note in 2003 as Tata Consultancy Services, Tata Steel, Tata Motors, Tata Teleservices, Titan, Tata Tea, Tata TD Asset Management and Trent, among others, delivered good performances.

### Birds Eye View

We believe the restructuring of businesses has made the Tata group leaner and more competitive. While investors do tend to criticize the pace as being too slow, we believe the willingness to sell businesses and the divestment of businesses exceeds that of any other group in India. Moreover, we believe the framework has been laid for a more accelerated restructuring of the product portfolio. Another criticism of the group has been the inability of some of the key businesses of the group to earn return on capital employed (RoCE) greater than the cost of capital. This is partly due to the economy-related nature of these sectors. We believe returns will increase as the economy improves. However, some of these businesses may still not earn adequate returns. The Tata group is therefore shifting its focus from generic or product-driven businesses to brand-driven businesses and services where returns may be more sustainable.

**Willingness to sell businesses:** We believe the greatest positive of the Tata group restructuring has been the willingness of Mr. Tata to sell out of businesses. While this is commonly accepted in Western countries, in India, traditionally, asset ownership was taken as a benchmark of power and progress amongst corporates. Moreover, we believe this is not the end of Tata group restructuring but just the beginning. We are likely to see more businesses being exited.

**Greater aggression in the group:** The group has traditionally been a conservative group and has tended to be slow in decision making. There are enough signs, however, that this has changed. Apart from some of the restructuring initiatives highlighted above, the group has been an active bidder in the government privatization process. It has bagged two companies – VSNL and CMC amongst tough competition.

**Pace of restructuring – slow but irreversible:** Investors have often raised concern on the pace of restructuring. While in hindsight, we agree that the pace could have been hastened, the bigger challenge was changing the mind-set of the people internally so that they accept the restructuring process. We believe the framework has been laid for a more accelerated restructuring of the product portfolio. Second, it may be pointed out that portfolio divestment in the Tata group

exceeds that of any other group in the country.

### Shifting Group Focus To Knowledge-based Sectors:

- Inability of businesses to earn returns greater than cost of capital.
- Another criticism has been the inability of some of the key businesses of the group to earn return on capital employed (RoCE) greater than the cost of capital. Investors have argued that the group would be better off by divesting these businesses. We would, however, highlight two aspects to this:
  - These businesses (steel, automobile etc.) are highly leveraged to performance of the economy and the downturn in the economy has adversely hit returns. The returns will increase once the economy bounces back.
  - Second, given lack of an exit policy for industry, it is not possible to shut down a large business even if it is unviable. The Tatas for their part are making efforts to improve viability of all their companies including adding new business areas or adding higher value products in the same business line. A good example is Tisco where the company is looking at newer metals (titanium) in an effort to increase returns.

### Shift from generic-driven to brand-led businesses

The group has also been making a conscious shift towards brand-driven businesses and services. In FY91, brand businesses accounted for around one-fifths of sales. Now they account for over one-half of sales. Moreover, the company has planned an aggressive thrust into new economy businesses that will increase this trend even further ahead.

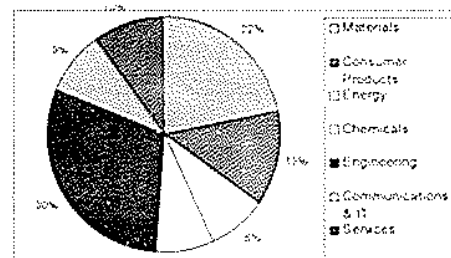
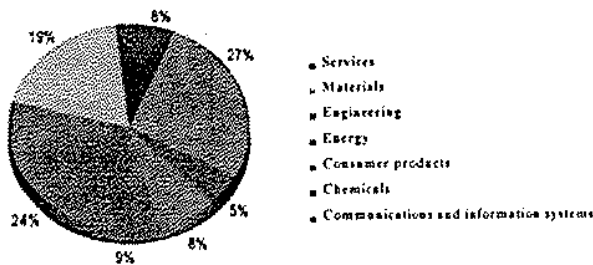


Chart 1: Sales Breakdown of The Tata Group

Sources: Tata group



In terms of profits similarly, brand businesses and services are playing a more significant role. While the commodity businesses are more cyclical, profits in IT services have shown secular growth.

**Restructuring In India - The Tata Group**

Table: Business wise breakdown of profits

Sector(Profits in Millions)	1999-2000	2003-2004
Material	4213	19061
Services	2212	1840
Engg	953	10733
Energy	4712	5389
Consumer products	2231	4244
Chemicals	1434	2478
Comm & Inf Systems	4121	13399

Source: Tata group

**Need To Improve Human Resource Management**

The group has traditionally been resistant to change. As a strategy they are now recruiting younger people and providing greater mobility across functions. The group has also been looking at drawing people from outside – there have been recent high level hires from reputed companies signaling a change in strategy. However, there is still a need to improve salary levels

and provide a proper career path for individuals.

**Greater Focus On Minority Shareholders' Interests**

One of the common investor concerns with the conglomerate groups across the globe has been that they take decisions based on the interest of the group as a whole without considering the interest of the minority shareholder in the individual operating companies. Cross-holdings amongst group companies to fund their expansion plan was common amongst all groups in India too. The Tata group also has employed cross-holding in the past. Some of these have been profitable for the companies that invested in them. Going forward, the group's plans in sectors such as telecom will mean that there is a need for some companies to contribute to these ventures. However, to protect the interests of Minority shareholders:

- The boards of each individual company will look at the investment as an independent decision and its effect on the plans of their company.
- The Tata group would not ask the associate companies to invest in any bailout package of any sister company e.g. following the Tata Finance fiasco, funding was by Tata Sons and group companies did not participate in the bailout.
- The group may consider offering shares to shareholders of Tata companies directly in the new ventures.

One positive step towards protecting shareholder interests was the move of Tisco not to invest in the telecom plans of the Tata group. However, balancing minority shareholder interests against group financing plans is likely to remain a key challenge going forward.

## E-SUPPLY CHAIN MANAGEMENT : A RE-ENGINEERING APPROACH

A.K. PANDEY\*\*  
SUDHANSHU JOSHI\*\*

### Table of Contents

- Abstract
- Introduction
- Supply Chain Management and Business Process Re Engineering
- Virtual Supply Chain System Architecture
- Sharing Manufacturing Information Across the Chain
- Concluding Remarks
- References

### Abstract

*Modern manufacturing enterprises must collaborate with a large number of suppliers to design and produce their products. Management of these supply chains is crucial. This paper proposes a system framework for supply chain management, which will form the foundation for the construction of an integration testbed. This testbed will focus on production & operations management within the supply chain. It will contain a simulation-based decision support system, process modeling library, simulation engines, and a Web-based data-handling system. The library includes material-flow models, information models, business process models, and decision support models. Each model is described using an object-oriented modeling paradigm. This paper describes a system concept, system architecture, and generic business process models.*

### Introduction

Modern manufacturing enterprises are required to continually review their strategies for competing in the ever-changing, ever-expanding global economy. They must constantly restructure and simplify their business and fabrication processes and procedures. This restructuring frequently involves fundamental decisions regarding those activities which really do need to take place internally, and which can be better done by, and

more importantly, in full collaboration with, business partners. In making these decisions, each enterprise must develop a flexible management system to survive in today's competitive market.

More and more, management is deciding in favor of outsourcing both design and fabrication. In some cases, they do not have the capabilities; in others, it is simply a matter of cost. Regardless of the reason, the management of multiple suppliers is becoming critical to an enterprise's success. There are two important keys to achieving that success:

1. A thorough understanding of the business processes and quality practices at these suppliers, and 2. the synchronization material flow and information flow across the chain.

It is also necessary to implement a distributed operations management system to deal effectively with both capacity and inventory problems among multiple supplier enterprises. A system concept and an implementation methodology must be well defined to take into account practical business operations and production decisions at different supplier sites. The use of such an operations management system can dramatically reduce the cost and increase the performance of the supply chain.

This paper proposes an information system framework to support such multiple supply chain management operations. The proposed system uses business process re-engineering techniques and information modeling technologies. The system will be used to construct an integrated testbed for production & operations management in a supply chain environment. This paper describes a system concept, a system architecture, and a potential implementation methodology. The architecture contains a number of models linked together to form an integrated system. To implement that system, a distributed simulation

\* Dr. A K Pandey, GM – Operations, SAP-India Labs.

\*\*Lecturer, FMS, Gurukul Kangri University, Haridwar.

strategy is proposed.

### Supply Chain Management and Business Process Re Engineering

According to Davis [1], a well-managed Supply Chain is one way to implement Quick Response Manufacturing (QRM). QRM is a system concept that is similar to a famous Just-In-Time (JIT) concept [2]. While implementation of JIT is based mainly on improvements in manual operations, QRM is based on well-designed information systems that can support rapid information processing [3]. QRM, if implemented properly, can provide the shortest lead-time for each major business process in supply chain. Those processes are, in macro scale, design, process planning, material preparation, procurement, production, and delivery.

Implementation of QRM requires not only faster execution of these individual processes, but also concurrent execution of all of them. In the supply chain environment, this concurrent execution of business processes should be done across the entire chain.

Success will depend on the ability of the suppliers to be integrated with each other, and with the prime contractor - the top tier in the chain. The emphasis on system integration must span all of the business processes listed above. To date, most supply chain integration research has focused on design, material preparation, procurement and delivery. Design integration is being achieved through the use of emerging product data standards and concurrent engineering tools. Logistics, using Business Process Re-engineering tools, is aimed at the other three. While quantitative data is not widely available, manufacturers expect to achieve both cost and time reductions by using these tools and techniques.

The synchronization of operations involved in process planning and production across multiple firms is much more difficult than it is within a single firm. The principle reason for this is the information sharing required to perform these operations. Some examples include: design and assembly requirements must be shared with all suppliers so that process plans can be developed for individual components; the Master Production Schedule must be shared with all suppliers so they can complete the fabrication, testing and

delivery of all components; suppliers must share information with the prime contractor related to the fabrication of components so that schedules can be monitored and modified if necessary; and, the prime contractor must share final product production and delivery information so that retailers make their distribution schedules.

Timely information sharing among all of the members of the supply chain can reduce waste and efficiency at both member sites and across the entire chain. Three issues must be resolved before this timely information sharing can be accomplished. First, formal models must be developed which specify the content of the shared information. Second, frequency patterns must be established which indicate how often different types of information are exchanged. Third, exchange mechanisms must be developed to insure accurate and timely information transfer. Developing and testing these models and exchange mechanisms will be difficult because of the very nature of a supply chain. It is an entity that is comprised of several, perhaps loosely connected, companies. Each of these companies has its own unique manufacturing capabilities, processes, resources, and information. For this reason, the National Institute of Standards and Technology (NIST) is building a virtual supply chain testbed. The initial focus will be Production and Operations Management (POM) within the supply chain. In particular, we will concentrate on material and information flows required to support production and operations management decisions. A wide variety of models will be developed and analyzed in the testbed. They include business process models, formal information models, and simulation models. Business process models cover cross-functional policies and procedures that impact the material and information flows. Formal information models describe the entities that provide complete and detailed definitions for each of these flows. They also identify all of the relationships that exist among these entities. The basic building blocks for the virtual supply chain will be a collection of simulation models.

There will be models to simulate the execution of POM business processes their related flows. There will also be two types of models at both the prime and the suppliers: manufacturing process models and shop

models. Manufacturing process models must represent the capabilities of the processes at each supplier accurately. They will be used to determine if a particular supplier can meet the quality and cost constraints. Shop models will be used to determine if potential suppliers can meet the schedule constraints.

A number of different commercial products will be used to build these various models. Integrating them together will require a common understanding of the inputs, outputs, and manufacturing objects. This requires a systems architecture with well defined functional modules and interfaces between them.

### Virtual Supply Chain System Architecture

As discussed above, we propose a Virtual Supply Chain Management Testbed. It will be a simulation-based testbed that will focus on the material and information flows associated with production and operations management decisions within the chain. The major difficulty is that the flows required to make these decisions and, subsequently, monitor their implementation change according to the suppliers' business situations. Furthermore, since suppliers can be distributed across the globe, communicating information and transporting material can be costly and time consuming. Therefore, the proposed architecture must support communication protocols to allow worldwide information transfer. The main modules in this architecture are:

- Supply chain management reference model
- Supply chain management data server
- Production management decision support
- Simulation kernel
- Suppliers management knowledge database.

### Supply chain integration reference model

The supply chain integration reference model has four major components: business process models, material flow/logistics models, information models, and decision process models.

### Business process models

Business process models are needed to understand how operations are carried out both at individual suppliers and in the supply chain itself. They are basically functional models that describe what

activities are performed, and relationships that exist among those activities. While there may be differences in how suppliers execute activities, we believe that a common set of operational activities does exist. (This common set of activities forms the basis for a coherent production and operations management plan for the supply chain). Each of these operational activities contains a sequence of primitive activities. A primitive activity consumes both time and information /material resources. Examples include generate, dispose, assemble, branch, merge, split, join, transform, copy, assign, seize resource, and, release resource. Both network flow and activity cycle diagrams are used to represent each business process flow. Each individual process can have its own internal decomposition into sub-processes. The top-level processes are the six given in section 2 .

### Material flow/Logistics model

Material flow models represent physical material flows of parts/products from suppliers to customers. Usually, these models take a hierarchical network form with multiple levels. A typical three-level model might contain factory, line, and cell levels. The factory level captures material-flows among suppliers' factories. The second level model presents the line flows within a factory, which is composed of processes and transporters. The third level models physical movement within each manufacturing cell. Mathematically, the model at each level is a general queuing network model.

Logistics models deal primarily with material flows at the factory level. It is at this level where the transfer of materials is accomplished using some sort of transportation such as trucks, rail, boat, or plane. The logistics model includes order planning, warehouse location planning, transportation planning, and inventory planning, among others. The fundamental modeling approaches are "push", "pull", and "hybrid-push/pull".

The push system is a schedule-driven system. The typical example is MRP (I/II) system. In such push systems, Master Production Schedule (MPS) is generated from demand predictions. Based on the MPS, the required volume of parts is calculated using a part explosion technique typically found in a bill of materials package. All input materials are processed at

each process and "pushed" to down stream according as its material-flow. This scenario can be extended easily to a supply chain environment in which the prime contractor pushes orders down to the suppliers and they send finished goods back.

Meanwhile, the "pull" system is a WIP-driven system. A typical pull system is a Kanban system. Each station has a collection of input and output buffers. A station will pull inventory from up-stream stations whenever its input buffer becomes too low. A station will receive a request for new production orders when the WIP level in its output buffer is too low. This scenario can also be extended to a supply chain environment. In this case, the prime contractor will pull inventory from suppliers whenever it is needed. Suppliers will re-stock inventory whenever it becomes too low.

We believe that many supply chains have aspects of both push and pull systems. Therefore, we propose a "hybrid push-pull" model to represent manufacturing logistics operations in our virtual supply chain [4]. In this model, some suppliers work on production orders from a scheduler at the prime contractor's factory. Others will send inventory to the prime upon request and will restock that inventory whenever needed. It is a difficult problem to choose between these two for individual suppliers in the chain. But, the choice impacts not only material flow, but also the information flow (and the communications infrastructure needed to support that flow) between the prime contractor and suppliers.

#### Information model

An integrated supply chain is only possible if there is a common understanding of these information flows. To achieve this common understanding, we will develop a collection of formal information models using OMT [6] methodologies. These models will describe the entities that provide complete and detailed definitions for each of the flows. They also identify all of the relationships that exist among these entities. Using these models, and an understanding of how and when information is transmitted between business processes, we can determine timing requirements. These requirements help resolve questions regarding storage options. Some of this information can be stored and transmitted as a file. Some information can be

stored in a relational or object database with specific pieces transmitted in response to specific queries. Some information must be stored and transmitted using messages in "real-time". Once we have made these determinations, we can specify file formats, database structures, and message protocols.

#### Decision process model

Decision process models specify various production and operations management decisions that are made throughout the entire chain. Examples include:

**Material selection:** Which material is the best to choose for various products?

**Location selection:** Which supplier is the best to produce and distribute?

**Inventory planning:** Where and how much inventory should be stored?

**Load planning:** How workload handled by each supplier?

**Capacity planning:** How much production capacity do suppliers need to meet demand?

**Production scheduling:** Which suppliers should produce and associated due dates?

**Distribution planning:** When and how much volume of end products or component parts should be transported?

It is possible to develop formal mathematical programming problems to represent most of these decisions. Typically, the objective functions in these formulations take into account several performance measures such as, cost estimation, lead-time, highest utilization of resources, throughput performance, and due date. This results in a multi-objective optimization problem with multiple variables. Generally, this will be an NP-complete problem, for which optimal solutions will be hard to find. Nevertheless, there are a number of commercial software packages on the market, which provide solutions to these problems. We plan to incorporate them into the testbed as needed.

#### Simulation Kernel

The simulation kernel for the Virtual Supply Chain (VSC) contains three levels, Factory, Line and Cell. Each of these levels will contain a number of distributed, integrated simulation models capturing various aspects of the production and operations

management activities within the chain.

Factory level simulations will capture the highest level interactions between the factories that make up the chain. Production-order management, activity cost estimation, and capacity management are typical performance objectives for these models. Business behavior, business rules, and information transaction flows are the main interfaces between the various factory models. Line simulations capture day-to-day interactions between the prime contractor and its suppliers. The primary purpose of these simulations is to ensure that the daily schedule and quotas are met. Production requests and job/material status messages are the principal interfaces between the models. Cell simulations make up the lowest level. These are usually control logic simulations. The input is the physical transaction control rules of a particular machine or resource, such as NC or robot control programs. The output is, for example, machine performance or part quality.

### **Sharing Manufacturing Information Across the Chain**

One of the keys to the successful implementation of the virtual supply chain testbed is the timely and accurate exchange of information across the software applications in the testbed. There are several barriers that must be overcome. The most serious is that the companies participating in a particular supply chain are independent and frequently compete against one another. They may not want to share information with their competitors, so security control will be a significant issue in such an environment. The second problem is that each company has a different set of software applications and business practices. These differences will make it difficult to implement a set of common databases. The information produced by the software in one company cannot be processed directly by the software in another company.

This will lead to problems in both semantic interoperability and syntactic interoperability. The former means that two applications cannot process each other's data because they do not understand the internal organization of each other's data. The latter is that two applications cannot make use of each other's functionality because they cannot invoke each other's

resources. Furthermore, each company's software applications may be complex and require extensive training to be used correctly. The solution to these problems lies in the careful development of business, logistics, and information models. These models will provide the necessary common definitions and semantics that can eliminate those problems.

### **Information exchange**

Even if applications have a common understanding of the information they share, they must still exchange that information. The technology used to exchange that information must be cost-effective, reliable, and hardware independent. In the testbed, we will use four methods for exchanging large amounts of information:

1. WWW - The World Wide Web encapsulates communications protocols to organize and access data across the Internet[7].
2. PART 21 - A international standard which provides a standard physical file structure that is easily produced and consumed by multiple applications [8].
3. CORBA - The Common Request Object Broker allows applications to use each other's resources by supporting message calls between objects [9]. IDL is a language to specify well-defined application interfaces.
4. EDI - Electronic Data Interchange provides a collection of forms for the electronic exchange of a wide variety of business and manufacturing data [10]. Smaller amounts of information which have "real-time" exchange requirements will be done using message protocols which will be developed on a case by case basis.

### **Supply Chain Data Management**

Conceptually, information management within the testbed will be carried out using three data driver sub-systems: a. production data driver, b. demand data driver, c. WEB System Driver. The

- a. production data driver receives factory operational data from suppliers and translates it to meet the format specifications of the target software applications. The
- b. demand data driver receives demands data from retailers and reforms it to simulation parameters.



c. web system driver provides the data access methods and utilities needed by the other drivers. Each of these subsystems will be implemented using various combinations of the methods described above.

### Concluding Remarks

A large percentage of the cost of complex commercial products comes from the "external" purchases of components that go into those products. These purchases are made from a large number of suppliers. Some suppliers may be multi-million dollar companies in other countries. Others may be small shops across town. This implies that supply chains play a vital role in the production of complex products made in the world today. We believe that one key to the successful management of these supply chains is integration.

In this paper, we focused on an aspect of supply chain integration that has been largely ignored to date - production and operations management (POM). POM includes all functions related to the planning, scheduling and actual production of parts in the chain. We have described plans to build a virtual, distributed, supply chain integration testbed. That testbed will contain a wide range of operations management application software and simulation tools. It will provide 1) impetus for developing the models and interface specifications needed to integrate software at these nodes, 2) a place to house software which will be developed to implement these models & specifications, 3) an environment for testing and demonstrating the adherence to those specifications, and, finally, 4) a virtual supply chain for testing various operations management strategies across a wide range of commercial products.

In conclusion, we believe that a key issue in the success of supply chains is the synchronization of operations among multiple suppliers by using information technologies. The proposed framework will lead to integrated operations management, and customer satisfaction.

### References

- T. Davis. (1993), *Effective Supply Chain Management*, Sloan Management Review, vol. 34, No. 4, Summer.
- Y. Monden. (1985), *Toyota Production System*, MITI, State-of-the-art of Distribution Information System, (in Japanese) 1994.
- S. Umeda. (1992), *Manufacturing-Oriented Simulation for Production management*, Int. J. of. Tech. Mgmt. vol. 7, No.4/5, 278-289.
- S. Umeda. (1996), *An Object-Oriented System Model for Manufacturing Enterprise Information System*, 395-400, Proc. of APMS, IFIP WG5.7.
- G. Booch. (1994), *Object-Oriented Analysis and Design* 2<sup>nd</sup> Edition, San Jose, Benjamin/Cummings Pub. Inc.
- T. Berners-Lee, R. Cailliau, A. Luotonen, H. Frystyk Nielsen, and A. Secret. (1994), *The World-Wide Web*. Communications. ACM 37,8.
- ISO/IS 10303-21, (1994), *Industrial Automation Systems and Integration - Product Data Representation and Exchange - Part 21: Clear text encoding of exchange structure*, ISO, 1 rue de Varambe, Case Postale 56, CH-1211 Geneva, Switzerland.
- OMG, (1995), *The Common Object Request Broker: Architecture and Specification ver. 2.0*.
- S. Banerjee. (1994), *EDI: Characteristics of Users and No-users*, Info. & Management., 26, 65-74.

## CAPITAL STRUCTURE ANALYSIS OF OIL INDUSTRY- A CASE STUDY OF HINDUSTAN PETROLEUM CORPORATION LIMITED (INDIA)

S. K. KHATIK\*

### Table of Contents

- Abstract
- Introduction
- About the Companies
- Objectives of Study
- Limitations of The Study
- Data and Research Methodology
- Findings and Conclusion
- References

### Abstract

*Capital structure, or what is generally known as capital mix, is very important to control the overall cost of capital in order to improve the earnings per share of shareholders. After globalization and liberalization, various financial sector reforms were started by governments, such as reducing rates of interest, Sale of Shares of PSUs etc., which directly affected the capital structure planning of firms. Due to this situation, the fertilizer industry also reorganized their capital structure. The financing of a capital structure decision is a significant managerial decision. Initially, the company will have to plan its capital structure at the time of its promotion. Subsequently, whenever funds have to be raised for finance and investment, a capital structure decision is involved, in this research article, researchers try to evaluate the concept of capital structure, capital structure, planning and patterns of capital structure HPCL Ltd. We found that HPCL using the maximum possible reserve fund and long-term debt in their capital structure planning. During the study period, the company raised more and more long-term funds to meet their development and expansion needs because debt is a cheaper source of finance especially from 1998-99 onwards when rates of interest decreased regularly in the Indian capital market.*

### Introduction

Capital structure is the mix of debt and equity securities

that are used to finance companies assets. It is defined as the amount of permanent short-term debt, preferred stock and common equity used to finance a firm. Financial structure is sometimes used as synonymous with capital structure. However, Financial structure is more comprehensive in the sense that it refers to in aggregate, the amount of total current liabilities, long-term debt preferred stock and common equity used to finance a firm. Therefore, capital structure is only a part of financial structure, which refers mainly to the permanent sources of the every finance. Nonetheless, the present study considers the source, which do not explicitly fall under the definition of capital structure.

Decision on capital structure formulation or long term finance are influenced by multiple factors. Much of the focus is laid in the research on the subject pertains to the target capital structure, which the firm believes the best in terms of the financing goals. Financial economics has made a significant progress in explaining the incentives that make companies choose particular financing policies in the last two decades, a number of choice have been proposed to explain the variations in the debt equity ratio among firms. Increasingly the profession is moving beyond an examination of the basic leverage choice to the more detailed aspects of financing decisions.

The term capital structure is used to proportionate relationship between debt and equity. Equity includes paid up share capital, share premium, reserves and surplus (retained earnings). Debt includes debenture and long-term loan. The estimation of capital requirements for current and future needs is important for a firm and equally important is the determining of the capital mix. Equity and debt are the two principal sources for a business. "The financing decisions have two components. First, to decide how much total funds are needed and, second, to decide the source of their

\*Reader, Department of Commerce, Barkatullah University, Bhopal, Madhya Pradesh.

combustions to raise such funds. The total quantity of fund needed, however, depends upon the investment decision of the firm. Given that the firm has good estimates of how much capital funds are needed, the problem then remains one of determining the best mix of different sources to be used in raising the required funds. The process that leads to the final choice of the capital structure is referred to as the capital structure planning." The financing of a capital structure decision is a significant managerial decision. The company will initially have to plan its capital structure at the time of its promotion. Subsequently, whenever funds have to be raised to finance investment, a capital structure decision is involved. "In order to run and manage a company funds are needed right from the promotional stage up to the end, finances play an important role in a company's life. If funds are inadequate, the business suffers and if the funds are not properly managed, the entire organization suffers. It is, therefore, necessary that a correct estimate of the current and future need of capital be made to have an optimum capital structure, which will help an organization to run its work smoothly and without any stress." (2) Estimation of capital requirements is necessary, but the formation of a capital structure is important. According to Gerstenbeg " Capital structure of a company refers to the composition or make up of its capitalization and it includes all long- term capital resources viz; loans, reserves, shares and bond." The capital structure is made up of debt and equity securities and refers to the permanent financing of a firm. It is composed of long-term debt, preference share capital and shareholders funds. Keeping this background in view, an attempt has been made by the researchers to evaluate the 'capital structure' of IFFCO and Indo Gulf, who are leading fertilizer manufactures and distributors in the cooperative and private sectors in India.

**About the Companies :** HPCL is one of the leading petrochemical company in India. HPCL has two refineries, one west coast in Mumbai with a capacity of 5.5 million metric tones per annum, while the another is at Vishakhapatnam on the east coast has a capacity of 7.5 million metric tones per annum. The monitoring operation of HPCL are divided in three strategic business units retails, direct sales comprising lobes,

and industrial and government sales. HPCL has a 31% make share of the lubricants in the country. The HPCL engine oil product range covers 300 brands of lubricant, greases and other products which are related with the various engines. HPCL invested in various subsidiaries and joint ventures namely Guru Govind Singh Refineries Ltd, Mangalore Refineries Ltd. and Petrol Chemical Limited, Petronet MHB limited, South Asia LPG private Ltd., Prize Petroleum Company Ltd, Hindustan Colons limited, Petronet India Ltd. and Hindustan Omen Petroleum Company Ltd.

#### **Objectives of study**

This research study fulfills the following objectives :

To examine the capital structure pattern and policy of HPCL Ltd.

To examine the relationship between profitability and capital structure company.

To give suggestions for improvement of the capital structure position of HPCL.

#### **Limitations of the study**

This study is based on a analysis of the financial statement for five financial years i.e. 1999 to 2003 of HPCL.

For the analysis of capital structure, only secondary data, which are derived from the annual reports, has been taken in this study.

#### **Data and Research Methodology**

To analyze the capital structure of HPCL, secondary data, collected from the annual reports of the company, was used along with other published material of the company. For the analysis of capital structure, the annual reports from the year 1998-99 to 2002-03 used in this study. For an analysis of the capital structure of the company, the ratios of capital structure, common size statement and trend analyses techniques are used. Statistical techniques, such as mean growth rate and coefficient of variation, are also used in the relevant places. For the analysis of the capital structure of HPCL, the following ratios related to capital structure are used :

Debt equity

Funded debt to total capitalization

Proprietary

Solvency

Fixed asset to net worth

Fixed asset to long-term funds  
 Interest coverage.  
 Capital gearing.  
 Total investment to long-term liabilities.  
 Reserve to equity capital.  
 Financial leverage.  
 Earning per Share.

### Appraisal of capital structure

The capital structure of company consists of debt and equity securities, which provide finance for a firm. An optimum capital structure is one that market valuation of the firm's securities in order to minimize the cost of its capital.

### Findings with detailed discussion

**Debt Equity Ratio:** The debt-equity ratio is calculated to measure the extent to which debt financing has been used in a business. The ratio indicates the proportionate claims of owners and outsiders against the firm's assets. The purpose is to get an ideas of the case available to outsiders on the liquidation of the firm. As a general rule, there should be an approximate mix of owner's funds and outsider's funds in financing the firm's assest. However, the capital structure analysis of the oil industry owners want to carry on their business with a maximum of outsider's found in order to reduce the risk of interest to outsiders. On the other hand, out siders want those shareholders (owners) to invest and risk a proportionate share of their investments. Therefore, the interpretation of this ratio depends upon the financial policy of the firm and upon the firm's nature of business.

**Table 1 Debt Equity Ratio**

(Amount in crore Rs.)

Year	Debt(Rs.)	Equity (Rs.)	Ratio
1999	1393.65	5037.21	0.27
2000	2901.49	5771.69	0.50
2001	3569.52	6486.27	0.55
2002	4344.59	5897.68	0.73
2003	2765.97	6678.85	0.41
Mean	2995.04	5974.34	0.49
Growth Rate	98.47%	32.59%	

Source : Compiled from annual reports of HPCL (from 1999 -2003)

**As per table No 1-debt equity ratio of HPCL for the year 1999 -2003.** It shows that in the year 1999 ratio is 0.27 and in succeeding years it has been 200-0.50, 2001-0.55, 2002-0.7 and in the year 2003, 0.41 with over all average of 0.49, it is clear that the debt equity ratio increases continuously from year 1999 from 0.27 to in 2002 to 0.73. But it decreases in the year 2003 up to 0.41 when we analyze the growth rate, debt growth rate is 98.47% and growth rate of equity is only 32.59% which shows debt has been increases continuously. It indicates that the company adopted higher risk policy, for creditors and outsiders point of view debt-equity risk policy, for creditors and outsiders point of view debt equity ratios is very satisfactory.

**Funded Debt to Total capitalizations** -The ratio establishes a link between the long-term funds raised from outsiders and total Long-term funds available in the business. Funded debts to total capitalization are also one of the important ratios that explain the capital structure position of a company. There is no rule of thumb but, still, the lesser the reliance on outsiders the better it will be. Also, the smaller the ratio the better it will be. That the portion of debt finance increases. It means that, in the study period, the company has taken long-term borrowing and ratio increases due to decreases in free reserves.

**Table 2 Funded Debt to total capitalization ratio**

(Amount in crore Rs.)

Year	Funded Debt (Rs.)	Total capitali- zation(Rs.)	Ratio
1999	1393.65	6430.86	0.22
2000	2901.49	8673.18	0.33
2001	3569.52	10055.79	0.35
2002	4344.59	10242.27	0.42
2003	2765.97	9444.82	0.29
Mean	2995.04	8969.38	0.32
Growth Rate	98.47%	46.87%	

Source : Compiled from annual reports of HPCL (from 1999 -2003)

**As per table 2 ratio is 0.22 in the year 1999 but after that it has bee in the year 2000- 0.33, 2001 0.35, 2002-**

0.42 and in the year 2003 0.29 with the over all average of 0.32 the ratio of HPCL increases continuously from 0.22 to 0.29 between the year 1999- 2003, that indicate that the portion of debt finance increases. It mean's in the study period company taken long term borrowings and ratio increases due to decreases in free reserves. When we are analyzing growth rate, the growth rate of funded debt is 98.47% and the growth rate of total capitalization is 46.87%

**Proprietary Ratio** This ratio established the relationship between shareholders funds and the total assets of the firm. The components of this ratio are shareholder's funds and total assets. As the proprietary ratio represents the relationship of owners funds to total assets, the higher the ratio (the share of the shareholders in the total capitalization of the company) the better is the long-terms solvency and, from the capital structure point of view, this ratio indicates the extent to which the assets of the company can be lost without affecting the interest of the creditors of the company the assets of the company can be lost without affecting the interest of the creditors of the company.

**Table 3 Proprietary Ratios**

(Amount in crore Rs.)

Year	Proprietary Fund (Rs.)	Total Assets (Rs.)	Ratio
1999	5037.21	9215.01	0.55
2000	5771.69	13168.22	0.44
2001	6486.27	14974.96	0.43
2002	5897.68	15030.51	0.39
2003	6678.85	17346.69	0.38
Mean	5974.34	13947.08	0.44
Growth Rate	32.59%	88.24%	

Source : Compiled from Annual reports of HPCL (from 1999-2003)

**As per table 3** proprietary ratio of HPCL decreases regularly during the study. In the year 1999-0.55, in the year 2000-0.44, in 2001-0.43, in 2002-39, and in year 2003 -0.39 with the over all average of 0.44. When we are analyzing growth rate, shareholder have registered 32.59% growth as compare total asset

which has been registered a growth of 88.24%. This proprietary ratio shows that the position of HPCL is satisfactory.

**Solvency Ratio** : The ratio indicates the relationship between the total liabilities of outsiders to total assets of a firm. This ratio is a small variant of equity ratio and can be simply calculated as 100- equity ratio. Generally, the lower the ratio of total liabilities to total assets, the more satisfactory or stable is the long-term solvency position of a firm.

**Table 4 Proprietary Ratios**

(Amount in crore Rs.)

Year	External Liabilities (Rs.)	Total Assets (Rs.)	Ratio
1999	4177.80	9215.01	0.45
2000	7396.53	13168.22	0.56
2001	8488.78	14974.96	0.57
2002	9132.83	15030.51	0.60
2003	10667.7	17346.69	0.61
Mean	7972.73	13947.08	0.56
Growth Rate	155.34	88.24%	

Source : Compiled from annual reports of HPCL (from 1999-2003)

**As per table 4**-Solvency ratio of HPCL has been regularly increases during the study period. In the year 1999- 0.45, in 200-56, in 2001 -57 in 200 0.60 and the year 2003 0.61 time with the over all average of 0.56. It is clear that solvency ratio increase from 0.45 to 0.61. When we analyzing the growth rate, the growth rate of external liabilities is 155.34% and the growth rate of total assets is 88.245 it is clear that an external liabilities of HPCL increases by higher as compare to total assets, company increases external liabilities in capital structure.

**Fixed Assets Ratio** : The ratio establishes the relationship between fixed assets and shareholders fund. If the ratio is less then 100%, it implies that owner's funds are not sufficient to. There is no 'rule of thumb' to interpret this ratio but 60% to 65% is considered to be a satisfactory ratio in the case of an industrial undertaking. The ratio of fixed assets to net

worth indicates the extent to which shareholders' funds are invested into fixed assets.

**Table 5 Fixed Assets Ratios**

(Amount in crore Rs.)

Year	Net Fixed Assets (Rs.)	Net worth (Rs.)	Ratio
1999	3194.40	5037.21	0.63
2000	5621.13	5771.69	0.97
2001	5926.97	6486.27	0.91
2002	6484.98	5897.68	1.10
2003	6435.20	6678.85	0.96
Mean	5532.54	5974.34	0.94
Growth Rate	101.45%	32.59%	

Source : Compiled from annual reports of HPCL (from 1999-2003)

As per table 5, Fixed Assets ratio has been increasing during the study period. In the year 1999, the ratio is 0.63, in the year 2000-0.97, in 2001-1.10 and in the year 2003, the ratio is 0.96 with the overall average of 0.94. When we analyze the growth rate, the growth rate of fixed assets is 101.45% as compared to the growth rate of net worth, which is 32.59%. As per analysis, it is clear that the ratio of the company fluctuates, it means the company is improving its net worth as well as total assets during the study period. The improvement is slightly mainly due to the increase in fixed assets of the company.

**Fixed Assets to long-term funds:** This ratio indicates the extent to which the total assets are financed by the long-term funds of the firm. Generally, the total of fixed assets should be equal to total long-term funds. But, where fixed assets exceed the total of long-term funds, it implies that the firm has been financing a part of the fixed assets out of liquid funds or working capital, which is not a good policy. And if the total long-term funds are more than the total fixed assets, it means that a part of the working capital requirements are being met out of the long-term funds of the firm.

**Table 6 Fixed Assets to long-term funds ratios**

(Amount in crore Rs.)

Year	Net Fixed Assets (Rs.)	Long term Funds (Rs.)	Ratio
1999	3194.40	6430.86	0.49
2000	5621.13	8673.18	0.65
2001	5926.97	10055.79	0.59
2002	6484.98	10242.27	1.63
2003	6435.20	9444.82	0.68
Mean	5532.54	8969.38	0.61
Growth Rate	101.45%	46.87%	

Source : Compiled from Annual reports of HPCL (from 1999-2003)

As per table 6, Fixed Assets to long-term ratio increases regularly from 0.49 to 0.68 times between 1999-2003 with the overall average of 0.61 times, which is very positive from a solvency point of view. When we analyze the growth rate, the growth rate of fixed assets is 101.45% and the growth rate of long-term funds is 46.87%. As per the above analysis, it is clear that the funds of HPCL are more than total fixed assets, it means that a part of the working capital requirements is met out of the long-term funds of the company.

**Interest coverage Ratio:** Net income to debt service ratio or simply debt service ratio is used to test the debt servicing capacity of a firm. The ratio is also known as Interest coverage ratio or Coverage ratio or fixed charges cover or Times interest earned. This ratio is calculated by dividing the net profit before interest and tax by fixed interest charges. It indicates the interest-paying capacity of the firm.

Interest coverage ratio of HPCL for the year 1999 is 11.77 and in the succeeding year it has been 2000-9.47, 2001-4.41, 2002-5.17 and in the year 2003 16.77 with the overall average of 9.52 times. The highest ratio is 16.77 in the year 2003 and the lowest ratio is 4.41 in the year 2001. Growth in EBIT is 83.33% while the growth in interest is 28.72% that shows during the study period the company improved its EBIT as compared to interest. It is positive from a solvency point of view and the company has

option to use more long-term finance in their capital structure.

**Table 7 Interest coverage ratios**

(Amount in crore Rs.)

Year	EBIT (Rs.)	Fixed interest charges(Rs.)	Ratio
1999	1399.59	118.88	11.77
2000	1424.01	150.40	9.47
2001	1706.70	387.33	4.41
2002	1524.51	294.74	5.17
2003	2565.82	153.02	16.77
Mean	1724.13	220.87	9.52
Growth Rate	83.33%	28.72%	

Source : Compiled from annual reports of HPCL (from 1999 -2003)

**Capital Gearing ratio :** The term capital gearing is used to describe the relationship between equity share capital, including reserves and surpluses, and preference share capital and other fixed interest-bearing loans. If preference shares capital and other fixed interest-bearing loans exceed the equity share capital including reserves the firm is said to be highly geared. The firm is said to be have a low gearing ratio if preference shares and other fixed interest-bearing loans are less then the equity capital and reserves.

**Table 8 Capital Gearing Ratios**

(Amount in crore Rs.)

Year	Equit (Rs.)	Per. share & long term loan.(Rs.)	Ratio
1999	5036.46	1394.40	3.61
2000	5770.94	2902.24	1.99
2001	6485.52	3570.27	1.82
2002	5896.93	4345.34	1.36
2003	6678.10	2766.72	2.41
Mean	5973.59	2995.79	2.24
Growth Rate	32.60%	114.84%	

Source : Compiled from annual reports of HPCL (from 1999 -2003)

**As Per Table 8** Capital gearing ratio is depressed regularly from 1999-2002 . In the year 1999 ratio is 3.61 and in the succeeding years it is in 2000-1.99, 2002-1.36 and in the year 2003-2.41 with the over all average of 2.24 times, Growth of equity and reserves is 32.60% while the growth in purveyance share and long-term interest bearing securities is 114.84% that indicate increases in interest securities in capital structure during the study period. And they are the main source during that period.

**Total Investment to long term funds :** The next ratio is calculated by dividing total long-term funds by long-term liabilities, shareholders funds and long-term liabilities are components of total investments, and debentures and long-term loans are components of long-term liabilities. This ratio explains the position of long-term liabilities in total investments. Normally, a lower portion of long-term liabilities in total investments is considered good in case of solvency position of the business.

**Table 9 Total Investment to long term funds:**

(Amount in crore Rs.)

Year	Total Investment (Rs.)	Long term liabilities (Rs.)	Ratio
1999	6430.86	1393.65	4.61
2000	8673.18	2901.49	2.99
2001	10055.79	3569.52	2.82
2002	10242.27	4344.59	2.36
2003	9444.82	2765.97	3.41
Mean	8969.38	2995.04	3.24
Growth Rate	46.87%	98.47%	

Source: Compiled from annual reports of HPCL (from 1999 -2003)

**As per table no 9** Total investment to long term liabilities are decreases during the study period in the year 1999, ration is 4.61, in 2000 2.99, in 2001, 2.82 in 2002 2.36 and in 2003 3.41 respectively. Over all average is 3.24 times which shows long term liabilities are increases year by years,. The growth in total investment is 46.87% and the growth in long-term liabilities has been 98.47% . It has been observed that

the company using maximum long term funds during the study period expansion of the units.

**Reserve fund equity share capital :** The next ratio establishes the relationship between reserves and equity share capital. The ratio indicates that how much profit does the firm generally retain to fund for future growth. The higher the ratio, the better is the position of the generally.

**Table 10 Reserve fund to equity share capital.**

(Amount in crore Rs.)

Year	Reserve funds (Rs.)	Equity share Capital (Rs.)	Ratio
1999	4811.62	225.59	21.33
2000	5432.94	338.75	16.04
2001	6147.50	338.77	18.15
2002	5558.87	338.81	16.41
2003	6340.02	338.83	18.71
Mean	5658.19	316.15	18.33
Growth Rate	31.76%	50.19%	

Source: Compiled from annual reports of HPCL (from 1999-2003)

**Table 10** shows the reserve to equity share capital fluctuating between 21.33% to 16.41% during the study period. It is clear that the portion of reserve funds are regularly increased as compared to equity share capital. Reserve fund increases from 4811.62 crore to 6340.02 crore with over all average of 5658.19 crore. Equity capital also increases from 225.59 crore to 338.83 crore with over all average of 316.15 crore the growth of reserve fund is 31.76% while the growth of equity share is 50.19% the growth of reserve funds shows that company transferred a large amount of profit reserve funds.

**Financial leverage :** The term financial leverage refers to the use of fixed charges, such as a debenture, and the use of variable charge or securities, such as equity shares, in the financial structure and total assets of the firm. So the financial leverage refers to the presence of a fixed. Charge in the income statement of the firm. This fixed charge is fixed in amount and does not vary

with the changes in the EBIT, whereas the return available to the equity shareholders, which is a residual balance, is affected by the changes in EBIT.

**Table 11 Financial leverage.**

(Amount in crore Rs.)

Year	EBIT (Rs.)	EBT(Rs.)	Ratio
1999	1399.59	1280.71	1.09
2000	1424.01	1273.61	1.12
2001	1706.70	1319.37	1.29
2002	1524.51	1229.77	1.24
2003	2565.82	2412.80	1.06
Mean	1724.14	1503.25	1.16
Growth Rate	83.33%	88.39%	

Source: Compiled from Annual reports of HPCL (from 1999-2003)

**As per table 11** financial leverage of the company increases regularly from 1.90 times to 1.24 times between 1999 to 2003 over all average of 12.16 times growth of EBIT is 83.33% while the growth of EBIT is 88.39% that shows similar effect on financial leverage.

**Table 12 Earning Per Share**

(Amount in crore Rs.)

Year	Earning for equity (Rs.)	No of equity shares (Rs.)	Ratio
1999	901.30	22.56	39.95
2000	1057.40	33.88	31.21
2001	1086.34	33.82	32.12
2002	787.98	33.88	23.26
2003	1537.36	33.88	45.26
Mean	1074.08	31.60	34.38
Growth Rate	70.57%	50.18%	

Source: Compiled from Annual reports of HPCL (from 1999-2003)

**As per table 12** EPS of the HPCL shows fluctuating during the study period. It is in the year 1999, 39.95 in 2000, 31.21 in 2001, 32.12 in 2002, 23.26 and in the year 2003 45.37 times with overall average of 34.38



times. The growth of profits available for equity share holders are 70.57% while growth number of share are 50.18% that reflects strong position of EPS during the study period.

**Analysis of Capital structure of HPCL:** capital structure of HPCL consist three main components of capital structure share capital, reserve funds, loan capital these are mainly components of capital structure. (Refer to Table 13 on pg. No.34)

The position of share in total capital shows constant trend and reserve has been increasing except in the year 2001-02, during the study period. The position loan also shows increasing trend except in the year of 2002-03 when it fall speedily. On the other hand unsecured loan show an increasing trend during the year of 99-2000 to 2000-10 and decreasing trend in the year 2001-02 and 02-03.

**T-Distribution Test : Analysis of capital structure position of HPCL :**

Null Hypothesis : There are no significant difference between mean of debt and equity and at the level of 5%

$$t = \frac{X_1 - X_2}{S} \sqrt{\frac{N_1 N_2}{N_1 + N_2}}$$

$$t_{.05} = \frac{2995.04 - 5974.34}{898.65}$$

$$t_{.05} = 2.24$$

$$S = \sqrt{\frac{\sum d_1^2 + \sum d_2^2}{N_1 + N_2}}$$

$$= \sqrt{\frac{1683563 + 4776987}{5 + 5 - 2}}$$

$$S = \frac{\sqrt{6460550}}{10 - 2} = \frac{\sqrt{6460550}}{8}$$

$$S = \sqrt{807568.75} = 898.65$$

S= Stands for combined standard of two samples

Mean :-

$$(X_1) \text{ Debt} = 2995.04$$

$$(X_2) \text{ Equity} = 5974.34$$

and

$$d_1^2 = (X_1 - X_2)^2$$

$$d_2^2 = (X_1 - X_2)^2$$

Degree of freedom  $n_1 + n_2 - 2 = 8$

Table value of  $t_{0.5}$  at 8 d.f. = 2.26

The calculated value of  $t_{.05}$  is 5.24 > 2.30 -table value

therefore null hypothesis is rejected. Thus, the difference between the mean debt and of equity is significant . So that null hypothesis is disapproved. Hence debt and equity capital have their separate entity.

### Findings and Conclusion

After the analysis of capital structure of oil industry especially HPCL, which is largest, oil company in public sector. It is clear that the capital structure patten of HPCL includes share capital, reserve funds and loans. In the study period it was revealed that the share capital were constant but reserve were fluctuating they have been increasing in the year 2002-03, which indicates that company have increased their earnings. Secured loan have been increasing up to 2001-02 then after it started decreasing due to redemption of loans capital which were redeemed out of their reserve funds. Unsecured loan also have been decreasing which indicates that unsecured loans are redeemed and the company has started using their reserves as capital. Interest coverage ratio also indicates that debt services is satisfactory because it has been concluded that HPCL Ltd . easily meets out their obligation like interest which is clearly given in Table no. 7 although interest coverage ratio continuously decreasing up-to 2002-03 than after it has increased. The capital structure of HPCL consists a huge amount in their reserve and funds. The percentage of the reserve funds is averaging 70% during the study period and the remaining 30% of capital represents share capital and loan capital. The company have debt capital on average 15% during the study period and rest of the amount is in share capital so that the value of shares will be maximize and can increase operation profit and wealth of the firm. At present the company is having a sound financial position, in this light company can use more and more debt capital in their business to increase value of the firms because its earning is higher. In this study it is also concluded that a Public Sectors Company especially oil sector (HPCL) having higher returns or reserve in their business so that company can enjoy with debt capital in their capital structure. It also suggested that company should increase their debt capital rather then redemption of debt capital.

**References**

- Engler, G.N. (Ed.) (1973), *Managerial Finance: Cases and Readings*, Inc, Dalla.
- Futhmann, H.G. & dougall, H.E. (1995), *Corporate Financial Policy*, 4th ed., Prentice Hall of India Pvt. Ltd, pp. 84-85.
- Hampton, J.J. (1998), *Financial Decision-Making, Concepts, Problems and Cases*, Prentice Hall of India Pvt. Ltd, New Delhi.
- Pandey, I.M. (2000), *Financial Management Theory and Practices*, Vikas Publishing Company, New Delhi.
- Jagdish, Prakesh, Rao & Shukla (1996) *Administration of Public Enterprise in India*, Himalaya Publishing Company, New Delhi.
- Khan & Jain. (1997), *Financial Management*, Tata Mc Graw Hill Publishing Company, New Delhi.
- Balwani, N. (2000), *Accounting and Finances for Managers*, Excel Publisher's Private Ltd., p. 772.
- Rustagi, R.P. (2000), *Accounting Management, Theory, Concept and Problems*, 2nd ed., Galgotia publishing Company, New Delhi, p.860.
- Banerjee, S.K. (2000), *Financial Management*, S. Chand and Company, New Delhi.
- Walker, E.W. (1974), *Essentials of Financial Management*, Prentice Hall of India Pvt. Ltd.
- Bhalla, V.K. (1997), *Financial Management and Policy*, 1st ed., Anmol publications, New Delhi.
- Wachowicz, V.H.J.C. (1998), *Fundamental of Financial Management*, 9th ed., Prentice Hall Inc, New Delhi.
- Annual Reports of HPCL from 1998-99 to 2002-03.

Table 13: Analysis of Capital Structure of HPCL

(Amount in crore rupees.)

Sources	1998-99		1999-2000		2000-01		2001-02		2002-2003	
	Amount (Rs.)	%	Amount (Rs.)	%	Amount (Rs.)	%	Amount (Rs.)	%	Amount (Rs.)	%
Share Capital	225.59	3.50	338.75	3.90	338.77	3.36	338.81	3.73	338.83	4.21
Reserve funds	4811.62	74.82	5432.94	62.64	6147.50	61.13	5558.87	61.29	6340.02	78.805
Secured loans	660.79	10.27	1611.85	18.58	2181.51	21.69	2216.06	24.43	640.50	7.96
Unsecured loans	732.86	11.39	1289.64	14.86	1388.01	13.8	955.45	10.33	725.43	90.1
<b>Total</b>	<b>6430.86</b>	<b>100</b>	<b>8673.18</b>	<b>100</b>	<b>10055.79</b>	<b>100</b>	<b>9069.22</b>	<b>100</b>	<b>8044.78</b>	<b>100</b>

## THE MARKETING PERCEPTION OF BRAND 'INDIA': A STUDY OF TELEVISION MARKET

BIKRAM JIT SINGH MANN\*

### Table of Contents

- Abstract
- Introduction
- Method
- Results
- Conclusions
- References

### Abstract

*Consumers develop certain perception towards brands originating from different countries. This has an important impact on the purchase behaviour of the consumer. The study of perception of brand 'India' in the marketplace has become all the more important with Indian marketplace being opened up to the multinational brands. Brand 'India' from the marketing perspective means low cost products but durable with an average quality. Nevertheless, brand 'India' is considered to provide good guarantee/warranty.*

### Introduction

Consumers develop certain perception about a brand. This perception is made of brand attributes. Researchers have identified that the country to which a brand belongs to has an effect on building a certain perception about that brand. Also consumers have different general perceptions towards a country. This, country image has significant effects on consumer attitudes towards individual brands from a country. This stereotypical image about a brand from a certain country subsequently affects the purchase decision. Japan's national image as a manufacturer of quality consumer durables with innovative features has given it a competitive advantage worldwide. On the other hand Italy has the image of being pioneer in design and style; Germany's advantage lies in workmanship; Switzerland is known for precision; and Israel for high-tech

engineering. On the other hand, countries possessing real manufacturing poweress but with poor country images lack competitive advantage. Cases include some of the former Communist bloc countries such as Poland and Hungary. China, the factory of the world, is perceived as producer of cheap goods with not so good quality. Keller (2003) rightly confers that the World is becoming a 'cultural bazaar' where consumers can pick and choose brands originating in different countries based on their beliefs about quality of certain countries or the image that those brands or products communicate.

There are two way interactions between the images of countries and of brands. A German car is expected to gain competitive advantage as an engineering marvel. On the other hand, experiences with brands and products do affect the image of a country. Iversen et al. (1998) feel that strong brand names (such as Sony and Mercedes) may affect the country image of their product class and have spill-over effects on other, less known brands. Thus Srinivasan et al. (2004) confer that it is important for a country to invest resources to build up a country specific image.

Han and Qualls (1985) while discussing the role of foreign brand names suggest that these affect consumer evaluations of products in two ways. It involves the consumer's identification of the country of origin from the brand names. Further, the brand names and seller familiarity affects consumer perceptions of quality and product evaluations. Brand names serve as information cues which facilitate consumer decision making. Thus the country of origin of brand names depicts certain quality perceptions in the minds of the consumer. It was also found that foreign brand names impact consumer perceptions through specific product attributes. For example, German-made products are perceived as being more expensive, luxurious, attractive

---

\*Reader, Department of Commerce and Business Management, Guru Nanak Dev University, Amritsar.

but of traditional style.

Chung et al. (1994) suggest that a certain country image has a set of associations, some of which are favourable, unfavourable or neutral. They have further defined country-of-origin of a brand as the country name of each brand (e.g. Ford Escort is a US brand and Toyota Corolla is a Japanese brand). They conclude that the value of the country name can be measured in terms of marketing variables such as price, advertising and product attributes.

Martin and Eroglu (1993) while discussing country image and country of origin effects state that buyers develop stereotypical images of countries and/or their purchase decisions. As buyers become more familiar with a country's products, country image may help them summarize their product beliefs and directly affect their brand attitudes.

Explaining the working of summary construct concept, Belch and Belch (1993) confer that country image is perceived as a brand image would be. That is, consumers will recode and abstract individual elements of information into higher order units or 'chunks'. Further, Han (1994) suggests that country of origin serves as a summary construct for consumers who are familiar with a country's products. A familiar consumer does not examine attributes of the brand in question, but simply recalls from memory a previously formed overall evaluation of products from the country. Iversen et al. (1998) state that using country of origin as a branding strategy is beneficial because people often already have a relationship to, or opinions about, different countries. By spinning on these relationships it is possible to sell products and services that would have little opportunity of making it internationally on their own. A country's intangible assets are associations with quality dimensions that a country gradually has acquired through export of goods and services. They arise from consumer belief that there is something special about, for example, the labour, technology, or manufacturing processes within a particular country. Such images of manufacturing nation have a substantial impact on judgments of product qualities.

Nebenzahl (1998) proposes a model explaining the dynamic interactions between brand image, country

image and product evaluations. The author explains that exposure to a product triggers its brand name, country of origin of the brand and 'made-in' label, cues/stimuli in the mind of the consumer. These stimuli retrieve from memory the relative images of the brand and of the respective countries which in turn determine the relative image of the considered product. Further evaluation of the similarly derived relative images of all considered competing brands leads to purchase decisions. The author further states that consumers associate certain brands with certain countries, regardless of where they are actually produced. There is strong evidence in the country of image effect literature that the most likely country of origin of brand is the country where the brand originated.

The above discussion reveals that country of origin of a brand has a unique and significant effect on the perception of that brand. Nevertheless, hardly any research has been undertaken in India to evaluate what attributes are attached to the brands having origin from different countries. Moreover, the increasing economic globalization has led to the availability of almost all the products in all the markets worldwide. This makes it relevant to study from the marketing perspective, brand India vis-à-vis the multinational brands. Marketing managers need to understand country images within the context of their own offerings and those of their competitors with brands originating in foreign countries. The specific question attempted to answer is what attributes are attached to Indian brands vis-à-vis brands from other countries.

### Method

To evaluate the perception towards brands of Indian origin versus brands of foreign origin, the study was confined to television industry. Television industry was selected because this industry has strong Indian as well as foreign players. Further, Japan and Korea were the countries selected for evaluation vis-à-vis Indian brands. The reason for this being quite a few Japanese and Korean brands are the major players in the television market besides Indian brands.

A field survey was conducted in the city of Amritsar. A total of 300 observations were analysed from a sample of 100 respondents selected. To make the sample more

representative, 20 respondents each were selected from five occupations/professions, namely, Medical Doctors; Chartered Accountants and Engineers; Students; Service people and Business people. The information was collected personally with the help of structured and non-disguised questionnaire. Respondents were first asked to recall and list the brand of television that first came to their mind. They were further asked to evaluate the various attributes of television brands of Indian origin on a five point scale ranging from 'highly significant' to 'highly insignificant'. The same attributes were then got evaluated for brands of Korean origin and then brands of Japanese origin.

Weighted average score (WAS) method has been used to evaluate the results. The weights assigned were 5, 4, 3, 2 and 1 for level of agreement ranging from highly significant to highly insignificant.

## Results

### Brands recalled

The respondents were asked to name the brand of television that came to their mind, to know the level of awareness of brands having different countries of origin. The breakup of brand recalled is given in Table 1.

Table 1: Breakup of Brand Recalled

S.No.	Brands	No. of respondents	Per. %
1.	Sony	34	34%
2.	LG	18	18%
3.	Onida	15	15%
4.	Samsung	10	10%
5.	Sansui	9	9%
6.	Akai	6	6%
7.	BPL	5	5%
8.	Videcon	3	3%
<b>Total</b>		<b>100</b>	<b>100%</b>

The above table reveals that the most recalled brand of television is Sony (34%) followed by LG (18%), Onida (15%) and Samsung (10%). Also, out of a total of eight brands recalled, 3 are Japanese brands (Sony, Sansui and Akai), 2 are Korean brands (LG and Samsung) and 3 are Indian brands (Onida, BPL and Videcon).

What Indian brands mean vis-à-vis Korean and Japanese brands?

The WAS and rank for each attribute for Indian brands vis-à-vis Korean and Japanese brands of television are depicted in Table 2.

Attribute	Indian brands		Korean brands		Japanese brands	
	WAS	Rank	WAS	Rank	WAS	Rank
1. Quality	4.17	3	4.24	3	4.50	1
2. Price	4.49	1	4.42	2	4.18	3
3. After sales service	3.80	5	3.76	5	3.96	5
4. Innovative features	3.55	6	4.47	1	4.02	4
5. Durability	4.34	2	4.16	4	4.44	2
6. Guarantee/Warranty	3.91	4	3.43	6	63.71	6

Table 2: WAS and Rank for each attribute for Indian, Korean and Japanese brands of television

The above table shows that while evaluating the brand attributes of Indian brands Vs Korean brands Vs Japanese brands, in terms of 'quality' Japanese brands have the highest WAS (4.5) followed by Korean brands (4.24) and Indian brands (4.17). For brand attribute 'price', Indian brands have the highest WAS of 4.49 followed by Korean brands (4.42) and Japanese brands (4.18). 'After sales service' provided by Japanese brands has the highest score of 3.96, followed by Indian brands (3.80) and Korean brands (3.76). Korean brands are considered to have the most 'innovative features' (4.47) followed by Japanese brands (4.02) and the least score is of Indian brands (3.55). Brand attribute 'durability' has the highest score for Japanese brands (4.44) followed by Indian brands (4.34) and Korean brands (4.16). 'Guarantee/Warranty' provided by Indian brands is recognized as the best (3.91) followed by Japanese brands (3.71) and least for Korean brands (3.43).

Thus, in terms of 'quality' Indian brands are not considered to be as good as Japanese and Korean brands but are cheapest in terms of 'price'. 'After sales service' of Indian brands is considered to be a shade better than Korean brands but not as good as Japanese brands. Indian brands have a very low score as far as innovative features are concerned where Korean brands

are considered to be the most innovative. This may be due to the exposure the two major Korean players LG and Samsung have. These two companies have emerged as market leaders in this industry. Indian brands are considered to be more durable than Korean brands but not as durable as Japanese brands. 'Guarantee/warranty' provided by Indian brands is perceived as the best as compared to the Japanese and Korean brand. This may be due to, over the years, the trust Indian brands have built with their customers.

### **Perception towards Indian, Korean and Japanese Brands**

#### **Perception towards Indian brands**

Price is the most important attribute of Indian brands followed by durability, quality and guarantee/warranty. So, Indian brands are considered to cost less but durable and of average quality. Also, Indian brands provide good guarantee/warranty.

#### **Perception towards Korean brands**

Korean brands are perceived as having innovative features, not very expensive and having average quality. Korean brands are also perceived as being quite durable.

#### **Perception towards Japanese brands**

The important attributes of Japanese brands are quality products that are durable but are expensive. They also have some innovative features.

#### **Conclusion**

In conclusion, brand 'India' from the marketing perspective means cheap product but durable with an average quality. Nevertheless, brand 'India' is considered to provide good guarantee/warranty but not as good after sales service. However, brand 'India' is not at all considered to be 'innovative'. If the marketing managers of Indian brands have to be successful, they have to concentrate on improving the image of Indian brands in terms of quality and durability.

Thus, the foregoing analysis clearly state that brands originating from each country have unique perceptions attached to them. In the current marketing scenario, Indian marketing managers can no longer consider their brands in isolation from brands originating from other

countries. They have to track perception of Indian brand vis-à-vis brands from other countries. Only then can they survive and successfully face the onslaught of brands of multinational companies.

#### **References**

- Belch, George E. and Michael A. Belch. (1993), *Toward Toward Development of a Model and Scale for Assessing Consumer Receptivity to Foreign Products and Global Advertising*, *European Advances in Consumer Research*, vol. 1, pp 52-57.
- Chang, Jay Y., Hideo Hayashi and Chung Koo Kim (1994) *The Marketing Value of Country Name*, *Asia Pacific Advances in Consumer Research*, vol. 1 pp 47-51.
- Han, C. Min (1994), *Assessing the Roles of Cognitions, Country of Origin, Consumer Patriotism and Familiarity in Consumer Attitudes Towards Foreign Brands*, *Asia Pacific Advances in Consumer Research*, vol.1, pp 103-108.
- Han, C. Min and William J. Qualls (1985), *Country-of-Origin Effects and their impact upon Consumers' perception of Quality*, *Historical Perspective in Consumer Research: National and International Perspectives*, pp162-167 (source: [www.vancouver.wsu.edu](http://www.vancouver.wsu.edu))
- Iversen, Nina M., Ingeborg Astrid Kleppe and Inger G Stensaker (1998), *Country Image in Marketing Strategies: Conceptual Issues and an Empirical Asian Illustration*, *Asia Pacific Advances in Consumer Research*, vol. 3, pp 197-203.
- Keller, K L (2003), *Strategic Brand Management – Building, Measuring and Managing Brand Equity*, Prentice-Hall, New Jersey.
- Martin, Ingrid M. and Sevgin Eroglu (1993), *Measuring a Multi-Dimensional Construct: Country Image*, *Journal of Business Research*, vol. 28, pp 191-210.
- Nebenzahl, Israel D. (1998), *Consumers' Awareness of a Brand's Origin Country and Made-in Country: Development of Research Methodology and Initial Results*, *European Advances in Consumer Research*, vol. 3, pp 149-153.
- Srinivasan, Narasinmhan, Subhash C. Jain and Kiranjit Sikand (2004), *An Experimental Study of Two Dimensions of Country-of-Origin (Manufacturing Country and Branding Country) using intrinsic and extrinsic cues*, *International Business Review*, vol.13, pp 65-82.

## CONSUMER ATTITUDE TOWARDS WEB ADVERTISING

GURMEET SINGH\*  
HARISH GAUTAM\*\*

### Table of Contents

- Abstract
- Introduction
- Objectives and Methodology
- Attitude Towards Web Advertising - A Snap Shot
- Analysis and Discussion
- Conclusion
- References

### Abstract

*Internet has become an information hub & source of entertainment for most the consumers. The web is only a few years old but it is maturing quickly. The attitude of its perspective consumers is mainly responsible to make a product more saleable. Attitude towards advertising media plays an important role in the success or failure of an advertising campaign. The objective of the present study is to analyse the attitude of Web surfer's towards Web advertising. The company may have very effective advertising campaigns but if the company's consumers have a negative attitude towards the company's brand then it will be very difficult for the company to penetrate in the minds of the consumers positively.*

### Introduction

Internet has become an information hub & source of entertainment for most the consumers including children. As per the survey conducted by a California marketing firm, there are now 25 million 2 to 17 year olds on the Web. When internet technology and Web servers first became available and popular, a lot of people went out and set up their own intranet servers, and it was fun and games for a while. But they soon realized how much work it was to maintain their own sites and keep their information an institution ..

perspective on developing information systems (Blackwell Publishing 2003) . "Web commerce is still in its infancy. The companies that have started down this route are still learning lessons and figuring out what makes sense for them" (Maddox, 1998) .

The web is only a few years old but it is maturing quickly. It is estimated that it already accounts for 5 to 8 percent of America's gross domestic product. Likewise, U.S. online advertising spending is currently around \$5 billion but is expected to balloon to over \$20 billion by 2004. During these early years of the web, banner advertisements have been the prominent form of online advertising; commercials as we know them from TV have not been used to any great degree. However, it would appear that, in the very near future, advertisements with audio and video--as we are used to on TV as well as other forms of "rich media"--could be common on the web.

Geographic market for web users is Asia is growing up fast. In 2000 there than 100 million users (Find, 2001) .Recently this number has multiplied manifold. In the Asian continent China is doing well and it has already surpassed Taiwan in total number of web users. In year 2001 China had 22 million web users as compared to 10 million in Taiwan .But when we talk of usage rate Taiwan is still much better than China. Web users in China are growing faster than in any other country in Asia (McCarthy, 2000) . Over 57 percent of South Korean web users are using broadband connections, compared to over 10 percent in the United States (Find, 2001). All such rapid growth outside of the United States forces marketers to reevaluate issues surrounding globalization as it relates to and is changed by the web.

\*Professor, Department of Management, Addis Ababa University, Ethiopia.

\*\*Professor, Hansh Gautam,Doaba College, Jalandhar, Punjab

Even India has not lagged behind in this direction. Information Technology Act (2000) and Communication Convergence Bill (2001) of the Government clearly show the direction in which the country is moving to facilitate a single communication network catering to all types of technologies (i.e. Internet, Datacom, Telecom, Wireless, Wireline, Fixed, Mobile, Cellular, Satellite Communication, etc.), and e-commerce. The World Wide Web has created a new communication environment for advertising campaigns, thus initiating a new era of firm-consumer interaction. Firms use advertising messages and Direct Experience (DE) as two common sources of information to communicate with consumers about products. These two sources of information differ significantly in their ability to foster strongly held beliefs about search and experiential product attributes. Advertising has been found to be superior at communicating search attribute beliefs and DE has been found to be superior at fostering experiential attribute beliefs.

What makes a product more saleable than the other identical competing brands? Apart from a number of other factors, a major role is played by the attitude of its perspective consumers. Attitude rather plays an important role in the success or failure of a business. The company may have very effective advertising campaigns but if the company's consumers have a negative attitude towards the company's brand then it will be very difficult for the company to penetrate in the minds of the consumers positively (Jean et al, 2003). The company may provide the competitive products and services, it may be the in the market but even then it may not be able to generate the appropriate share in the sales. All the investments and strategies of the company will go waste if the consumer has a negative attitude towards the media being used for advertising (June, 2003). For instance, if a consumer is sceptic about web advertising then he will not click advertisements on the Internet. This all is going to waste the expectations and investments of the companies on internet advertisements.

### **Objectives and Methodology**

The objective of the present study is to analyse the attitude of web surfer's towards web advertising. For the purpose of study, the data was got filled in from 300 respondents. Convenience sampling technique was used for data collection. The study further analysed if there was any difference in the attitude based on the gender of the respondents. For studying the attitude of respondents towards web advertising the "Likert Scale" was used. As per this scale the statements were quoted in the questionnaire with the corresponding five checkboxes to be ticked as Strongly Agree, Agree, Neutral, Disagree, and Strongly Disagree. The respondents were asked to read the statements and tick the most appropriate checkbox as per their belief. Then this data was converted into tables and with the help of 'Weighted Averages' the attitude towards the advertising was assessed. In addition to that 'Chi-Square' test was implemented in order to test the hypotheses of the study.

### **Attitude towards web advertising-A snap shot**

The consumer may enjoy watching the advertising message, he may find it very entertaining but when the time of real purchase comes, he may not be interested in spending money on the same product. The product may always be on the mind of the consumer but he may not be consuming the same product. His purchases may be in favour of its rivals. In such a difficult situation the companies feel it impossible to attract the interest of the consumers in their products. Due to the negative attitude of the consumer it is always difficult to change the dead consumer interest in the company's products. It is a big threat for the modern companies to keep an eye over the attitude of the consumer, because the attitude of the consumer slides down very easily but it is almost impossible to make the upward shift.

The Internet offers firms the unique opportunity to digitalize experiential attributes in multimedia formats (Burke 1997). The Internet has expanded consumer



access to information and provided firms an opportunity to provide consumers additional layers of information. In general attitude toward advertising can be defined as "a learned predisposition to respond in the consistently favorable or unfavorable manner to advertising in general" (Lutz, 1985), its scope and measurement has widely varied in the literature. The study of attitudes to advertising may be regarded as significant one because it influences attitudes-toward-the ad, an important predecessor of brand attitudes (e.g., Lutz, 1985; Mackenzie, Lutz, and Belch, 1986; Mackenzie and Lutz, 1989; Muehling, 1987; Shimp, 1981). Similarly, now researchers suggest that there may be value in exploring the effect of attitudes-toward-the-website in evaluating the effectiveness of web advertising.

As the attitude of the consumer is important in determining the success or failure of the concern, the attitude of the web surfers towards it as a medium of advertising is very crucial. If Internet users think negative about the Internet/Web as a medium of advertising then it will be of no use for the companies to spend money on Web ads. Web advertising is being widely used throughout the world effectively using web techniques like; E-mail, Newsgroups, popup windows, banners, roadblocks (Peter et al, 2003).

**Analysis and Discussion**

The study shows that 40.65 percent of total

respondents have positive attitude towards Web advertising, 34.13 have negative attitude towards Web advertising whereas 25.20 percent of the respondents are neutral in the response.

**Table 1: Overall Attitude of the Respondents towards Web Advertising**

Response in Percentile	Male	Female	Total
Strongly Agree (SA)	6.16	4.49	10.65
Agree (A)	14.17	15.28	29.44
Neutral (N)	10.00	15.51	25.51
Disagree (D)	8.38	14.44	22.82
Strongly Disagree (SD)	5.74	5.83	11.57
Total	44.44	55.56	100.00

Source: Computed from the data collected from respondents.

The analysis of attitude in relation to sex reveals that out of the male respondents, 20.33 percent and 19.77 percent of the female respondents have the positive attitude towards Web advertising. Where as 14.12 percent of male and 34.39 percent female respondents have a negative attitude towards Web advertising.

A simple test of hypothesis has been performed to check the difference of attitude response based on sex for each of the statements. This involved testing the null hypothesis i.e. there is no significance difference

Statements as per Likert Scale to measure the attitude of the respondents.	Attitude Towards Web Advertising	Hypothesized Relationship with Gender
Advertisements should be banned on Internet.	Negative	Accepted
Clicking advertisement links is wastage of money and time.	Negative	Accepted
Internet advertisements are attractive.	Positive	Accepted
Internet shopping is risky as the fear of misuse of credit card number.	Negative	Rejected
Lack of Cyber Laws implementation makes internet as fraudulent.	Negative	Rejected
It is very costly to click the Ads on internet.	Negative	Accepted
Most of the Web Advertisements make false claims.	Negative	Accepted
I like to surf the sites for shopping rather than on physical stores.	Positive	Accepted

Source: Computed from the data collected from respondents.

in the attitude of the respondents towards the specific statements based on sex of the respondents. To test the significance of this relationship, Chi-Square test has been used. The results of the hypothesis have been put in table 2.

**Table 2: Attitude Responses as per Likert Scale**

Table 2 depicts the attitude of the respondents towards Web advertising based on some of the important statements as per Likert Scale. As per the data, 16.7 percent of the respondents agree with varied degrees (8.9 percent A along with 7.8 as SA) advertising should be banned on the internet, where 73.4 percent (16.7 SD and 56.7 D) were against banning of advertisements on internet. The response of men and women was same. Similarly, in another important statement that clicking the advertisements on the internet is wastage of time and money, 42.8 percent agreed to the statement while 30.7 percent did not favour the same. As far as gender based analysis is concerned the hypothesis for the same was also accepted i.e. there was no significance difference in responses. Third positive statement was if the respondents felt any attraction in internet advertising, 40.7 percent of the respondents agreed, 32.8 percent of the respondents were against the same and the balance of 26.7 felt neutral. Forth statement was if the respondents felt Internet shopping to be risky for the fear of misuse of credit card number. In response to this statement, 66.7 percent of the respondents believed so and merely 16.1 percent felt it was not risky to shop on web. In this case the null hypothesis was rejected and thus response of men and women was significantly different. Another negative statement was put for response i.e. if the respondents felt that lack of cyber laws implementation makes internet as fraudulent. 66.6 percent of the respondents showed a negative attitude where as 16.7 were of feeling that this doesn't affect their attitude towards web advertising and the remaining 16.7 percent of the respondents were neutral in the response to this statement. The null hypothesis for

this statement also stands rejected, thus meaning that men and women had different attitude for this statement. The next negative type statement was if the respondent felt it costly to click the ads on internet. 23.37 percent of the respondents felt that it is costly to click the internet advertising where as 60 percent of the respondents were of the opinion that cost does not matter in clicking or not clicking the web advertising. All of respondents were of the similar opinion i.e. the sex of the respondent had no effect any difference in response to this statement. Another important statement was if the respondents felt that most of the Web Advertisements make false claims, 40.52 percent of the respondents felt it to be true so about web advertising where as 20.2 percent don't believe so and the balance 38.9 percent remained neutral in this respect. The last statement was if the respondents liked to surf the sites for shopping rather than the physical stores. This clearly asked if the internet is perceived as an alternative to window shopping or not. 40.6 percent of the respondents agreed to the fact that they like to purchase online where as 29.3 percent of the respondents were against online shopping and thus enjoy shopping on physical malls rather than cyber malls. Both men and women had no significance difference as far as the response towards the statement is concerned.

An analysis of the above statements reveals that the consumers on the whole have a positive attitude towards Web advertising. They feel that internet advertisements are attractive enough to catch their attention and they also prefer to purchase the products online rather than visiting the physical stores. On the other hand there is a negative aspect too and this reveals that internet advertising is an expensive even for the surfers i.e. it is expensive affair to click the advertising links. The respondents also expressed the fear of misuse of the credit card on the internet. They further felt that there is no active cyber laws implementation in India and thus it makes fraudulent activities. Hackers can openly hack the credit card

numbers of the customers and thus there is a fear in this respect. As per the hypothesis testing, the female respondents specially felt sceptic about the security issues. This may be due to their inborn traits whatever the reason is; there are many instances of fraudulent activities in case of online sale and purchase. Thus the online advertisers should try to overcome these weaknesses in order to make it acceptable to all and sundry.

As far as the overall attitude of the respondents towards web advertising is concerned, 41 percent of the respondents have positive attitude towards web advertising, 34 percent of the respondents have shown a negative attitude towards web advertising and the balance 25.5 percent of the respondents remained neutral. Hypothesis that sex has no relation with overall attitude is accepted and thus, the response is independent of the sex of respondents.

### Conclusion

The implications of the study are that consumer have positive attitude towards Web advertising. Around 41 percent of the respondents have a positive attitude, around 34 percent of the respondents have a negative attitude and 25 percent have neutral attitude towards Web as a medium of advertising.

Though consumer have positive attitude towards web advertising even then it is still considered as a costly affair. Thus there is need for infrastructure development to make it easily available. With the implementation of broadband it has becoming faster in speed but the consumer still has to pay as per the data used and thus there is a hitch in usage. If this becomes free like TV programmes it will revolutionise the way the marketers plan for products. The future researchers can aim to answer the relationship of various demographic features in relation to the attitude of the consumers towards web. A research may further be conducted for comparing the attitude of the consumer towards TV and Web as the media of advertising. Most of the consumers' though literate were not able to use

internet, they are having a mind setup that they need some special skills before they can use internet so they are not of any use both for advertisers and for our study.

In short, we can say that though Web advertising has shown an overall positive attitude yet it is an undisclosed gold mine, it is in its infancy and with the improvements in the infrastructure and the usage of the internet will expand further. It is still a very expensive media for most of the respondents & thus due to this reason is proving as profligate for advertisers. Web is an advertising medium for future which ensures the lack of wastage by hitting the target consumers only. The advertisers must follow Web as a medium in their advertising media mix strategy.

### References

- Ajzen Icek, Fernandez R. (1992), Attitude Measurement. Encyclopedia of Psychological Assessment, Ballesteros (Ed.), London: Sage Publications.
- Angwin Julia. Web ads hit rock bottom some are free. The Economic Times, 11-09-2002, pp.-12.
- Best John W. (1963), Research in Education, Prentice Hall of India (Pvt.) Ltd. New Delhi.
- Bloxham Mike (2001), Forget Numbers, Make an Impact. New Media Age. Dec 6, p17(1).
- Bodre S. Nov (1983), Consumers and Advertising. Indian journal of marketing vol XIV, no. 3, pp.-16.
- Brackett, Lana K., Carr JR., Benjamin N. (2001), Cyberspace Advertising VS. Other media: Consumer VS. Mature student Attitudes, Journal of Advertising Research, 0218499, Sep/Oct, Vol. 41, Issue 5
- Brett A.S.Martin, Joe Van Durme, Mika Raulas, Marko Merisavo, (2003), Email Advertising: Exploratory Insights from Finland. Journal of Advertising Research, September, pp 293-300.
- Burke Chapman Marian and Julie A. Edell. Feb.(1989), The Impact of Feelings on Ad-Based Affect and Cognition. Journal of Marketing, Vol. XXVI pp. 69-83.
- Chase B. Richard and Sriram Dasu. June. (2001), Want to Perfect your Company's Service? Use Behavioral Science. Harvard Business Review, Volume 79, Number 6.
- Ducoffe, Robert H. (1996), Advertising Value and Advertising on the Web. Journal of Advertising Research, 36, 5. 21-35.
- Eastman L. Kevin, Eastman K. Jacqueline, Eastman D. Alan. (2002), Attitudes and Views of the Impact of the Internet. Risk Management and Insurance Review, Vol.5, no.2, 117-134.
- Fishbein, M., & Ajzen, I. (1975), Belief, Attitude, Intention,

- and Behaviour. An introduction to Theory and Research. Reading, MA: Addison-Wesley.
- Garrett E. Henry and Woodworth R.S. (1977), *Statistics in Psychology and Education* Vakils, Feffer and Simons Pvt. Ltd., Bombay, 7th edition.
- Green, B. F. (1954), *Attitude Measurement. Handbook of Social Psychology* (Vol. 1, pp. 335-369). Reading, MA: Addison-Wesley.
- <http://archives.cnn.com/2000/US/06/08/kids.online.02/>  
<http://emediaplan.com/default.aspQMsrc=internet/webadvertising.asp>  
<http://www.find.org.tw/>
- Jean Louis Chandon, Mohamed Saber Chtourou and David R.Fortin.(2003), Effects of Configuration and Exposure Levels on Responses to Web Advertisements. *Journal Of Advertising Research*, June, pp 217-229.
- June Deery. (2003), TV.com: Participatory Viewing on the Web. *The Journal of Popular Culture*, Vol. 37, No. 2, Blackwell Publishing, 350 Main Street, Malden, MA 02148, USA.
- Kimbell John and Jo Vaughan (2001), *Online Advertising New Media Age*, p32.
- Kotler Philip (2000), *Marketing Management Millennium Edition*, PHI Publication.
- Lutz, Richard J. (2003), *Affective and Cognitive Antecedents of Attitude toward the Ad: A Conceptual Framework*. Blackwell Publishing Ltd. *Information Systems Journal* 13, 209–231.
- MacKenzie, Scott B and Richard J. Lutz. (1989), An Empirical Examination of the Structural Antecedents of Attitude Toward the Ad in an Advertising Pretesting Context. *Journal of Marketing* 52, 2. 48–65.
- MacKenzie, Scott B., Richard J. Lutz, and George E. Beich. (1986), The Role of Attitude toward the Ad as a Mediator of Advertising Effectiveness: A Test of Competing Explanations. *Journal of Marketing Research* 23, 2 : 130-43.
- Maddox, Kate. E-commerce Become Reality. *Advertising Age*. October 26, 1998a, Survey Shows Increase in Online Usage, Shopping. *Advertising Age* October 26, 1998b.
- McCarthy, Terry. (2000), *China Dot Now*. Time. February 28, 16–23.
- Michael Hardey. (2002), *Life Beyond the Screen: Embodiment and Identity through the Internet*. The Editorial board of *Sociological Review*, Published by Blackwell Publishing.
- Peter Danaher J. and Mullarkey Guy W. September. (2003), Factors Affecting Online Advertising Recall: A Study of Students. *Journal Of Advertising Research*. pp. 252-267.
- Shimp, Terence A. (1981), Attitude toward the Ad as a Mediator of Consumer Brand Choice. *Journal of Advertising* 10, 2. 9-15.
- Stone J. and Han J. (1999), Behavioural Segmentation in Online Advertising. *Journal of Marketing Research*. 4(2) Spring 11-16.

## IPO MARKET IN INDIA : EMERGING DIMENSIONS

BALWINDER SINGH\*  
SHELLY SINGH\*\*

### Table of Contents

- Abstract
- Introduction
- Regulatory Framework of IPOs
- Growth of IPOs Market in India
- Findings, Conclusion and Suggestions
- References

### Abstract

*In this paper the author documents the IPO market experiences cycles in terms of volume of companies and returns. The author tried to analyse the IPO market in India. The regulatory framework and growth of IPO market is studied.*

### Introduction

The Initial Public Offering (IPO) market, as we all know, is one where companies offer their shares to the public for the first time, either after incorporation, or on conversion from private to public company. It has been empirically documented that the IPO market experiences cycles in terms of volume of new companies and returns. There are periods when large number of companies get listed on the stock exchange and experience good returns followed by periods when only a handful of companies tap primary market to raise funds. This cyclical phenomenon is often referred to in literature as 'hot and 'cold' markets and is considered to be an anomaly for which no concrete and unanimous explanation has yet been provided for. The Indian IPO market is not an exception in this context. The changes in the listing regulations alongwith a boom and slump (i.e. hot & cold markets), have made India a very important and interesting destination for studies. So it, becomes desirable to dig deep and analyze what IPO market in India has gone through, over a period, for more than the last decade. The present paper is a step in this direction.

This paper has been divided into three sections. First section deals with regulatory framework of IPOs. Second section analyses the various stages in growth of IPO market in India whereas third section presents the findings, conclusions and suggestions.

### Section One

#### Regulatory Framework of IPOs

The Indian Primary market has come a long way after the deregulation of the Indian Economy in 1992. Both the primary and secondary markets have had their fair share of reforms, structural cum policy changes from time to time. The most commendable being the dismantling of the Controller of Capital Issues (CCI) which had been the regulatory body for the Indian capital market for over fifty years. Introduction of the free pricing mechanism (which permits the companies to price the issues) changed the whole facet of Initial Public Offering (IPO) market. Free pricing mechanism allowed good corporates to raise money from the primary market at the right price, which was denied earlier. However, the decontrol was, to some extent misused by corporates to overprice issues.

The government realised the need for a regulated environment and started to promote its necessity in capital markets. Spearheading this was the establishment of the Securities and Exchange Board of India (SEBI) which became active in 1992. SEBI was assigned the role of monitoring and regulating the working of stock brokers, bankers to an issue, merchant bankers, portfolio managers and other intermediaries who are associated with stock markets. Major developments and reforms in Indian IPO market, from time to time, since January 1992, when SEBI was given statutory powers are listed below :

#### From January 1992 to March 1996

- Control over price and premium of shares

\*Reader, Department of Commerce & Business Management, Guru Nanak Dev University, Amritsar, Punjab.

\*\*Lecturer, Department of Commerce, Khalsa College, Amritsar, Punjab.

removed. Companies now free to raise funds from securities markets after filing letter of offer with SEBI.

- New reforms by SEBI in the primary market include disclosure standards, introduction of prudential norms and simplification of issue procedures. Companies required to disclose all material facts and specific risk factors associated with their projects while making public issues.
- Disclosure norms further strengthened by introducing cash flow statements.
- New Issue procedures introduced- partial book building for institutional investors-aimed at reducing costs of issue.

SEBI introduces a code of advertisement for public issues for ensuring fair and truthful disclosures.

#### For 1996-1997

Bodies corporate with a track record of dividend payment for atleast 3 years out of preceding 5 years only allowed to access the securities markets for raising capital through equity or instruments to be converted into equity; through a subsequent modification, payment of dividend by cash not allowed to be considered for the purpose of this eligibility criteria. The term "track record" of dividend payment defined to mean that the dividend must have been declared in the relevant year itself. Banking companies which had received approval or license from RBI on or before April 16, 1996 and public sector banks exempted from the entry norms.

Public sector banks given relaxation from pricing norms. They could freely price their shares on the basis of two years' profitability as against three years track record of consistent profitability for other issuers. These changes were made as banks are regulated by RBI.

#### For 1997-98

The existing SEBI guidelines restricted the facility of book-building to 75% of the issue size. However, this constrained the benefits arising out of demand and price discovery. The facility of making an issue through book building was extended to entire issue size and shall be available to issuer companies which propose to make an issue of capital of and above Rs. 100 crore.

#### For 1998-99

##### Relaxation of Norms for IPOs

- To help lower issue cost and time for making public issues and also to simplify procedures, the ceiling of issue size of Rs. 100 crore for book-building reduced to Rs. 25 crore.
- To bring down the cost involved in public issues, the SEBI modified the requirement of mandatory collection centres. The minimum number of collection centres for an issues of capital shall be (a) the four metropolitan centres and (b) such centres where the stock exchanges are located in the region in which the registered office of the company is situated.
- To encourage the mobilisation of capital by new companies, the entry norms for IPOs further relaxed by substituting the requirement of actual payment of dividend in 3 out of 5 preceding years, with the ability to pay dividend as demonstrated by distributable profits in accordance with the provisions of the Companies Act in at least 3 out of 5 preceding years and a pre-issue net worth of not less than Rs one crore in 3 out of immediately preceding 5 years. However, the minimum net worth requirement of Rs. one crore is to be met during the immediately preceding 2 years.
- To improve the liquidity and to encourage entrepreneurs to raise capital through public issues, the requirement of the lock-in period of promoters' contribution in full reduced to only 20% of the total capital of the company.
- To help investors make informed investment decisions, credit rating by approved credit rating agencies made mandatory for all public and right issues of debt instruments irrespective of their maturity or conversion period as against exemption granted for 18 months.
- To facilitate floatation of issues by public and private sector banks, relaxation made in Disclosure and Investor Protection Guidelines of SEBI for the issue of capital, subject to the approval of the issue price by RBI, as banks are under the regulatory purview of RBI.

**For 1999-2000*****Streamlining of Disclosure and Investor Protection Guidelines***

- The entry point norms for IPOs which form part of the Disclosure and Investor Protection Guidelines (DIP) relaxed for companies in the Information Technology (IT) sector to enable these companies to list their shares by making public offer of 10% of post issue capital instead of 25% for other sectors, subject to requirements of minimum number of 20 lac securities and minimum net offer value of Rs. 30 crore. This will encourage IT companies to come to market.
- The requirement of "ability to pay dividend" substituted for "actual payment of dividend", in the entry point norms for public offers. This will further strengthen the guidelines.
- The DIP guidelines made common for all IPOs in the wake of abolishing of the concept of fixed par value i.e. gave freedom to issue shares in any denomination but not below Re. 1.

**Marketing IPOs through the secondary market or IPOs Online (e-ipos)**

To facilitate the process of public offerings, the SEBI introduced the new system viz. 'Online Securities Offer System' which seeks to extend the benefits of on-line trading in the secondary market to the primary market. The system not only uses the existing infrastructure of the exchange (viz. terminals, brokers and systems) besides making necessary improvisations in software packages and improved means of connectivity.

The primary issues process, which involved printing of a large number of application forms and dispatching of refund orders and, therefore, lead to increase in cost and time required for the public issues. The new system would reduce the cost and time involved in a public issue process and do away with the blocking of funds of 'investors'.

**Procedure for e-IPOs**

A company proposing to issue capital through online system of the stock exchange has to comply with section 55 to 68 A of companies Act, 1956 and SEBI (DIP) Guidelines, 2000. A company is required to enter into an agreement with the stock-exchange(s) which

have requisite system for on-line offer of securities. The agreement should cover rights, duties, responsibilities and obligations of the company and the stock exchanges inter-se, with provision for a dispute resolution mechanism between the company and the stock exchange. The issuer company appoints a Registrar to the issue having electronic connectivity with the stock exchanges. The issuer company can apply for listing of its securities at any exchange through which it offers its securities to public through on-line system, apart from the requirement of listing on the Regional Stock Exchange. The stock exchange appoints brokers for the purpose of accepting applications and placing orders with the company. The lead manager will co-ordinate all the activities amongst various intermediaries connected in the system.

**Compulsory Linking Of Issuer Companies With A Depository And Compulsory Trading By New IPOs**

All new IPOs would be compulsorily traded in dematerialised form and guidelines of public issues were modified to make admission to a depository for dematerialization of securities, a pre-requisite for making a public or rights issue or on offer for sale. But the investors were allowed to exercise option of either subscribing to securities in physical form or dematerialized form.

**For 2000-01****Stiffening IPO Norms**

- The companies without any track record of profitability can tap the market provided they do so through the book building route and ensure that qualified institutional buyers subscribe 60% of the issue. Earlier, only information technology companies were allowed to tap the market without any profitability record.
- All issues above five times the pre-issue net worth of the company will be made through the book building route and qualified institutional buyers should subscribe 60% of the issue. This is also applicable for listed companies that raise additional capital from the market.
- Henceforth, the minimum promoters

contribution would be locked in for 3 years and the rest of the pre-issue holdings of the company would be locked in for one year.

The amount of promoters' contribution brought in form of cash will have to be kept in an escrow account and released to the company with the public issue proceeds.

#### For 2001-02

##### Issue Procedures

To reduce the time period involved between the closure of issue and listing of securities, the companies were advised, to ensure that, details regarding the applications and application monies received from investors and the final certificate should be furnished to Registrar to the issue, the lead manager and the body corporate, before the expiry of 7 working days after the date of closure of issue.

##### Issues through book-building

SEBI issued further guidelines to be followed by the issuers for raising of capital through book-building and for allocation of these issues among various categories of investors. In case an issuer company makes an issues of 100% of the net offer to the public through 100% book-building process, the guidelines stipulated that not less than 25% of the net offer to the public shall be available for allocation to retail individual investors i.e. investors applying for upto 1000 securities and not less than 15% of the net offer to the public shall be available for allocation to non-institutional investors i.e. investors applying for more than 1000 securities. The guidelines also stipulated that not more than 60% of the net offer to the public shall be available for allocation to qualified institutional buyers.

#### For 2002-03

- The disclosure requirements in offer documents for Public Issue/ Rights Issue/ Offer for sale, were streamlined and strengthened.
- The existing procedure and process of registration and renewal of registration were reviewed and streamlined.
- The existing regulations pertaining to intermediaries /other existing guidelines / regulations, were reviewed and amended.

#### For 2003-04

##### Disclosure Requirements

With a view to making Indian Primary Market more disclosure based and comparable with international standards, amendments have been made to the guidelines to add additional disclosures in the offer documents. The offer documents should contain information relating to financial statements as per the Indian Accounting Standards.

##### Green Shoe Option

As a stabilization tool for post listing price of newly issued shares, SEBI introduced the green shoe option facility in IPOs.

#### For 2004-05

##### IPO Rating

SEBI is reportedly planning to introduce mandatory rating of initial public offerings (IPOs), a service not available on any bourse across the world. The move is expected to protect the local investors and improve foreign investors' image of the Indian Capital Market. From the review of above regulations it appears that the role, that SEBI has played in reforming primary market is commendable. Stringent norms have been imposed as and when required. When free pricing mechanism was misused by corporates to overprice issues, SEBI regulated it by further strengthening the necessary guidelines. It has also heeded the convenience of both investors and issuers, by allowing the latter to raise funds through IPOs online which has not only reduced the cost and time involved in a public issue process but also done away with the blocking of funds of investors. Earlier, only debt instruments have been subjected to mandatory credit rating but now SEBI is also reportedly planning to introduce mandatory rating of IPOs, which will be source of information for investors since they do not have track records of various IPOs.

#### Section- Two

##### Growth of IPO Market in India

IPO market in India has had its share of ups and downs, over a period, for more than the last decade. It has seen a steep rise in the initial years of the post liberalisation of Indian Economy. The growth observed



during the first half of the 90s is mostly attributed to the financial liberalization of the economy. To facilitate an easy view of the whole scenario of IPO market in India, the table and the adjoining graph presented here, reveal the various trends in number of IPOs and amount of IPOs with their respective annual growth rate over a period of time. (Refer to Table-1 on pg. No. 52)

As evident from table and graph above, IPO market saw a steep rise in the initial years of the post liberalisation. It is evident during 1992-94, when bourses started to show signs of recovery after the securities scam in 1992. The Sensex also touched a new high during the same period due to improved economic environment. Total funds mobilised during 1994-95 went up from Rs. 8279.04 crores during 1993-94 to Rs. 9919 crore as no. of issues increased from 695 (1993-94) to 1231 (1994-95). A number of companies started to cash in on the buoyant primary market, notably the finance companies. The trend continued for 1995-96, when the no. of issues recorded the highest (i.e. 1357 issues) for Rs. 10924.11 crores. This trend was backed by robust industrial production and higher gross domestic product (GDP) growth. That the IPO market in India witnessed boom from the early 1990s till mid 90s is also vindicated by the statistics of average annual compound rate of growth, for first six years as opposed to remaining seven years, in context of both no. of IPOs and the amount raised through them. For no. of IPOs, the rate is 72.89% for the first six years as against -38.16% for the last 7 years. Similarly for the amount of IPOs the rate is 88.87% for the first six years as against -7.83% for the last 7 years.

Buoyed by the business scenario most of manufacturing companies went for huge capacity expansions and diversification. The impact of this, was visible as excess capacity cramped margins and many companies went into the red. Public issues started drying up. Not only did no. of IPOs declined sharply (i.e. from 1357 during 1995-96 to 717 during 1996-97) but so did the amount of capital raised from them. This may be attributed in part to the conditions prevailing in the secondary market and in the overall stance of monetary policy as it impacted the economy. The decline in issuance may also be attributed to stricter eligibility criteria that were implemented in 1995-96. But the stricter eligibility criteria also resulted in an

improvement in the quality of issuance. This is borne out by several trends that became evident in 1996-97. There was an increase in funds raised through large issues and a relative decline in the number of small issues and in funds raised through them. Besides reduction in no of IPOs, there was a decline in the number of issues made by finance companies and the funds raised by them. In important trend that emerged and which was expected to continue in 1997-98 was the growing significance of banks and financial institutions as issuers. This trend was important from the point of view of investors in the primary market, as issuers without track records are more likely to seek funding from banks and financial institutions, which are better able to evaluate and monitor the performance of such issuers, and not directly from investors (Annual Report, SEBI, 1996-97).

The number of IPOs further declined to 52 issues during 1997-98 amounting to Rs. 1047.52 crore. The decline in the IPOs can be partly attributed to the declined in industrial activity in the country particularly capital goods industry and partly due to strict entry point norms, which prevented green field projects without track record from accessing the market (Annual Report, SEBI, 1997-98).

The financial year 1998-99 recorded the lowest no of issues (i.e. 18) for the decade 1990-00. The IPOs' contribution towards resource mobilisation declined to 7.2% as compared to 22.9% in the previous year. The annual report of SEBI for the year 1998-99 mentioned 6 possible reasons for the depressed conditions of the primary market. These are as follows:

- Sluggish secondary market conditions were said to be the main reason behind the poor performance of the primary market.
- Poor performance and uncertainties of the secondary market induced retail investors to look to other avenues of investment at the expense of equity.
- The poor performance of the country in the macroeconomic front adversely affected the performance of the primary market.
- The East Asian crisis affected the sentiments of investors, both domestic and FIIs, in Indian markets.
- Institutional problems also had a negative

impact on the primary issue market.

- With introduction of the economics reforms, the Govt. of India permitted free pricing of issues. As a result, a large number of issuers entered the market to raise resources through equity offerings at high premia. The price of many of these issues declined on listing and quoted substantially below the issue prices. Some of the companies which came with public issues, are not even traceable. The charging of inordinately high prices on the basis of rosy projections and coated justifications for the new issues in a large number of cases and the disappearance of some of these companies adversely affected investors in the terms of liquidity and confidence. This resulted in a huge exodus of retail investors from the market. Evidently the primary activities in India declined in second half of the 1990s.

The market revived in 1999-00, thanks to the boom in software stocks. More than 50% of new issues were oversubscribed and got listed at huge premiums. Investors just went after the IPOs that had a prefix or a suffix remotely connected to tech or software. Huge investment in Information Technology (IT) issues was a world wide trend which continued till 2000-01. During this boom a lot of companies knowingly changed their names to give an impression of being a tech company. And as happens after every wild boom, reality struck and most of the shady IPOs got hammered to reflect their true values, so some vanished overnight and some are trading at a fraction of their original IPO price. This promoted the SEBI to issue new guidelines for the companies wanting to get listed on the stock exchange. It required that the potential listing company should have a clean financial track record and secondly, it should have paid minimum three years of dividends prior to listing. Also, the promoters were required to have a three years lock-in period in the company's equity, thus insuring that there is no highway robbery of the retail investor's hard earned money. After the tech meltdown, it was again a rough ride for both primary and secondary markets. Only 7 IPOs hit the Indian Capital Market in 2001-02 for Rs. 1201.8 crore, though the year 2001 belonged to IPOs by media. The situation was even worse in 2002-03 when only 6 IPOs

(lowest in the table) raised Rs. 1038.68 crore.

But it was back to better times again when things started to look up by the end of 2003-04. There were 14 issues amounting to Rs. 1412 crores by the end of 2003-04. IPO started buzzing again in India in 2004. The current fiscal has proved to be a dream run for investors with the secondary markets beating all estimates by the so-called experts, who revised targets below 5000 after the change in government in May. Not only has the secondary market out performed major global indices, but the primary market also witnessed robust activity with Rs. 16819 crores flowing into the system through 7 government divestments, with Tata Consultancy Services (TCS) leading the pack with divestment of Rs. 2778 crore. Rs. 10703 crore of fresh capital was raised in 2004. There were 3 issues of over Rs. 5000 crore each. Of the 34 equity issues, 21 were made through the book-building route. This primary market boom could largely be attributed to the liquidity factors, general market buoyancy alongwith fundamentally strong companies coming in at the right time.

The trends reviewed above indicate that IPO market in India witnessed NBFC boom in early 1990s, the commodity boom in mid 90s, technology boom in 2000 and divestment boom in 2004. The period from the mid 90s till 2004 has been mixed one, as it faced slump during 1997-99, made recovery in 1999-01 (due to tech boom), again faced slump for 2001-03 and made recovery again by the end of 2003-04, to witness another boom in 2004. There has been significant contrast between the no. of IPOs issued and the amount raised through them. Average annual compound rate of growth for amount raised through IPOs is -5.06 which is greater than that for no. of IPOs which is -27.23, meaning thereby that there have been issues of large size though no. of IPOs has fallen over a period of time.

#### **The Road Ahead (IPOs Outlook For 2005)**

The IPO boom witnessed in 2004 is likely to spill over into 2005. The public offerings worth over Rs 40000 crore, especially from PSUs, Banks, Airlines and telecom companies, are set to flare up the market in 2005. The IPO market will grow over to Rs 1000 bn in 3 years from a little over Rs 300 bn in 2004. 12-15%

annual return is expected from the equity market. The 2005 estimate is also substantially dependent on PSU divestments Bhel, Power Grid, ONGC, NHPC, Haldia Petrochemicals, Gujarat State Energy Generation, Gujarat State Petroleum, Neyveli Lignite and Shipping Corporation of India are among the state owned companies intending to tap the market. The strengthening IPO market would also strengthen the narrow secondary market which is marred by excessive speculation and volatility. The fate of the primary market is now closely linked with the secondary market. So, malpractices in the secondary market need to be corrected to sustain Investors' confidence.

### Section Three

#### Findings, Conclusion & Suggestions

The Initial Public Offering (IPO) market, is one where companies offer their shares to the public for the first time, either after incorporation, or on conversion from private to public company. The IPO market being a part of primary market is an important constituent of capital market of the financial system, which plays an important role in the economic development of a country by transferring resources from the surplus units to the deficit units efficiently and productively. It has been empirically documented that the IPO market experiences cycles in terms of volume of new companies and returns. The Indian IPO market is not exception to it. The changes in listing regulations alongwith a boom a slump, have made India a very important and an interesting destination for studies. The present paper seeks to analysis those various regulations and trends, over a period of time, that have invoked interest in Indian IPO market.

Findings of the paper reveal that IPO market in India witnessed, four booms, over a period, for more than the last decade. It witnessed the NBFC boom in the early 1990s, the commodity boom in mid 90s, the tech boom in 2000 and the divestment boom in 2004. The period from the mid 90s till 2004 has been mixed one, as it faced slump during 1997-99, made recovery in 1999-01 (thanks to tech boom), again faced slump for 2001-03 and again made recovery by the end of 2003-04, to witness another boom in 2004. There has been considerable contrast between the no. of IPOs issued and the amount raised through them. Average annual

compound rate of growth for amount raised through IPOs is -5.06% which is greater than that for no. of IPOs i.e. -27.23% meaning thereby that there have been issues of large size though no. of IPOs has fallen over a period of time.

On the regulation side, it is revealed that the role, that the SEBI has played in reforming primary market is commendable. Stringent norms have been imposed as and when required, which among others, include :

- Pre-issue requirements of issuing company and lead managers, filing due-diligence report at the time of filing of draft-prospectus and post issue obligations of revealing the allotment basis were enacted to safeguard investors and to bring transparency in the system.
- Other notable norms include the lock-in period norms for promoters, issues through book-building where Qualified Institutional Buyers (QIBs) are allowed to subscribe to 60% of issue and the raising of funds through e-IPOs.
- That the SEBI is reportedly planning to introduce mandatory rating for IPOs will further improve the investors' faith in the market. Earlier, only the debt instruments have been subjected to mandatory credit rating. Even the seasoned equity offerings can be gauged in terms of quality and return. But now the rating of IPOs by credible credit rating agencies will be source of information for investors as they do not have track records of IPOs.

#### Suggestions

While what happened in 2004 is a history, there are some aspects which may be considered:

- So far as credit rating of IPOs is concerned, it can be voluntary to start with. Of course, it can be mandatory with time.
- Besides, some of the fundamentally strong companies that plan to tap the market, there is also a bunch of 'also-runs'. This is typical of bull market for example 50% of the companies which got listed during tech boom in 2000 are not even traceable today.
- Investment in IPOs should be subject to consideration of risk factors and the approach of "buying the company as opposed as buying

the stock" may be beneficial, as in a bull market high over subscription rates can be misleading at times.

- The regulator too has a huge responsibility to discharge if IPOs have to continue as a viable fund-sourcing avenue. This is possible with continued investor interest which can only come in if the IPO issues that hit the market bring strong business profiles for investors to choose from. This is where the regulator's eyes are needed.

### References

Annual Report, SEBI, various issues.

Ghosh, Saurabh (2003), "The Characteristics of Hot and Cold Periods in Indian IPO Market," Paper Presented in Money and Finance Conference, IGIDR.

IPOs: A year of misfortunes, Newsletter, July 16, 2001, www.equitymaster.com on 31<sup>st</sup> December, 2004.

IPO: An investing challenge, Special Report, April 5, 2003,

www.equitymaster.com.

IPO : Changing Trend, Special Report, August 3, 2000, www.equitymaster.com, Jan, 2005.

IPO : On road to recovery?, Special Report, June 15, 2002, www.equitymaster.com, 6<sup>th</sup> Jan, 2005.

IPO : Plummeting returns, Newsletter, October 23, 2001, www.equitymaster.com, 10<sup>th</sup> Jan, 2005.

IPO : Watch out, Newsletter, January 7<sup>th</sup>, 2005, www.equitymaster.com, 11<sup>th</sup> January, 2005.

Sebi – Stiffening IPO norms, Newsletter, June 15<sup>th</sup>, 2000, www.equitymaster.com on 9<sup>th</sup> January, 2005.

Shah, Ajay (1995), The Indian IPO Market : Empirical Facts Working Paper, Centre for Monitoring Indian Economy, Bombay, India.

Summary of Economic News in India, May, 2004, Prepared by IMF New Delhi Office, www.imf.org, 9<sup>th</sup> January, 2005.

Why the IPO Market is buzzing in India?, www.economicstimes, www.indiatimes.com, 11<sup>th</sup> January, 2005.

Trends in Indian IPO Market

Year	Number of IPOs	Annual Growth Rate	Amount (Rs. Crore)	Annual Growth Rate
1990-91	109	+ 72.89	706	+88.87
1991-92	158	+44.95	736	+4.25
1992-93	468	+196	3883	+427.58
1993-94	695	+46	8279.04	+113.21
1994-95	1231	+77	9919	+19.81
1995-96	1357	+10	10924.11	+10.13
1996-97	717	-47	5958.60	-45.45
1997-98	52	-92	-38.16	
(Avg. Annual Compound rate of growth for last 7 years)			1047.52	-82.42
1998-99	18	-65	404.21	-61.41
1999-00	51	+183	2719.04	+572.67
2000-01	114	+123	2722.38	+0.12
2001-02	7	-93	1201.8	-55.85
2002-03	6	-14	1038.68	-13.57
2003-04	14	+133	1412	+35.94
Average annual compound rate of growth				-5.06
Source : Data compiled from annual reports of SEBI.				

## MANAGING INNOVATION THROUGH CORPORATE VENTURING (XEROX CASE)

SANDEEP KUMAR SHARMA\*  
SHAIFALI SHARMA\*\*

### Table of Contents

- Abstract
- Introduction
- Why Managing Innovation is Like Theater?
- Artful Making
- The Cost of Getting It Right
- References

### Abstract

*This paper considers a model that one large firm successfully used to develop innovative products and bring them to market and describes how this model addresses five areas that often hamper large firms and keep them from bringing new products to market. More specifically, it describes how Xerox established, Xerox Technology Ventures (XTV), a venture fund, to commercialize internal technologies that might otherwise have languished.*

### Introduction

"New Organizational models can help a firm commercialize ideas that would otherwise languish"

"Ten years on, Xerox Technology Ventures (XTV) has got more than a dozen young firms established, exploiting ideas that would have either gone to waste or slipped away to make fortunes for others. Some of these new ventures have gone public, some have been sold and some are still operating as hungry little start-up. The way Xerox commercializes its orphan ideas has inspired others." *The Economist (February 20, 1999)*

The inability of established industry leaders to launch innovative products despite their extensive financial and human resources is a source of frequent comment and sometimes even consternation. This article considers a model that one large firm successfully used to develop innovative products and bring them to market and describes how this model addresses five areas

that often hamper large firms and keep them from bringing new products to market. More specifically, it describes how Xerox established Xerox Technology Ventures (XTV), a venture fund, to commercialize internal technologies that might otherwise have languished.

The XTV model is a particularly interesting one for addressing some primary problems faced by large firms in managing innovation. The concept is to create an entrepreneurial vehicle, funded by the parent company, which mimics the traditional venture capital model. The number of companies with similar venture programs has more than tripled in the past three years. The so-called "Intrapreneurs," or new product ventures, can have the best of both worlds by exploiting new technologies without giving up access to all corporate resources. The parent company benefits by not having to manage areas outside of its core business. And, if the new venture becomes a successful company with its own capitalization and valuation, the parent company benefits from its equity position. For example, XTV turned a \$30 million venture fund into a \$500 million market cap in seven years. As a major investor in these ventures, Xerox gained much more than it likely would have earned from these same products had they been developed and marketed in house.

What are the underlying reasons large organizations must learn to manage innovation differently? Anurag Sharma provides valuable insights on this complex issue in his recent article, "Central Dilemmas in Managing Innovations in Large Firms." He categorizes these dilemmas into five areas.

1. Seeds vs. Weeds
2. Experience vs. Initiative
3. Internal vs. External Staffing
4. Building staffing Capabilities vs. Collaborating
5. Incremental vs. Pre-emptive Launch

The XTV corporate venturing model provides an initiative

\*Reader, Department of Commerce, Govt. P.G. College, Rishikesh.

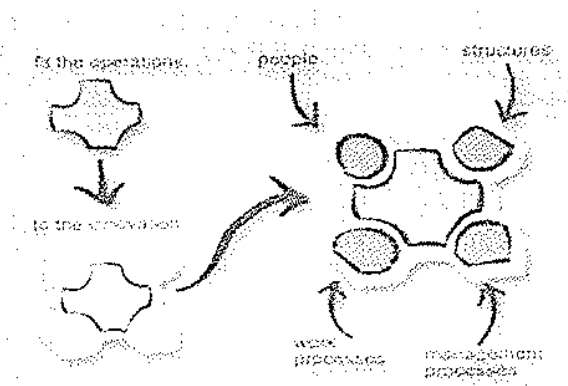
\*\*Lecturer, ICFAI Business School, Gurgaon.

organizational form to deal with each of these categories.

### Seeds vs. Weeds

Sharma notes that, "the overwhelming volume of new ideas and the need to invest to carefully evaluate any one of them in itself restrains innovative activity in large firms." Firms need processes for sifting out real opportunities from the large group of product possibilities. Even more importantly, they need programs to nurture the selected products and bring them to market. The literature is rich with research on distinctive capabilities of a firm often vary. This naturally leads to differing perceptions of what a new product or technology may mean to a firm.

IBM's struggle with the impact of PC operating systems, AT&T's indecision about its role in the Internet, and Barnes and Noble's challenge from Amazon exemplify the conflicts that firms face when identifying the boundaries of their strategies. All of these firms conducted extensive studies of these new markets. Yet for a variety of reasons, they did not pursue them until long after new ventures dominated the market. Capital budgeting progeting processes certainly play a role in the reluctance of firms to pursue emerging markets. A company may decline a new venture when management is driven primarily by ROI concept, due to the perceived demand for funding and technical talent. Corporate venturing, however, provides a vehicle for management to minimize investment and risk while positioning may realize much higher valuations from their new ventures than they would if these same ventures were integrated in their current income statements. For example, Palm Pilot, a spin-off, is valued higher than the parent company 3Com.



Most recently, the explosion of internet technologies has exposed a further barrier to innovation - that of core rigidity. This result from a false sense of security with the status quo that blinds corporate strategists to the impact of emerging technologies on their core competence. The failure of strategists to appreciate emerging technologies can cause them to view "seeds" as "weeds."

A third factor that may cloud management's objective evaluation of "seeds" is the need to apply scarce resources to current products often have long-term breakeven points and relatively high hurdle rates due to their inherent risk. In addition, contribution to earning from these new products may not significantly influence the firm's stock price or enhance its multiple. Ironically, these innovative products may command much higher valuation as stand alone companies than does the founding firm. Only two of the eleven products launched by Xerox Technology Ventures bordered on the parent company's core areas. These two products were finally spun-off to XTV on the basis that Xerox had spent a great deal of time and funds on them without their reaching the market, and there need to be a new approach to bring these technologies to fruition. Xerox also felt than it would benefit by being an early adopter as a customer prior to public launch. (It is interesting to speculate how the other new products were funded internally if they were not core.)

For example, Xerox undertook a large number of projects over a decade in the attempt to develop object-oriented document-management systems but had not shipped a product. XTV developed a business plan for a new firm, Documentum, to rapidly convert Xerox's accumulated knowledge in this area into a marketable product. This process required Xerox to recruit an outside management team. Today, Documented is the leading player in document management systems with a market capitalization of over \$400 million. Xerox ownership is approximately 28%.

### Experience vs. Initiative

Venture ideas often originate in the problems or opportunities encountered in the conduct of existing routines deep within the operating structure of firms. As a result, the initial champions of new concepts are frequently middle-level scientists and managers who are immersed in their work. These individuals may not

bring new concepts to light if they are not supported in managing new ventures of taking entrepreneurial risks. Partners and advisors at XTV provided an initial vehicle to support founders with critical management processes in accounting, control, purchasing, recruiting, marketing, and other areas such as presentation skills. This enabled founders to concentrate on moving their product to the marketplace. The new firms used the Xerox identity in their literature, providing credibility to an unknown firm.

#### **Internal vs. External Staffing**

Sharma found in his study that managers of innovative projects within large firms "were severely taxed, since virtually every staff position that was created within the ventures required extensive justification in terms of technical need and economic viability." This process naturally included presenting new opportunities to personnel from other divisions in compliance with internal HR policies.

The XTV corporate venturing model eliminated these barriers created by the corporate bureaucracy. In Documentum's case, there were no requirements for the founders to use Xerox personnel. In fact, to insure a clean break from the corporate procedural environment, XTV insisted that the CEO of the new firm be hired from the outside. As a new firm, equity incentives could be used to attract top talent from the outside. Such incentives would not be available if the project was developed internally.

#### **Building Capabilities vs. Collaborating**

A large firm conceptually can draw inputs from multiple divisions to support a new product concept. However, in practice,

internal technology transfer can run into multiple barriers as managers try to work across organizational lines. It often is easier to develop relationships with outside firms. The financial risk of the new venture also can be shared with the alliance partners. Xerox was able to offer equity incentives to potential partners by employing their unused capacity in exchange for stock.

Partnering can expose firms to new knowledge, organizational structures, or cultural characteristics that are essential in serving an emerging market. Firms that partnered with XTV brought new perspectives and modes of operation that made the ventures more

competitive. The parent company was even able to selectively adopt these insights into its existing operations.

#### **Incremental vs. pre-emptive Launch**

The corporate resource allocation issue becomes particularly apparent in a new product launch. It is tempting to commercialize on a small before putting millions of dollars at risk in a large firm. However, incrementalism can trigger competitive activity, limit volume buying and production opportunities, and may also signal customers that the firm is only testing the waters.

XTV insured that each venture was backed sufficient capital and management to hit the ground running. XTV solicited other major venture capital firms to hedge its own portfolio risk and to provide adequate capital for growth while Documentum was logging its first \$30 million in sales. In contrast, internal launches are often hampered by a lack of development funds.

#### **Conclusion**

XTV turned a \$30 million dollar fund into a \$500 million dollar valuation in seven years. It provided Xerox a vehicle to recognize a significant return on its internally developed products which, otherwise, were "in the total corporate product strategy. In 1997 Xerox formed Xerox New Enterprises (XNE) as a new management paradigm within the company to manage and grow innovative businesses formed outside the corporation's core strength.

The number of companies with similar venturing programs has more than tripled in the past three years. Firms such as Lucent, AT&T, CMGI, and Hewlett Packard are creating separate entrepreneurial organizations in order to streamline the management of new product concepts. Some of these companies have "spun-off" specific products or technologies as stand alone companies. Examples include AT&T's creation of Lucent Technologies, Hewlett Packard's formation of Agilent Technologies, and 3Com's spin-off of Palm Pilot. These spinoffs are attempts to provide major product groups with the flexibility, incentive, and management structure to meet the needs of a particular marketplace.

Large organizations appear to be unable to survive with traditional hierarchical approaches to innovation.

Corporate venturing models, however, provide the flexibility and incentives needed to compete in the economy."

*A company of exceptionally talented big stars can-----create a less effective play than one made up of ordinary talented artists who have, through hard work, learned how to collaborate.*

*-Robert Austin & Lee Devin*

### Why Managing Innovation is Like Theater?

If you don't know where you're going, any map will do. This conventional wisdom sounds right to many managers. It highlights the safety of having a clear objective for your management actions. It implies that all management actions are likely to be confused and inefficient if you don't have a clear objective. If you don't have a good fix on your destination ---be it a product or service, a strategic or competitive outcome, or anything else---you may as well not start the journey. For a lot of your work, though, this so-called wisdom is wrong. Why? For one thing, you can't always know your destination in advance. Whether you're designing a new product, running a business in volatile conditions, operating a process that might encounter usually involves exploration, adjustment, and improvisation. Situations in which you don't or can't know the results in advance are common and consequential. All businesses face them.

If you're not too narrow in what you're willing to call "management," you can manage these situations. You can enhance effectiveness and efficiency, and you can improve the likelihood of valuable outcomes. However, the methods you'll use will differ from, and sometimes conflict with, methods that work when you know where you're going.

There is an increasingly important category of work--knowledge work--that you can best manage by not enforcing a detailed, in-advance set of objectives, even if you could. Often in this kind of work, time spent planning what you want to do will be better spent actually doing (or letting others do), trying something you haven't thought out in detail so you can quickly incorporate what you learn from the experience in the next attempt. In appropriate conditions--only in appropriate conditions--you can gain more value from experience than from up-front analysis. In certain kinds of work, even if you can figure out where you're going

and find a map to get you there, that may not be the best thing to do.

Forging ahead without detailed specifications to guide you obviously requires innovations, new actions. We take this observation one step further by suggesting that knowledge work, which adds value in large part because of its capacity for innovation, can and often should be structured as artists structure their work. Managers should look to collaborative artists rather than to more traditional management models if they want to create economic value in this new century.

We call this approach *artful making*. "Artful," because it derives from the theory and practice of collaborative art and requires an artist-like attitude from managers and team members. "Making," because it requires that you conceive of your work as altering or combining materials into a form, for a purpose. Materials thus treated become something new, something they would not become without the intervention of a maker. This definition usually points to work and management we're considering don't always do that. Instead they mostly operate in imagination, in the realm of knowledge and ideas. We're not primarily concerned with heating metal and beating it into shapes. We're more concerned with strategies, product designs, or software --new things that groups create by thinking, talking, and collaborating.

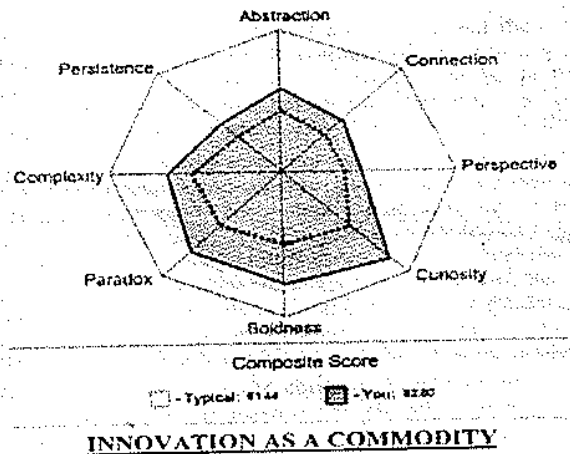
### Artful Making

Any activity that involves creating something entirely new requires artful making. Whenever you have no blueprint to tell you in detail what to do, you must work artfully. A successful response to an unexpected move by a competitor requires artful activity; so does handling a sudden problem caused by a supplier. An artful manager operates without the safety net of a detailed specification, guiding a team or organization when no one knows exactly where it's going.

In the 21st century, it's a simple fact that you often don't know where you're going when you start a journey. A manager who needs to be handed a clear set of objectives or a process specification is only half a manager (and not the most important half). To know where you're going by the time you start, that's an amazing luxury and you probably can't afford it. Anyway, if you think you where you're going, you're probably



wrong. The need to innovate, to make midcourse corrections, and to adapt to changing conditions are the main features of a growing part of daily work.



Many people in business admit that parts of their work are "more art than science." What they often mean, alas, is that they don't understand those parts. "Art" used in a business context usually refers to something done by "talented" or "creative" people who are not quite trustworthy, who do work that resists reasonable description. There's often a disparaging implication that art-like processes are immature, that they have not yet evolved to incorporate the obviously superior methods of science. The premise that underlies this point of view equates progress with the development of reliable, rules-based procedures to replace flaky, art-based processes. I don't believe in this premise.

Art-based business processes are understandable and reliable, capable of sophisticated innovation at levels many "scientific" business processes can't achieve. A theatre company, for instance, consistently delivers a valuable, innovative product under the pressure of a very firm deadline (opening night, eight o'clock curtain). The product, a play, executes again and again with great precision, incorporating significant innovations every time, but finishing within thirty seconds of the same length every time. And although art-based processes realize the full capabilities of talented workers and can benefit from great worker talent, by no means do they require exceptional or especially creative individuals. Nor does great individual talent ensure a valuable outcome. A company of exceptionally talented big stars can (and often will) create a less effective play than one made

up of ordinarily talented artists who have, through hard work, learned how to collaborate. Business history too provides numerous examples of underdog upstarts out-collaborating and out-executing companies with much better resources; and few (if any) companies have ever worshipped more devoutly at the altar of raw individual talent than Enron, one of the most spectacular failures in history.

### The Cost Of Getting It Right

The cost of iteration—the cost of reconfiguring a process and then running it again—significantly impacts the way we work. Reconfiguring an auto assembly process can involve buying and installing new equipment, which can be pretty expensive. So, automakers usually do a lot of planning before they commit to a configuration. They don't want to have to reconfigure very often. They try to "Get it right the first time."

On the other hand, some software development processes are designed nowadays so that they can be reconfigured cheaply and quickly. Developers generate new versions of a software system as often as often needed. Technologies that allow new versions to be rebuilt easily keep the cost of iteration low. When enabling technologies help keep the cost of iteration low, we don't need to worry as much about getting it right the first time. Instead, we can try things, learn from them, then reconfigure and try again. Because it doesn't cost much to iterate, the value of doing is greater than the value of thinking about how to do. Cheap and rapid iteration allows us to substitute experience for planning. Rather than "Get it right the first time," our battle cry becomes "Make it great before the deadline."

Management researchers often talk about cheap and rapid iteration as cheap and rapid *experimentation*. The ability to run experiments cheaply is an important benefit when the cost of iteration is low. Simulation technologies, for example, allow automakers to run virtual crash-testing experiments to determine the safety implications of many car body structures, more than they could afford to test with actual cars.

But experimentation, though important, is only part of what is achieved by cheap and rapid iteration. If you think and talk about iteration as experimentation, low cost of iteration seems to make business more like science. Its broader effect, is to make business more

like art.

Here's why: Before you can crash test virtual cars, you must create virtual cars. Cheap and rapid iteration lets you test cars more cheaply, but it also you create them more cheaply, and in many more forms. The creation of things to test--in scientific terms, the generation of hypotheses--is a fundamentally creative act. In many business situations, the hypothesis, problem, or opportunity is not well-defined, nor does it present itself tidily formed; you must therefore create it. Even when a problem or opportunity appears well-defined, often you can benefit from conceiving it in a new form. The form you conceive for it--the idea of it you have--will determine how (and how well) you solve it. cheap and rapid experimentation lets you try new forms; cheap and rapid artful iteration helps you create new forms to try.

Artful making (which includes agile software development, theatre rehearsal, some business strategy creation, and much of other knowledge work) is a process for creating from out of disorganized materials. Collaborating artists, using the human brain as their principal technology and ideas as their principal material, work with a very low cost of iteration. They try something and then try it again a different way, constantly reconceiving ambiguous circumstances and variable materials into coherent and valuable outputs. Artful making differs from what we call *industrial making*, which emphasizes the importance of detailed planning, as well as tightly specified objectives, processes, and products. Its principles are familiar: Pull apart planning and production to specialize each; create a blueprint or specification, then conform to it; don't do anything before you know you can do everything; "Get it right the first time." When industrial makers conform to plans and specifications, they say their products and processes have "quality." The principles of industrial making are so embedded in business thinking that they're transparent and we don't notice them. We apply them reflexively; they are "The way we do things."....Industrial methods can distort reality and smother innovation. Artful and industrial making are distinct approaches and each must be applied in the appropriate conditions.

It's important to recognize that artful and industrial are not mutually exclusive. everywhere, nor should industrial making. should not be applied everywhere,

nor should industrial making. they complement each other and often can be used in combination. Complementary doesn't mean interchangeable. though. As opportunities for artful making multiply with the expansion of the knowledge work sector of business. managers and other workers must be careful not to attempt to solve artistic problems with industrial methods, and vice versa.

## References

- Robert Austin & Lee Devin, (2001), Harvard Business Review.
- Rob Austin and Lee Devin, Artful Making: What Managers Need to Know About How Artists Work.
- Michael J. C. Martin, Managing Innovation & Entrepreneurship.
- Ajax Persaud, Zeinab karake-Shalhoub, Managing Synergistic Innovations.  
[www.waldenu.edu](http://www.waldenu.edu)  
[www.pepperdine.edu](http://www.pepperdine.edu)  
[www.optimizemag.com](http://www.optimizemag.com)

## INDIAN DEPOSITORY RECEIPTS: ONE MORE STEP IN GLOBALIZATION

MANDEEP KAUR\*  
SWEETY NARANG\*\*

### Table of Contents

- Abstract
- Introduction
- Norms to be Followed by the Issuing Company
- Future Prospects of IDRs
- Future Challenges of Indian Stock Market
- References

### Abstract

*The dream of Indian investors to own shares of foreign companies has come true now. India has now opened its doors to foreign companies to float Indian depository receipts (IDRs) in the Indian stock market, taking one more step towards globalization. The Department of Company Affairs, Ministry of Law, Justice and Company Affairs, Government of India and SEBI have permitted companies incorporated outside India to raise funds from India by offering equity to Indian investors. It may be recalled that in 1992, as a part of liberalization and deregulation, government of India had allowed the Indian companies to directly tap the foreign resources for their requirements. As a result GDRs (Global Depository Receipts) and ADRs (American Depository Receipts) were introduced, that enabled foreign investors to acquire shares in the Indian companies and encouraged flow of foreign capital into Indian economy. However, Indian investors were not allowed to subscribe the shares of foreign companies directly but only through Foreign Institutional Investors (FIIs), until the "Companies (Issue of Indian Depository Receipts) rules, 2004" were notified. This article is an attempt to trace the future prospects of Indian Depository Receipts in the light of IDR rules 2004. It deals with the practicability of these rules considering the realities of Indian capital markets and focuses on the norms that may prove to be obstacles in the path of implementation of IDR regime.*

### Introduction

An Indian Depository Receipt (IDR) means "any instrument in the form of depository receipt created by the domestic depository in India against the underlying equity shares of the issuing company" which is incorporated outside India. These depository receipts should be listed on one or more than one stock exchanges in India and should be freely transferable. The actual shares underlying the IDRs should be held by an overseas custodian who shall authorize the Indian depository to issue IDRs. The outside custodian must be a foreign bank having a place of business in India and must get approval from finance ministry to act as custodian. Figure 1 depicts the mechanism for floatation of a typical IDR program.

In this article an attempt is made to trace the future prospects of Indian Depository Receipts in the light of IDR rules 2004. Section I deals with the norms to be followed by the foreign companies to make an issue of IDRs. Section II focuses on the future prospects of IDRs and is further sub-divided into two parts. Part I explains the possible benefits of IDRs to the issuing company and Indian investors i.e. to explain what makes IDRs more attractive. Part II provides a critical review of these rules and focuses norms that seem to be too stringent that can make IDRs less charming. Section III deals with the future challenges that Indian Stock market will have to face if it adopts IDRs. Finally it gives an answer to the question "Will corporates take IDR route?"

### Section I

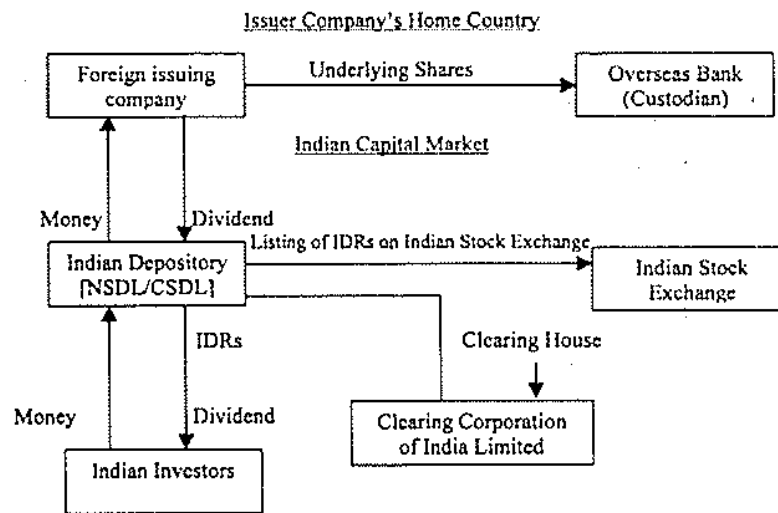
#### Norms to be followed by the Issuing Company

The Department of Company Affairs has laid down the ground rules "The Companies (Issue of IDRs) Rules, 2004" for floating IDRs in Indian stock market that contain a series of to-dos for an issuing company (SEBI

\*Sr Lecturer, Department of Commerce and Business Management, Guru Nanak Dev University, Amritsar

\*\*Junior Research Fellow, Department of Commerce & Business Management, Guru Nanak Dev University Amritsar

Figure 1  
Typical Structure of an IDR Program



Source: Adapted from Kumar (2004)

and corporate laws, 2004) which are as follows:

#### Basic

- A foreign company can issue IDRs if its pre-issue paid-up capital and free reserves are at least US \$ 100 millions.
- Company should have an average turnover of US \$ 500 millions during 3 financial years preceding the issue.
- Company must be making profits for at least 5 years preceding the issue and declaring dividend of not less than 10% each year for the said period.
- Its pre-issue debt-equity ratio is not more than 2:1.
- It fulfills the eligibility criteria laid down by SEBI from time to time in this behalf.

#### Others

- The repatriation of the proceeds of issue of IDRs shall be subject to the laws for the time being in force relating to export of foreign exchange.
- IDRs shall not be redeemable into underlying equity shares before the expiry of one year from the date of issue of IDRs.
- IDRs issued shall not exceed 15% of the paid up capital and free reserves of issuing company in any financial year.

- IDRs shall be listed in the recognized local stock exchange having nation wide terminals. They should be purchased, possessed and freely transferable.
- IDRs shall be denominated in Indian Rupees.
- Conditions for the issue
- A copy of prospectus for the issue of IDRs, in the specified form accompanied by a statement of expert shall be submitted to the Registrar of companies and SEBI.
- The Issuing Company shall furnish to the Overseas Custodian Bank and Domestic Depository, a certificate obtained by it from the statutory auditor of the company or a Chartered Accountant about utilization of funds and its variation from the projections of utilization of funds made in the prospectus, if any, in quarterly intervals. It shall also publish it in one of the English language newspapers having wide circulation in India.
- The issuing company shall also appoint an overseas custodian bank, a domestic depository and a merchant banker for the purpose of issue of IDRs.
- The quarterly audited financial results of the issuing company should be prepared and published.

- Prior permission of SEBI for the issue of IDRs is must. An issuing company shall also pay an application fee and issue fee to SEBI in respect of issue of Indian depository receipts.

### Penalty

Contravention of any provision of these rules shall lead to a fine which may extend to twice the amount of IDR issue and if the contravention is a continuing one, with a further fine which may extend to five thousand rupees for everyday during which the contravention continues (*The companies bill 1997*).

In addition to the above, norms also specify the procedure for issue, transfer and redemption of IDRs, registration of documents by issuing company and distribution of corporate benefits.

## Section II

### Future Prospects of Indian Depository Receipts

Favouring the issue of IDRs by foreign companies, SEBI Chairman G.N. Bajpai said that this step is taken to allow the good quality corporates incorporated abroad to raise resources from Indian Capital market. This would give the Indian investors a chance to participate in the wealth being created internationally by these corporates. Moreover if Indian companies are allowed to share their wealth with the overseas public through GDRs and ADRs, why Indian investors are deprived of sharing the wealth of foreign companies? No doubt that Indian investors can subscribe to the share of foreign company through FII, direct access will be better. This will make the Indian markets totally global. Following are the possible benefits which explain that how the issue of IDRs by the foreign companies can prove a better investment alternative for the Indian investors, for issuing companies and also for the regulatory bodies like SEBI.

#### Part I: Norms that make IDRs more attractive

- The eligibility criteria regarding Net-worth, turnover, profit making and dividend paying are too stringent that only the companies having sound financial position and operational base will be able to raise funds from Indian investors.

The foreign company issuing IDRs is required to transfer the IDR proceeds into a separate account. Such company shall also provide details of the use of such proceeds and its variations from the projections of utilization of funds. This will ensure that funds are being used as per specified by the company in its prospectus.

- The issue should disclose risk factors about the business and country of issue of IDRs, which are to be issued to Qualified Institutional buyers and to those who invest Rs.5 lakh or more (*Press trust of India, 2004*). This will explain the fact that how much risk is involved in a particular investment.
- IDRs may lead to better portfolio management and diversification for Indian investors. IDRs may encourage Global majors such as Microsoft and General Motors to issue their respective shares to investors in India and raise funds. It will provide Indian Investors, who are deprived of quality stocks, a chance to buy into the stocks of reputed companies abroad.
- The IDR rules provide SEBI with an opportunity to enrich itself. An issuing company is required to pay a non-refundable fee of US \$10000 along with the application seeking permission to issue IDRs, provided that on permission being granted, applicant shall also pay an issue fee of ½% of issue value subject to a minimum of 10 lakhs where the issue is up to Rs.100crore. Further, where the issue value exceeds Rs.100 crore, every additional value of issue would be subject to a fee of .25% of the issue value.
- With the cost of compliance increasing for companies that want to be listed in the U.S., listing in India may be an attractive option for foreign companies that view India a potential market (*Nishith Desai, 2004*). Means this will allow foreign companies to access funds at presumably, cheaper cost from Indian market.
- Indian investors will no longer have to approach stock markets offshore and FIIs for investing

in foreign companies which, too, was allowed to the extent of US \$25000 each year. Now they can access major multinationals directly.

- Moreover IDRs ensure better security as investment is made through safe depository mode (*Giridharan, 2004*).
- To make the investment in IDRs more attractive, the rules require the IDRs to be denominated in Indian rupees, thus saving the ordinary Indian investors from the hardships of foreign Exchange Laws (*Dewan, 2004*). Though the repatriation of the proceeds of issue of IDRs shall be subject to laws for the time being in force for export of foreign exchange.
- IDRs are a listed security and are in the demat form. These may be purchased, possessed and freely transferred. Moreover, the procedure for redemption of such receipts is also very convenient.
- The holders of IDRs are like equity shareholders, who enjoy title of dividends, participation in the rights issue and share of bonus issue. This will give an opportunity to Indian investors to acquire a share of the global pie.
- IDR is a new instrument for capital market to attract capital from domestic investors. This will enhance the scope for integration and convergence of global financial markets.

The above mentioned norms favour the issue of IDRs as these are safe and better investment alternative for Indian investors to participate in the foreign wealth. Moreover this will lead to integration of Indian economy with the global economy.

But stakeholders in the capital market and industry are of the view that eligibility criteria to issue IDRs are rather stringent and prohibitive in nature. This can prove to be a road block and prevent the IDR regime from taking off in India. Hence there is a need to amend these norms to make them encouraging one. Therefore, the concerned authorities should focus on the following issues:

#### Part II: Critical review of IDR rules

- Some good companies which are in the small and medium size market segment may not meet with the criteria relating to Net worth, reserves and average turnover. Hence this eligibility criterion seems to have shut the door on the face of well managed but medium sized companies which may want to persuade the Indian investors.
- The rules further require a track record of profitability and dividend distribution for issuing company. Again this clause may create a problem as foreign companies typically reinvest their profits into the business as opposed to Indian companies which are used to declaring dividends out of profits. A very good example is Microsoft, which would not be eligible to issue IDRs since it hasn't been a dividend paying company for the past five years (*Basu, 2004*).
- It is also not mandatory for issuing company to be listed overseas. Here questions arises, "Would it be prudent to allow companies from abroad, which are not listed at all in either their countries or elsewhere, to raise capital from Indian investors?" In the case of companies listed overseas, there is at least the prospect of looking with the home country regulations in case of prudential trouble (*Shaji Vikraman, 2002*).
- The overseas issuing company would have to prepare and publish its quarterly audited financial results in Indian newspaper, which may be a difficult condition for the privately held companies (*Dalal, Mandavia, 2004*).
- There is no limit or control over the premium that the foreign companies can charge (*Murlidharan, 2004*). The IDR rules are silent in this respect. As a result foreign companies may be tempted to fleece the Indian investors whose awareness levels are not at par.
- Foreign company seeking out Indian investor should have declared dividend of not less than 10% during each of the 5 years preceding the

issue. Actually what matters more to the investors is Return on Investment (*Muridharan, op.cit*).

- It is interesting to note that while Indian unlisted companies coming out with an IPO (Initial Public Offer) also need to comply with certain criteria relating to Net-worth and profitability, there is no criteria relating to the dividend distribution track record and debt-equity ratio (*Kamashetti, 2004*). It means that the eligibility criterion for foreign companies is really more rigid and tough.
- There is also a need to improve the penalty clause. The rules relating to the penalty to be imposed for contravention of rules are very rigorous. This may discourage overseas companies to select the IDR route for raising capital.
- IDRs can't be redeemed before the expiry of one year period from the date of the issue of IDRs. This restriction seems to be somewhat unusual.
- Norms don't require rating of IDRs, the reason being "Ratings are done only for the debt instruments and since underlying securities of IDRs would be only equities, it was not required to be rated" (*Mishra, 2003*). As a result, it becomes difficult for investors to investigate the actual credit worthiness of the issuing company. Hence they don't have any other option except to rely on the financial records shown by such companies themselves.
- In a capital scarce country like India, raising capital will be doubly tough. The new proposal would mean, raising funds from Indian investors at their expense.
- Moreover there are certain tax issues like taxing the gain on the sale of IDRs, transfer of IDRs, dividend declared by overseas company and tax laws of overseas jurisdiction that must also be made and clarified properly.

No doubt that IDR rules are too stringent and prohibitive in nature, but this strictness is

justified to the extent that these rules will prove to be a check on the fake companies to enter into the Indian stock market.

### Section III

#### Future challenges for Indian stock market

- I. Indian stock market will no longer remain independent from the rest of the world. This will put additional strain on investors as they will now need to be updated with world-wide economic events.
- II. Stock market will have to be equipped with the entire necessary infrastructure to handle trading aspects of IDRs since IDR will be traded in stock exchange just like other equity shares. (*Vaidyanath, 2004*).
- III. Indian stock exchanges will need to create and maintain a separate index representing the foreign companies that have issued IDRs, helping Indian investors to take purchase/ sale decisions regarding IDRs. Foreign companies can also take a decision on issuance of IDRs based on the movement of this index (*Vaidyanath, op.cit*).
- IV. Indian investors will be keen to invest their surplus abroad instead of investing it in the domestic companies. And in turn, Indian companies will have to raise more funds from foreign markets and if in such a case, interest paid by Indian companies is more than profit gained through IDRs by other Indian investors, then it will rather affect adversely to the Indian economy.
- V. If the cost of raising funds in India will be more then companies would avoid coming forward to raise funds from Indian markets. For this, Indian markets will have to become more secure, cost-effective and efficient to attract overseas companies to raise capital from Indian markets (*Bajpai, 2004*).

#### Conclusion

At the end, question arises that "Will corporates take IDR route?" Experts feel that it is still a relatively new

concept and only time will tell what type of companies it will attract. Basically the entry of foreign companies would largely depend on the merits and demerits of their management, business activities and financial position. Moreover it will also depend on the fact that which brand attracts the Indian market more. Only well known brands such as IBM, Microsoft, Coca-Cola would be acceptable to Indian market, but whether such companies would be interested to raise loans from Indian investors? The companies will consider a number of factors before taking IDR route like, at first cost of raising funds in India vis-à-vis abroad. Secondly, whether such companies are familiar with the Indian markets or have promoters of Indian origin. Thirdly, whether such companies consider India a potential market having significant investors. Describing India as a market of extremes the Mckinsey report says that India is a major target market, as it offers significant growth opportunities. It also gives the example of Citi Bank and Standard Chartered Bank which can be regarded as significant Indian investors who can invest in companies abroad.

Indian depository receipts should be taken as a challenge thrown by globalization and we have to respond in a way that the world business community has confidence and full understanding of our markets. Actually there is a need of convergence of national and international standards in the field of accountancy, corporate governance and systematic soundness (Ghoshal, 2004). The government, industry and professionals have to work hand-to-hand to achieve convergence. While the IDR rules can be considered as an important step in the direction of India's integration in the global economy. It remains to be seen that whether the concerned authorities will be able to amend the norms to satisfy both issuer and the Indian investors. The idea for the journey of IDRs has just begun. How far the capital markets will react and accept is a time testing factor. Hope it will be one more step towards globalization, convergence and harmonization of world stock markets.

#### References

- Bajpai, G.N., (2004), Norms for Indian Depository Receipts on the anvil, [www.deccanherald.com](http://www.deccanherald.com)
- Basu, I., (2004), Some foreign companies can tap money in India, [www.atimes.com](http://www.atimes.com)
- Dalal, K. and Mandavia, H., (2004), IDRs one more step in globalization, *Business line internet edition*, [www.blonnet.com](http://www.blonnet.com)
- Department of Company Affairs, (2004), Companies (Issue of Indian Depository Receipts) Rule, 2004, *SEBI & Corporate Laws, Volume 50*, pp. 36-46.
- Desai, N., (2004), Advent of IDRs, [www.nishithdesai.com](http://www.nishithdesai.com)
- Dewan, S., (2004), Issue of Indian Depository Receipts by companies incorporated outside India, [www.gouldratner.com](http://www.gouldratner.com)
- Ghoshal, R., (2004), SEBI to frame separate IDR norms soon, [www.telegraphindia.com](http://www.telegraphindia.com)
- Giridharan, P.T., (2004), Desi Depository Receipts make dreams come true, *The Chartered Accountant*, pp. 1380-1381.
- Kamashetty, S.B., (2004), Indian Depository Receipts (IDRs) norms need to be amended, *The Economic Challenger, Volume 24*, pp.61-62.
- Kumar M., (2004), Advent of Indian Depository Receipts, *BSE The Stock Exchange Review, the internet edition*, <http://www.bseindia.com/downloads/SER-April2004.pdf>
- Mishra, R., (2003), DCA for stringent entry norms for IDR issues, [www.thehindubusinessline.com](http://www.thehindubusinessline.com)
- Murlidharan, S., (2004), Idiosyncrasies in Indian Depository Receipt, [www.thehindubusinessline.com](http://www.thehindubusinessline.com)
- Press Trust of India, (2004), Norms issued for redemption of Indian Depository Receipts, [www.deccanherald.com](http://www.deccanherald.com)
- Press Trust of India, (2004), SEBI moots disclosure norms for IDR issuers, [www.hindustantimes.com](http://www.hindustantimes.com)
- The Company's Bill, 1997, Part II, Chapter II, Section 42-46, <http://dca.nic.in/bill/partII>
- Tribune news service, (2003), Indian Depository Receipts on the cards, [www.tribuneindia.com](http://www.tribuneindia.com)
- Vaidyanath, R., (2004), Indian Depository Receipts, *BSE The Stock Exchange Review, the internet edition*, <http://www.bseindia.com/downloads/SER-April2004.pdf>
- Vikraman, S., (2002), The Cons of IDRs, *Business line internet edition*, [www.blonnet.com](http://www.blonnet.com)



## CONSUMER'S PREFERENCE FOR READING NEWSPAPERS IN SHIMLA TOWN- A PRIMARY PROBE

JAI SINGH PARMAR\*  
YASHVANT GUPTA\*\*

### Table of Contents

- Abstract
- Introduction
- Need for Study
- Objectives of the Study
- Methodology
- Hypotheses
- Results and Discussion
- Conclusion and Implications
- References

### Abstract

*Over the years, the role of fourth estate has a vital role to play in influencing the behaviour of the people. The popularity to electronic media viz. television has increased but it has not effected the popularity of print media in India. It is the print media, which is easily accessible and has a more lasting effect on the people than any momentary events in the visual media. This media has now molded itself to suit the requirements of the recent Internet revolution and is growing with its readership always on the rise. This has emerged a major source of disseminating of information and playing a vital role of a catalyst for bringing about the desired changes in the behaviour of the public. The present study focuses on knowing about the customer's preferences towards the newspapers in Shimla town a capital of the state of Himachal Pradesh.*

### Introduction

In a democracy, the print media plays a vital role in building public opinion by way of dissemination of information to the public. Uncensored News, fearless Editorial criticisms and other articles published in the Newspapers and Magazines, influence the day-to-day governance of the country to a great extent. In India, the significance of the fourth estate as the inevitable

pillar of democracy and the freedom it enjoys, have contributed to the consistent growth of the print media. It is the print media, which is easily accessible and has a more lasting effect on the people than any momentary events in the visual media. This media has now molded itself to suit the requirements of the recent Internet revolution and is growing with its readership always on the rise.

Shimla a summer capital of the British raj is situated in lush green forest and also known as the "Queen of Hills". It is a major tourist destination and one of the important educational center and having a seat of University and Indian Institute of Advanced Study and many famous educational institutions.

### Major Newspapers

The Tribune, now published from Chandigarh and Jalandhar, started publication on February 2, 1881 in Lahore (now in Pakistan). Apart from English edition, The Tribune has two sister publications, Punjabi Tribune (in Punjabi) and Dainik Tribune (in Hindi). Leadership through quality and innovation is the hallmark of The Hindustan Times Limited. The organization has been a major force for over seven decades in the print media and comprises the different brands in different regions in India. The Indian Express, as it is popularly labeled, has always exposed while others covered. Readers found the financial express never shirked away from a fight, always excelling as a powerful instrument to shape the public opinion. The Financial Express offers a comprehensive coverage of the corporate world. The exclusive full coverage of news and events especially on corporate world make it a comprehensive and complete business newspaper. The Hindu, started in 1878 as a weekly, became a daily in 1889 and from then on has been steadily growing and known for its reliable and balanced presentation of the news over

\*Assistant Professor, Institute of Management Studies, H.P. University, SHIMLA.

\*\*Associate Professor, Institute of Management Studies, H.P. University, SHIMLA.

the years. The Statesman is one of India's oldest english newspapers. The Delhi edition of The Statesman began publication in 1931. The Statesman is the leading english newspaper in West Bengal. Amar Ujala was launched on the 18th of April 1948 from Agra. Amar Ujala has maximum circulation in Uttar Pradesh and Uttaranchal. Additionally this newspaper is emerging as leading newspaper in Chandigarh, Punjab, Haryana, Himachal Pradesh and Jammu & Kashmir.

### Need for Study

Understanding consumer behavior and knowing customer preferences is never simple. Customers may say one thing but do another. They may not be in touch with their deeper motivations. They may respond to influences that change their minds at the last minute. Understanding buyer or consumer behavior is very important for any marketing. Consumer's need, wants, desires, preferences, beliefs, habits, phobias, fads, attitudes and eccentric constitute important determinants of product, which is offered. Of equal importance are the channels through which a marketer sells his product, the promotional efforts, which he employs, and price he will be able to get from consumers.

### Objectives of the Study

The study was undertaken keeping in view the following objectives.

- To study the brand preference of the customers for the different newspapers.
- To study the impact of various socio-economic and demographic variables on the customer's preference for various newspapers.
- To analyze the frequency of reading for different newspapers by the different customers.

### Methodology

The present study is an effort to study the customer's behaviour in respect of different newspapers in Shimla town. For the present study Shimla town was purposively selected. Some of the major reasons for the selection of this town were the prominence of the town being the capital of the state of Himachal Pradesh, its high income and literacy

status etc. The total numbers of 100 respondents were selected for the sample on random basis. In selecting the sample for the study, special care was taken to cover the respondents of all the age groups. The maximum numbers of respondents were students, businessman, govt. and Pvt. sector employees. The rationale of selecting these categories of respondents was because of the reason that these categories of respondents are always attractive towards the qualities of news published in different newspapers. To elicit the required information pertaining the study, a questionnaire was designed. While preparing the questionnaire special care was taken to ensure that the question did not lack clarity and simplicity. The question framed were both open ended and closed ended to obtain wide variety of responses. The information thus collected was interpreted by working out the  $\chi^2$  Tests.  $\chi^2$  Tests were used to study the brand preference vis-à-vis income, age, sex, education, occupation, language and frequency of reading the newspapers. It was applied to measure the degree to which a series of observed frequencies deviate from their expected preferences.

### Hypotheses

In order to analyze the attitude of the respondents towards various newspapers, different hypotheses were formulated as under:

- $H_1$  Occupation of an individual does not affect his preference for a newspaper.
- $H_2$  Income of an individual has no effect on his preference for a particular newspaper.
- $H_3$  Age of an individual has no effect on his preference for a particular newspaper.
- $H_4$  Sex of an individual has no effect on his preference for a particular newspaper.
- $H_5$  An individual's preference for a newspaper is not affected by his educational qualifications.
- $H_6$  The educational qualifications of an individual do not affect his preference for newspapers of a particular language.
- $H_7$  Occupation of an individual has no effect on his frequency of reading newspapers.

### Results and Discussion

#### Most preferred newspaper Vis-à-vis Occupation:

Profession has a profound effect on the behaviour of an individual. Every individual tries to match his or her personality to their profession and therefore they purchase those products that better suits their personality and standards. Different people have different perceptions about the quality of product e.g. two individuals subjected to the same stimuli under the same apparent conditions might perceive it differently. How up a person response to a particular consumption opportunity depends on the person's need, values and expectations. Further, the perception of the quality of a product and its utility governs the consumption and consumption level decisions.

An analysis of the responses indicated by various respondents in table-1 reveals that the people employed in different occupations do not stick to one brand but prefer variety of brands. Our main aim was to see whether the occupation/ profession of an individual has an effect on the brand preference of a Newspaper or not. To judge this we have used  $\chi^2$  Test. The table indicates that the calculated  $\chi^2$  values has come out to be 23.268, which is not significant at .05 level of significance for 20 d. f. From this it may be said that the newspaper preference of an individual is independent from the effect of any occupation. Hence,  $H_0$  was accepted.

**Most preferred newspaper vis-à-vis Income Level:**  
Income of an individual is an important determinant of

Table -1  
Most Preferred Newspaper Vis-a-vis Occupation

Occupation	Most Preferred Newspaper						TOTAL
	Tribune	HT	ToI	Amar Ujala	PunJab Kesri	Indian Express	
Govt. Employee	6(3.6)	0(3.96)	3(3.06)	4(3.78)	3(1.98)	2(1.62)	18
Pvt. Sec. Emp.	4(2.8)	3(3.08)	4(2.38)	3(2.94)	0(1.54)	2(1.26)	14
Businessman	4(4.6)	3(5.06)	2(3.91)	7(4.83)	5(2.53)	2(2.07)	23
Student.	6(6.8)	12(7.48)	5(5.78)	5(7.14)	3(3.74)	3(2.06)	34
Other	2(2.2)	4(2.42)	3(1.87)	2(2.31)	0(1.21)	0(0.99)	11
ToTAL	20	22	17	21	11	9	100

Table -2  
Most Preferred Newspaper Vis-a-vis Level

Income (p.m.)	Most Preferred Newspaper						TOTAL
	Tribune	HT	ToI	Amar Ujala	PunJab Kesri	Indian Express	
BELOW 5000	0(1.8)	2(1.98)	0(1.53)	3(1.89)	4(0.99)	0(0.81)	9
5000-10000	4(3.4)	2(3.74)	3(2.89)	4(3.57)	2(1.87)	2(1.870)	17
10000-15000	6(5.2)	5(5.72)	3(4.42)	5(5.46)	3(2.86)	4(2.34)	26
Above 15000	10(9.6)	13(10.56)	11(8.17)	9(10.08)	2(5.28)	3(4.32)	48
ToTAL	20	22	17	21	11	9	100

Note: Figures in parentheses are expected frequencies

rand preferences of an individual. Income of an individual affects his life in such a way that all his major decision in life has serious connotations with what he earns. As the income of an individual measures, his standard of living measures and hence his brand preference may undergo a drastic change. He starts looking at those things from the point of quality rather than from point of price. As his income increase he may change his preferences in favor of big and strong brands, as he looks quality in them. A person with low income will take major marketing decisions, which are predominantly price base rather than quality based. Hence income is an important economic factor, which should be analyzed to see its effect on the brand preferences of individuals.

An analysis of the responses collected from various respondents in table-2 reveals that there is no single

brand, which is completely popular among all income groups of people but the choice of people in different income groups varied from brand to brand. Our aim was to see whether the income of an individual has a significant effect on the brand preference of an individual for a Newspaper or not. The table indicates that the calculated  $c_2$  values has come out to be 20.960, which is less than the criterion value of  $c_2$  (24.996) at .05 l.o.s. for 15 d. f. From this it can be concluded that the newspaper preference of an individual is free from the effect of any income level. Hence,  $H_2$  was accepted.

#### Most Preferred Newspaper vis-à-vis Age:

The taste and preference of the people also change as they grow up. A product, which is more popular among the teenagers, may not be of concern for the mature people. Therefore, the consumption of certain product

Table-3

Most Preferred Newspaper Vis-a-vis Age

Age	Most Preferred Newspaper						TOTAL
	Tribune	HT	Tol	Amar Ujala	PunJab Kesri	Indian Express	
Below 20	3(1.8)	0(1.98)	0(1.53)	3(1.89)	3(0.99)	0(0.81)	9
20-30	5(6.8)	12(7.48)	8(5.78)	7(7.14)	0(3.74)	2(3.06)	34
30-40	4(4.6)	5(5.06)	5(3.91)	4(4.83)	3(2.53)	2(2.07)	23
40-50	3(3.2)	2(3.52)	2(2.72)	3(3.36)	3(1.76)	3(1.44)	16
Above 50	5(3.6)	3(3.96)	2(3.06)	4(3.78)	2(1.98)	2(1.62)	18
ToTAL	20	22	17	21	11	9	100

Note: Figures in parentheses are expected frequencies

Table-4

Most Preferred Newspaper Vis-a-vis Sex

Sex	Most Preferred Newspaper						TOTAL
	Tribune	HT	Tol	Amar Ujala	PunJab Kesri	Indian Express	
Male	12(12.6)	13(13.86)	11(10.71)	13(13.23)	7(6.93)	7(5.67)	63
Female	8(7.4)	9(8.14)	6(6.29)	8(7.77)	4(4.07)	2(3.33)	37
ToTAL	20	22	17	21	11	9	100

Note: Figures in parentheses are expected frequencies

are bound to be more in case of some age group people than in others.

An analysis of the responses obtained in table-3 shows that there were different brands, which were being preferred by respondents of different ages. Brands like The Tribune, Hindustan Times, Times of India, Amar Ujala, Punjab Kesri; Indian Express etc. were popular among consumer of all ages. Our main aim was to see whether age has any effect on an individual's brand preference of Newspaper or not. The table makes it clear that the calculated c2 values have come out to be 26.756, whereas the table value c2 for 20 d.o.f. at .05 I.o.s. is 31.410, which is not significant at .05 I.o.s. for 20 d. f. From this it may be said that the newspaper preference of an individual is independent from of his age group. Hence, H3 was accepted.

**Most Preferred Newspaper vis-à-vis Sex:**

Most Preferred Newspaper vis-à-vis Sex: The table-4

indicates that the calculated c2 values have come out to be 1.064, which is less than the criterion value of c2 (11.070) at .05 I.o.s. for 5 d. f. From this it can be concluded that the sex of an individual has no effect on his preference for a particular newspaper. Hence, H4 was accepted.

**Most Preferred Newspaper vis-à-vis Educational Qualifications:**

Education plays a very important role in an individual's life. As a person goes on achieving education he grows in experience and knowledge. An illiterate remains ignorant of market development and the new brands coming in the market and the merits and demerits of the same. This ignorance also reflects on his consumer behaviour. He wants to buy unbranded things, as he is ignorant about various brands. A graduate, Postgraduate and a professional individual have much

Table -5  
Most Preferred Newspaper Vis-a-vis Educational Qualifications

Educational Qualifications	Most Preferred Newspaper						TOTAL
	Tribune	HT	Tol	Amar Ujala	PunJab Kesri	Indian Express	
High School/ . Sr. Secondary	4(3.8)	4(4.18)	2(3.32)	4(3.99)	3(2.09)	2(1.71)	19
Graduation	9(9.4)	10(10.34)	8(7.99)	10(9.87)	6(5.17)	4(4.23)	47
Post Gradution	7(6.8)	8(7.48)	7(5.78)	7(7.14)	2(3.74)	3(3.06)	34
TOTAL	20	22	17	21	11	9	100

Note: Figures in parentheses are expected frequencies

Table -6  
Educational Qualifications Vis-a-vis Language preferred

Newspaper Language	Most Preferred Newspaper				TOTAL
	High School	Sr. Sec.	Graduation	Post Graduation	
Hindi	3(1.47)	7(2.52)	6(9.87)	5(7.14)	21
English	4(4.46)	5(8.16)	35(31.96)	24(23.12)	68
Both	-(0.77)	-(1.32)	6(5.17)	5(3.74)	11
TOTAL	7	12	47	34	100

Note: Figures in parentheses are expected frequencies

experience than the others like undergraduates. They have now reached an age where they know what is right or wrong. Hence, their choice of brand preference is mostly rational than emotional. They analyze quality at the same time look for value of money they pay for a product.

An analysis of the information collected from the respondents in table-5 reveals that various kinds of newspapers are popular among respondents having varied education qualifications. Our aim was to see whether educational status of an individual has any effect on the preference of an individual for newspapers or not. The table makes it clear that the calculated  $c^2$  value has come out to be 2.217, whereas the table value  $c^2$  for 10 d.o.f. at .05 l.o.s. is 18.307, which is not significant at .05 l.o.s. for 20 d. f. From this it may be said that the newspaper preference of an individual is not influenced by his educational qualifications. Hence, H5 was accepted.

The table-6 reveals that the calculated  $c^2$  values have come out to be 1.064, which is less than the criterion value of  $c^2$  (16.030) at .05 l.o.s. for 6 d. f. As a result, we can state that the educational qualifications of an individual have a significant impact on his preference for newspapers of a particular language. A person who is less educated prefers to read Hindi newspapers. And as the level of education rises the preference shifts towards English language newspapers. Hence, H6 was rejected.

#### Occupation Vis-à-vis Frequency of Reading Newspaper:

The responses of the respondents on relation between occupation and frequency of reading newspaper have

been shown on table-6. Our aim was to find out whether the occupation of the individual affects the frequency of reading the newspaper or not. The information given in table makes it clear that the calculated  $c^2$  values has come out to be 3.323, which is less than the criterion value of  $c^2$  (15.507) at .05 l.o.s. for 15 d. f. From this it can be concluded that the frequency of reading newspaper by an individual is independent of his occupation. Hence, H7 was accepted.

#### Conclusion and Implications

In consumption preference analysis of different newspapers it was found that occupation, income, age, sex and educational qualification of an individual have no significant effect on the customer's brand preference for a newspapers. Apart from this it was also found that the occupation of an individual has no significant effect on his frequency of reading newspapers. Hence, H1, H2, H3, H4, H5 and H7 were accepted. Whereas while making the comparison of languages of the different newspapers viz. educational qualification, it was found that the educational qualifications of an individual, have a significant impact on his preference for newspapers of a particular language. Because a person who is less educated prefers to read Hindi newspapers and as the 2006 level of education rises the preference shifts towards English language newspapers. Hence, H6 was rejected.

The Hindi newspapers must improve their quality and credibility in order to compete in the market dominated by the English newspapers. Since the "News Content" may be the main reason for preferring a newspaper, it must be maintained & improved upon by all the newspapers.

Table -7  
Occupation Vis-a-vis Frequency of Reading Newspaper

Frequency Reading	Occupation					TOTAL
	Govt. Service	Pvt. Service	Business	Student	Other	
Daily	13(12.9)	11(12.04)	20(20.64)	31(30.96)	11(9.46)	86
Occasionally	2(2.1)	3(1.96)	4(3.36)	5(5.04)	0(1.54)	14
Rarely						
TOTAL	15	14	24	36	11	100

Note: Figures in parentheses are expected frequencies

Regional coverage should be improved and provided a greater importance by the newspapers that lack in it, since it was found to be an important factor in choice of the newspaper. Since most of the people have shown loyalty towards their preferred newspaper, the low priced papers may consider a price increase without any fear of loosing on its readers.

All the newspapers have to work upon their section of International News. Almost all the papers, especially the Hindi ones have to provide greater & better coverage of the career & educational news. The Hindi newspapers must lay a greater emphasis on their business news section. The distributors should make the delivery of newspapers more regular as well as reliable.

### References

- Malhotra Naresh K., (2004), Marketing Research- an applied orientation, Pearson Education.
- Harper W. Boyd Jr., Raiph Westfall, Stanley F. Stasch, (1996), Marketing Research- text & cases, AITBS Educational Books.
- Sheriekar S.A., (2003), Marketing Management, Himalaya Publishing House.
- Leon G. Shiffman & Leslie Lazar Kanuk, (1999), Consumer Behavior, Prentice Hall of India.
- [www.timesofindia.com](http://www.timesofindia.com)
- [www.hindustantimes.com](http://www.hindustantimes.com)
- [www.tribuneindia.com](http://www.tribuneindia.com)
- [www.financialexpress.com](http://www.financialexpress.com)
- [www.expressindia.com](http://www.expressindia.com)
- [www.thehindu.com](http://www.thehindu.com)
- [www.thestatesman.net](http://www.thestatesman.net)
- [www.amarujala.com](http://www.amarujala.com)
- [www.historicpages.com](http://www.historicpages.com)

## CHALLENGES AND OPPORTUNITIES OF SERVICE MARKETING NEED FOR SUSTAINABLE COMPETITIVE STRATEGY

SOM DEO\*

### Table of Contents

- Abstract
- Introduction
- Factors Influencing Transformations of Service Economy
- Planning, Creating and Designing Services
- Sustainable Competitive Advantage (SCA)
- Sustainable Competitive Advantage - A Part of Comprehensive Corporate Strategy
- References

### Abstract

*With the emergence of service sector as the key contributors of the economy. The paper focused on the different dimensions of innovation in the service industry. The author has also derived sustainable competitive advantage model in support for the same.*

### Introduction

Marketing is the only management function that is dedicated to generating sales revenue to the firms. And no business can hope to sustain such a revenue stream unless it is successfully attracting and retaining customers who are willing to keep purchasing its services at prices that collectively cover all costs and leave an appropriate margin of profit and needed reinvestment. All products deliver benefits to the customers who purchase and use them. In the case of goods, the benefits come from ownership of physical objects or devices, whereas in services, the benefits are created by actions or performances. Continuous innovations have become the key word of services marketing.

Service sector has become the most dominating source of GDP all over the world. With higher and higher tertiarisation, the variety and quality of services have improved to a great deal. Increasing liberalisation has also intensified the battle for greater and greater market

share for the various services being produced. Rapidity of growth of services and basic characteristics of services (like ephemerality, perishability intangibility etc.) has brought the paradigm shift in marketing strategy for these services. Unlike the product of the marketing for services is more subtle. So the 'Service' is a 'performance' rather than a 'thing'.

The services marketing mix has not remained concentrating on 4 Ps (Product, Price, Place and Promotion) but has extended to 7Ps (additional Ps are Physical environment, Process and People) associated with service delivery. A distinction has to be drawn between marketing of services (where services are the core products) and marketing through services. In the latter case the manufacturing firm may base its marketing strategy on a philosophy of serving customers well and adding supplementary service elements to the core product, but that core product still remains a physical good, not an intangible performance.

Opening up of the service economy to global players means more intense competition that too with greater amount of resources and capabilities at the command of the operators. In turn, more competition will stimulate innovation and new technologies will come to cutting edge responding differently to different demographic and social value system. Organizations will focus more sharply on marketing strategies. e-Bay can be cited as one of the appropriate examples.

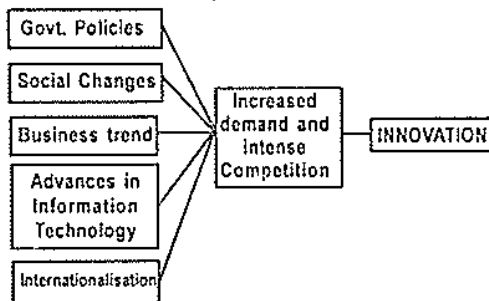
### Factors Influencing Transformations of Service Economy

Lot of factors have influenced in transforming the service sector economy. Over the period of time tertiarisation has been the greatest source of high growth tranjectory. Even in India's economy, the service sector is growing at the rate not less than 8 to 10% per annum. Very many factors are responsible for this. Following chart will explain schemetically these factors.

\*Professor, Deptt. of Economic Administration & Financial Management, Univ. of Rajasthan, Jaipur & Director, UGC - Academic Staff College



Fig (1)



What needs to be more innovative about is the focus on customer and delivery system. One should note that active participation of customer is needed in planning, designing and delivery of service.

### Planning, Creating and Designing Services

There has to be a perfect dovetailing between operations management and customer concern while planning and creating the services. Marketing can not plan in isolation on new product development, especially when its delivery is competing with cutting edge technological involvement. The task of planning and designing begins with the corporate statement of objective alongwith two other analyses and resource allocation analysis. The former includes market assets statement and the concept of service marketing concept. The later is to concentrate on operating assets statement and service operating statement. Due to increase in competitive intensity and customer expectations in all types of service industries not only the existing services have to be strengthened but also to create some new values to the customers so that the customers are made to feel that the benefits obtained by them are really worth and motivate them to remain loyal to the service.

Lovelock and Wirtz have identified seven categories of new services ranging from major innovations to simple style changes. These may be schematically shown as under:-

#### Major service Innovations

- New core products that have not been defined earlier
- New Services
- New Process

#### Major Process Innovations

- Using new process to deliver existing core products

- Greater customisation
- Suggestions for additional products

#### Product line Extensions

- Additions in current product lines-like insurance in retail banking

#### Process line Extensions

- New ways of delivering existing products
- Adding lower contact channels to high contact channel

#### Supplementary Service Innovations

- Adding new facilities or enhancing service elements
- Significantly improving an existing supplementary service

#### Service Improvements

- Adding visibility
- Create excitement
- Motivating employees

#### Major service innovations

- New core products that have not been defined earlier
- New Services
- New process

#### Major Process Innovations

- Using New Processes to deliver existing core products
- Greater customisation
- Suggestions for additional products

#### Product line Extensions

- Additions in current product lines-like insurance in retail banking

#### Process line extnsions

- New ways of delivering existing products
- Adding lower contact channels to high contact channel

#### Supplementary Service Innovations

- Adding new facilities of enhancing service elements
- Significantly improving an existing supplementary service

#### Service Improvements

- Adding visibility
- Create excitement
- Motivating employees

### Sustainable Competitive Advantage (SCA)

Because of hyper competition and liquid flow of information competitive has become more and more difficult to capture and almost impossible to keep. Advanced business analysis and decision making process show that most of the concepts of service marketing are quickly imitated wiping out the potential competitive advantage even for the short term. Competitive advantage has moved from product centric to process and culture centric. This shift has made it still more difficult to even attempt to capture. Ephemerality of competitive advantage has made it necessary to make it an 'intangible dominance.'<sup>4</sup> It is like staging a play. In fact the constant 'search' and content for the competitive advantage strategy has added an element of theatrical metaphor to the whole concept of service add to diametries. Transitoriness, intangibility and perishability of services have added more fuel to the break neck speed for the search of competitive advantage, rather a competitive advantages which is sustainable over a reasonable period of time to attract and retain the customers. One can easily understand how this scenario of search for SCA has been windshifting on account of globalisation, dismantling of different kinds of barriers which were hitherto operating as main determinants; economies of large-scale; cost cutting synergies; liquid flow of information with hyper speeds; business drawinism etc. The greatest threat to competitive advantage is the imitability of your strategy no sooner you come out with a new one.

The only way to achieve Competitive Advantage (CA) with even short term sustainability is to seeking it in every aspect of business operations, marketing, strategy, leadership, product and any other possible place all of the same time.

Lippman and Rumelt have advocated for 'causal ambiguity' while designing strategy for CA Only through creating causal ambiguity that will distract the competitors and will disinterest them from trying to imitate. This can make the firm to achieve anything close to CA Causal ambiguity results in uncertain imitability according to Lippman and Rumelt. The causal ambiguity is nothing but to add some cloudiness

to the liquid flow of information. The real CA is disguised by multiple lines of advantage-even if some of them don't give any advantage at all. This is done for the sake of confusing the competitors even it is costing a little more to the organisation and giving no real advantage, at times. It is considered a cost of achieving unnatural success in our hyper competitive society.

However, how far it would be acceptable in socio-cultural specific milieus, remain to be seen. The latest reliance infocom strategy of routing international calls on domestic lines is the example. Causal ambiguities may not be acceptable in certain ideal or regulated societies. Through the Wal-Mart strategy has been proved successful. Because the object of most corporate strategies are two fold question-

- (a) Where you want your business to go ?
- (b) How do you get there ?

However infinite the first question is, the second question is nonetheless important. Causal ambiguity, perhaps, based on the famous Alexander's saying, 'Waste no fresh tears over old griefs'. Old griefs do, however, provide some historical lessons to become wiser. In fact, for seeking competitive advantage in every aspect we should institute processes and strategies to have an edge over others-some may work some may not. But one must appreciate the fact that there is someone who will imitate it, removing your advantage and jeopardising your profits for future and, therefore, there is not time for lounging in mediocrity or accepting anything less than 'perfect'. One should achieve the advantage.

According to Michael Porter, competitive advantage grows out of value of a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower price than competitors for equivalent benefits that more than offset a higher price. There are two basic of CA-Cost leadership and differentiation.<sup>5</sup>

### Sustainable Competitive Advantage - A Part of Comprehensive Corporate Strategy

- A firm's relative position within industry is given by

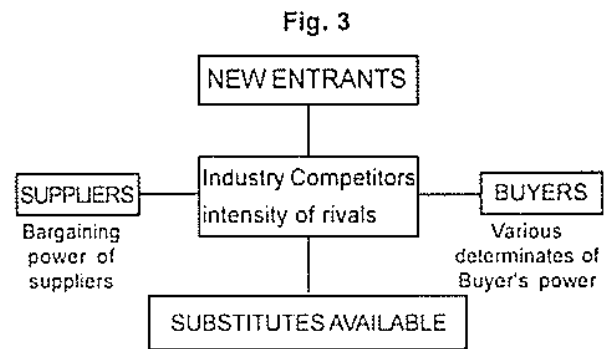
choice of competitive advantage (cost leadership and differentiation) and competitive scope. The competitive scope distinguishes between firms targeting broad industry segments and firm's focussing on narrow segments. As a generic strategy CA requires the firm to make a choice about the type and scope of its CA. Different risks are inherent in each generic strategy. But be careful, 'all things to all' is a sure recipe for getting 'suck in the middle'. There has to be a preference for a 'framework' rather than 'a model'.

The key for survival in the global market for a service firm is to offer a service that in some way is superior to its competitors. In addition to being superior, it must also be sustainable over time. This concept of providing a superior service over time is called a Sustainable Competitive Advantage (SCA). Because of the unique characteristics of services, obtaining and maintaining a sustainable competitive advantage is a challenging task. One major reason for this increased challenge is that services can be copied or duplicated easily, it is difficult to get copyright or patent protection for service.<sup>6</sup>

To qualify as a SCA, the perceived advantage must meet four requirements.<sup>7</sup> These four requirements are-

- (i) That the SCA must be valued by customers and at the same time the SCA must affect the criteria used in the customers' decision to purchase.
- (ii) That the service should be made as far as possible, non substitutable. The substitutability evokes quick imitation.
- (iii) That the service firm must have the 'capacity' and 'resources' of delivery SCA to customers. Core competencies and physical resources are extremely important. Resources and capabilities both reinforces each other-
- (iv) That it must be sustainable. It should operate as a barrier to competitors as long as possible. It must be mentioned that product life cycle is extremely important. In fact, the 'sustainability life cycle' road map is needed to be drawn, the important elements of which are capital costs, degree of differentiation, switching costs, access to distribution channels, experience effects etc.

Here Michael Porter's five forces are important to design SCA. This may be shown as under -



Four different aspects need to be considered for evolving SCA, namely

- (a) What should be the basis of SCA- it includes industry structure, and firm's positioning within industry.
- (b) How the strategy is created -
  - by introducing newer technologies
  - shifting buyers' needs
  - emergency of new segments (s)
  - shifting input cost or availability
  - changes in govt. regulation
- (c) How strategy be implemented ?
  - by performing discrete activities
  - conceiving new ways to conduct activities
  - employing new procedures
  - appropriate 'FIT' is vital
- (d) How CA to be sustained
  - to avoid imitation herirachy of sources to be maintained because higher order advantages are difficult to imitate.
  - no. of distinct sources - many are harder to imitate than a few
  - constant upgrading and improvement

Porter's three choices of strategy are important as they influence the configuration of firm's activities which are-Variety based positioning; need based positioning and access based positioning.

Emphasis should be on the 'fits' three orders of 'fits' may be planned.

**First order** - known as 'simple consistency - between each activity and overall strategy.

**Second order** - known as 'reinforcing' wherein distinct activities reinforce each other.

**Third order** - 'coordinating'- coordination and information exchange across activities to eliminate redundancy and wastage of effort.

Therefore, the competitive advantage should be a sustainable one and also a part of overall corporate

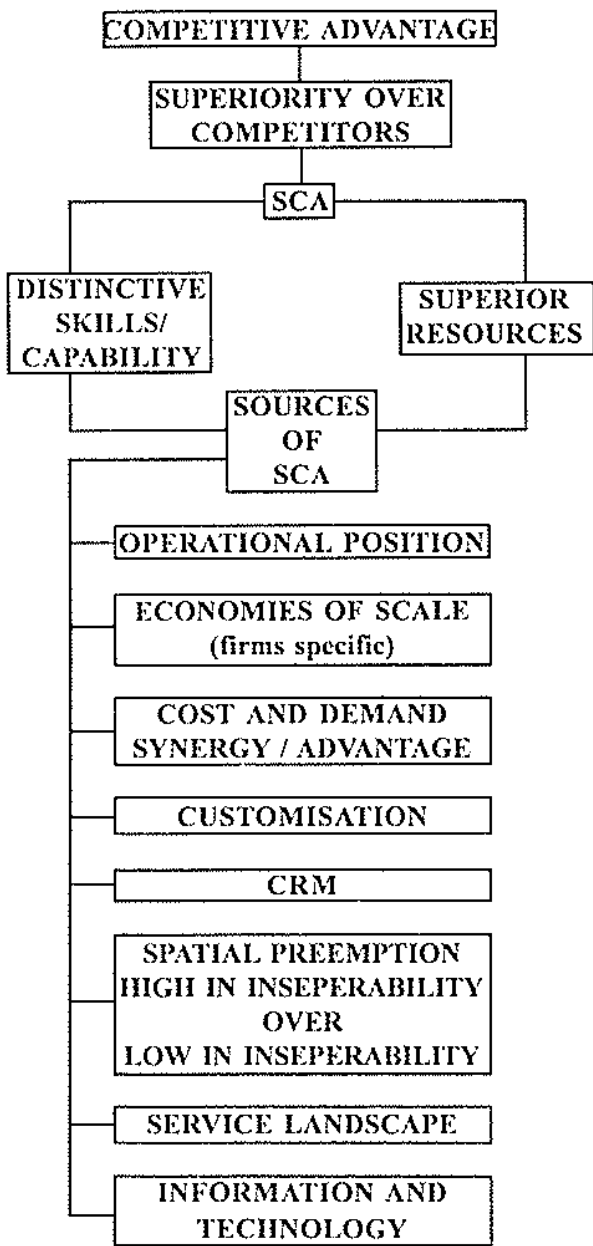
strategy as the global scenario is to provide vast and profitable opportunities only to those who are not 'lounging in mediocrity but continuously remain conscious. There is no room for any complacency, however big a firm is.

Multipronged approach has to be buzz word. Distinctive skills and superior resources may be considered into the sustainable competitive strategy. Sources of SCA may be outlined as below :-

**References**

Leonard R. Berry. (1980), *Services Marketing is different Business*, May - June, 1980.  
 Christopher Lovelock Jochen Wirtz. (2005), *Services Marketing*, Pearson Education, Fourth Reprint, p. 23.  
 Michael D. Johnson and Anders Gustafsson. (2003), *Competing in a Service Economy* (San Francisco, Jossey - Bass)  
 G. Lynn Shostack. (1977), *Breaking Free from Product marketing*, *Journal of Marketing*, April.  
 Michael Porter. (1985), *Competitive Advantage*, p.3.  
 David L. Kurtz. and Kenneth E. Clow. (2002), *Service Marketing*, John Wiley & Sons, p. 308.  
 Sunder G. Bhardwaj et al, *Sustainable Competitive Advantage in Service Industries. (1993), A Conceptual Model and Research Propositions*, *Journal of Marketing*, vol. 57 Oct, pp. 83-92.

Fig. 4



SOURCE OF SCA

## ETHICS AT WORK PLACE- A CASE STUDY

ASHUTOSH PRIYA\*  
MRINALINI SHAH\*\*

### Table of Contents

- Abstract
- Introduction
- Work culture
- Rationale
- Methodology
- Analysis and Findings
- Conclusion
- References

### Abstract

*The word ethics is derived from Greek word "ethos", which refers character. Ethics is the adoption of the right methods and deals more with good then bad. Culture implies inheritance. Work culture implies doing one's job with full devotion following certain set of values and possessing some ethics related with work. Work culture includes a set of rules of conduct, either explicit or implicit, which are generally accepted by business and society as the desired rules of conduct.*

*The principles of ethical reasoning are useful tools for sorting out the good and the bad components within complex human interactions. For this reason the study of ethics has been at the heart of intellectual thought since the early Greek philosophers, and its ongoing contributions to the advancement of knowledge and science makes ethics a relevant, if not vital, aspect of management theory.*

*Future managers should know the practical aspects of work ethics, like how ethics can be developed, how they can be managed at workplace, how individual makes his/her values, what are the contents of ethics which can be utilized to motivate human resources at work place since "organizations are not having ethics only people have." This paper is an attempt to find out practical aspect of ethics at work place, which may be a useful tool for the future managers.*

### Introduction

As business, industry, and education face challenges

to each produce workers and students who perform at optimum levels, all are faced with the issue of the work ethics (Ford & Herren, 1995). Nearly all discussions with emphasis of linking or improving businesses and education capture work ethics somewhere in the discourse (Bottoms, 1973).

The word ethics is derived from Greek word "ethos", which refers character. Ethics is the adoption of the right methods and deals more with good then bad. According to Solomon and Hanson, ethics is thinking in terms of larger picture not neglecting or ignoring ones own interest and well being but not overemphasizing ones own interest either.

The institutes do not have ethics only people have ethics. Individual ethics are ones own sense of judgment, what is right or wrong depending upon several factors like knowledge, family, education, experience etc. Ethics is not a new concept for Indian society. Our Vedas, Puranas, tells us how to behave in any situation. Ethics of the individual guides his action and reaction.

Values represent the standards or ideals about what a person, object, event or activity "ought to be". A value shapes attitude, perception, interest and finally personality. The ancient truth seekers stressed on 1. Rita 2. Satya 3. Dharma.

**Rita** is a 'Rigvedic concept' means harmony, the cosmic harmony, the harmony between physical world, mental world, spiritual world and in between them.

**Satya** is not a rule but a way of life.

**Dharma** emphasizes an unchangeable faith in human endeavour, self-restraint (Samyama) and self-discipline (Tapas). Values at individual level include faith, self-respect, open-mindedness, devotion towards work, tolerance, sacrifice, courtesy, good, just, civil sense, simplicity, reason, truth, forgiveness, fortitude, cleanliness, absence of egoism, equanimity etc.

Values that can be imparted to the members of the organization collectively include harmony, resource

\* Faculty, Department of Management Studies, Amrapali Institute of Management, Dehradun, Uttarakhand

\*\* Senior Faculty, Narsee Monji, Mumbai

fulness, discipline, equity, brotherhood, peace, social conscience, concern, care, mutual trust, love, team – spiritedness, efficiency, effectiveness, excellence, morale, productivity, risk-bearing, accountability, sharing, sacrifice etc.

### Work culture

Culture implies inheritance. Work culture implies doing one's job with full devotion following certain set of values and possessing some ethics related with work. Work culture includes a set of rules of conduct, either explicit or implicit, which are generally accepted by business and society as the desired rules of conduct. It includes that one party should not gain an advantage while hurting others. Here one should know the difference between competitive behaviour and unethical conduct. It includes duties and rights of management, of subordinates, of society in general and their inter-relationship. To ensure an ethical behaviour in a competitive environment, individuals, institutional framework and society have to share certain standards of ethics and values. Business ethics includes concept of fairness and equity. Governance or management has a powerful influence on ethical behaviour because it defines the value system of the organization.

### Rationale

While many definitions of work ethics exist, some researchers define the terms independently. Work, according to research by Hudson (1973), can be defined as a means of productivity, a means of drudgery, or a necessary evil depending upon the viewpoint of employer, anti-establishment spokesman, or student respectively.

According to research by Hill (1999), work has been with humanity since the fall of Adam and Eve in Biblical text. And, with that notion of work as a punishment for sin (Bernstein, 1988), came the issue of determining what are acceptable and unacceptable behaviors toward that work. Some have come to call this behavior the ethics of work (Hill, 1999). Considering these notions of work and values we begin to form a foundation about issues concerning work and begin establishing the framework for work ethics

There are many arguments for and against ethics at work place. The main argument for is that if management will follow good business ethics, there would be no need for external factors intervention like government intervention etc. When the private sector does not maintain adequate ethical standards and/ or when it does not respond to new ethical issues, the external factors will continue to intervene and thus will affect the normal functioning of the organization. Like government can impose civil and criminal penalties for unethical practices. The outcome of this legislation will be regulations that have a widespread effect on all industries, from manufacturing, to service, to health care, to transportation.

The principle of ethical reasoning is useful tool for sorting out the good and the bad components within complex human interactions. For this reason the study of ethics has been at the heart of intellectual thought since the early Greek philosophers, and its ongoing contributions to the advancement of knowledge and science makes ethics a relevant, if not vital, aspect of management theory.

Good ethics always have a positive effect on activities, as a result, productivity, communication, group dynamics can be improved and risks can be reduced. Reason behind is good ethics or values creates good culture in the organization and ethics becomes form of logical reasoning, increases the flow of information and becomes the source of feedback needed to improve the business.

Leading business schools and management experts have stressed the importance of business ethics in the management. They have also stressed on the moral need for the organization to do what is right for moral purpose alone.

Every person both in personal life and organizational life faces a dilemma of selecting this path or that. In professional life one faces the dilemma for attending his job, doing the work he likes, doing the work that makes the boss happy, helping out of way that leads to favoritism, nepotism etc. In all these situations if the person has strong self ethics the person will face less of predicament, less confusion and less frustra

tion. It is because values create conviction, will-power, and self-respect for the rational decision even in critical decision.

Harmony in personal and professional values is essential. Any disharmony in structural side of the organization leads towards disharmony on the functional side and vice – versa. This is possible only with the help of values. The organization often forgets to mention values while declaring the objective of the organization. Specially, while we talk of educational institutes it is almost necessary. Since these organization imparts knowledge and skill but usually ignores the need to impart the values, which is food of the brain and heart. As a result even the best organizations of today are not in a position to reach the state of perfect harmony.

Managing ethics at work place involves identifying and prioritizing values to guide behaviours in the organization. And establishing associated policies and procedures to ensure those behaviours are conducted. Many researchers and authors has said that there are many benefits of managing ethics at work place like

1. It can substantially improve society.
2. It can cultivate strong team work and productivity.
3. It helps to manage values related to quality, planning and social responsibility
4. It promotes a strong public image

In short, it can be said that ethical values at workplace strengthen the coherence and balance of the organization culture in all aspects.

### Review of literature

Work ethics today has many definitions as viewed by writers of relevant contemporary literature (Buchholz, 1978; Ford & Herren, 1995; Miller & Coady, 1984). Miller and Coady (1989) define work ethics as reliability and trustworthiness, willingness to learn, responsibility for one's actions, willingness to work, and willingness to work cooperatively.

Gilbert (1973) states that the work ethics is the willingness to work that culminates in an application to the job and is evident through satisfaction with the material rewards of work. Schab (1976) simply states that work ethics is a willingness to stay employed while Miller and Coady (1989) focus on beliefs, values, and principles. These attributes or characteristics guide

the way individuals interpret and act upon their rights and responsibilities within the work context at any given time (in Ford & Herren, 1995).

Martin and Morris (1980) associate work ethics with increased efficiency.

In today's scenario profit is not the only justifiable motive for business activities. The notion that ethics is good business was emphasized by Henry Ford in the following comment to a stockholder:

"Business and industry are first and foremost a public service. We are organized to do as much good as we can everywhere for everybody concerned. I do not believe we should make such an awful profit ..... And give the benefit to the users. The result has been surprisingly enormous profit to us"

This statement by Henry Ford represents the growing consensus that good ethics is good business. Although some organizations have successful practice but their practice is questionable. These organizations are focused for the short term gain only. A long term focus is both the best and the only way to go. Doing what is right is its own reward. "Ethical behavior builds trust, trust builds confidence, and confidence builds profitable business relationships with customers, Suppliers, investors, employees, creditors, and the general public" [2]

Industrialization has created a philosophy in which the individual is no longer needed for the success of society as a whole. Gilbert (1973) purports that this viewpoint has eroded work ethics. The changing workplace with the upgrading of jobs has greatly affected the worker ethics (Pine & Innis, 1987). When work is of low discretion and the activity can be easily replaced by another set of hands, the work ethic is typically even lower. This decreased work ethic seems to transfer to productivity in the work place as well (Yankelovich & Immerwahr, 1984).

Ford and Herren (1995) measured the economic effect of work ethics on business profits and performance. American industries make over seventy times as many defects in assembly-type processes and make over seventeen times as many service calls as do their Japanese counterparts. These studies indicate a major decline in the work ethic and a drastic impact on the nation's productivity.

John Akers, former chairman of the board of IBM, argues that business ethics are a key component of our

competitiveness as a society, In order to make sure the atmosphere in which we work is characterized by confidence and mutual trust, an element of ethical instruction should exist. Akers contends that education in ethics should begin in childhood and include practical devices as role models and codes of conduct, as well as a thorough study of literature and history. Furthermore, emphasis should be placed on the role of business within a greater hierarchy.

The fundamental of instruction should begin in Kindergarten and not in a school of business administration. Ethical behavior is products of our religious, philosophical and historical inheritance, so a good beginning is to study the past. Knowledge of the past will help to build future ethical conduct. Perhaps the most powerful ethical behavior comes from

the role models such as parents, teachers and others who set us straight by examples and percept on right and wrong as well as good and evil. Although this "grass root" instruction is expanded throughout individual development, emphasis is placed on its importance in the early years as a basis for the development of good moral character." [2]

A well used axiom in organization behaviour thought asserts that *values drive our behaviour*. Values exert influence over our attitude which influences our behaviour. Peoples patterns of thinking will be influenced by their values, what they say to themselves (self-talk), and what they imagine will happen in response to their actions.

*Values* → *attitude* → *Ethical behavior*

Table : 1

Values	Attitude	Ethical behavior
Wisdom and knowledge	Experience promotes wisdom that helps convert information to knowledge	using knowledge to solve problems ethically and to do what is right.
Self control	Self control means effectively managing reactions to challenging temptations.	Putting personal motivations aside and acting with objectivity by doing what is right.
Justice	Acting justly and fairly is term driver of ethical behavior, remember the golden rule.	Eatablishing just and mutually agreed upon criteria and administrating them fairly to all people.
Transcendence	The belief in a power and source outside oneself reduces self serving actions and increases humility.	Putting instutional and/or stakeholder intersts above self interest. Identifying a personal purpose that is aligned with organizational mission.
Love and kindness	Treating people with kindness helps increases the reservoir of positive affection and love.	Recognizing and encouraging others for their contributions
Courage and integrity	Ethics requires the courage to do the right things consistently without regard to personal consequences.	Making unpopular decisions based on fair consideration of the facts.

Source : Graziadio business report 2003 vol 6, No. 3



Everyone has his biological/genetic individuality and some argued ability to reason independently and autonomously of others. But it is difficult to avoid family influence, upbringing, education, and overall experience to shape up the personality of an individual.

The achievement of the objective becomes very easy if there is a shared commitment between management and staff. In other words, a proper co-ordination between superior and subordinate creates a good result. Also, self direction, self control and self discipline on the part of worker are the key factors to achieve the goals of an organization in an effective manner.

Lack of involvement from leaders and managers in the field of business ethics has spawned a great deal of confusion and misunderstanding among leaders and

managers about business ethics. Mac Donald and Zeep, in their article "What should be done? A practical approach to business Ethics", explained that when someone brings up the topic of business ethics"..... it tends to bring up cynicism, righteousness, paranoia and laughter" Many leaders and managers believe business ethics is religious because it seems to contain a great deal of preaching. Or they believe it to be superfluous because it seems to merely assert the obvious: "do well"

The literature on the ethics, type of ethics required and how these can be managed is very limited. This problem was explained very well by Stark in his article "what's the matter with business ethics?" published in the Harvard Business Review in 1993 notes that "

Table 2 :

Core factors	Rank 1	Rank II	Rank III	Rank IV	Rank V	Rank VI
Family influence	240	20	32	12	16	12
Situational factor	96		80	36	32	12
Peer influence		60	32	36	48	20
Experiences	48	60	96	72	16	4
Superiors influence	48	20	32	60	32	20
Education	24	220	32	12	8	8

Core factors responsible for creating Individual ethics (weight-age)

Table 3

Core factors	Rank 1	Rank II	Rank III	Rank IV	Rank V	Rank VI
Wisdom and Knowledge	216	100	64			
Justice and Fair guidance	48	160	96	24	4	
Self Control	48	60	48	24	56	4
Transcendence		20	16	48	40	32
Love and kindness		32	108	32	16	
Courage and integrity	144	20	64	24	16	16

Deciding factors to create ethical behavior at work place (weight-age)

while much has been written about individual components of ethics programs, especially about codes of ethics, the literature is much more limited on ethics projects. Future managers should know the practical aspects of ethics like how ethics can be developed, how these can be managed at workplace, how individual makes his/her values, what are the contents of ethics which can be utilized to motivate human resources at work place.”

On the basis of Martin Seligman [7] and survey

conducted by P. Panchalan [8] the ethics can be subdivided into following categories.

**a) Work related ethics**

- i). Duty consciousness
- ii). Work excellence
- iii). Punctuality
- iv). Frugality

**b) Superior related ethics**

- i). Obedience to superior
- ii). Co-operation with superior

Table : 4

Work related ethics	Management's view ( 64 person)	Employees& students view ( 64 person)
Duty consciousness	72	256
Work excellence	68	228
Punctuality	52	212
Frugality	32	144
Superior related ethics		
Obedience to superior	36	228
Co-operation with superior	56	220
Expert advise to superior	36	116
Accepting responsibility	80	232
Bringing credit to the superior	32	104
Subordinate related ethics		
Confidence in subordinate	64	200
Opportunity to the subordinate for growth	52	184
Protection of subordinates legitimate interests	44	108
Supportive guidance to subordinate	44	240
Non-discrimination among subordinate	32	192
Peer related ethics		
Sense of co-operation among peers	64	276
Generosity among peers	52	188
Respect for other peers	64	224
Competitive spirit among peers	44	152
Organisation related ethics		
Commitment to the organisation	80	280
Fostering institutional image	44	196
Conflict resolution through negotiation	32	148
Accepting organizational changes	52	224

- iii). Expert advise to superior
- iv). Accepting responsibility
- v). Bringing credit to the superior

#### c) Subordinate related ethics

- i). Confidence in subordinate
- ii). Opportunity to the subordinate for growth
- iii). Protection of subordinates legitimate interests
- iv). Supportive guidance to subordinate
- v). Non-discrimination among subordinate.

#### d) Peer related ethics

- i). Sense of co-operation among peers
- ii). Generosity among peers
- iii). Respect for other peers
- iv). Competitive spirit among peers

#### e) Organization related ethics

- i). Commitment to the organization
- ii). Fostering institutional image
- iii). Conflict resolution through negotiation
- iv). Accepting organizational changes.

#### Objective

The emergence of business ethics is similar to other management disciplines. When organizations have realized that they needed to better to manage their human resources and so the discipline of human resource was born. Many organizations today managing ethics at work place through the use of codes of ethics, code of conduct etc.

The objective of the study is to analyze

- the core factors responsible to create ethical behaviour of the individual
- Core factors responsible to create ethical behaviour in work place specially in private academic institutions
- On the basis of previous literature, work place ethics can be divided into five parts i.e., towards work, towards superior, towards subordinate, towards peers and towards the organization. The third objective of the study is to find the correlation between management peoples approach and employees' opinion.

#### Hypothesis

There is a significant difference between employees and management's approach towards work related ethics.

#### Methodology

Amrapali Institute located at Haldwani is selected as the sample for the study. This is a private academic institute running the professional courses like MBA, MCA, BHMCT, M. Lib etc. About 80 respondents were selected at random basis of sampling out of about 500 students and 50 employees of the Institute. This includes employees, management people and some students of management studies. Interview schedule is used to collect the information. Questionnaire is prepared with the help of literature which was collected from the secondary sources and survey was made to collect the information about different aspects of ethics. Ranking method is used to get the view of respondents on various aspects of ethics. Weight-age is given to the ranks. 6 weight-age to rank I, 5 to rank II, 4 to rank III, 3 to rank IV, 2 to rank V, 1 to rank VI. Co-relation coefficient and Chi square method is used to check the hypothesis.

#### Analysis and Findings

Survey was conducted for almost 80 people from all the sections of the organization: management people, faculty members, office staff and students of professional courses (MBA, MCA, BHMCT, and B Lib & I T, M Lib & I T).

From the table 2 it is quite clear that family influence is the prime source to create ethics of an individual, because family environment is the base at which an individual grows as per the opinion of respondents. After the family influence educational environment creates the values in an individual. Changes and creation of values of an individual are also through the experiences and situational factors of his life. Superiors influence can also play a vital role sometimes but almost everyone disagrees with the role of a peer for creating individuals ethics and values.

Work place is very much different from home, and the criteria to judge the ethics is also different; therefore

factors responsible to create ethics in an individual are also different at both places. Table 3 shows the weight age of each factor responsible for work place ethics. According to survey most important factor in creating work place ethics is wisdom and knowledge. According to respondents the only factor which creates confidence in an individual is wisdom and knowledge and if it is supported by justice and fair guidance, along with courage & integrity individual can work with good ethical values. Love & kindness and transcendence were the last choice. According to the respondent love and kindness is not having any role towards work place ethics because it is the age of competition, efficiency and quality for which love and kindness does not contribute.

The opinion of the management and the employees are positively correlated in case of work related ethics. And the level of correlation in opinion is quite high. Further result of our survey indicates that the duty consciousness is first and foremost factor to decide the work related ethics. According to the employees excellence and punctuality are the next deciding factors. Management said the duty consciousness and the excellence are the prime factors in deciding the work related ethics. Frugality is the last criterion in work related ethics. But the management should emphasis on the frugality and should appreciate frugal workers.

While talking of *superior related ethics*, management's first choice is accepting responsibility and second priority is co-operation with superiors. But the employees' criteria with superior's related ethics states that accepting responsibility, obedience to superiors and co-operation with superiors are almost on the same priority level. Both the views are positively correlated but the level of correlation is comparatively low.

In case of *subordinate related ethics*, very small negative correlation ( $r = -.01$ ) exists. Management thinks confidence in subordinates is very important in order to achieve organizations goal. Opportunity to the subordinates for the growth should be given since the growth of the organization is measured in terms of the growth of its employees. Employees feel that supportive guidance is the one of the most important aspect of

sub-ordinate related ethics.

Sense of co-operation and respect for other peers are very important factors for the smooth functioning of the organization. Generosity and competitive feeling among peers will play a vital role only if the other two exists and exists very strongly. All the respondents whether be of management or employees or the future managers of the society, shares the same view.

In case of *organization related ethics* commitment to the organization is widely accepted (92%) and is given the first priority, accepting organizational change and fostering institutional image is the next in the ranking, but conflict resolution through negotiation got the last ranking. Highly positively correlated approach exists. The hypothesis is rejected at 1% level of significance i.e. the management and the employees are having the same approach toward all the work related ethics.

### Conclusion

If ethics are regarded as code of conduct then everybody should follow them but the problem is that there are disagreements over what is ethical and what is not. Which is important and which is not. Any activity may be considered ethical at some point of time and unethical at other time due to change in societal norms and values but, the sources of ethics are mostly same. It is also true that no decision can be taken to form a set of values for forever. Continuous Research and studies are required to cope up with the changes. In the era of competitiveness, it is very important to find out the values and ethics of individuals at work place because organizations do not have ethics, only the individuals can have.

This survey is an attempt to find out the ranking among different components of ethics; otherwise all six factors which we have identified are responsible for workplace of virtuous values and intertwined. And on the basis of the study it can be concluded that wisdom and knowledge with fair guidance, courage and integrity, acceptance of responsibility with obedience & co-operation are the very important factors for the creation of ethics at workplace.

In the case of sub-ordinate related ethics, confidence in subordinates is a key factor which can be proved as a motivating factor for the proper working at work place. Sense of co-operation among peers and commitment to the organization found to be most important factors among peer related ethics and organization related ethics.

It can be said that on the basis of survey, that management should take their decision on the basis of importance of these factors, superiors should give the encouragement to subordinates and management should motivate the employees by considering their ethics as an individual which can also be proved as an effective tool for work distribution and important motivating factor. Creativity - oriented ethics should be developed, which means focus should be given to create potential which should emphasize on value orientation and awakening of higher values at work place and which will restrict narrow skills and develop appositive thinking.

Researchers agree that work ethics is a dynamic characteristic of employees that is affected by many intrinsic and extrinsic factors. Current literature supports work ethics as a behavior characterized by many attributes. If this behavior is monitored and evaluated, appropriate intervention methods can be utilized to produce desired changes in that behavior.

## References

- Andrew Stark, (1993), What is the matter with business ethics ,Harvard Business Review May-June pp-38-48.
- Bhall, V.K. , Shivaramn.s, (2001), International Business, Anmol Publication Pvt. Ltd.
- Bottoms, G. (1973), A new work ethic for our times. American Vocational Journal, 48(1) .
- Buchholz, R. A. (1978), The work ethic reconsidered. Industrial and Labor Relations Review, 31 (4).
- Dean , P.J (1992), Making codes and ethics "Real", Journal of business ethics,11,285-290
- Dhingre Atul and Singh, (2000), M.R.P., Ethics is making all the difference, Indian Management, July pp 24-28.
- Ford, F. A. & Herren, R. V. (1995), The teaching of work ethics: Current practices of work program coordinators in Georgia. Journal of Vocational Education Research, 20 (1).
- Gilbert, L. D. (1973), The changing work ethic and rehabilitation. Journal of Rehabilitation, 39 (4).
- Gregson, J.A. (1991), Work values and attitudes instruction as viewed by secondary trade and industrial education instructors. Journal of Industrial Teacher Education, 28 (4).
- Haspeslagh, P., Noda, T., and Boulos, F. Its Not Just About the Numbers, *Harvard Business Review* 79, (7) Cover Story.
- Henderson, F. S. (1979), Instill the work ethic in students. Business Education Forum, 33 (7).
- Hill, R. B. (1999), Historical context of the work ethic. University of Georgia.
- John Maxwell , There's no such thing as business ethics, Boston: Warner Books, Inc.
- Kerns ,Charles.D. (2003), Creating and Sustaining an Ethical workplace Culture, Greziadio Business Report, vol.6 , No 3.
- Martin Seligman, (2002), *Authentic Happiness*, New York: Free Press.
- Panchalan, P. (2000), Agreement and Adherence to employee Ethics – A case Study, Indian Management July, pp 17-23
- Sanghi,Sema. (2002), Ethical issue at work : A comparative study between UK And Indian Managers, Vikalpa, 1.27, No.1 January March
- Seshaiah, K, (1994), Business Values and Ethics, Indian Management, July pp-72-76.

## WHAT A LEADER CAN DO

M.P. SHIVA KUMAR \*

### Table of Contents

- Abstract
- Introduction
- Lead
- Empower
- Access
- Demonstrate
- Evoke
- Realise
- Conclusion
- References

### Abstract

*The current paper is highlighting different aspects of leadership. An attempt has been made to discuss on various essential capabilities of an effective leader in the global context.*

### Introduction

Leadership is an easy concept to define but a difficult one to study and understand, many a researchers, theorists and management practitioners agree that no single trait, behavior or combination of traits make for a leader, instead they are created and produced by the combinations of certain characteristics as well as the external environment in which they find themselves. In this modern globalization era, where competition has become a part of life and all organizations are striving for having a competitive edge over others where leadership plays a vital role in building up the core competencies and ignite, influence, inspire and carry the people with a long –term vision through the right culture initiative, team building, self confidence, motivation and trust. Hence this is possible through an effective leader who is a person with a strong mission and a tremendous sense of vision, who can

look decades ahead with a great ability to LEAD a team by creating leaders. EMPOWERS by creating less authoritative environment with a great ACCESS to the people, DEMONSTRATE honesty and integrity, EVOKES a sense of responsibility and belongingness in his followers and finally who REALISES the dream and transforms the organization into vision. So the effective leader would lead a team with focus for the welfare and future of the people through the commitment, perform and contribute and participate on to achieve the goals.

### Lead

A leader should have a clear vision who shall be charged to motivate his followers, to be a successful leader; he must first humble himself like a little child and be willing to serve others. When a leader is humble, he becomes genuinely interested in people, when people feel their leader genuine and humble they truly follow, while striving for a common goal on the roads of a leader, people look for well-rooted human values and who will respect talents and contributions given by others. People want leaders who can create an atmosphere of risk and creativity, leaders should assume the responsibility of keeping teams together they have the obligation to take command, establish rules, determine values and principles that will lead to success.

While leading the people the leader must look at leadership as a responsibility and not as a position of privileges, the effective leader is responsible for all final decisions he must encourage his followers, counsel them, influence and drive them to hit common goal and be proud of all those people who associate with him. An effective leader should be like LORD SRIKRISHNA" who must look at others success (pandavas) as being his well" against adharma. For instance, a great inspirational leader swami

---

\*Asst.Professor, Institute of Aeronautical Engineering, Dundigal, Hyderabad.

Vivekananda says, an English friend General strong, was in India during the sipoy mutiny. One day in the course of conversation with General strong swami asked him how it was that the sepoys who had enough of guns and ammunition and provisions at their disposal and also were trained veterans, came to suffer such a defeat, general strong replied, instead of advancing forward only kept shouting from a safe position in the Rear, 'fight on, brave lads 'and so forth; but unless the commanding officer goes ahead and faces death, the rank and file will never fight with heart.' A captain must sacrifice his head 'if you can lay down your life for a cause, then only you can be a leader. Effective leader should lead a team with focus and face challenges to accomplish his set goals. Every successful leader must have behind him somewhere tremendous energy, integrity, sincerity and that is the cause of his signal success in the endeavor.

As the absolute dictator leader of the German third Reich and self appointed commander of its military, He conquered the largest portions of Europe, Asia and Africa ever subdued by a single armed force .He joined the embryonic Germans worker party and the following year he assumed its leadership enlarged the organization and using his mastery of oratory and his organizational abilities increased his prominence and the followers with his public speaking ability. Hitler with great authoritative traits and through his personal charm he quickly established himself as a popular leader. Hitler accomplished all, if not more, than could be expected from a country the size of the Germany, however, the German eastern offensive against the soviets stalled outside Moscow in the face of Red army adding Hitler's name to the list of commanders defeated there, Hitler fired his senior generals and refused to accept the possibility that his army could fail, allowing his soldiers to be killed or captured rather than giving his permission to retreat. He acted as his own military leader commander in chief through a command organization of his own design inspiring others to perform, He was a charismatic speaker mesmerizing or motivating through the courage of convictions, the strength of his ideas and his confidence in his vision with indestructible spirit.

For nearly a decade Hitler stood as the world's

mightiest influential military leader not for any enduring personal achievement but as the impetus for world change. Hitler directed his people with great organizational skill, strategic and tactical innovations influencing every one to work toward the predetermined vision. He influenced followers with his open communication and making them to realize goals, which are milestones for his mission.

### Empower

A leader empowers followers by creating less authoritative environment beliefs, values, policies practices everything, which put at the center of the purpose.

Creating an environment of open communication, followers should have a free hand in participating, involving in set goals & learn by mistakes & experiences. A leader is one who never ceases to learn. Leadership is about doing things, it is about taking responsibility for the welfare & future of his people, having the courage to learn and the ability to inspire, influence and ignite the followers to meet his dream. A leader must encourage his followers to come with creative ideas. Leadership is all about reaching out to people, he should be like a coach, provide them with assistance, and support them to fuel out best results. Leaders should foster such an environment whereby it creates opportunities to excel in the accomplishment of the set goals. The total environment & work places should be as possible as be a non-authoritative that encourages the free exchange of ideas & participation. The art of leadership includes investing in the people, calling upon their talents/skills & there ideas with a clear cut focused thought diverting the team's mindset towards the goal. In this way leader creates a nurturing, challenging environment that enables others to develop & scale up to their fullest potential by participating fully in & contributing for the life of the organization. Leaders should articulate good inter personal skills to ensure a free flow of communication & ideas and create a common vision. In this continual spirit if team strives for a common goal, they develop various talents & traits technical and otherwise that enriches the organization & in turn it benefits greater level of creativity & productivity of its empowered staff.

Leader as a manager of managers his job is very clear, he has to help others achieve and perform, that's how organizations of any size and in any industry, produce winning results. A leader should clearly have a vision to empower people by giving a free hand in voluntary contribution and also should effectively monitor them, For instance: one popular management technique is to push decision making down to the lowest appropriate level. Its sounds simple, deceptively simple. When a newly enlightened CEO with his all-employee meeting talked about empowerment, he then invited questions from all the employees, surprisingly one brave worker raised a question, why it was that the plant manager could be responsible for equipment worth millions of dollars but only have sign-off authority of \$5000, CEO instantly responded, I believe in empowerment so much that I will make his sign-off authority \$1million, the worker who had asked the question was impressed, the CEO was elated, the plant manager was terrified. What had he learned that morning that was worth \$995,000? Who was going to help him make decisions involving that much money? Here, the CEO had made the dramatic gesture of going for love, but he had neglected the crucial element: he had not prepared the plant manager to handle so much responsibility. Empowerment does not mean abandonment giving people permission to do something differently is not helpful if they are unable to do it, that permission just sets them up to fail. Leaders has to empower the team by moving with them, under standing what they do and don't know, working with them, watching their performance, giving them feed back, creating an ongoing dialogue with them is the effective leaders empowering talent.

An effective leader having an ability of energizing, inspiring and mobilize people to act and spark others to perform, the best energizers have an unvarnished, unqualified brand of enthusiasm they can get their colleagues charged up about just about anything, people respond to them and that response makes them particularly effective. These leaders bring out the best in people. Inject them with confidence and give them credit when things go right and when things go fail, it is an opportunity given to the people to learn from failures they are the organizations confidence builders,

that's why Jack Welch said, "The ability to energize is the ingredient that counts". Jack Welch's energize one among the 4E 'S leadership model known officially as the "Four E'S of GE leadership "is a classic example of "sparks others to perform". Welch said that leadership is the ability to articulate a vision and the ability to get others to act on that vision. In his 20 plus years at the helm of GE and, He as a effective leader transformed a mature manufacturing company into an outstanding product and services Juggernaut. He increased the value of the company more that 30 times over.

Welch as an effective leader selected and developed many leaders in his tenure and GE turned out more fortune 500 CEO's than any organization in history. In 1996, Welch launched the initiative that would consume him for the next five years: six-sigma. When he looked for people to lead the charge, GE managers answered the chairman's call in unprecedented numbers, making the GE six-sigma program the largest corporate initiative ever launched by any company.

#### Access

There are no bad soldiers, only bad leaders a famous saying goes on ..... Leadership is an important factor for making organization successful. Leaders having great access towards people with a attitude of concern for people such as if they work upon their followers as people their needs, interests, problems, development & so on. Entire team will get motivated & it is essential tenet for people to perform for the organizations success. Interacting and meeting the followers regularly & creating access to resources, understanding how to motivate & driving them with excellent coaching for great performance is the effective leaders role. A leader is a catalyst for transformation & change can actualize a vision & take a group to a new level that requires awareness of needs and access towards people and the ability to respond to them. An effective leader should have an access towards followers, considering flexible enough to be a protector, a team builder, an entrepreneur, an innovator, a nurturer and a visionary. When a leader initiates access, it creates a



sense of responsibility & fulfillment among the team members in turn it opens loyalty dedication & they sense the leader's achievement as theirs. With true essence of leader- follower ship while delegating responsibility to an individual & making him responsible for his actions, a leader should allow him to make mistakes & learn from them, this will enhance the individuals self worth & self-esteem. He should allow free room & access for discussion & debate by motivating all to have a shared vision.

Hazare the son of a poor farmer never got beyond the seventh class in school. The story of Hazare transformation began with a worthy cause he realized and as an effective leader he visualized for the upliftment of his own village 'Ralegaon Siddhi', eleven years ago it was not very different from other hundreds of villages. Siddhi's most distinctive feature was its 40 illicit distilleries that made the village a popular haunt for drunks and gamblers. Hazare a born leader demonstrated everything for the village upliftment, he gave up cigarettes and liquor and vowed to remain a bachelor devoting himself to public service. Anna Hazare initiated a great access with the people in reshaping the entire village, among those who joined Hazare were a few young men they called him "Anna" a big brother – they listened, understood and followed truly with fascination to his dream of transforming their village. Today, Ralegaon Siddhi is brisk and prosperous with signs of rural modernity abound. Even when the village temple had become badly run down, inspired to rebuild the temple, but he did not have the money, he inspired the villagers and motivated at his best, He sacrificed his service benefits Rs/- 20,000 and totally spent on rebuilding the village temple. Few people paid him any attention at first, but as the temple neared completion the people began changing. True leader Hazare says, "If people are convinced that you are not selfish they are on your side."

### **Demonstrate**

If you take care of your troops, your troops will take care of you, a famous military quote sheds light on the leader demonstration tasks. Today's workplans demand leaders to demonstrate honesty and integrity of leaders, a leader should demonstrate these two for

energizing the followers, for building trust in them. A leader should always remember that people watch him closely, if he demonstrates business ethics, fairness & integrity he will never be let down and if he is consistent in his commitment they will keep faith and follow their leader even in difficult situations and times. Leader should set high ethical standards for his behavior and hold himself to those standards. Typically a leader should demonstrate integrity the most important requirement, without it everything else is for nothing by helping along side his people when they need it, and treating them equally and on merit. We may think of today's leader as being a mentor, guide and role model as well as being involved in all the demanding managerial responsibilities that we traditionally associate with leaders. It is no longer enough that leaders demonstrate competence in their professional dealings. They must also demonstrate compassion accountability and honesty. When leaders show that they care about their people, when they become service oriented their people respond by bouncing back by sharing their passion and loyalty with the organization. Leader should articulate and uphold principles and values that they believe in focus on balancing both the organization and the people involved in traveling the high road, he should demonstrate by example that he experts the most from his followers and as well as from himself.

**MAHATMA GANDHI** – the leader of pre-independence who had a lot of faith in ahimsa and non-violence led the war with these two weapons not only he had fought with these weapons he had given his weapons to all the Indians which he had transformed his ordinary weapons into a mighty weapons against the Britishers.

Gandhi, as a demonstrative leader his approach to peace is different from that of pacifism, constructive violence and justified violence for Gandhiji, ahimsa was a strategy for him it was a life principle to be lived. Mahatma Gandhi being a man of organization and a practical visionary, he tried and developed, updated, extended, enriched, inspired the followers through his experiments, experience, contemplation demonstration and intuition. Within the organization the leader who has faith in his ideology must be transformed to his followers as Mahatma Gandhi. So that they may

change into strong and goal achieving ideas.

### Evoked

James Cock said "A person who wants to lead the orchestra must turn his leadership is all about back on the crowd".

Communicating and leading the people as a driver at fore front with inspiring every single individual in his team to accomplish a common goal. Leadership is about having a vision and convincing people around him to have same vision. Leadership is about trusting. A leader must have faith in his people. "It's the people who make an organization", it is not possible for anyone, no matter how competent, to do task single-handedly, and it's a collective spirit, more and more teamwork. Therefore leader should give responsibilities to the followers. This not only makes people more confident it creates a less authoritative friendly environment & it evokes responsibility and trust in the followers, trust and confidence in the people brings forth the best in them. An effective leader should be able to evoke a sense of responsibility in all followers. They should believe and be convinced that the work done will make a difference to both his or her personal goal and the objectives of the organization. Leaders should pave a way for people to move quickly and work as a team rather than as potential individuals. People are looking for leaders who are willing to give it all they have and they will follow. For a while, however, when the going gets tough, when pleasure and comfort compete with responsibility and long hours followers will drop away, that is where leaders should strive and evoke responsibility in teams. Leader should develop support systems meet regularly the team members encourage people drive them to support the goals. Evoke some responsibility to have an active role in developing and attaining objectives from the teams and the company as a whole. He should teach, guide, lead, share, evoke, encourage and stimulate the followers to grow, develop and learn.

One of the highest paid executive leaders success was simply "Wearing others shoe" Once this leader was passing through one of his steel mills one day at noon whom he came across some of his

employees smoking immediately above their heads was a sign which said "no smoking" with out raising a single point and question like "can't you read?" He walked over to the men handed each one a cigar and said " I will appreciate it, boys, if you smoke these outside", They knew that they had broken a rule and they admired him because he said nothing about it and given them a little present and made them feel important.

A leader should have great relations with people perhaps, it consists of a lot more than just, understanding people, being nice to people and to capture individual satisfactions and carry them along way by constructing steps upon a ladder to follow him, infact, simple tenets like positive attitude, quick grasp and power of judgment, with a down to earth tendency i.e. A pure luminous heart seeking other hearts in love and esteem can do miracles.

### Realise

Good companies become great through a series of initiatives done consistently over time. There are no short cuts. It is a painful process, but they must be done to keep companies alive for tomorrow's challenges, not for today's challenges (M.S. Banga HLL), a leader should realize his dream, vision and mission with a collective spirit of team inculcated, imparted in his team striving for a common goal as a team. The influence of leaders is easy to identify like societies, firms and professions make progress when led by great leaders who inspire. India during last century has had some effective leaders M.K.Gandhi, Nehru, Patel, Mother taresa, Vikram Sarabhai, and also currently had great effective leaders Infosys' Narayana Murthy, Azim Premzi, M.S. Banga, HLL, Laxmi Mittal etc., They were all very different as individuals but all were leaders and very common among them is they have realized core points and they were in search for vision excellence and accomplished it successfully. Leadership today is more than personal traits, charisma, administrative skills and financial performance. The force of public confidence is required to realize and accomplish set goals and vision.

To achieve the goals set by him will be realized only when leader network the people motivate close personal relationships, strive and drive the people along with him and have a great access towards the people, Leader should realize to have a purpose vision and mission energized to be a risk and initiative taken with articulation and inspirational traits. Today modern leaders believe leadership is realizing the vision and mission. It is to be a great extent about taking initiative and performing tasks beyond the limited sphere. In the ultimate analysis, a leader cannot become a leader by the dirt of his own skills, other people have to live up behind him and the only way to develop followers is to make them successful. Leader should also realize and create an open environment, let people take charge, let people act, let people hit success, in this process he should also ensure that they are moving in right direction.

A.P.J. Abdul Kalam our president has come to personally represent to many of his countryman the best aspects of his Indian life. The son of a little educated boat owner rose as country's chief defense research and development and progressed to the highest President level, Kalam demonstrated the great potential for dynamism and innovation culminating in the highest civilian award of India, having taken up the leadership of executing the SLV-3 project, He faced a great conflicting demands in his tenure, he progressed with great long-term vision and a zeal of creating sense of responsibility in his team, his work schedule was emphasize priorities and definitely like to accomplish during the day ,

Including at least one thing that would help to achieve long-term goals, continuously three things were stressed before team members for SLV3 projects, important of design capability, Goal setting realization, Strength to withstand setbacks. The entire team was trekking towards success on several individual paths; precisely for the successful completion of the project the emphasis was on communication where it was the mantra for managing this gigantic project Kalam claims. He spoke to them frequently on the goals and objectives of the organization, emphasizing the

important of each member's specific contribution towards the realization of these goals, at the same time, he tried to be receptive to every constructive idea emanating from his sub-ordinate and relay it in an appropriate form for critical examination and implementation.

Anyone who has taken up the responsibility to lead a team can be successful only if he is sufficiently independent, powerful and influential in his own right to become a person to reckon with he admits, The successful SLV3 project has been formulated in such a way that the major technology work centers both at VSSC & at SHAR could handle propellant production, Rocket motor testing and launch of any large diameter rocket it has progressed successfully in the creation of SLV3. When a leader and his team members achieve milestones on the roads of vision, new performance dimensions would grow among team members, performance dimensions are broader and deeper than what a person must know and be able to do in order to function well in his or her job. They include attitudes, values and characters traits they exists various levels of the human personality. An effective leader should identify performance dimensions and put them together to form a blue print for out-standing performance.

### Conclusion

The role of leader is changing day by day and becoming very dynamic in nature. They have to cope with the change and make the organization to run successfully. So today's business leaders are supposed to learn everything that is required to lead and wake up the minds of the followers to take up the challenge for future because in the present context business organizations have to combat with intensified competition and face the challenges to take the organizations into excellence.

Hence a leader should work like a Four-wheeler driver who will have the vision of longer distance with a greater sense to reach the destination and people traveling in that vehicle with a greater belief and confidence over his performance.

## References

- Sheriff Khan, Awaken the Leader in you, Ten Easy Steps to Developing Leadership Skills, Psychology of the soul.
- Arjun Maihotra, (2001), Leadership secrets \*Fathering a culture, Business world, June, p112.
- C.K.Prahlad (2002), Legitimacy is Critical, Changing face of respect. Business world, April, p23.
- Garry Dessler (1982), Management fundamentals modern principles and practices, What is leadership? p-381, Reston Publishing co.
- Sanjeev dug gal, (2002), Leadership Secrets: More than just Management, Business Today, p128.
- Vivekananda call to the nation, a compilation by Advaita ashram, p84.
- A.P.J.A. Kalam with Arun Tiwari (2005), Wings of fire, Universities Press, pp-69-82.
- Saxena, Business Administration and Management, Industrial leadership, Qualities of leadership, Published by Sahitya bhavan, Agra.
- Michael lee Ianning, 100 most influential leaders, Chapter 14, pp-56, Robinson Publishing Limited, London.
- Jeaniedanielduck, Managing change, the art of balance, Havard Business review school press, pp-64, 2005.
- Jeffrey A.Krames, 4E's of leadership, How to put GE's Leadership formula to work in your org, Chapter-02, the 4E leader energizes, pp49/53.
- Mohan s.Jeffrey A.Krames Sivaanand, Why God saved, Anna hazare, Readers digest, Best of Inspiration, pp-105/110.
- L.M.Bhole, (2006), Gandhi an approach to a culture of people, Bhavans Journal, vol-52, and no: 12, pp19-29, Jan. [www.kenchierconsultants.com](http://www.kenchierconsultants.com)

## BLOCKADE FOR CAREER ADVANCEMENT IN JAPANESE ORGANIZATION ABROAD: THE CASE OF MALAYSIAN SUBSIDIARIES

RADUAN CHE ROSE\*  
NARESH KUMAR\*

### Table of Contents

- Abstract
- Introduction
- Research Hypothesis
- Method
- Findings and Discussion
- References

### Abstract

*This study empirically examines the significance of demographic factors and organizational characteristics in influencing the perceived barriers to career advancement of local managers in Japanese subsidiaries. Moreover, significant relationship between stereotype and discrimination and the number of local managers in higher management positions also been analyzed. The perceived barriers were examined through an analysis of 317 local managers working in 41 Japanese subsidiaries in Malaysia. Overall findings suggest that perceived barriers do exist in Japanese subsidiaries in Malaysia and these barriers hinder local managers' career advancement opportunities. Suggestions to trim down the barriers for career advancement among local managers in Japanese subsidiaries have been discussed.*

### Introduction

The Japanese economic miracle has captured the avid interest of the non-Japanese. Initial interest in Japan's seemingly unique style of decision-making and work organization sprang from the role of management and work in Japan's phenomenal post-war economic growth (Abegglen, 1958; Clark, 1979; Cole, 1971; Pascale & Athos, 1982; Ouchi, 1981; Oliver & Wilkinson, 1988; Raduan, 2001). In Malaysia, this interest has been highlighted by the enunciation of the Look East Policy by the former Prime Minister, Tun Dr Mahathir Mohammad, in December 1981. Foreign direct investment (FDI) of predominant investors like Japan

has contributed greatly towards Malaysia's economic development (Raduan, 2002). The miracle of Japan's economic success is said to be due to its unique Human Resource Management (HRM) style. Tsuda (1981) referred to the special features of Japanese management practices such as life-time employment, seniority based wage system, enterprise welfare and enterprise unions as a tightly coherent organic system, stressing that each of the special features does not exist in isolation or as separate entities. However, the transfer of Japanese style HRM in Malaysia like other developing countries is indirect (Raduan, 2002). This is because the overriding objectives are mostly economic.

Japanese subsidiaries in Malaysia according to Imaoka (1986) emphasized in firm promotion systems, seniority-merit wage systems, human relations between workers and management, long-term oriented on-the-job training, commendation for long service and personnel welfare policies. This is to retain local workers and implement Japanese style management within the sphere of their authority. The distinctive Japanese style HRM practices in Malaysia and other developing countries in most studies (Elger & Smith, 1994; Ichimura, 1981) suggest high degree of control exerted by parent companies over major areas of decision making. Japanese expatriates stationed in subsidiaries control major decisions (Negandhi, Yuen, & Eshgi, 1987). The presence of expatriates has isolated local managers from the decision making process and thus causing a ceiling impeding their promotion.

Local managers mostly occupy jobs relating to labor and personnel, while their Japanese counterparts occupy all other key positions (Yoshino, 1975). Some lower positions are even staffed by Japanese junior managers. This strong presence of Japanese expatriates in subsidiaries in developing countries, due to the lack of trust and confidence in local managers, is also known as the "inferior" local workforce factor

\*Professor, Graduate School of Management, Universiti Putra, Malaysia

(Lawler, 1998; Shirake, 1994). Japanese companies are noted to be the most ethnocentric in nature when it comes to their staffing policies. This phenomenon has been observed in Japanese subsidiaries in both developed (Graham, 1995) and developing countries (Kobayashi, 1985; Lawler, 1998). The high degree of centralization imposed in major decision making areas in Japanese companies through parent companies or Japanese expatriate managers are one of its characteristics.

Table 1 extracted from Raduan (2002), presents the managerial structure according to the functions of local managers and Japanese managers in sixty-nine subsidiaries surveyed. The findings clearly revealed the differently designated responsibilities of local managers and Japanese managers. By looking at Table 1, it can be seen that local managers, majority of whom are male tend to take managerial responsibilities related to local issues or act as 'backstage prompters' (Hayashi, 1986). These issues include personnel matters (74.3%), liaisons with local people and institutes (77.5%) and public relations (74.3%). At the same time, the Japanese managers dominate important and strategic functions such as strategic planning, finance and production methods.

(Source: Extracted from Raduan, 2002: Survey Data, 1997 and Ministry of Human Resources, Malaysia.) Half of the sample indicated that Japanese managers are responsible for corporate planning (66.7%), marketing (63.7%), production planning (63.2%) and manufacturing (55.8%). Also, Japanese managers normally have exclusive access to headquarters, thus obtaining advantages in respect of influence and information. Feedback from interviews with local managers indicated that almost all key policies were formulated and serious decisions taken, even before local managers were allowed to voice their opinion. These situations made them doubt the effectiveness of their role in the company because they were excluded from the decision-making process (Raduan, 2002).

Therefore, in his research Raduan (2002), drew a few general conclusions after examining the managerial structure. Firstly, there seems to be a lack of confidence in the competence of local managers to perform strategic functions especially corporate planning, product planning and finance. Secondly, Japanese subsidiaries rely on local managers mostly for their expertise in knowledge of local culture, environment.

Table 1: Managerial structure According to functions (N = 69 Japanese subsidiaries)

Total		Gender		Managerial Functions	Gender		Total	
%	f	Female	Male		Male	Female	f	%
74.3	55	13	42	Personnel Matters	19	0	19	25.7
72.5	50	11	39	Industrial Relations	19	0	19	27.5
74.3	52	13	39	Public Relations	18	0	18	25.7
77.5	55	13	42	Liaisons with outsiders	11	5	16	22.5
33.3	30	7	23	Corporate Planning	49	11	60	66.7
47.5	38	9	29	Finance	39	3	42	52.5
36.9	28	3	26	Production Planning	47	1	48	63.2
44.2	38	3	35	Manufacturing	47	1	48	55.8
36.3	33	11	22	Marketing	51	7	58	63.7
74.3	55	13	42	Legal Matters	19	0	19	25.7
55.6	434	95	339	Total	319	28	347	44.4

labor law and practices. Other issues were also raised during his interviews with local managers. It was reported that the senior Japanese managers to protect Japanese expatriates especially when dealing with sensitive issues concerning local values and culture were using trusted local managers. This leaves local managers with the problem of maintaining balance between two parties in the same organization.

Another important issue is related to career development of local managers within their companies. Quite a number of local managers interviewed by Raduan (2002) admitted their chances of promotion to higher positions, especially in areas of corporate planning, production and quality control, have been limited by the presence of many Japanese expatriates. This phenomenon seems to be widespread among Japanese companies in developing countries, where local managers resent the 'bamboo ceiling' (Lawler, Siengthai, & Atmiyanandana 1998). The 'bamboo ceiling' similar to the 'rice-paper ceiling' prevents local managers from receiving promotion to upper level positions (Kobayashi, 1985; Negandhi et al., 1987). In Malaysia, Japanese expatriates are said to fill most of the senior positions and this results in limited opportunities for local managers to be promoted. So it can be said that there is an unofficial ceiling to promotion be it a bamboo ceiling or rice paper ceiling. A barrier does seem to exist. Some local managers even criticized the special treatment received by Japanese managers. This included a higher basic salary and allowances, other fringe benefits and facilities as well as access to the parent company.

### Research Hypothesis

Japanese subsidiaries have a unique quality of high degree of centralization and this poses challenges to local managers when operating in a foreign country like Malaysia. One of the prevailing challenges includes perceived barriers, which are apparent or seemingly real obstacles and obstructions in the path to achieve goals and career advancement. In this research, the perceived barriers identified are: access to power and decision-making authority, stereotyping and discrimination, opportunities for promotion, benefits, wages and compensation system, performance

appraisal and feedback. These barriers were chosen for this study because they seem to have the most impact on career advancement opportunities of local managers. Previous studies (Imaoka, 1986; Kopp, 1994; Raduan, 2002) have shown that these perceived barriers for local managers working in Japanese multinational corporations (MNCs) do indeed exist. Therefore, this study looks into the impact of demographic and organizational factors on the perceived barriers affecting local managers' career advancement opportunities into higher management positions in Japanese firms.

Demographic factors such as age, gender, marital status, academic background and race play a role in career advancement of local managers. It is a well-known fact that the Japanese like to hire young and fresh graduates who they can mould (Balliga, 1984). Also male managers would be preferred compared to female managers. In Japanese firm although education is of importance, past research suggested seniority would earn preference in promotion and career advancement (Beamish & Inkpen, 1998). The preference of the race of the local manager is a factor that has not been looked into. The findings of the study may offer new insight if there is any racial preference in working with local managers be it Malay, Chinese or Indian. Thus, the first hypothesis to be tested is: **There is no significant relationship between demographic factors and perceived barriers to career advancement.**

Characteristics of the organization consist of size, numbers of years in operation, type of ownership and type of industry are also of fundamental importance to this research. All these variables have, to a certain extent, determined the career advancement of local managers in Malaysia. Consequently, it is hypothesized that: **There is no significant relationship between characteristics of organization and perceived barriers to career advancement.**

Perceived barriers such as stereotypes and discrimination adversely impact on local managers' career progress. Since local managers are perceived as ineffective leaders, they are not assigned line positions, where managers make significant decisions, have access to information and interact with top-level

executives who may have an impact on their careers (DeNero, 1990). If local managers are not considered to be decision makers and leaders but are perceived merely as support personnel, they would be denied critical information, because this would not be seen as relevant to them. These opportunities to learn, grow and develop on the job, and gain visibility in the system, help managers to advance to top-level positions (Raduan, 2002). However, because local managers in staff positions do not gain these experiences or have the visibility to be identified as key people in the organization with the potential to be successful top managers, their advancement to top-level positions is rare and usually overlooked. Thus, the act of stereotyping and discrimination hinder the progress of local managers to the top.

Opportunities for promotion in terms of benefits and compensation system, performance appraisal and feedback are also denied because of this discrimination. Local managers are excluded from the networks where Japanese managers informally interact with one another, including golf courses, private Japanese managers clubs and so on (Kopp, 1994; Kranias, 2000). Local managers are also barred from gaining access to key information and resources vital for their advancement. Local managers are generally unaware of the most recent development since they are not a part of the informal group that interacts and exchanges information away from the workplace. This definitely is a handicap and chances of advancement are severely restricted. Hence, the discussion above leads to the construction of the following hypothesis: **There is no significant relationship between the extent of stereotyping and discrimination in the organizations and the number of local managers in higher management positions in Japanese subsidiaries.**

### Method

Self-administered questionnaire was employed to gather data for this study. The survey instrument was developed using several different questionnaires as a guide (Abdullah & Keenoy, 1995; Kopp, 1994; Raduan,

2002). First part of the questionnaire consists of thirty-eight items, which seek to know the perception of local managers towards their career advancement opportunities in their companies compared to their Japanese counterparts of the same standing. This covers six areas: perceived barriers of control of power and decision making authority, opportunities for promotion, benefits and compensation system, performance appraisal, feedback and lastly stereotype and discrimination. A five-point scale ranging from 1 (strongly disagree) to 7 (strongly agree) was employed. All the six perceived barriers have acceptable reliability estimates, the Cronbach's Alpha value ranged from .74 to .83. The second part of the questionnaire seeks information on the company and respondent's background.

A pilot study was arranged with 30 local managers that were available to help with improvement of the questionnaire. Their feedback and comments led the questionnaire to be revised so that the final form of the questionnaire was deemed to consist of questions that all the respondents could be able to answer without difficulty. A reliability test on the questionnaire was undertaken using SPSS software and almost all the Cronbach's Alpha value were well above .70. Indeed, in some cases the alpha values were above .80.

Having validated the questionnaire through pilot testing, a sample of 543 local managers working in both manufacturing and non-manufacturing Japanese subsidiaries in Malaysia were randomly selected from the list of "Japanese Related Companies in Malaysia" provided by Japanese External Trade Organization (JETRO). The survey was mailed to local managers at their respective subsidiaries. The response rate was initially not encouraging and thus reminders were sent out. Furthermore the researchers have made personal telephone calls to most of the respondents to improve the response rate. As a result, 317 valid responses were received which the researchers felt to be reasonable for this kind of study. Taking into account the invalid responses and undelivered survey, the response rate for this study was 69%.



## Findings and Discussion

### Profile of the respondents

In line with expectation of the study, majority (87%) of the respondents were male. As mentioned earlier in the Japanese subsidiaries, male employees are preferred compare to female employees (Kopp, 1994). This is because female employees are not viewed as the core workforce but only the supporting staff. It has been a common scenario in Japan that a large number of women employees quit their job due to their family commitments (Clark, 1979; Dedoussis, 1995). On the other hand 55% of the local managers in this study were married. This perhaps shows the preference of Japanese subsidiaries, which are more towards family oriented personnel (Raduan, 2002). Majority of the managers who participated in this study were Chinese (43%), followed by Malay (38%), Indian (15%), and 4% are other races. The managers fell into various age groups. The highest percentage, 35% of managers fell in the range of 31 to 35 years of age, while the lowest percentage, 2% fell in the range of 51 years old and above. In term of academic qualification, 81% of the managers possess a bachelor's degree while the others were holding a Master degree.

### Demographic factors and perceived barriers

The demographic factors involved in the first hypothesis testing were age, gender, race, educational background and marital status. The significant difference between perceived barriers for career advancement opportunities and demographic variables age, race and educational background were tested using one-way analysis of variance (ANOVA) while gender and marital status were tested using the independent sample t-test. The significant values (*p*-values) noted for all the perceived barriers tested against marital status, race and educational background were higher than the alpha value of .05. These indicate that there are no significant difference in perceived barriers between married and non-married; races; and educational background of the managers.

In terms of gender, women managers are perceived as less competent and in Japan very few women make up the core work force because they tend to quit after getting married and having children. Consistent with

the findings in developing countries (Abdullah & Keenoy, 1995; Amante, 1993; Imaoka, 1985) as well as in developed countries (Dunning 1986; Offermann & Beil, 1992) women employees were the minority and they held lower positions such as production workers. In this study, out of the 317 managers surveyed, only 41 were female managers; most of them were from lower management. Undoubtedly, there are barriers for women to advancement in their careers in Japanese subsidiaries in Malaysia, as well in other countries. They not only face the bias of being a local manager but also the bias of being a woman manager. Therefore, there exists dual bias and discrimination towards career advancement. This study also reveals that women managers felt their performance appraisals did not help them in their career advancement. Indeed there was a significant difference in the way male and female managers valued the importance of performance appraisal (perceived barriers) in the Japanese subsidiaries surveyed. The difference is statistically significant with *p*-value = 0.041. The male managers (mean = 23.77; SD= 3.96) felt that performance appraisals played a more important role in their career advancement compared to the female managers (Mean = 22.37; SD=4.88). All the other perceived barriers did not show any significant difference with the demographic variable, gender (all the *p*-values >.05)..

The ANOVA test between age and perceived barriers resulted that there is a significant difference in power (*F*-value = 3.083, *p*-value = 0.006) and promotion (*F*-value = 3.633, *p*-value = 0.002). A post hoc analysis, Turkey HSD was conducted for multiple comparisons for age. It was found that there is a significant difference between the variable power and the groups of managers aged less than 25 and between 41 to 50 years old. The managers from these age groups felt that they were entrusted with less power and decision-making authority in their organizations. Thus they believe that this would affect their career advancement opportunities. On the other hand, the result of the post hoc analysis for the variable promotion showed that there is a significant difference among managers in the age group of 41 years and above. The older managers that have been in the company for a longer time feel that they have fewer opportunities to promotion and career advancement in their Japanese subsidiaries.

Japanese subsidiaries are unique from other MNCs in terms of their human resource management and their style of seniority based promotion as well as hiring fresh graduates to mould them into valuable Japanese employees. Therefore, the age and gender of an employee may influence his or her chance to career advancement opportunities or serve to influence as a barrier. From the sample of this study, it can be seen that there is a small proportion of older long serving employees. There are only 18 managers over the age of 46 years old in the forty-one companies surveyed. Equally clear is the high proportion of workers in the middle-age category, 171 managers, between 31 to 40 years old. This generally shows, although there are a small proportion of older employees in this sample, it does not necessarily mean that many have worked in their companies for a long time. With regards to background, many of the managers have indicated working in other companies before joining the company but still a majority of them, sixty percent, have been working in the company for more than 6 years.

Raduan's (2002) findings showed that Japanese subsidiaries prefer older managers for two simple reasons. First, they regard older managers as being more experienced, rational and able to command respect from other employees. Therefore, older local managers are seen as father figures, trusted by other workers to attend to their problems whenever necessary. The Japanese employers adopt a paternalistic approach (Tsuda, 1981). It is a means of establishing discipline in the organization. Older managers are also expected to have better communication skills and well-established contacts with the local government and outside agencies that need to be dealt with. Nevertheless, other studies such as Pascale and Athos (1982) also find that Japanese companies on the basis of a good academic background have recruited new generations of local managers. They recruit fresh graduates since late 1970's and early 1980's by co-operating with the local university authorities to offer scholarships or jobs to these undergraduates. It can be seen that priority in recruiting and selection is given to students to be groomed for higher positions. Therefore, this may

serve as a barrier for middle-aged local managers to join a Japanese subsidiary and be promoted. This is because of the competition from the younger managers, who have been in the company from the beginning of their careers. On the whole age and gender showed a significant relationship with career advancement opportunities for local managers in this study. Thus, the first hypothesis which states that there is no significant relationship between demographic factors and perceived barriers to career advancement could be considerably rejected. Indeed previous studies (Tsuda, 1981; Sohn & Paik, 1996; Raduan, 2002) have shown about the significant influence of demographic factors on perceived barriers to career advancement.

#### **Characteristics of the organization and perceived barriers**

From the 41 Japanese subsidiaries surveyed, 25 of the companies have been operating in Malaysia for less than 10 years while 16 companies have been operating for more than 10 years. 60% of the companies surveyed were fully owned by Japanese with 190 local managers and the balance (40%) of the companies were joint venture with 127 local managers participating in the survey. For the purpose of this study, the number of employees available in a Japanese subsidiary determined its size. 14% of the companies surveyed had less than 100 employees, 35% had 101 to 500 employees, 23% had 501 to 1000 employees, 4 companies had 1001 to 1500 and 7 companies surveyed had more than 1500 employees. 71% of the surveyed companies were from manufacturing sector. Four characteristics of the organization were taken into consideration to see whether it had any effect on perceived barriers. All the organizational variables involved were categorical type of data. The variables, type of ownership: fully Japanese or joint venture and the type of operation: manufacturing or non-manufacturing was tested using the independent t-test. The variables, size and years in operation were tested using ANOVA because there were more than two groups involved. It was found that there is no significant difference in perceived barriers faced by managers in fully owned Japa

nese organization and joint-venture organization (all the  $p$ -values  $> .05$ ). For the test against type of operation, a  $p$ -value of 0.011 was obtained which indicates that there is a significant difference in promotion faced by managers working in manufacturing and non-manufacturing organizations. Managers in the non-manufacturing sector felt that in term of promotion, they were less satisfied compared to managers in the manufacturing companies. There were no significant difference between perceived barriers (power; benefits and wages; performance appraisal; feedback; and stereotype) and type of operation. All the  $p$ -values were found to be more than .05.

The result from the ANOVA test between number of years in operation and performance appraisal (perceived barriers) indicated there is a significant difference ( $F$ -value = 5.331,  $p$ -value = .0001). From the post hoc analysis, it can be seen that in companies aged 20 years and more the local managers' perceive the performance appraisals as more positive compared to companies, which have been in operation for less than 20 years. It was also revealed that there were no significant difference between size of the organization and all the perceived barriers except for performance appraisal ( $F$ -value = 2.581,  $p$ -value = .0037). The post hoc analysis showed that managers in the companies classified as "big" (over 1000 employees) felt that their appraisals were important to their career advancement in terms of salary increment, job placement and promotional considerations. Overall results of the present study allow the second hypothesis to be rejected. In other words, there is significant relationship between characteristics of organization and perceived barriers to career advancement.

Consistent with the research done by Raduan (2002), this study does show a positive relationship with length of operation and size of the organization on perceived barriers and career advancement opportunities. The effects of length of operation and size of the subsidiary on human resource management (HRM) policies and practices as well as perceived barriers are well documented in the literature (Dunning, 1986; Sim 1977). Several studies have found a significant relationship between decentralization and the length of operation and size of the subsidiary concluding that

age and size of the subsidiary were the most significant factors in decentralization (Gapper, 1994; Raduan, 2002; Sim, 1977). According to Gapper (1994), Japanese subsidiaries that are more decentralized are more willing to take risks on local managers compared to newer Japanese subsidiaries. This then reduces the barriers that local managers face in career advancement opportunities which has been cause by the decentralization phenomena.

#### **Stereotype and discrimination and number of local managers in higher management positions**

Out of the 317 local managers surveyed, 47% of them belonged to the lower level of management, 52% or 165 managers belonged to middle management and only 0.9% of the managers belonged to top management level. It also revealed that approximately 82 % of the communication with parent company is made by the senior Japanese manager while the senior local manager did only 18%. Other local managers handle 0.3% of the communication. The frequency of the communication is mostly either daily or weekly. 50% of the managers had daily communication, 43% had weekly communication and 7% had monthly communication with the parent company.

To test on the final hypothesis, ANOVA analysis was used to see whether there was a relationship between stereotyping and discrimination in the organization and the number of local managers that are making it to higher management positions. Perceived barrier, stereotype and discrimination, used the interval type of data while number of local managers used the categorical type of data. The results indicated that there is indeed a significant relationship between the mean scores for stereotype and discrimination and number of local managers ( $F$ -value = 2.913,  $p$ -value = .0035). Local managers felt that they are being discriminated against opportunities for higher management positions in Japanese subsidiaries in Malaysia. From the post hoc output, the number of local managers between 1 to 20, 41 to 60 and 61 to 80 all showed a significant difference with stereotype and discrimination. Thus, the hypothesis, which proposes that there is no significant relationship between the extent of stereotyping and discrimination in the

organizations and the number of local managers in higher management positions in Japanese subsidiaries, was rejected.

Similar to previous studies (Abdullah & Keenoy, 1995; Amante, 1993; Harrington, 2001; Raduan, 2002; Tsuda, 1981), this study revealed that, stereotyping and discrimination does play a role in the number of local managers in higher management positions and creates the problem of ethnocentrism in the organization. Ethnocentrism is the emotional attitude that Japanese subsidiaries have about their own nation; culture and that Japanese manager are far superior to the local workforce. Beamish and Inkpen (1998), found that Japanese subsidiaries filter local managers from higher management positions based on the stereotype that local managers are too inferior to handle authority compared to the Japanese managers. At the same time these authors stated that stereotype and discrimination are decreasing due to the gradual decreasing number of Japanese expatriates and dismantle of the "the rice paper ceiling". Nevertheless, a more recent study conducted by Harrington (2001) showed that there is indeed a strong relationship between discrimination and the number of local managers in higher management positions. The study carried out in Japanese subsidiaries in the United States contradicts Beamish and Inkpen's study done in 1998, which states that there is a decline in Japanese expatriates. It was also noted that ethnocentrism in Japanese subsidiaries greatly preventing local managers from climbing to higher management positions. On the whole, majority of the findings showed that the existence of stereotyping and discrimination has an impact on the number of local managers in higher management positions in Japanese subsidiaries. This scenario is still evident in Japanese subsidiaries in Malaysia until today.

### Conclusion

Japanese MNCs have been operating in Malaysia for long time and yet not many studies have been conducted on them and their activities in this country. Apart from management issues, problems faced by local managers are vital issues related to MNCs that needs to be addressed and researched intensively on a continual basis. This is because without local managers,

Japanese MNCs would not be able to maintain and operate the subsidiary in accordance to their objectives and strategies in the near future. Local managers could be seen as one of the backbones that critically support the management of the Japanese subsidiaries if they are given equal opportunities in advancement. In this study, it was found that there is a significant relationship between demographic factors and its influence on perceived barriers to career advancement. The significant demographic factors were age and gender. The second part of the analysis found that there is a significant relationship between characteristics of the organization and its influence on perceived barriers to career advancement. The significant characteristics of the organization were size of the organization, age or years of operation and type of ownership. The last analysis revealed that there was a significant relationship between stereotype and discrimination and the number of local managers in higher management positions. Due to stereotyping and discrimination in Japanese subsidiaries, there are relatively fewer local managers advancing to higher management positions.

If Japanese firms refuse to allow non-Japanese managers into top executive positions in their subsidiaries, the problem of ethnocentrism will continue to prevail. Moreover if the trend does reflect a shift in Japanese firm's management practices, there will be two important implications. First, there will be more management opportunities in Japanese subsidiaries for non-Japanese and by implication, even more competition for the existing supply of effective global managers. The second implication is that this trend represents a move towards genuine globalization for Japanese firms. On the assumption that localization improves subsidiary performances, many Japanese firms will become even stronger international competitors. For their North American, European and Asian competitors, it will serve as a wake-up call.

Japanese firms stand to lose out in the competition for global talent, if these corporations are reluctant to consider foreign talent for higher managerial positions. This is because the most talented people will not join an organization that holds out on no promise of promo

tion. Japanese owned corporations that have been notoriously slow to open their top executive ranks to non-Japanese will operate at a competitive disadvantage. Although it is too early to tell if Japanese firms are willing to open the most senior executive positions to non-Japanese, this research shows that at the subsidiary level, Japanese firms are still putting barriers to make it hard for local managers to advance.

There are two possible future scenarios associated with Japanese MNCs, their use of expatriates and their role in global business. According to Beamish and Inkpen (1998), a possible scenario for Japanese FDI could unfold as follows. As Japanese firms continue to expand internationally, the shortage of qualified Japanese expatriates will force Japanese firms to hire more local managers for senior managerial positions. Enlightened firms also realize that the "rice paper ceiling" is an obsolete concept. Over time, Japanese MNCs will shed their ethnocentric biased attitude and hire the best managers they can find, Japanese or non-Japanese. Non-Japanese managers will find their way to the most senior executive ranks. As a result, Japanese MNCs become even stronger competitors around the world. This is a possibility that seems very far in the future, especially for developing countries like Malaysia, with developing local expertise in Malaysia. An alternative scenario is far less positive from a Japanese firm's perspective. The inability to find high quality expatriates and the reluctance to abandon an ethnocentric view will limit Japanese MNCs' ability to grow. The increasing use of local managers will impact only middle and lower managerial levels. Top management positions in both headquarters and subsidiaries will reserve for Japanese nationals. As a result, Japanese FDI will stagnate and probably decline. Japanese firms will gradually play a less important role in the global environment.

#### Research issues to be addressed

1. If there is greater use of local managers, will Japanese firms be more willing to engage in international mergers and acquisitions?
2. To what extent do Japanese subsidiaries want to eliminate the barriers local managers face and are interested in transferring knowledge to

help educate local managers in developing countries like Malaysia?

#### References

- Abegglen, J.C. (1958), *The Japanese Factory: Aspects of its Social Organization*, The Free Press.
- Abdullah, S., & Keenoy, T. (1995), Japanese Managerial Practices in Malaysian Electronics Industry: Two case Studies. *Journal of Management Studies*, 32 (6), 747-766.
- Amante, M. (1993), Human Resource Management in Japanese Enterprise in the Philippines: Issues and Problems. *Asia Pacific Journal of Management*, 10(2), 237-245.
- Balliga, B., & Jaeger, A. (1984), Multinational Corporations: Control systems and Delegation issues. *Journal of International Business Studies*, 25-39.
- Beamish, P.W., & Inkpen, A.C. (1998), Japanese Firms and the Decline of the Japanese Expatriate. *Journal of World Business*, 33(1), 35-51.
- Clark, Rodney (1979), *The Japanese Company*. New Haven, Yale University Press.
- Cole, R. (1971), *Japanese Blue Collar*. Berkeley, University of California.
- DeNero, H. (1990), *Creating the 'Hyphenated' corporation*. McKinsey Quarterly, 4: 153-174.
- Dedoussis, V. (1995), Simply a question of cultural barriers? The search of new perspectives in the transfer of Japanese management practices. *Journal of Management Studies*, 32(6), 731-746.
- Dunning, J. (1986), *Japanese Participation in British industry*. Croom Helm, London.
- Eiger, T., & Smith, C. (1994), *Global Japanization? The Transnational Transformation of the labor Process*. London: Routledge.
- Gapper, J. (1994), *Taking Japan out of Nomura International - The broker is quietly restructuring its European arm to serve clients better and shift the power away from Tokyo*. Financial Times, April 14,30.
- Graham, L. (1995), *On the line as Subaru-Isuzu: The Japanese model and the American worker*. New York: ILR/ Cornell UP.
- Hayashi, K. (1986), Cross-cultural interface management in America: What does and doesn't work? *National Productivity Review*, 61-74.
- Harrington, J. (2001), The Japanese by-standards. *Management Science*, 44, 349.
- Ichimura, Shinichi (1981), *Japanese Enterprises in Asia*. Tokyo: Tokyo Keizai Shimposha.
- Imaoka, H. (1986), Japanese Management in Malaysia. *Southeast Asian studies*, 22(4), 339-357.
- Kobayashi, N. (1985), *The Patterns of Management Style developing in Japanese multinationals in the 1980's*. In Takamiya, S., & Thurley, K. (Eds), *Japan's Emerging Multinationals: An international comparison of policies and practices*. Tokyo: University Tokyo Press. 229-264.
- Kopp, R. (1984), *International Human Resource Policies*

- and Practices in Japanese, Europe and United States Multinationals. *Human Resource Management*, 4, 581-599.
- Kopp, R. (1994), *The Rice Paper Ceiling: Breaking through Japanese corporate culture*. Berkeley, CA: Stone Bridge Press.
- Kranias S.D. (2000), Cultural Control: The case of Japanese multinational companies and their subsidiaries in the UK. *Management Decision*, 38(9), 638-649.
- Lawler, J., Siengthai, S., & Atmiyanandana, V. (1998), *HRM in Thailand: Eroding Traditions*. In Chris Rowley (ed.) *Human Resource Management in the Asia Pacific Region*. Convergence Questioned. London: Frank Class.
- Negandhi, A., Yuen, E., & Eshgi, G. (1987), Localization of Japanese subsidiaries in Southeast Asia. *Asia Pacific Journal of Management*, 5(1), 67-79.
- Offermann, L.R., & Beil, C. (1992), Achievement styles of women leaders and their peers. *Psychology of Women Quarterly*, 16, 37-56.
- Oliver, N., & Wilkinson, B. (1988), *The Japanization of the British Industry*. Basil Blackwell, Oxford.
- Ouchi, W. (1981), *Theory Z*. Addison-Wesley, Reading, MA.
- Pascale, R.T., & Athos, A.G. (1982), *The Art of Japanese Management*. London: Allen Lane.
- Raduan, Che Rose (2001), *The transfer of Japanese-style management abroad*. Paper presented at the Asia-Pacific Business Conference, Michigan, USA.
- Raduan, Che Rose (2002), *Japanese style management abroad: The case of Malaysian subsidiaries*. Prentice Hall, Pearson Education Malaysia.
- Shirake, Y. (1994), Can Japan export Japanese-style Management? *Japanese Economic Studies* X, Part 1, Fall.
- Sim, A.B. (1977), Decentralized management of subsidiaries and their performance. *Management International Review*, 17, 45-51.
- Sohn, J.H.D. & Paik, Y. (1996), *More is better? Expatriate managers and MNCs' ability to control international subsidiaries*. Working Paper.
- Tsuda, M. (1981), *Perspective of lifetime employment security practices in the Japanese enterprise*. In Ishikawa, A., & Woodhouse, T. *Employment and Participation: Industrial Democracy in Crisis*. Tokyo: Chuo University.
- Yoshino, M.Y. (1975), Emerging Japanese multinational enterprises. In E.F. Vogel (Ed.). *Modern Japanese organization and decision-making*, 46-166, Berkeley, C.A.: University of California Press.