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**International Journal of Business  
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**Enhancing Malaysian Entrepreneurship Development  
Through Information Technology: A Conceptual Framework**

Esuh Ossai-Igwe Lucky, PhD.

## Abstract

Despite the Malaysian government effort directed towards creating and developing effective and successful entrepreneurship particularly through various IT policies, it is observed that many Malaysia entrepreneurial firms and small businesses are yet to fully utilize the benefits offered by IT in enhancing the business activities. Few entrepreneurs have sufficient knowledge in applying IT tools in their businesses. As a result, this paper examines how Malaysian entrepreneurship development could be enhanced through IT.

**Keyword:** Entrepreneurship, Information technology, Malaysia,

## 1.0 Introduction

Entrepreneurship has originated in the past long years and has in the recent times become the most economic force the entire world has ever experienced. For instance, Kurkto (2005) hinted that entrepreneurship has succeeded in revolutionalising and changing the manner in which businesses are be carried out and conducted in every country, at the global level as well as individual level. He further hinted that entrepreneurial revolutionalising is in the economic sense which made the dominant force in the economic today. Today, there is no doubt that millions of people including men, women, old, young, ethnicities, tributes etc are deeply involved in entrepreneurial activities ranging from starting up new businesses, buying failed businesses, revitalizing and resurrecting family and old businesses and innovating new ventures. For instance, it is has been spotted that the generation of this 21<sup>st</sup> century has no doubt become the most largely entrepreneurial generation even recorded in the history mankind right from the time of industrial revolution (Kurkto, 2005). Recently, it is reported that as large as 5.6 million young Americans at the ages of 34 are struggling to establish their personal businesses. Accordingly, the young entrepreneurs are about one third and at the age of 30 while some of them between the ages of 18 to 29 years about 60% have serious intentions to establish their own businesses and close to 80% of them at the ages between 18 to 34 years are world-be-entrepreneurs in U.S. (Kurkto, 2005). Hence, entrepreneurs are indispensable agents or elements in economic growth and economic development and economic prosperity of any country. Therefore, the important of entrepreneurship development cannot be undermined in the economic growth and development of any country. For instance, Garrido, Fierro and Navarro (2008) asserted that entrepreneurship play a vital role in economic growth and prosperity of any country. Kolawole and Torimiro (2005) concurred that entrepreneurship is the basis for employment generation, economic transformation and bring about improvement and positive changes in the living condition of the people. Accordingly, Rebecca and Benjamin (2009) asserted that entrepreneurship adds value to the society and the same time change and transform the socio-politico-economic life of the people.

Furthermore, unlike the entrepreneurship, the IT revolution has also come across every aspect of human endeavor as well as the global world and has indisputably impacted the global business activities. Since its emergence, it has contributed significantly to the success of entrepreneurship many ways. IT is concern with generating and acquisition of information, processing, storing, retrieving and disseminating of this information to the users like the entrepreneurs. On this note, there is no doubt that in this recent 21<sup>st</sup> century, information has become the most sort asset among other assets used many organizations including the entrepreneurs (Hamzah, Shariff, Mahmud, Yusof and Ali, 2009). It has emerged as one of the global resource that every organization cannot neglect and thus, should also be managed like any other organizational resources. Therefore, the arrival of management information system is timely and has helped in making information available for entrepreneurs and management generally in order to facilitate scanning for business opportunities by the entrepreneurs, data reconciliation; improve entrepreneurs' decisions makings (Weber and Pliskin, 1996; Anthony and Robert, 2007; Chapman and Kihn, 2009). This period of IT revolution should be seen as great opportunity for the entrepreneurs particularly the technology entrepreneurs as result of excellent business opportunities available to the technology-based firms (Marvel and Lumpin 2007). Technology entrepreneurs are individuals who recognize and exploit opportunities by leveraging technology knowledge and experience to

create new value via the venture creation process (Marvel et al., 2007). Therefore, an entrepreneur who possesses a reasonable and adequate information technology knowledge would achieve a greater degree of success. Generally, Lal (1999) has argued in his study that even though IT has proved its capability in affecting performance such as entrepreneurial performance, it is quite unfortunate that most of the firms or businesses “across the board” are yet to fully adopt and utilize IT in their firm or business operation.

In Malaysia, the government has over the time embarked on various economic reforms and strategies most especially in the 2<sup>nd</sup> national economic policy which the main focus is on science and technology (Ariff and Abubakar, 2003). One of the key elements of the Malaysia 2<sup>nd</sup> national policy is to offer a framework that would improve performance as well as Malaysia economic long-time growth thereby increasing the technology development and technology acquisition and enhance the transformation of knowledge into products, processes, services to add value to industry such as entrepreneurial firms and SMEs. Therefore, the Malaysia 2<sup>nd</sup> national policy aimed at positioning Malaysia as one of the technology providers within the strategic knowledge industries such as information and communication technologies in order to enhance and improve business activities including the entrepreneurial and SMEs industries. Past study has noted that the Malaysia government has directed its effort in creating and developing effective and successful entrepreneurship particularly through various IT policies (Ndubisi and Kahramanc, 2005). However, despite this effort, it is observed that many Malaysian entrepreneurial firms and small businesses are yet to fully utilize the benefits offered by IT in enhancing the business activities. For instance, Ndubisi et al., (2005) has argued that very few of the entrepreneurs in Malaysia, including the female entrepreneurs, have sufficient knowledge in applying IT tools into their businesses. They further argued that studies in this area are still very limited. With the recent IT revolution, it is believed that the availability of information for the entrepreneur’s use is made easier. However, it has been noted that Malaysian entrepreneurs face difficulty in accessing or obtaining this information. Thus, suggesting that more studies on IT are indispensable particularly in Malaysia in order to remedy this situation. In support of this, Man (2010) reported that study conducted by Lin and Chen (2007) demonstrated that 80% of the firm in Malaysia applied technology. However, the technology is yet to significantly affect their performance. The author therefore called for further studies in this area. Based on this, this paper therefore aims at investigating how IT could be used to enhance Malaysian entrepreneurial development and thus, generate new understanding which would be useful for the stakeholders in the entrepreneurial development particularly in Malaysia.

## **2.0 Literature Review**

Authors have given their different opinions and definitions with regard to entrepreneur as well as entrepreneurial development. This therefore points that there are abundant studies on entrepreneurship development. Darren and Conrad (2009) defined entrepreneurship as a process where an individual discovers, evaluates and exploits opportunities independently. This definition is in consonance with Ogundele (2007) who sees entrepreneurship also as a process involving recognizing opportunities in the environment; mobilizing resources to take advantage of such opportunities, in providing improved goods and services to the ultimate consumers and making as a reward for risk taking. Therefore, entrepreneurship is all about environmental opportunities that are waiting to be tapped. Rebecca et al., (2009) explains entrepreneurship as a creative process of organizing, managing an enterprise and assuming the risk involved in the enterprise. Rebecca et al., (2009) concluded that entrepreneurship is simply concerned with what an entrepreneur actually does- the utilization of resources in managing an enterprise and assuming the risks and maximizing profit from the business venture. It is a process of creating something new and assuming the risks and rewards (Hisrich and Peters, 2002). According to Peter Drucker (1964), entrepreneur is an agent of change who constantly looks for changes in the environment then reacts to these changes and finally utilizes these changes as opportunity. In the light of these definitions above, entrepreneur is an agent of change, an innovator, economic transformer, opportunist or opportunity seeker, wealth creator etc. therefore, a single word may not be enough to describe who an entrepreneur is. The process employed by the entrepreneur to achieve all these is regarded as

entrepreneurship. The process of transforming, innovating, creating, changing seeking for opportunities and utilizing and converting these opportunities into wealth, product and services is entrepreneurial development.

Furthermore, entrepreneur employs many tools to achieve his entrepreneurial objectives such as economic transformation and change in the living standard of the people. One of these tools is IT. IT has in the recent time become one of the powerful and indispensable tools that are facilitating entrepreneurial activities in this 21<sup>st</sup> century. IT is concern with the information system, management information technology, information and communication technology etc. it deals with the acquisition, processing, storage and disseminating of information that are very helpful and essential to the entrepreneur. It facilitates the entrepreneurial activities many areas such as searching for business opportunities, creation of new ventures, innovation of new product and service, making of business decisions and provide them with suit approach on how to handle their the business. With IT, the work or task of entrepreneur becomes easier and faster. On the other hand, IT has equally provided numerous business opportunities for the entrepreneur. For instance, many entrepreneurs have venture into IT and ICT sectors. In the present time, we have many entrepreneurs called IT based entrepreneurs or technology entrepreneurs who have discovered excellent business opportunities in the area of IT. The technology entrepreneurs according to Marvel and Lumpin (2007) are those who look for opportunities in the IT area and then utilize this opportunities by leveraging IT knowledge and experience in creating value via entrepreneurial process. They form the kind of entrepreneurs who are in possession of adequate and sufficient knowledge of IT in running the entrepreneurial ventures by creating new product and service and engaging in innovation of new ventures and discovering of more and more new opportunities. The important role of IT in entrepreneurship development is very visible in the new venture creation, product and service innovation, business opportunities discovery, market and customer's knowledge, sound business and entrepreneurial decision makings, recognizing opportunities, mobilizing resources, competitive advantage and many more.

Accordingly, the relationship between entrepreneurship and IT has been long established. Entrepreneurship development and IT have become intertwined in this 21<sup>st</sup> century, as the task of entrepreneur would be more difficult without IT. Rahman (2008) in his study argued that the technology acquisition and implementation would no doubt aid the manufacturing firm's performance in Malaysia. Despite this, he argued that the technology adoption and implementation of IT by the firms has always been the problem of the entrepreneurial firms which could be associated to their ugly performance. In line with this, Jabar, Soosay and Santa (2010) have also noted that the success of many businesses in the global market could be trace to the role of IT. They further argued that the "successful industrialization of many Asian economies such as Japan, China, Korea and Taiwan and many others is liked to their ability to exploit technological competencies". Therefore, Malaysia being one of the Asian economies must accelerate its entrepreneurial development through this means-IT. Lal (1999) asserts that IT is one of the favored factors that posses the full potential that would augment the entrepreneurial and industrial efficiencies and ensure significant firm entrepreneurial/firm performance. It is therefore imperative that entrepreneurs and firms that desired to sustain their business and ensure greater performance must demonstrate an increased propensity of growth in the use of IT more intensively. Authors have agreed that IT play a crucial role in both firms and society abilities to exploit, produce, access, adapt, offer quality goods and services and apply the acquired information into the totality of their entrepreneurial activities. IT as an entrepreneurial factor would aid entrepreneurial development in many areas such as increase in entrepreneurial intention among the people, discover and exploit more entrepreneurial opportunities, create and produce more goods and services for the society and offer more quality goods and services to the society. Thus, IT has no doubt become a prerequisite for identifying entrepreneurial or business opportunities and how best to react to these opportunities, how to increase the entrepreneurial intention of the potential entrepreneurs in the society and finally how to use this IT to offer quality goods and services. On this note, Malaysian firms must utilize this opportunity offer by these IT to enhance the entrepreneurial development and bring about a greater firm performance in order to significantly contribute to the economic growth and contribute to the vision 2020. Therefore, the examination of enhancing Malaysia entrepreneurship development through information technology is timely and welcome development. The framework below indicates the relationship that exists between IT and entrepreneurial development.

## **2.1 The Conceptual Framework**

Based on the various arguments and reflections found in the literature on how to enhance entrepreneurial development, a simple conceptual framework was developed and advanced in order to expand our understanding on how IT could contribute in enhancing Malaysia entrepreneurship development. The conceptual model begins with the key factor-information technology impacting on the entrepreneurial development. Therefore, the model posits that IT affects entrepreneurial development in areas like; entrepreneurial intention, opportunity, creativity and innovation, and product and service quality. In constructing the framework of this study, reference is being made to the Malaysia national economic policy which offers a framework for performance improvement as well as Malaysia economic long-time growth (Ariff et al., (2003) through the increase of technology development, technology acquisition and enhancing the transformation of knowledge into products, processes, services to add value to industry such as entrepreneurial firms and SMEs. Therefore, the Malaysia national policy also aimed at positioning Malaysia as one of the technology providers within the strategic knowledge industries such as information and communication technologies in order to enhance and improve business activities including the entrepreneurial firms and SMEs.

In the framework, we identified several areas where the use of IT would enhance entrepreneurial development. These areas include: entrepreneurial intention, entrepreneurial opportunities, creativity and innovation, and product and service quality. For instance, the availability of information for the entrepreneur would speed up entrepreneurial decisions, provides more business opportunities and provides more modern way of doing things. Again, another area by which IT could enhance entrepreneurship is that of creativity and innovation. Through IT entrepreneurial firms become more creative and innovative as a result of the information provided by IT (Marvel et al., 2007; Ndubisi et al., 2005; Kuratko and Richard, 2004). To be in business and to manage a business successfully, entrepreneurs must be creative and innovative and seek for business opportunities (Kuratko et al., 2004). For instance, in today's hyper-competitive business world the need to look for business opportunities and to be creative and innovative is imperative. This is due to the fact that the more creative and innovative an entrepreneur is, the better the entrepreneur would be able to compete in the marketplace. Therefore, the ability to be creative and innovative would no doubt place an entrepreneur a step ahead of his competitors. Creativity and innovation is a key to the survival of a business. For example, it is very clear that an entrepreneur would be left behind if his competitors are ahead of him in applying creative and innovative methods of operation. If his competitors are more effective, efficient and more productive and are able to produce better and higher quality products which enable them to attract more customers, the entrepreneur would be force out of business. In summary, the framework, *figure 1* which is indicated at the end of the article suggests that countries (firms) that adopt and utilize IT are more likely to have more potential entrepreneurs, business/entrepreneurial opportunities, become more creative and innovative and consequently, provide quality products and services in the market place.

## **3.0 Methodology**

### **3.1 Sampling**

The study is a cross-sectional quantitative approach. The population of this study will cover all the small entrepreneurial IT firms Users in Malaysia; in particular those applying IT in their operations. A simple random sampling technique will be applied to select the potential respondents that will participate in the survey. The potential sample respondents in this study will include both the entrepreneurs and owner-managers who have their firms registered and also a registered members of the small and medium enterprises of Malaysia. The respondents will be identified through the small and medium enterprises member's directory obtained through their website. The study through a simple random sampling will select 400 entrepreneurs and owner-managers from the population of the study that will finally participate in the survey.

### **3.2 Measurement of Variables**

The questionnaire for this study will consist of two sections: the profile of the respondents and their business while the main questionnaire will contain questions on information technology (firm users) and entrepreneurial development (intention, opportunity, creativity and product and service quality). All variables in this study will be measured using a five-point Likert scale ranging from 1=strongly disagree to 5=strongly agree and this will assist in measuring the extent to which respondents agree or disagree to each of the statement or questionnaire. Items will be adapted from the previous studies and then modified to suit the purpose of this study.

### **3.3 Data Analysis Techniques**

The data collected from the survey will be subjected to data cleansing and data cleaning in order to identify missing value, sample characteristics and meet the assumptions of normality. After this, the descriptive analysis will be used to summarize the respondents' characteristics and their business. Factor analysis will also be employed in this regard to help in reducing the number of factors that do not measure the constructs in this study as perceived by the respondents. In this case, the component factor analysis with varimax rotation will therefore be conducted on all the variables to extract factors from the scales of each construct. The researchers will ensure that all items meet the acceptable limit level. Therefore, in this study, all items below 0.50 will not be retained and those having a loading factor limit of above 0.50 will all be retained. In the reliability test, variables with less than Cronbach' Alpha coefficient of 0.50 will not be included in the analysis. Equally, the variables will be subjected to validity test. The validity of the instrument will be determined by content and construct validity. The construct validity will be determined through the factor analysis in which the Kaiser-Meyer (KMO) index of sampling adequacy and Bartlett's test of sphericity will be equally be determined (Muhammad, 2009). All variables with KMO above .6 as recommended by Chakraborty (2010), Trent, Justen, Anastasios (2009); Nuradli, Hanifah, Shahida, Hairunnizam (2008) and Dahal (2006) will be regarded as valid for this proposed study. Finally, both correlation and multiple regression analyses will be employed to determine the strength and nature of the relationship respectively.

### **4.0 Conclusion**

The objective of this paper is to delve into how Malaysia entrepreneurs as well as the government could effectively utilize IT in enhancing the nation's entrepreneurial development. We began our arguments by looking into many literatures within the domain. Several evidences have been documented on the significant effect of IT on entrepreneurial and business performance. Lal (1999) asserted that IT would play a major role in entrepreneurial emergence, encourage innovation, and improve entrepreneurial decisions and relationship between entrepreneurs and customers. Krueger, Reilly and Carsrud (2000) asserted that IT goes a long way to encourage entrepreneurial intentions most especially among the youth; it does this by encouraging more people to become entrepreneur. Kuratko (2005) has asserted that the recent global IT break through across the world has helped to increase the number of small and medium scale enterprises in the globe. He noted that more 807,000 small businesses or firms have been established within 1995. Marvel and Lumpkin (2007) has asserted that the relationship between innovation and IT education and knowledge is very significant and positive. He argued that entrepreneur's innovativeness and performance would be significant through the use of IT knowledge and education. The entrepreneur's knowledge of the IT would help them to serve the market well and compete effectively in the market place, thus, having a competitive advantage over any firm or entrepreneur that do not use IT. Miller and Garnsey (2000) asserted that entrepreneur's IT knowledge help the entrepreneur to form, build and organize new industries or businesses that would be capable of achieving high entrepreneurial or business performance. Paloniemi (2004) has asserted that ICT which is off shoot of IT would facilitate entrepreneurial processes, assist in exploitation of new ventures or businesses and discovery of new business and innovative opportunities. Lee and Wong (2004) argued that entrepreneurs with IT expertise and technical knowledge are likely to have a greater degree of entrepreneurial intentions to start a new business or venture in his field than person who has not. Similarly, Spencer, Saemundsson and Kirchoff (2003) asserted IT knowledge would assist the entrepreneurs to always recognize business opportunities and speedily act on them

in order to create wealth. They further noted that a disruptive technology is equal to creative disruption which would be rejected and resisted by the existing market and consequently affect entrepreneurial development and performance.

Based on the following premises above, we therefore summary, the particular areas IT would help Malaysia to enhance entrepreneurship development is visible in the following areas; it is reported that Malaysian government is moving towards inculcating entrepreneurial culture into the young ones by introducing entrepreneurship development studies in the junior level. This would facilitate entrepreneurial intentions among the youths or young ones; it would definitely increase the number of indigenous entrepreneurs as asserted by Kuratko (2005).

From the perspective of Malaysian women and rural entrepreneurs, Hisrich and Ozturk (1999) has noted that women entrepreneurial research is abundant in the developed countries like Canada and USA, this perhaps may imply that women entrepreneurship may have receive boast in these countries while studies on women entrepreneurs in developing countries such as Malaysia are still limited indicating that women entrepreneurship are still yet to be utilized. For instance, Ndubisi et al., (2005) has noted that until this time ICT usage among Malaysian women entrepreneurs are still underutilized. With the presence of IT, more business opportunities are readily available for Malaysian women entrepreneurs more than 25 years ago (Ndubisis et al., 2005). This suggests that more women can involve in entrepreneurial activities such as cultivation of fish, mining, commercial crop cultivation etc. The ministry of entrepreneur should endeavor to encourage and involve more women into their entrepreneurial programmes through the use of IT and also making the existing ones to adopt the use of IT in their entrepreneurial activities in order to produce a fruitful result for themselves and then contributing significantly to the nation's economy. This also applies to the rural entrepreneurs, the information acquired or generated from IT would assist them to recognize and exploit more business opportunities and how to approach these business opportunities using IT tools.

Finally, this paper contributes to knowledge by providing a simple conceptual framework for examining the enhancement of entrepreneurship development through information technology particularly in Malaysia context and as such would be beneficial to entrepreneurs and policy makers in charge of making entrepreneurial policies. ■

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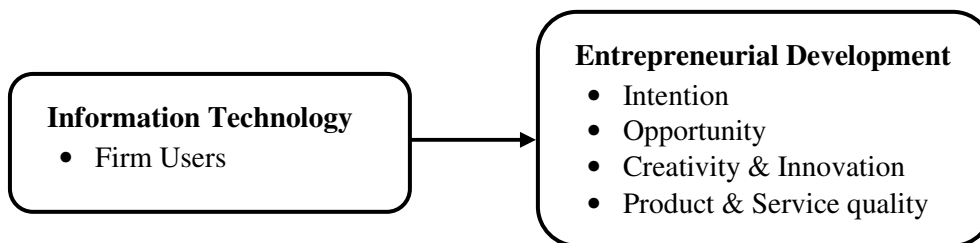
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**Figure 1:**



*Figure 1: Conceptual framework*



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**Organization and Management Theory in Public vs. Private  
Organizations**

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## Abstract

Some people argue that organization and management theory can be used to understand public organizations in essentially the same way as private organizations. Others argue that organizing and managing in the public sector is fundamentally different from the private sector—therefore there is, or there needs to be, something distinctive about public organization/management theory. This is a theoretical qualitative research describing the similarities and differences between the two types of organizations based on the development of the public administration literature.

**Key Word:** private, public, reinventing government, scientific management

## 1. Introduction

The purpose of this paper is to discuss throughout the history of the field what has been the relationship between the American public administration and the business administration. The paper sheds light on the similarity and degree of difference between public management and private one. It will focus particularly on the orthodoxy of public administration in terms of offering an example of a stream of thought which borrowed heavily from the field of business administration in order to begin the field of public administration as a line of inquiry. In addition, the paper demonstrated that Reinventing Movement of the 1990's offered a different example of how a stream of contemporary thought in public administration draws from business. Both examples show similarities and differences that are illuminated by their applications of specific techniques and sharing of theoretical underpinnings.

Generally, there is a debate between two major schools in terms of how management works in public administration as well as in business administration. One school believes that management theory can be employed to interpret organizations in public sector in the same way as organizations in the private sector. On the other hand, another school believes that public organizations have different characteristics, environment, and orientation that differ from the ones of the private organizations and consequently one should be careful when dealing with management in the two sectors in order to avoid any misunderstanding or misleading applications (Appleby, 2004).

This paper argues that even though there are some similarities between public and business administration there are some differences between organizations in the two sectors and such differences should be taken under consideration. For example, many fundamental aspects of management including divisions of work and role of executives and managers might be similar in both sectors. However, other factors such as the external social and political influences cannot be applicable similarly in private and public organizations. Appleby (2004) states that actions in public organizations should be “as fair as possible, as uniform as possible, and which can be taken publicly and publicly explained” (p.134).

Although the literature review provides us with information proving that there was no focus on the distinction between public management and private management, such focus on the distinction started later to exist reflecting these differences between the two kinds of organizations. The paper starts with a historical background of the literature and the development of management in public administration. This historical context helps to grasp the idea why the thoughts of one theory can be applied in public administration in a part and cannot fit in another part. Then the discussion will treat the major differences between public management and private one.

## 2. Historical Beginning of PA

According to Jay Shafritz and Albert C. Hyde in *Classics of Public Administration*, the central problem facing public administration was the lack of administrative capacity. They state that “Government organizations were small, poorly run and frequently corrupt.” Therefore, there was a need to build and reform government;

not in just a physical sense. The objective of this reform has always been to make government more efficient and more effective towards the utilization of society's resources. In order to achieve that efficiency and effectiveness in public administration, the field has always looked to other fields of knowledge to acquire the learned skills with practice and job training. When those foundations have been discovered, it is clear that public administration owes a great debt to other disciplines of the knowledge. It borrowed until it achieved its identity and became its own. One of the strongest disciplines is business administration which can be credited partially with lending public administration its heart and lungs during its birth.

From Woodrow Wilson's call in 1887 for a field of study called public administration based upon the principles of business to the Reinventing Government Movement of the 1990's and the New Public Management (NPM), public administration can trace its roots to the intellectual history of the field of business administration. Wilson affirmed the need to manage the public sector when he stated that "it is getting harder to run a Constitution than to frame one" (Wilson, 1887, p.200). Wilson called for detaching public administration from the politics and he called for developing a science of public administration. He thought that this model might be a generic model that could be applied in both public and private sectors. The contributions to the management theory which were mainly created in private sector had already the ground to be accepted in public sector. According to Rainey (1996), most of the major figures who built the general body of knowledge "apply their theories and insights to all types of organization" (p.8) which is known as the generic tradition.

Woodrow Wilson, with public administration in mind, stated:

The field of administration is a field of business. It is removed from the hurry and strife of politics; it at most points stands apart even from the debatable ground of constitutional study. It is a part of the life of society, only as machinery is part of the manufactured product. (Wilson, reprinted in Shafritz/Hyde, 1997, p.20).

Wilson, in his essay of *The Study of Administration* (1887), stated, that it was the "object of administrative study to discover, first, what government can properly and successfully do, and secondary, how it can do these proper things with the utmost possible efficiency and at the least possible cost; either of money or energy" (Ibid., p.14.) By focusing on the efficiency aspect and the expense of money in this statement, Wilson considered the stage of administrative study to mirror the study of business by declaring that the "field of administration is a field of business."

One of the first examples of public administration acting like business is the growth of government regulatory agencies. According to Joseph A. Uveges and Laurence F. Kellar, the development of the regulatory agencies "exemplified the reformers' belief in the efficacy of the specially educated to lead an industrial democracy" (Rabin, 1998, p.5). For example, both authors argued that the creation of the Interstate Commerce Commission (ICC) as an example of government attempting to promote business while regulating its activities. In part, the creation of independent regulatory agencies like the ICC might owe its establishment to groups such as The American Economic Association who championed independent-type efforts like the ICC to meet broad societal goals in an efficient manner.

With the City of Galveston and the commission form of government in mind, there is another example of administration acting like business. Specifically, in 1900 the city of Galveston, Texas, was struck by hurricane which killed nearly six thousand lives. Matters of practicality, efficiency and speed dictated efforts to be pursued with community-wide interest, immediate responsiveness and tangible results without the interference of politics. The commission form of government did more for providing an example of the capability of public administration to act efficiently, quick and responsibly. Lynn (1996) emphasizes that "scientific administration, which stressed the separation of administration from politics and efficiency as the goal of administration, became the dominant idea in public administration from roughly 1910 to 1940" (p.29).

### **3. Scientific Management & Budget**

According to Shafritz and Hyde in *Classics of Public Administration*, Frederick Taylor, the "father" of scientific management, is the pioneer who developed time and motion studies and provided the impetus around

which classical organization theory would evolve, .Through scientific management, Taylor believed that there is ‘one best way’ to accomplish any given task (Shafritz and Hyde, 1997, p.2). He argues that the “one best way” provides the “fastest, most efficient, and least fatiguing production method” (Ibid.). In fact, scientific management was about efficiency and its inception was about preserving effort. The transfer of Taylor’s principles to the field of public administration is another example of the field adapting techniques and concepts from the sphere of business to governance.

In 1912, the U. S. House of Representatives investigated Taylor’s systematic use of management techniques. Some of the management techniques or as Taylor called them “duties,” included:

- Replacing traditional rule of thumb methods of work accomplishment with systematic, more scientific methods of measuring and managing individual work elements;
- Studying scientifically the selection and sequential development of workers to ensure optimal placement of workers into work roles;
- Obtaining the cooperation of workers to ensure full application of scientific principles; and
- Establishing logical divisions within work roles and responsibilities between workers and management. (Ibid., 3)

While Taylor’s conceptualizations of efficiency are based upon the economics of the maximization of profit, in part, their conceptualizations view humans like extensions of machines. Taylor’s “one best way” was obviously influential when the Bureau of Municipal Research used the scientific approach to consider public functions of administration (Lynn 1996). His scientific management procedures were applicable in “public organizations and such techniques are widely applied in both public and private organizations today” (Rainey, 1996, 56). In addition, when White published the first textbook, *Introduction to the Study of Public Administration* (1926), he asserted the importance of scientific principles to govern public administration (Lynn 1996, 29). White did not regard considerable differences between the scientific principles of management that were needed in both public and private sectors although he knew that there is difference between the two sectors. He stated that “although the administration of public and private affairs differs at many points, there is an underlying similarity, if not identity, in the process wherever observed” (White 1955, 1).

The first national call for a budget also provides illumination of the efforts of public administration to mirror business. Again, in 1912 the first call for a national executive budgeting system came as a result of the Taft commission (Ibid). William Willoughby provided examples of how modern administrative units were creating responses to deal with budgetary issues such as efficiency and economy. He argued that:

Still another movement which has logically resulted in the demand for budgetary reforms is that for placing the purely technical methods of governmental organization and administration upon a more efficient and economical basis. The question has been raised as to whether there are any inherent reasons why government officers should not be held to the same standards of efficiency and honesty as are demanded in the business world. (William Willoughby. *The Movement for Budgetary Reform in the States*. Reprinted in Shafritz/Hyde 1997, 34)

At the time of his writing, Willoughby was asking for a fundamental shift in the consideration of current systems of government. He was suggesting, possibly, that government needs to act more like business in order to secure efficiency and economy. Michael Spicer (1995) argued that, based on the faith in science during this era, it was believed that if “enough data could be collected and properly analyzed... one could find the ‘one best way’ of administering public services and render public administration more ‘business-like’” (p.27).

In addition, the businesslike influenced the New York Bureau of Municipal Research. Dr. Camilla Stivers (2000) argues that the bureau’s scientific approach was reflected in its motto: “To promote the application of scientific principles to government” (p.117). The major components of the bureau’s philosophy

emphasized that government is more business than politics and called for increasing efficiency in public management through scientific inquiry (Stivers, 2000).

#### **4. Other Calls for Businesslike Examples**

Goodnow (1900) argues that government should be run like a business, and the technical experts, the administrators, should be given discretion in decision making. Government is for the people, but it needs to be efficient so the will of the people can be executed. The same attitude of focusing on management, whether in public or private sector, was also affirmed by the Human Relations School and Hawthorne Studies which were conducted in private factory by Roethlisberger and Mayo from the 1920s till 1940s and influenced the field of public administration. Even though he knew that there are distinctions between the two sectors, Fayol's major work, *General and Industrial Management*, which published in France in 1916 and translated to English in 1925, also came with general principles that can improve the performance of management in both sectors. Shafritz, Ott, and Jang (2005) states that "Fayol believed that his concept of management was universally applicable to every type of organization" (p.31). This generic model of Fayol's general principles had an impact on public administration because it was theorized to work in both public and private organizations.

Gulick and Urwick focused in the *Papers on the Science of Administration* (1937) on the executive functions to increase the effectiveness of organization and came with the POSDCORB. Even with their practical experiences in public sector, they heavily drew on Fayol's principles which were recognized in private sector (Lynn 1996, 29). Barnard's influential book, *The Function of the Executive* (1938), also dealt with management without separating the executive's functions in public organization from the same functions in private organization. Max Weber's bureaucracy (1946) also presented bureaucracy as a generic model that can work in both public and private sectors (Rainey, 1996). For example, Weber asserts that:

The bureaucratic structure goes hand with the concentration of the material means of management in the hands of master. This concentration occurs, for instance in a well-known and typical fashion, in development of big capitalist enterprise, which finds their essential characteristics in this process. A corresponding process occurs in public organization (1946, p.221). Parker Follett, in his book *The Giving of Orders*, states in a voice intended for the business community:

Business administration has often to consider how to deal with the dissociated paths in individuals or groups, but the method of doing this successfully have been developed much further in some departments than in others. We have hardly recognized this as part of the technique of dealing with employees, yet the clever salesman knows that it is the chief part of his job (Parker Follett reprinted in Shafritz and Hyde, 1997, p.55).

Finally, in his book the *Administrative Behavior* (1947), Simon implicitly framed his view for management "as being applicable to all organizational settings, both public and private" (Rainey 1997, p.56).

To sum up, the majority of early scholars in public administration thought that the ideas of private management were applicable in public because contributions of management "were conceived to apply broadly across all types of organizations" (Rainey 1996, p.55). This means that the attitude in the field of public administration was influenced by business administration which promotes the belief that scientific management theory can be a generic model that works effectively in both sectors.

#### **5. Reinventing Government**

Christopher Hood (1991), a British scholar, clearly presented the main themes of the New Public Management in his article, "A Public Management for All Seasons." The core concept of Hood's argument is that the public sector should borrow the tools and terms used in the private sector to ensure efficient performance. In 1993, the National Performance Review (NPR) was an attempt to achieve initiative and empowerment in the federal government. President Bill Clinton on announcing the review stated:

Our goal is to make the entire Federal government both less expensive and more efficient, and to change the culture of our national bureaucracy away from complacency and entitlement toward initiative

and empowerment. We intend to redesign, to reinvent, and to reinvigorate the entire national government. (President Clinton in Shafritz and Hyde 1997, p.535).

The essence of the National Performance Review was to identify what it called performance deficits within the federal sector and the central problem facing government today: *How it does its business?* The onus for that change is that the NPR saw government in trouble and the risk of doing nothing was more troubled. It can be noticed that NPR has a similar start to what was adopted by the early founders of the PA.

The National Performance Review bridged a gap between public administration and business administration. It did so by stating that it is time for government to do more and it is time to treat “taxpayers like customers” (Shafritz and Hyde, 1997, 536). The New Public Management called for the use of market mechanisms in public administration to provide services to customers, not citizens. It identified four perspectives as key principles:

1. Cutting rep tape
2. Putting customers first
3. Empowering employees to get results
4. Cutting back to basics: producing better government for less. (Ibid.)

Donald Kettl, In *Reinventing Government? Appraising the National Performance Review*, states that the reinventers built upon the theoretical work of Osborne and Gaebler in *Reinventing Government* which borrowed heavily from *In Search of Excellence Lessons from America's Best Run Companies* by Thomas Peters and Robert Waterman and from Peter Drucker's *Innovation and Entrepreneurship: Practices and Principles*.

Thus, the theoretical underpinnings of the Reinventing Movement are based upon practices which are borrowed from the world of business. Donald Kettl summarizes the reinventing government effort by writing that:

The most valuable contribution of the reinventers is their frank recognition that the top-down bureaucratic authority approach guiding American bureaucracy since the Progressive era no longer effectively steers public management. The traditional approach is not obsolete; it can never be so long as the United States is a government of laws. But it must be adapted to a new reality of shared responsibility for common purposes. Boundary spanning coupled with customer service offer fresh insights to attacking new and inescapable administration realities. Traditional bureaucratic theorists face the challenge of fitting old notions of neat hierarchical control to an increasingly messy administrative state where bureaucratic boundaries are the beginning, not the end, of the management process. (Kettle reprinted in Shafritz and Hyde, 1997, p.549).

## **6. Closed and Open System**

Waldo (1948), Yates (1982) and Kingdon (1995), argue that the focus should continue to be on public administration with giving more weight to the political considerations in policy making. Waldo, in his book entitled *“The Administrative State”* (1948), stating that Public Administration could never be a value neutral science, because even if all neutral facts were at hand the remaining question would be which line of action to take and that decision is a completely political one. Waldo believed that “despite the field's claim to be ‘a science with principles of universal validity,’ it operated on the basis of ‘political theories’” (Stivers, 2000, p.124). Indeed, the focus on policy issues opened the gate to consider the external environment of organization and the political impact. Thus, many scholars, according to Lynn (1996), “began to resurrect the role of politics in executive administration and criticized the emptiness of the narrow doctrine of efficiency as an administrative goal” (p.30). Thompson (2005) asserts that there are two major paradigms of organizations: the closed-system which gives emphasis to rationality and the open-system which is influenced by different internal and external variables that cannot be controlled.

These two systems can be seen in this way: while the closed-system focused on controlling organization from inside, the open-system considers that “organizations are influenced in significant ways by elements of their environments” (Thompson 2005, 494). The new paradigm has started, specifically in public administration, by Dwight Waldo in his influential work *The Administrative State* (1948). He observed the role of the political environment as well as the limitations of the rational model in public administration. Norton Long in his (1949) article, *Power and Administration*, argued that administration’s lifeblood is power, so administrators should increase and maintain their power to accomplish their mission instead of focusing only on applying the scientific methods to deal with problems (Shafritz et al. 2004). Others also like Dahl, Appleby, and Marx contributed to finish off the scientific management and orthodoxy in the field of public administration (Lynn 1996).

While the closed-system of the classical founders did not recognize the distinction, other arguments of the open-system did notice that the environmental influences have strong perspectives which emphasize this distinction. There are generally two main factors that can distinguish the two schools: rationality and internal focus on the functions of managers to run organizations. According to Thompson (2005) and Katz and Kahn (2005), the closed-system follows the rational understanding of organizations while the open-system observed the limitations of rationality and the inflexibility of prediction and control. In addition, the close-system “has led to over-concentration on principles of internal functioning, with consequent failure to develop and understand the processes of feedback” (Katz and Kahn 2005, p.490), which is an external influence. It seems that the rational model with internal focus fits better for private sector while the opposite model fits better in public sector. These two factors, seen in the perspectives of each side, are a good beginning to recognize the distinction between the two the public and private organization.

In fact, the major problem with most of the classical scholars of management is the internal focus on organization which rarely considered any external factor that may influence any organization to act differently. The internal focus does not help to see the distinctions between public and private sectors through the reactions and interactions with external environment. This problem is well addressed by the other scholars that take in consideration the external factor that influence organizations. Katz and Kahn (2005) assert that “organizations are open systems” (Sage, 1995, p.67), and “the major misconception is the failure to recognize fully that the organization is continually depends upon inputs from the environment” (p.488). The external consideration allows the focus to be shifted from the limited view of the managers to the broad view of organizations. The scholars who discuss the organizational environment as well as the others who focused on power recognized the importance of paying attention to the external factors that influence organizations from outside. They also recognize the limitations of rationality that organizations, especially in public sector, can encounter.

For instance, Pfeffer and Salancik (1978) refer to the hardness of controlling the environment surrounding any organization. They shifted the rational way of looking to organization to highlight a limited rationality, or what Simon (1946) argued that administration’s decision-making is influenced by “bounded rationality,” which is limited by skills and habits, values and conceptions, as well as the limited knowledge of things relevant to job (Simon, 1946). Pfeffer and Salancik (1978) argue that organizations should be designed “with features of representative political structure, particularly when adaptation rather than stability or efficiency is of primary concern” (p.198). They also affirm that the behavior of organizations is highly determined by their external environment. The main idea is that this external influence which takes in consideration the political conditions is likely to exist more in public organization than in private organization.

Stillman (1998) presents four major levels of external factors that influence the American bureaucracy. The first level is the general environment which refers to three important factors: functional needs of society, national values, as well as the constitutional structure. The second level is the socioeconomic factors which are trends of population, economic conditions, and the speed of technological innovations. Then, another level refers to the “external political actors that significantly shape the purpose, processes, and actions of bureaucracy” (Stillman 1998, 99). These actors are public opinion, clientele groups, media coverage, public interest, and power elites. The fourth level focuses on the institutional actors that construct the government and

shape it through their political positions. Although private organization may be effected by some of these factors, the level of influence is more in public sector. In other words, private sector is less sensitive to the influence of these factors (Rainey et al. 1976).

Therefore, there is a certain level of sensitivity in private sector to the external environment, but it is much higher in public sector. This argument should be observed when one read the work of Woodward (1958) about management and technology. In fact, she discusses the external environmental effects on organization, especially by technology. Focusing on the effects of the external environment of organizations opens the doors to stress the distinction between public and private sectors in terms of the sensitivity to the external influences on organizations, Katz and Kahn (2005) and Lawrence and Lorch (1967).

## **7. Similarities Differences between Public and Private Sectors:**

Taylor has internal focus on organization which observes rationality. Some of his principles of scientific management not only function, but they are definitely essential for public organization as in private organization such as division of work, flow of information, and the importance of training. The division of work, for instance, means “that work which formally was done by the workmen alone is divided into two large sections, and one of those sections is handed over to the management” (Taylor 2005, p.66). Of course, this principle is important in public organization for the same justifications that are used in private management.

However, other concepts may not apply in public organizations such as the “the only one way to do [things] right” (Taylor 2005, p.69). Even if one admits that there is only one way in private sector to do things efficiently, this cannot be applicable in public agencies. In public sector, there is no one way to do things because public organizations do not have the rigid sense of rationality which Taylor follows. Effectiveness in the sense of public organizations “refers to whether the [public] agency does well that which it is supposed to do, whether people in the agency work hard and well, whether the actions and procedures... are well suited to achieving its mission, and whether the agency actually achieves its mission” (Rainey and Steinbauer 2000, p.305). Based on this point, public administration may have many different ways to do the job in the way that maintain the satisfaction of public opinion (Stillman 1998). Thus, public sector may not pay attention always to rational decisions which emphasizes one distinction between public and private sectors.

Another distinction between management in public and private sectors can be seen through the work of Fayol. He came up with his general fourteen principles that can be applied in both kinds of organizations (Shafritz et al. 2005). Many of these principles including unity of command, unity of direction, and scalar chain are the similar functions to managers in both sectors. Fayol mentioned the un-clarity of public interests which supports the argument that public organizations must observe public interest and this differs from private organizations which do not. Also, unclear interests do not fit in private organization because businesses should decrease the levels of uncertainty to ensure the highest level of efficiency. Basically, uncertainty which can exist in public sector controverts with rationality which is highly considered in private sector. In fact, public sector can deal with this issue because public organizations have other tools to handle the public interest problem by bargaining, compromising, or other political dynamics.

Even if Fayol (2005) emphasized that his “principles are flexible and capable of adaptation of every need” (p. 48), one can argue that this flexibility is given to the managers in private organizations, but the same thing is not available in the public sector which is supervised and oriented by political and legislatives entities. In addition, these principles did not come from a person who was thinking and acting like public manager, as Appleby (2004) may argue. These principles were not intended to or based on “public-interest attitude with certain special characteristics” (Appleby 2004, p.132). Managers in private sectors do not have the attitude to serve public interest which makes another distinction between the two sectors.

Roethlisberger, Dickson, and Mayo also have internal focus on organizations and they observe rationality. Some of their perspectives may work in both sectors such as motivations, teamwork, communication, and informal organization. However, other aspects such as formal organization need to be

observed in terms of its validity in public sector. Roethlisberger, Dickson (1939) emphasize that one of the two purposes of formal organization is to “addresses itself to the economic purpose of the total enterprise” (p.74). Obviously, this rational principle does not fit well in public sector because there is no consideration for the economic purposes. In other words, public agency does obey to the rules of market which means that it does not have economic purposes, according to Katz and Kahn (2005). Public sector pays more attention to the political and social purposes of organization besides other non-economic considerations. According to Rainey et al. (1976), the dynamical effects of market are not applicable to the political context of public organizations because they “are less subject to such influence” (p.235).

Barnard’s influential work was totally focused on internal factors and dynamics that influence organization. Alike the classical scholars, many of his aspects can work in private and public sectors, such as cooperation, communication, informal groups, and alternative motivations. However, other perspectives may not work in public sector which reflects the distinction between the two sectors. The economy of incentives is one of these aspects that can work perfectly in private sector and imperfectly in public sector. According to Barnard (1966), the role of an executive is to ensure the smoothness of this economy by reaching equilibrium. This equilibrium happens when the executive is able to continuously maintain a balance between the needs of the organization and the needs of its employees or workers.

This dynamic of incentives is supposed to work under management in private sector which has the flexibility to deal with incentives. However, in public sector the case is different because public managers do not have the same flexibility since they are founded on a certain base of rules and regulations that are stable and hard to be changed, according to Rainey et al. (1976) and Allison (2004). This means that managers in public organizations do not have freedom to decide on the economic incentives. On the other hand, Barnard did not consider the role of loyalty, patriotism, and the prestige of some high positions (Rainey et al. 1976) that may activate the economic incentives without a manager.

In fact, there is no problem if one argues that perspectives of Weber’s bureaucracy including, laws, orders, hierarchy, training, and education, work in public sector, but the problem comes when they need to be applied in private sector. Although bureaucracy works in public sector (Stillman 1998) the model, as a whole, is not a preference in this sector. For example, the centralized management in public sector is greater than the centralized management in the private sector. Flexibility of bureaucracy implementation in private sector is higher than the flexibility in the public one due to the political and legislative mandates. In other words, the different environments and natures of both sectors make it possible for some models of management to work in public sector; but not in private sector and vice versa.

Professor Stivers (2003) sums it up that “public organization is public not because it takes place in government agencies or because these agencies do not have stakeholders and do not make profit. There is something profoundly open-unresolvable about public administrative work, which can be traced to the kinds of questions it addresses and the kinds of problems it tackles, which are not just “messy” but “public” in the sense that they are of shared concern and endlessly arguable” (p.243).

## **8. Conclusion:**

The objective of this essay was to discuss the important question of how public administration and business administration are similar yet different. By tracing this discussion of public administration/business administration relationship, it is important to note how much that public administration owes business administration for essence of how the scholarship of public administration came to be defined. Much of what was considered good for business was good for public administration. This is because the beginnings of the field as a line of inquiry declared, through Woodrow Wilson, that “the field of administration is a field of business” (Wilson, 1887, p.2). However, Paul Appleby, in *Big Democracy* (1945), compared the public sector

to the private sector and asserted that “government is different because government is politics” (Appleby, 1945, p.135).

The distinction between the two sectors is seen clearly through the general focus on organization rather than the specific focus on managers. In other words, the picture of distinction is more obvious with the concentration on the external part of organization not on the internal body. Some of the major distinctions between the two sectors are: belief in rationality, attitude to serve public interest, political and social purposes, constitutional and legal restrictions, and external environmental factors.

This notion comes up because managers in both sectors have similar functions to run any organization internally (Allison 2004). Even though there are a great deal of similarities in the functions between managers in both public and private sectors, the differences between the two sectors cannot be ignored in terms of the external influences that shape any public organization from its environment. According to Allison (2004), “public and private management are at least as different as they are similar, and that the differences are more important than the similarities” (p.410). The different orientations of organizations in public and private sectors make “the most capable business executive in the country might be the most dismal failure in government” (Appleby, 2004, 132) and vice versa.

Even though some scholars argue that similarities are more than differences between public and private sector (Murray, 1975), the main point remains that they are not the same. They should be understood differently. What can be said, as a direct response to the major question, is that public and private organizations have some similarities as well as some differences that make each one of them a different body of management.

Finally, the paper did more to reflect how public administration owes its essence, yet not its whole soul, to the field and scholarship of business. It also shows, in small way, how public administration turns (the current trend exemplified by reinventing) whether in a time of beginnings or a time of frustration, to business in order to derive innovation. Business is a fertile ground for entrepreneurship to thrive and public administration has, more than once, harvested from that fertile field in order to move forward. ■

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## **International Journal of Business & Management Tomorrow**



### **Alternative Banking Channels and Customers' Satisfaction: An Empirical Study of Public and Private Sector Banks**

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## Abstract

The present empirical study focuses on identifying key factors that have influences customers satisfaction in alternative banking service provided by public and private sector banks. For the purpose of the present study primary data were collected using likert scale based questionnaire. Result of this study shows that, there was significant relationship between age, education and profession of the bank customers and customers' satisfaction in alternative banking. There was significant relationship between service quality, brand perception and perceived value with overall customer satisfaction in alternative banking. Factor analysis test indicates that, efficiency, security/assurance, cost effectiveness, problem handling, responsiveness, fulfillment and accuracy were first factors, Perceived value, brand perception, contact facilities, convenience, system availability and easy to use are second factor and compensation is third factor. Overall result directs that, bankers should consider the facts and enhance service quality of alternative banking services in order to increase customers' satisfaction and its further adoption also.

**JEL: G20, G21**

**Keywords:** *Alternative Banking, Service Quality, Brand Perception, Perceived value, Satisfaction*

## 1.1 Introduction

Technology in the banks is presently catching up with a high level of development around the world. The gaps between the Indian banks and their counterparts in the technologically advanced countries are gradually narrowing down. The world has witnessed an information and technological revolution of late. This revolution has touched every aspect of public life including banking (Siam, 2006). Since two decades, due to an increasingly competitive, saturated and dynamic business environment, retail banks in many countries have adopted customer-driven philosophies to address the rapid and changing needs of their customers (Walker et al., 2008). Technological advances have changed the world radically, altering the manner in which individuals conduct their personal and business affairs. Over the past two decades in particular, the banking industry has invested substantial resources in bringing ICT to customers. The banking industry is undergoing through the significant technological changes; it has several impacts on customer satisfaction and loyalty. "It has revolutionised every industry including banking in the world by rendering faster and cost effective delivery of products and services to the customers. According to Chakrabarty, (2007) core banking solution enables banks to extend the full benefits of ATM, tele-banking, mobile banking, internet banking, card banking and other multiple delivery channels to all customers allowing banks to offer a multitude of customer-centric services on a 24x7 basis from a single location, supporting retail as well as corporate banking activities.

Now, Indian banks are investing heavily in the technologies such as branch automation and computerization, core banking, tele-banking, mobile banking (M-banking), internet banking, automated teller machine (ATMs), data warehousing etc. ICT innovations in the previous few years have changed the landscape of banks in India (Mittal and Dhingra, 2007; Kour and Kour, 2011). Today public sector and private sector banks are offering online banking services. Various alternative channels to provide easy and any where banking are properly thought of. The process of bank computerization was started since 1985 in public sector banks in India. However, some private sector banks have started computerization prior to the public sector banks in India. The banks in India are using ICT not only to improve their own internal processes but also to increase facilities and services to their customers.

A customer satisfaction is an ambiguous and abstract concept. Actual manifestation of the state of satisfaction will vary from person to person, product to product and service to service. The state of satisfaction depends on a number of factors which consolidate as psychological, economic and physical factors. The quality of service is one of the major determinants of the customer satisfaction, which can be enhanced by using ICT available to survive. The banks in India are using Information Technology (IT) not only to improve their own

internal processes but also to increase facilities and services to their customers<sup>1</sup>. Particularly, in the banking sector ICT is one of the most important tools, because it provides many suitable alternative banking channels to the customers. It brings connivance, customer centricity, enhance service quality and cost effectiveness in the banking services. Even now, customers are evaluating their banks based on availability of high-tech services. Therefore, implementation of ICT in the banking business continues to improve the banking service. Many researchers from USA, UK, Finland, Malaysia, Taiwan, etc. have proved that the use of technology positively affects the customers' satisfaction in banking industry. But some researches evidenced that, technology based banking service can't satisfy the each and every need of the customers' and each type of customers'. There are may be some possibilities of gaps between customers' expectations and actual service perception in ICT based banking service, which leads to customer dissatisfaction. Hence, there is a need to assess the impact of alternative banking services on customers' satisfaction in Indian context to study the level of satisfaction, problems and areas of further improvements.

## 1.2 Alternative Banking

Customers are now looking for multiple delivery channels and flexible as well as convenient working hours neither the clock nor the geographical locations are constraints. Therefore, almost all Indian commercial banks are providing services through the various alternative e-channels, it is called as '**Alternative Banking**' (Shrotriya, 2007 and Kumbhar, 2009). There are various means of alternative banking i.e. Core banking Solution (CBS), ATM, POS Terminals, Mobile Banking, Internet Banking, Credit Cards, Debit Cards, EFT, RTGS, MICR clearing etc.

## 1.3 Objectives Of The Study

Theoretically, alternative banking channels will enhance good performance of banking services and increases the level of customer satisfaction by providing anytime, anywhere and multi way banking services including varieties of services, convenience, speed, efficiency, security and cost effectiveness. However, various annual reports of the Bank Ombudsman Scheme of the RBI indicate that the use of ICT specifically after 2003 has created various problems relating to the banking services. Therefore, this study is carried out to fulfill the following adjectives:

- 1) To identify the factors of customers' satisfaction in alternative banking.
- 2) To make comparative analysis of customer satisfaction in public and private banks.
- 3) To identify the major factors affecting on the customers' satisfaction in alternative banking.

## 1.4 Review Of Literature

Customer satisfaction is buzzword today, once here everyone using this customer's satisfaction is affected by the importance placed by the customers on each of the attitudes of the product/ service. Customer satisfaction measurement allows an organization to understand the key drivers that create satisfaction or dissatisfaction; and what is really driving their satisfaction during a service experience. Customer satisfaction is the state of mind that customers have about a company when their expectations have been met or exceeded over the lifetime of the product or service (Kevin Cacioppo, 1995 and Kumbhar, 2010). It is also feeling or attitude of a customer towards a product or service after it has been used. According to Oliver (1980) satisfaction appears to mediate changes between pre-exposure and post-exposure attitudinal components. It is a major outcome of marketing activity whereby it serves as a link between the various stages of consumer buying behavior (Jamal & Nasser, 2002). When customers pay money to buy a service he has some minimum expectations from the transaction. These expectations from the purchase have to be met substantially, if not entirely for the customer to become a loyal customer of the service (Akbar and Parvez, 2009). These expectations are fulfilled of a promises- quality, fair price, availability, after sale services, complaints handling

<sup>1</sup> RBI, Report on Trend and Progress of Banking in India 2008-09, pp 140

process, information, and variety etc. the customers are demanding high quality of services and low prices or charges. Better quality for the same cost is the motto of the customers. Sometimes they are prepared to overlook inconveniences also to avail better services at a low cost. Various empirical researches show that there is significant and positive relationship in service quality and customer satisfaction. Berry (1990) mentioned that there are ten 'Quality Values' which influence satisfaction behaviour i.e. Quality, Value, Timeliness, Efficiency, Ease of Access, Environment, Inter-departmental Teamwork, Front line Service Behavior, Commitment to the Customer and Innovation. Rueangthanakiet Pairot, (2008) defined Customer's satisfaction as the company's ability to fulfill the business, emotional, and psychological needs of its customers. However, customers have different levels of satisfaction as they have different attitudes and experiences as perceived from the company.

Increase in service quality of the banks can satisfy and develop attitudinal loyalty which ultimately retains valued customers (Kumbhar, 2010). There is very strong relationship between quality of service and customer satisfaction (Parasuraman et al, 1985). The higher level of perceived service quality results in increased customer satisfaction. When perceived service quality is less than expected service quality customer will be dissatisfied (Jain and Gupta, 2004 and Kumbhar 2011). Parasuraman, Zeithaml and Berry (1988) posited that if there is expected quality of service and actual perceived performance is equal or near about equal there is customers can be satisfy, while a negative discrepancy between perceptions and expectations a 'performance-gap' as they call it causes dissatisfaction, a positive discrepancy leads to consumer delight. The relationship between expectation, perceived service quality and customers satisfaction have been investigated in a number of researches (Zeithaml, et al, 1996). An expectation is minimum requirement of service quality by service providers to the meet customers wants and needs. According to Parasuraman et al (1985, 1988) perceived service quality is viewed as the degree and direction of discrepancy between customers' perceptions and desires.

The branding is considered as the procedure of creating a brand image which keeps consumers. It is what separates identical products from each other, or its competitors. Marketing literature including NCSI and ACSI literature examined positive of the link between the satisfaction and the brand image, the brand reputation (Wafa et al 2009) and indicates that, the nature and amount of a consumer's experience with an evoked set of brands. Brand reputation has significant impacts on customer satisfaction (Woodruff et al 1983). A consumer's beliefs about these brands are derived from personal use experience, word-of-mouth endorsements/criticisms, and/or the marketing efforts of companies. Perceived brand performance which is above or below the norm, but within the indifference zone, leads to confirmation. Positive or negative disconfirmation results when perceived brand performance affects customer satisfaction (Woodruff et al 1983). Some of the marketing research shows that the brand loyalty achieved through the satisfaction with brand performance. Brands that are high in brand equity are organization powerful assets. They can lead to customer satisfaction and customer loyalty. Wafa M'Sallem et al (2009) and Sondoh et al,(2007) Some of the empirical researches shows that there are two brand image benefits, i.e. appearance enhances and functional have significant impacts on satisfaction and loyalty intention.

Perceived value also one of the important factors which influencing customers satisfaction in service setting. Perceived value is compression between price or charges paid for the services by the customer as sacrifice of the money and utility derived by service perception. In this study we have assessed overall satisfaction also it can be say cumulative satisfaction. It is overall perception and concluded remark of the customer regarding alternative banking channel used by customers. The overall remark of the customer is based on his/her expectations about various aspects of service quality and actual service he/she perceived by the particular bank.

## **1.5 Hypothesis Of The Study**

Based on review of literature and discussions with experts followings hypothesis were formulated to be testing;

### **Hypothesis-1:**

H<sup>1</sup>(null) - Overall customers satisfaction in the alternative banking services is not differ based demographic characteristics.

H<sup>1</sup>(alt) - Overall customers satisfaction in the alternative banking services is differ based demographic characteristics.

### **Hypothesis-2:**

H<sup>2</sup> (null) - There is no significant relationship between service quality dimensions and overall customer satisfaction in alternative banking

H<sup>2</sup> (alt) - There is a significant relationship between service quality dimensions and overall customer satisfaction in alternative banking

### **Hypothesis-3:**

H<sup>3</sup> (null) - Band perception and perceived value not have a significant relationship with overall customer satisfaction in alternative banking.

H<sup>3</sup> (alt) - Band perception and perceived value have a significant relationship with overall customer satisfaction in alternative banking.

### **Hypothesis 4**

H<sup>4</sup> (null) – All service quality dimensions under study was similarly influencing customers' satisfaction in alternative banking.

H<sup>4</sup> (alt) – All service quality dimensions under study was similarly influencing customers' satisfaction in alternative banking.

## **1.6 Research Methodology**

Present study is based on primary data sources; collected through survey of 150 respondents. Primary data was collected through survey and short interviews of bank customers (Satara City, Maharashtra State) who are using alternative banking channels. All respondents were selected using convenience sampling method due to lack of proper information and availability of time.

Approximately 25% of commercial banks from public and private sector banks which have a maximum level of branch automation and providing most of the alternative banking services in the Satara City. For the selection of banks we have conducted primary investigation to investigate the availability of the alternative banking services. We found that State Bank of India, Bank of Baroda, Corporation Banks and IDBI Bank Ltd. from public sector and HDFC Bank Ltd. and Axis Bank Ltd. from private sector banks are providing almost of alternative banking services. We have selected approximate 25 to 35 respondents from each selected banks and total 190 predictive samples for in-depth and qualitative investigation. We have selected the sample from employed, professional persons, businessmen, students and retired persons. The previous research (Ndubisi & Sinti, 2006; Thomas Meyer, 2008; Mattila et al, 2003; Sanmugam, 2004; Mathews and Slocum, Jr. 1969; Plummer, 1971; Vasya and Patrik, 2006; Noor and Ali, 2009) proved that near about 75 to 85 per cent users of electronic banking service were professional, graduates or highly literates, holding an executive post, young employed or self-employed, having good income, resides in urban areas, having knowledge of computer and proficient in the English language.

Survey questionnaire was developed through review of literature and discussions with experts and all responses were recorded based on five point likert scale form 1= sternly disagree to 5 = strongly agree. Primary questionnaire was tested using Cronbach's alpha reliability test and only those dimensions were used which having alpha value 0.700 or more. Collected data was analyzed through SPSS 18.0, particularly; descriptive

statistics, Multiple correlation, Kruskal-Wallis test, Mann-Whitney Test and Principal Component Analysis (PCA) was performed according to the requirement of the study.

## 1.7 Results

### 1.7.1 Demographic Of The Respondents

Table-1 indicates the descriptive analysis for demographic information indicated that among the analyzed samples (N=190), consisting 17.4% of SBI, 14.7% of BOB, 13.2% of Corp Bank, 18.4% of IDBI Bank, 15.8% of Axis Bank and 20.5% of HDFC Bank (63.7% of Public Sector and 36.3% of private sector Banks). Out of 190 respondents 82.1% of the respondents were male, 17.9 % were female. In terms of age group, 20% were below 25 years, 34.7% of 25 to 35 years, 35.8% were 36 to 50 years and 9.5% were 51 to 60 years old. There were no respondent above 60 years however; some retired persons from military and army were covered under study as samples. Educational status of the respondents indicates that 4.2% of respondents were below HSC, 5.3% of HSC, 49.5% of graduate and 41.1% of post graduates. There were 31.6% of employees and 36.3% of businessmen as a core respondent who were using most of alternative channels. However, 13.7% of professional (doctor, engineers, chartered accountants, investment consultants, insurance agents etc.), 14.2% of students and 4.2% of retired persons also covered in this study. Income profile of the respondents shows that there were 20.5% of below Rs. 1lakh, 16.3% of 1to 3 lakh, 36.8% of 3 to 8 lakh, 14.2% of 8 to 15 lakh, 4.7% of 15 to 25 lakh, 2.1% of above 25 lakh and 5.3% of dependents.

Items	Frequency	Percent	Valid Percent	Cumulative Percent
SBI	33	17.4	17.4	17.4
BOB	28	14.7	14.7	32.1
COPB	25	13.2	13.2	45.3
IDBI	35	18.4	18.4	63.7
Axis	30	15.8	15.8	79.5
HDFC	39	20.5	20.5	100
<b>Total</b>	<b>190</b>	<b>100</b>	<b>100</b>	
Female	34	17.9	17.9	17.9
Male	156	82.1	82.1	100
<b>Total</b>	<b>190</b>	<b>100</b>	<b>100</b>	
Below 25	38	20	20	20
25-35	66	34.7	34.7	54.7
36-50	68	35.8	35.8	90.5
51-60	18	9.5	9.5	100
<b>Total</b>	<b>190</b>	<b>100</b>	<b>100</b>	
<HSC	8	4.2	4.2	4.2
HSC	10	5.3	5.3	9.5
Graduate	94	49.5	49.5	58.9
Post Graduate	78	41.1	41.1	100.0

<b>Total</b>	<b>190</b>	<b>100.0</b>	<b>100.0</b>	
Employee	60	31.6	31.6	31.6
Businessman	69	36.3	36.3	67.9
Retired	8	4.2	4.2	72.1
Student	27	14.2	14.2	86.3
Professional	26	13.7	13.7	100
<b>Total</b>	<b>190</b>	<b>100</b>	<b>100</b>	
<1 Lakh	39	20.5	20.5	20.5
1 to 3 Lakh	31	16.3	16.3	36.8
3 to 8 Lakh	70	36.8	36.8	73.7
8 to 15 Lakh	27	14.2	14.2	87.9
15 to 25 Lakh	9	4.7	4.7	92.6
>25 Lakh	4	2.1	2.1	94.7
Dependents	10	5.3	5.3	100.0
<b>Total</b>	<b>190</b>	<b>100.0</b>	<b>100.0</b>	
Source: Survey				

### 1.7.2 Comparative Overall Customer Satisfaction

Various previous researches proved that there was variation in customer satisfaction in public and private sector banks. It was realized that there was a significant difference in customer satisfaction as concern to bank type Table 2 indicates that most of respondents of private sector banks rated the level of satisfied (60.00%) and strongly satisfied (17.78%) for front office services and Satisfied (64.44%) strongly satisfied (2.22%) for core banking services. The Table further indicates the service provided through currency counting machine which is most satisfactory in private sector banks because 51.43% customers rated that it was satisfactory and 10.48% are rated that it is strongly satisfactory services in public sector banks. EFT service and MICR service of public sector banks was very satisfied because 51.43% and 10.48% EFT service user and 56.73 and 5.77% MICR service users rated these services satisfied and strongly satisfied respectively.

		Public Banks	Private Banks	All Banks
Front Office Services	Strongly Dissatisfied	0.00	0.00	0.00
	Dissatisfied	4.76	0.00	2.38
	Neutral	22.86	22.22	22.54
	Satisfied	54.29	60.00	57.14
	Strongly Satisfied	18.10	17.78	17.94
Numbers of Respondents		120	70	190
	Strongly Dissatisfied	0.00	0.00	0.00

Core Banking Service	Dissatisfied	7.69	4.44	6.07
	Neutral	30.77	28.89	29.83
	Satisfied	50.00	64.44	57.22
	Strongly Satisfied	11.54	2.22	6.88
Numbers of Respondents		99	50	149
Service of CC Machine	Strongly Dissatisfied	0.00	0.00	0.00
	Dissatisfied	9.52	8.89	9.20
	Neutral	28.57	28.89	28.73
	Satisfied	51.43	57.78	54.60
	Strongly Satisfied	10.48	4.44	7.46
Numbers of Respondents		120	70	190
EFT Service	Strongly Dissatisfied	0.00	0.00	0.00
	Dissatisfied	4.81	6.67	5.73
	Neutral	32.69	33.33	33.01
	Satisfied	56.73	57.78	57.25
	Strongly Satisfied	5.77	2.22	3.99
Numbers of Respondents		100	49	149
MICR Service	Strongly Dissatisfied	0.00	0.00	0.00
	Dissatisfied	1.02	2.33	1.67
	Neutral	30.61	32.56	31.58
	Satisfied	58.16	60.47	59.31
	Strongly Satisfied	10.20	4.65	7.43
Numbers of Respondents		98	43	141
Note: Percentage of ranting calculated based on customers of public and private sector banks separately				

Table 3 reveals that public sector banks' Credit card and ATM service are providing satisfactory credit card and ATM service, because 55.26% and 5.26% of customers belongs to public sector a banks rated that credit card was satisfactory and strongly satisfactory. The 68.93% and 10.68% of customers of public sector banks rated as ATM was satisfactory and strongly satisfactory respectively. However, satisfaction in internet banking services was approximately same in private and public sector banks. Near about 50% of customers were rated that internet banking service was satisfactory in both. While, 50% customers of private sector rated that mobile banking service is satisfactory in private sector banks. However, only 178% customers of public sector banks are satisfied in mobile banking services.

<b>Table 3: Comparative Overall Satisfaction in Alternative Banking (%)</b>			
	Pub. Banks	Pvt. Banks	All Banks

Credit Card Services	Strongly Dissatisfied	0.00	0.00	0.00
	Dissatisfied	5.26	25.00	15.13
	Neutral	34.21	25.00	29.60
	Satisfied	55.26	37.50	46.38
	Strongly Satisfied	5.26	12.50	8.88
Numbers of Respondents		38	16	54
ATM Service	Strongly Dissatisfied	2.91	0.00	1.45
	Dissatisfied	6.80	4.55	5.67
	Neutral	10.68	13.64	12.15
	Agree	68.93	72.73	70.82
	Strongly Agree	10.68	9.09	9.88
Numbers of Respondents		103	44	147
Internet Banking Service	Strongly Dissatisfied	0.00	0.00	0.00
	Dissatisfied	0.00	0.00	0.00
	Neutral	50.00	50.00	50
	Satisfied	45.00	50.00	47.5
	Strongly Satisfied	5.00	0.00	2.5
Numbers of Respondents		20	10	30
Mobile Banking Service	Strongly Dissatisfied	0.00	0.00	0.00
	Dissatisfied	0.00	0.00	0.00
	Neutral	83	50	66.67
	Satisfied	17	50	33.33
	Strongly Satisfied	0	0	0
Numbers of Respondents		6	4	10
Note: Percentage of ranting calculated based on customers of public and private sector banks separately				

### 1.7.3 Hypotheses testing

There are various tests available for hypotheses testing; however, we have used *Kruskal-Wallis One-Way Analysis of Variance Test*, *spearman's rho non-parametric correlation* and *Mann-Whitney U Test* as non-parametric tests, because the collected data in the present study is qualitative data and normally distributed. Hence, it need to analysis using non-parametric tests. *The Kruskal-Wallis test* is a one-way analysis of variance by ranks. It tests the null hypothesis that multiple independent samples come from the same population. Unlike standard ANOVA, it does not assume normality, and it can be used to test ordinal variables (SPSS 19.0 User manual). It is a nonparametric alternative to one-way ANOVA is given by the Kruskal-Wallis test (Landau and Everitt, 2004, pp 156-157) and it is a very powerful test for one-way analysis of variance for measurements by rank of 'k' independence samples. H0 tested is that 'k' samples come from the same population (Majumdar,

2010, pp 424-426; Hanagal, 2009, pp 10.10-10.12). In this method the scores of 'k' samples are first considered as belonging to the same series. Rank of each score is then ascertained from K combined sample series. The smallest score is assigned rank 1<sup>st</sup> and the largest n, where,  $n = n_1 + n_2 + n_k$ . For each of the samples, sum of rank are worked out. If H<sub>0</sub> is true, that is, 'k' samples are actually drawn from the same population, and then Kruskal-Wallis statistics, designated as H, follows a distribution similar to Chi-Square with  $df = k-1$  proved that the size of all k samples is not too small.

### Hypothesis-1:

Most of previous researches mentioned that gender, age, education; profession and level of income affect customers' satisfaction in banking services. Therefore, we have tested this hypothesis to know "what is actual impact of the demographics and customer satisfaction in alternative banking services?" The *Kruskal-Wallis Chi Square tests (non parametric test)* were performed to overall satisfaction in the alternative banking services was differing or not by demographic characteristics group. In order to test this hypothesis The Kruskal-Wallis tests for several independent (gender, age, education, income level and profession) and one dependent variable (overall satisfaction) was performed (Nahmens and Ikuma, 2009 pp 586 and Khalid et al, 2000). According to Kruskal-Wallis large values of H (Chi-Squire) lead to rejection of the null hypothesis and same or less than table value lead to accept null hypotheses (Kruskal-Wallis, 1952). Chi-Square values of Gender ( $X^2 = 0.217$ ,  $df = 1$ ,  $sig. = .462$ ) and Level of Income ( $X^2 = 7.154$ ,  $df = 6$ ,  $sig. = .307$ ) Age (.057) are found significant. It leads to accept null hypotheses (H<sup>1a</sup> and H<sup>1e</sup>) and reject alternative hypothesis. However, Chi-Squire values of Age ( $X^2 = 13.313$ ,  $df = 4$ ,  $sig. = .010$ ), Educational level ( $X^2 = 12.241$ ,  $df = 4$ ,  $sig. = .016$ ) and Profession ( $X^2 = 14.165$ ,  $df = 4$ ,  $sig. = .015$ ) are found insignificant and leads to reject null hypothesis (H<sup>1b</sup>, H<sup>1c</sup>, H<sup>1d</sup>) and accept alternative hypothesis. Descriptive statistics also shows that there was significant relationship between age, education and profession while level of customer satisfaction of male and female, as well as respondents of belongs to different income groups is almost same (Table 4)

**Table 4: Hypothesis Test Summary Kruskal Wallis H Test**

(Demographics and Overall Customer Satisfaction)

	Null Hypothesis	N	Calcu. Value X <sup>2</sup>	Table Value X <sup>2</sup>	df	Sig.	Decision
H <sup>1a</sup>	Gender	190	0.217	3.841	1	.462	Retain null hypothesis.
H <sup>1b</sup>	Age	190	13.313	9.488	4	.010	Reject null hypothesis.
H <sup>1c</sup>	Education	190	12.241	9.488	4	.016	Reject null hypothesis.
H <sup>1d</sup>	Profession	190	14.165	9.488	4	.015	Reject null hypothesis.
H <sup>1e</sup>	Level of Income	190	7.154	12.592	6	.307	Retain null hypothesis.

**Asymptotic significances are displayed. The significance level is .05.**

### Hypothesis-2:

The second hypothesis of this study has been tested using correlation test. Here *spearman's rho non-parametric correlation* test was performed to understand correlation between each of service quality dimensions and overall customer satisfaction in alternative banking. As per SPSS 19.0 user manual multiple correlation test is useful to assess relation between multiple independent variable and one dependent variable. Therefore, we

have performed spearman's rho non-parametric correlation test and result shows that there was a significant relationship between all dimensions and overall customer satisfaction, it leads to accept null hypothesis. Therefore we have rejected null hypothesis ( $H^2$ ) and accepted alternative hypothesis. However, Table 5 indicates all dimensions are significantly correlated to overall customer satisfaction except responsiveness. Therefore, we have accepted alternative hypothesis and rejected null hypothesis.

**Table 5: Correlation Between Service Quality Dimensions and Customer Satisfaction (Spearman's Correlation)**

		Overall Satisfaction
<b>Overall Satisfaction</b>	<i>r</i>	1.000
	Sig. (2-tailed)	.
<b>System Availability</b>	<i>r</i>	.519 <sup>**</sup>
	Sig. (2-tailed)	.000
<b>E-Fulfilment</b>	<i>r</i>	.547 <sup>**</sup>
	Sig. (2-tailed)	.000
<b>Accuracy</b>	<i>r</i>	.573 <sup>**</sup>
	Sig. (2-tailed)	.000
<b>Efficiency</b>	<i>r</i>	.560 <sup>**</sup>
	Sig. (2-tailed)	.000
<b>Security/Assurance</b>	<i>r</i>	.594 <sup>**</sup>
	Sig. (2-tailed)	.000
<b>Responsiveness</b>	<i>r</i>	.208 <sup>**</sup>
	Sig. (2-tailed)	.005
<b>Easy to Use</b>	<i>r</i>	.585 <sup>**</sup>
	Sig. (2-tailed)	.000
<b>Convenience</b>	<i>r</i>	.598 <sup>**</sup>
	Sig. (2-tailed)	.000
<b>Cost Effectiveness</b>	<i>r</i>	.541 <sup>**</sup>
	Sig. (2-tailed)	.000
<b>Problem Handling</b>	<i>r</i>	.646 <sup>**</sup>
	Sig. (2-tailed)	.000
<b>Compensation</b>	<i>r</i>	.324 <sup>**</sup>
	Sig. (2-tailed)	.000
<b>Contact</b>	<i>r</i>	.626 <sup>**</sup>
	Sig. (2-tailed)	.000

\*Correlation is significant at the 0.05 level (2-tailed).  
 \*\*Correlation is significant at the 0.01 level (2-tailed).

### Hypothesis-3:

A brand is an important factor in the selection of the bank as service provider either from private or public sector. Mostly well-known banks were selected by the customers because it was assumed that; good brand name and perception as per brand name can satisfy customer's wants. Hence, bank should provide better service as per their reputation. If customers getting good perception according to the brand name customer will happy with that brand otherwise they will switch to other bank. The concept of value derives from an economic framework and reflects the utility and disutility encountered within any transaction. It provides a relationship between the benefits received in the encounter and the overall price paid, including non-monetary expenditure (Woodruff, 1983, Zeithaml, 1988) cited by Wilkins ,2005). Therefore, we have tested this hypothesis in using spearman's rho non-parametric correlation test. Table 6 shows that, there is significant relationship between brand perception ( $r = .652^{**}$  at .050 level) and perceived value ( $r = .646^{**}$  at .050 level) with overall customer satisfaction. Therefore we have rejected null hypothesis and accepted alternative hypothesis based on this study.

**Table 6: Correlation Between Brand Perception, Perceived Value and Customer Satisfaction**

		Overall Satisfaction
<b>Overall Satisfaction</b>	<i>r</i>	1
	Sig. (2-tailed)	.
<b>Brand Perception</b>	<i>r</i>	.652 <sup>**</sup>
	Sig. (2-tailed)	.000
<b>Perceived Value</b>	<i>r</i>	.646 <sup>**</sup>
	Sig. (2-tailed)	.000
Correlation is significant at the 0.05 level (2-tailed).		
**Correlation is significant at the 0.01 level (2-tailed).		

### 1.7.4 Principal Component Analysis

Principal component analysis method was used to identify (Test hypothesis 4) the major factors affecting on customers' satisfaction in alternative banking services. Factor analysis is one of the superior methods to understand most useful factors in the model (Widaman, 1993). Before, conducting factor analysis, we have performed the Kaiser-Meyer-Olkin (K-M-O) and Bartlett's sphericity test to understand adequacy of the data for factor analysis. High values of the Kaiser-Meyer-Olkin measure (close to 1.0) generally indicate that a factor analysis may be useful with data (Marshall et al, 2007; Barco et al 2007). If the value is less than 0.50, the results of the factor analysis probably won't be very useful. Bartlett's test of sphericity tests the null hypothesis that correlation matrix is an identity matrix, which would indicate that variables are unrelated and therefore, unsuitable for structure detection. Small values (less than 0.05) of the significance level indicate that R-Matrix is not an identity matrix and a factor analysis may be useful with data. Table 7 indicates that, in the present test the Kaiser-Meyer-Olkin (KMO) measure was 0.819. Bartlett's sphericity test also found highly

significant; Chi-Square = 1170.841, df = 91 with a significance of 0.000 it provide support for validity of the factor analysis of the data set and indicates that, factor analysis is appropriate.

Kaiser-Meyer-Olkin Measure		.819
Bartlett's Test of Sphericity	Approx. Chi-Square	1170.841
	df	91
	Sig. Bartlett	.000

Initial communalities<sup>2</sup> are, estimates of the variance in each variable accounted for by all components or factors. For principal components extraction, this is always equal to 1.0 for correlation analyses. Extraction communalities are, estimates of the variance in each variable accounted for by the components. The communalities (Table 8) labeled as Initial are before extraction communalities and labeled as extraction are after extraction communalities. The all communalities were high (above .400), which indicates that the extracted components represent the variables well (Table 8).

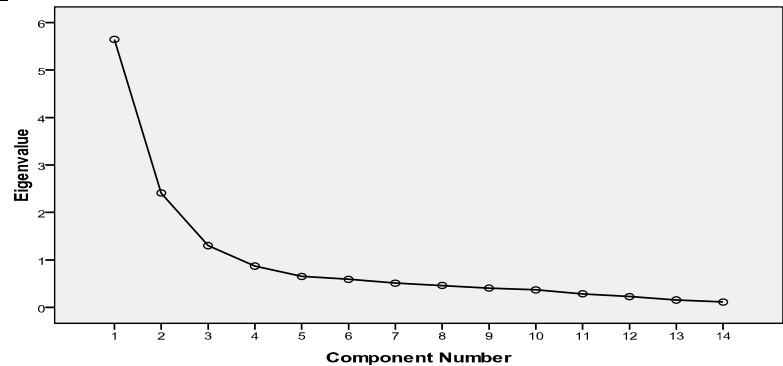
	Initial	Extraction
System Availability	1.000	.648
Fulfilment	1.000	.755
Accuracy	1.000	.517
Efficiency	1.000	.805
Security/Assurance	1.000	.764
Responsiveness	1.000	.641
Easy to Use	1.000	.486
Convenience	1.000	.497
Cost Effectiveness	1.000	.733
Problem Handling	1.000	.743
Compensation	1.000	.741
Contact Facilities	1.000	.621
Brand Perception	1.000	.682
Perceived Value	1.000	.724
Extraction Method: Principal Component Analysis.		

<sup>2</sup> **Communality** is the squared multiple correlation for the variable as dependent using the factors as predictors. The communality measures the percent of variance in a given variable explained by all the factors jointly and may be interpreted as the reliability of the indicator

Table 9 reveals that, the eigenvalues<sup>3</sup> associated with each linear component before extraction and after extraction. The eigenvalues associated with each factor represent the variance explained by the particular linear component (Khan, 2006). First part of the table labelled as ‘Initial Eigenvalues’ indicates that, first factor accounting 40.32 % of variance in this model. Second part of the table labelled as ‘Extraction Sums of Squared Loadings’ indicating same variance. However, third part labelled as ‘Rotation Sums of Squared Loadings’ indicating that first factor accounting 32.37% of variance. It is pretty good figure because total variance is 66.83%. It means, we lost only 35% approx. of the information content in our study. Rotation has the effect of optimising the factor structure and one consequence for these data is that the relative importance of the three factors were equalized (Field, 2005). Figure 1 (The components as the X axis and the corresponding eigenvalues as the Y axis) indicates visible display of the factor loading.

**Table 9: Total Variance Explained**

	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.646	40.328	40.328	5.646	40.328	40.328	4.533	32.379	32.379
2	2.409	17.209	57.537	2.409	17.209	57.537	3.451	24.647	57.026
3	1.301	9.294	66.831	1.301	9.294	66.831	1.373	9.805	66.831
4	.870	6.217	73.048						
5	.653	4.663	77.711						
6	.591	4.221	81.932						
7	.511	3.649	85.581						
8	.461	3.291	88.873						
9	.406	2.899	91.772						
10	.370	2.641	94.413						
11	.287	2.048	96.461						
12	.227	1.621	98.082						
13	.155	1.107	99.189						
14	.113	.811	100.00						



**Figure 1: Scree Plot**

Extraction Method: Principal Component Analysis.

Rotation serves to make the output more understandable and is usually necessary to facilitate the interpretation of factors, therefore we have performed rotated matrix (Shapiro, 2002). The rotated component matrix (regression scores) table indicate factor loading. This is a matrix of the factor loading for each variable onto each factor. Table 6.35 indicates that, most of variables loaded highly onto the first and second factors and only one variable loading onto third factor. However, fulfillment (.735 in the first factor and .408 on the second

<sup>3</sup> **The eigenvalue** for a given factor measures the variance in all the variables which is accounted for by that factor. The ratio of eigenvalues is the ratio of explanatory importance of the factors with respect to the variables. If a factor has a low eigenvalue, then it is contributing little to the explanation of variances in the variables and may be ignored as redundant with more important factors.

factor) and system availability (.471 in the first factor and .630 on the second factor) were loading on both factors.

<b>Table 10: Rotated Component Matrix<sup>a</sup></b>			
	Factor 1	Factor 2	Factor 3
Efficiency	.868		
Security/Assurance	.853		
Cost Effectiveness	.825		
Problem Handling	.773		
Responsiveness	.735		
Fulfillment	.735	.408	
Accuracy	.626		
Perceived Value		.827	
Brand Perception		.806	
Contact Facilities		.683	
Convenience		.682	
System Availability	.471	.630	
Easy to Use		.606	
Compensation			.808
<b>Eigenvalues</b>	<b>4.533</b>	<b>3.451</b>	<b>1.373</b>
<b>Variance</b>	<b>32.379</b>	<b>24.647</b>	<b>9.805</b>
<b>Cumulative Variance</b>	<b>32.375</b>	<b>57.026</b>	<b>66.831</b>
Extraction Method: Principal Component Analysis.			
Rotation Method: Varimax with Kaiser Normalization.			
a. Rotation converged in 5 iterations.			

Table 10 indicates that, Efficiency, Security/Assurance, Cost Effectiveness, Problem Handling, Responsiveness, Fulfillment and Accuracy are first factors and accounting 32.37% of variance in the model. Perceived Value, Brand Perception, Contact Facilities, Convenience, System Availability and Easy to Use are second factor and accounting 24.64% of variance in the model. Compensation is third factor and accounting 9.80% of variance. All these three factors were accounting total 66.83% of variance.

## 1.8 Conclusion and Implications

The present study evident that, there was significant relationship between age, education and profession while level of customer satisfaction of male and female, as well as respondents of belongs to different income groups is almost same. The correlation test shows that there was a significant relationship between all dimensions and overall customer satisfaction in alternative banking. There was also significant relationship between brand perception and perceived value with overall customer satisfaction in alternative banking. It

indicates that, bankers should concentrate their efforts to enhance service quality, brand perception and perceived value in alternative banking to increase the level of customers' satisfaction. Factor analysis test indicates that, efficiency, security/assurance, cost effectiveness, problem handling, responsiveness, fulfillment and accuracy were first factors and accounting 32.37% of variance. Perceived value, brand perception, contact facilities, convenience, system availability and easy to use are second factor and accounting 24.64% of variance. Compensation is third factor and accounting 9.80% of variance. Therefore, bankers should consider the facts and enhance service quality of alternative banking services in order to increase customers' satisfaction and its further adoption also. ■

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**Informal Microfinance And Primary Health Care In Ekiti Lga,  
Kwara State, Nigeria.**

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## Abstract

Microfinance provides a promising platform to expand health access and coverage for rural poor that are mostly farmers and urban poor who are in the informal sector of the economy through organized groups. Health in rural area is accessed through primary health and community care which is the most visible and commonly used part of the health system. Using a multi regression analysis, this study examines the impact of informal microfinance on primary healthcare. The study shows that there is positive relationship between informal microfinance and primary healthcare. However, poor funding that manifest in inadequate number of health staff with skills appropriate to the health priorities of rural areas; poor maintenance of equipment; inadequate drugs, etc coupled with diminishing confidence in public sector health facilities; rapid population growth, political instability; non-existence rural workforce policies and strategies etc, as well as the spartan living conditions in rural areas made health care services inaccessible to the rural people. The study thus recommend a regular higher savings and prompt repayment of loan in order to sustain the activities of informal microfinance, so that clients can have more access to fund to meet their health needs. Government should also complement the activities of the informal microfinance by ensuring that drugs are available and cheap in the rural areas of Ekiti. Besides, government should recruit health staff with skills that are appropriate to the health priorities of rural areas, maintain poor equipments, and bring health facilities closer to the rural areas. This will reduce the money spent by the rural dwellers on travelling to receive healthcare.

**Key Words:** Microfinance, Primary, Healthcare.

## 1.0 Introduction

Out- of -pocket health expenditure usually increases poverty for rural and urban dwellers. One of the important contributors to the common goal of ending world poverty and diseases is microfinance. Microfinance provides a promising platform to expand health access and coverage for rural poor that are mostly farmers and urban poor who are in the informal sector of the economy through organized groups. Microfinance most especially the informal microfinance increased people access to saving that enables the household to put aside precautionary funds, which they can use in times of death and illness. This saving also provides credit to clients that suffer from prolonged related illness/diseases. Thus such savings served as an insurance cover against liability of lowness in cases of prolonged diseases like malaria fever, blindness and permanent disability. However, the best microfinance programmes can be undermined by the illness of borrowers or their family members, since microfinance provide services that safeguard family health, protect clients and their families from the shock of major health expenses. This is especially true for every poor and rural community where people are exposed to more health risks and have few options for health care. (See Substad and Cheu 1996; Goodland, Onumah and Amadi 1999; Manje, 2000; Saha and Metcalfe, 2011).

Primary health and community care is the most visible and commonly used part of the health system in rural areas. For instance, rural people with mental illness, chronic disease, post acute needs, alcohol and drug problems and younger people with physical and intellectual disabilities have variable access to publicly funded primary health and community care services across jurisdictions. This leads to fewer low birth weight infants; lower infant mortality, especially postneonatal; few years of life lost due to suicide; few years of life lost due to all expect external causes; and higher life expectancy at all ages except at age 80. Primary health care allows for earlier detection of cancers such as colorectal cancer, breast cancer, uterine/cervical cancer, and melanoma. Primary health care involves four core principles of effective health systems, namely: universal coverage; enhanced patient-centered primary care services; strengthened community-centered public health policies; and effective health system leadership. Thus, the philosophy of primary health care service includes a holistic understanding of health; recognition of multiple determinants of health; community control over health services; health promotion and disease prevention; equity in health care; research- based methods; accessible, acceptable, and affordable technology. (See Starfield, 2002; Swerissen, 2004; Starfield 2008; WHO, 2008; UNSW, 2010).

In Bolivia, microfinance institutions offer financial products and other services that improve access to actual healthcare services and medicines. For instance, women have regular access to regular check-ups to prevent problems or diagnose them early. If treatment is needed, such women access health loans, health savings or linkages to pay for the service through their microfinance institutions. Besides, microfinance provides a platform for extending health coverage through India's national health insurance programs, by increasing access to health services through awareness generation, creating linkages with health providers, and provision of financing mechanisms such as health loans or health savings plans that can support or supplement health insurance programs. Thus, countries with health care that is organized around tenet of primary health care produce a higher level of health outcomes that includes reduction in total mortality rate, heart disease mortality rates, and infant mortality (See Swerissen, 2004; Starfield, Shi and Micinko, 2005; Starfield, 2008; Rivo, 2008).

In Nigeria, the health sector is principally financed by the government. But the government is faced with various challenges – a stagnant mono-cultural economy that depends on crude oil as a single export commodity; rapid population growth, political instability; non-existence rural workforce policies and strategies; inadequate number of health staff with skills appropriate to the health priorities of rural areas; poor maintenance of equipment; diminishing confidence in public sector health facilities, etc, as well as the spartan living conditions in rural areas. All these made health care services inaccessible to the rural people. This assertion concord with World Health Organization (WHO)'s World Health Report 2006 observation of an unmet health needs in rural and remote regions of Nigeria. (see Adesina, 2009; Awofeso, 2010; Ijaiya, *et al*, 2008; Ijaiya, *et al*, 2009; WHO, 2008; UNDP, 2009; UNDP, 2007).

Thus, an alternative source of health financing is inevitable. Informal microfinance, because of its proximity and other characteristics, provides a platform to expand health access to the rural poor through the provision of credit that offers opportunities to travel and procure medicals to meet the rural dwellers health challenges. Besides, adding health to microfinance can improve health and financial security of clients which holds a great potential for improving the overall health of microfinance institutions. Thus the role of informal microfinance in primary health care services in Ekiti LGA of Kwara State.

The rest of the paper is structured as follows. The next section examines the study area, materials and methods. Section three presents and discusses the results. The recommendations and conclusion are presented in the last section.

## **2.0 Study Area, Materials and Methods**

### ***a. Study Area***

Ekiti Local Government Area was carved out from the present Irepodun Local Government Area in 1991 by Ibrahim Babangida administration to bring government nearer to the people. The Local Government Area was further split into Ekiti and Oke-Ero Local Government Areas. The present Ekiti Local Government Area has a land mass of about 747 square kilometers, with a population of 54,399 people according to 2006 population census (FGN Official Gazette, 2009). The Local Government Area is located on latitude  $70^{\circ} 45'$  North, and Latitude  $7^{\circ} 45'$  in its Southern part. It also lies between longitude  $5^{\circ} 30'$  south and  $5^{\circ}$  East in the Eastern reach. The local Government Area shares common boundaries with Ifelodun and Edu Local Government Areas to the North, and Kogi State to the East, Oke-Ero and Irepodun Local Government Areas to the West. It also shares common boundaries with Ondo State to the South. The major towns and villages include Araromi-Opin, Osi, Eruku, Obo-Ille, Obo-Aiyegunle, Oke-Opin, Isapa, Isare, and their major occupation is farming. (See Kwara State, 2000; Ijaiya, 2010).

### ***b. Materials***

The materials considered for the study are informal microfinance<sup>1</sup> and primary health care<sup>2</sup>. In addition to the use of secondary data, a survey aimed at generating primary data on the impact of informal microfinance on primary health care in Ekiti LGA was conducted between November 2008 and March 2009. The primary data

was collected through a set of questionnaire prepared by the Institute for Development Policy and Management in Microfinance Study in Sri Lanka. The choice of the questionnaire was based on its flexibility and comprehensiveness, on how clients used their savings and loans collected from the informal microfinance institutions (see Ijaiya, 2010).

### ***c. Methods: Sampling Selection Techniques and Model for Analysis of Data.***

#### **i. Sampling Selection Techniques**

A stratified sample method was used in the selection of the respondents. In order to have an unbiased selection of sample, four villages<sup>3</sup> were randomly selected from the local government areas based on their proximity, socio-cultural and economic variations. Each village saved as our sample unit<sup>4</sup>. In accordance to these sample units, a structured questionnaire was distributed to 50 members of the informal microfinance after a pre-field work visit to identify members of the informal microfinance in each village. This brings the total number of respondents in the LGA to 200 respondents. The questions raised in the questionnaire include background of the respondents, in terms of gender, age, occupation, educational status, household size, etc, and average monthly savings, average amount received as loans, utilization of loan like economic activities, purchase of house or building, for finance of health and education, problems encountered etc, in the last 12 months.

1. Informal microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed who traditionally lack access to banking and related services. Microfinance is also broadly defined as a movement whose object is a world in which as many poor and near – poor households as possible have permanent access to an appropriate range of high quality financial services and financial needs. The financial services include not only credit but also savings, insurance and funds transfer. The financial needs includes the several types of needs of the poor such as (i)lifecycle needs like weddings, funeral, childbirth, education, homebuilding, widowhood, old age etc; (ii) personal emergencies such as sickness, injury, unemployment, theft, harassment or death; (iii) disasters like fires, floods, cyclones, and man-made events like war or bulldozing of dwellings; and (iv) investment opportunities like expanding business, buying land or equipment, improving housing, securing a job (which often requires paying a large bribe), etc.( see Smith, 2002; Christen, Rosenberg and Jayadera, 2004; Rutherford, 2004)

2. Primary health care is the provision of first contact, person-focused, ongoing care over time that meets the health-related needs of the people. Primary health care is primary care applied in a population, and as a population strategy, it requires the commitment of governments to develop a population – oriented set of primary care services in the context of other levels and types of services It seeks to protect and promote the health of defined communities and to address individual problem and populates health at an early stage. Primary health care services involves continuity of care, health promotion and education, integration of prevention with sick care, a concern for population as well as individual health, community involvement and the use of appropriate technology. Primary health care targets acute care, aged care, mental health, drug and alcohol, sexual assault etc. and other community based health services.

(See UNSW, 2010; Starfield, 2008).

3. The villages are Isapa, Isare, Oke-Opin and Obo-ile

4. The sample unit is a village with a population of between 200 and 500 people.

#### **ii) Model for Analysis of Data**

Both qualitative and quantitative methods were used in analyzing the data collected for this study. The qualitative analysis, which was based on perception of the rural dwellers, was used to determine the impact of informal microfinance or primary health care (i.e. clients' health care) in the villages under study. The quantitative method comprises the use of descriptive statistics and a multiple regression analysis. The descriptive statistic such as, percentile was used in describing the socio-demographic characteristic of the

respondents, as well as the nature of the informal microfinance existing in the rural areas under study. The multiple regression analysis was used in determining the extent of relationship between informal microfinance and health primary health care (health challenges) in the study area.

The relationship between informal microfinance and primary health care is predicated on the assumption that if there is a functioning private health care market, an increase in government health system expenditure may 'crowd - out' a private health spending i.e. A household diverts its resources towards other uses once the government increases their spending on health. However, a situation where government resources are not effectively used and doctors or nurses do not show up to work at health facilities, idle health equipment, or drugs provided by government are not distributed to patients then people would be forced to finance their health needs. Earlier, studies have linked income to health. (See Sala - i - Martin, 1997; Bloom and Canniy; 2003; Bloom et.al, 2004; Gyimah - Brempong and Wilson, 2004, Kamiya, 2010).

Based on the above, the model is presented as follows:

$$EAsi = f(Rmfi, VHCsi) \quad (1)$$

It also follows that:

$$Rmfi = (CFi, SFi, CDFi, SSFi) \quad (2)$$

$$\text{and } VHCsi = (Gdri, Edui, Occi, HHsi) \quad (3)$$

Substituting equations (2) and (3) into equation (1), the equation thus gives a multivariate relationship.

$$EAsi = f(CFi, SFi, CDFi, SSFi, Gdri, Edui, Occi, HHsi) \quad (4)$$

With a multiple linear relationship as:

$$EAsi = \beta_0 + \beta_1CFi + \beta_2SFi + \beta_3CDFi + \beta_4SSFi + \beta_5Gdri + \beta_6Edui + \beta_7Occi + \beta_8HHsi + U \quad (5).$$

Where:

EASi = Public health care proxied by the income generated  
by individual respondents economic activities.

RMfi = facilities provided by microfinance institutions.

VHCsi = vector of household characteristics of individual respondent

CFi = the amount of credit facilities provided to an individual respondent by  
informal microfinance in the last 12 months.

SFi = the amount saved by an individual respondents with the informal  
microfinance in the last 12 months.

CDFi=combating of diseases based on the medical support or the amount provided an individual respondent to  
procure medicine by the informal microfinance in the last 12 months.

SSFi = the social services facilities based on the nature of social services and the amount provided an individual  
respondent by the informal microfinance.

Gdri = gender of head of individual household (0 for otherwise, 1 for male,)

Edui = education attained by individual head of household (0 for no school, 1 for primary, 2 for secondary, 3 for  
tertiary).

Occi = occupational status of individual head of household (0 for unemployed, 1 for farm activities, 2 for non-  
farm activities,).

HHsi = household size of individual household based on the number of people in a household.

$\beta_0$  = Intercept

$\beta_1, \beta_2, \dots, \beta_8$  = parameter estimates (or co-efficient) associated with the role of informal microfinance on health care of the rural dwellers under study.

U = error terms.

To estimate the model, a multiple regression analysis was used to test the validity of the variables under investigation. This has to do with the determination of whether or not the estimates are meaningful and statistically significant to our investigation. The model was therefore verified under two major criteria: (i) a-priori criteria which is based on the signs and magnitudes of the co-efficient of the variables under consideration; (ii) statistical criteria based on statistical theory and usually referred to as the First Order Least Square Test. The following statistical criteria were used: R-square, F-statistic and t-test. The R-square ( $R^2$ ) is concerned with the overall explanatory power of the (equation) regression, the greater the  $R^2$  the better the fit. F-statistics is used to test the overall significance of the regression analysis and the t-test is used to test the significant contribution of each independent variable. (See Koutsoyiannis, 1977; Charemza and Deadman, 1992; Oyeniya, 1997; Asika, 2002; Araoye, 2003; Ogunbameru, 2004; Greene, 2008).

The a-priori expectations or the expected behavior of the independent variables (CFi, SFi, CDFi, SsFi, Gdr, Edu, Occ, HHs) on the dependent variables (EAsi) in the model are Cfi>0:, Sfi>0:, CDFi>0:, SSFi>0:, Gdri <0:., Edui>0:., Occi>0:., HHi>0:.. An indication that the more the values of the independent variables the more the value of the healthcare services in the rural areas.

### 3.0 Results and Discussion

The result of the multiple regression analysis conducted at 5 per cent level of significant presented in Table 1 was based on the 174 questionnaire returned from the 200 questionnaire distributed to the respondents. The result shows that  $R^2$  is 0.86 which means that more than 80 per cent of the variations of the dependent variables are explained by the explanatory variable. The errors terms take care of the less than 20 per cent which are variables that cannot be included in the model because of some qualitative features. The F-statistics is 10.16 which is greater than the tabulated F-statistic of 2.86 at 5 per cent level of significance. This implies that the model is useful in determining if any relationship exists between informal microfinance institutions and primary health care in Ekiti Local Government Area (LGA) of Kwara State.

**Table 1: Regression Results of Primary Health Care and Informal Microfinance Institutions in Ekiti LGA, Kwara State**

Explanatory variables	Co-efficient estimates and t-value
Intercept (t)	-12081.91 (-0.82)
CFi (t)	200.55 (2.14)*
$\beta_2$ CDFj (t)	3784.05 (0.31)*
$\beta_3$ Genderj (t)	320.04 (1.41)
$\beta_4$ Eduj (t)	998.97 (0.62)
$\beta_5$ Occj (t)	10.80 (0.07)
$\beta_6$ HHj (t)	2597.35 (0.98)
$\beta_7$ Agej(t)	-2044.15 (-0.33)

$\beta_8$ Martj(t)	-457.65(-0.33)
R <sup>2</sup>	0.86
R <sup>2</sup> Adjusted	0.78
F-statistics	10.76
No of observations	174

Source: Author's Computations (2010). Significant at 5 per cent of significant

### 3.1 Discussion of Results

Holding the vector of household characteristic constant, the co-efficient and associated t-values of the components of the facilities provided by informal microfinance institutions used in the study indicate that the amount provided to meet health challenges has the expected signs.

Statistically, it is significant at 5 per cent level. Thus, satisfies our a-prior expectations. That is, the more the fund provided as credit facilities, the more the rural dwellers have access to primary healthcare services. This finding is consistent with the findings of Substad and Cheu, 1999; Versluysen, 1999 and 2000; Donahue, 2000; Johnson and Morduch, 2008 that clients use fund provided as credit facilities by informal microfinance to procure medicine and meet their health challenges.

### 4.0 Conclusion and Recommendations

Given the empirical analysis of the relationship between informal microfinance and primary health care in Ekiti LGA, findings show that there is a positive relationship between informal microfinance and primary health care. Therefore, there is need to improve and sustain the activities of the informal microfinance in the rural areas so that the dwellers can have more access to funds to finance their health needs.

Base on the above, the study thus recommends that clients of the informal microfinance should ensure regular higher savings and prompt repayment of loan in order to improve and sustain the activities of informal microfinance on one hand. On the other hand, it will ensure that clients have more access to fund to meet their health needs. Besides, this would solve the problem of small credit and default among clients in the LGA.

Government should complement the activities of the informal microfinance by ensuring that drugs are available and cheap in the rural areas of Ekiti. Besides, government should recruit health staff with skills that are appropriate to the health priorities of rural areas, maintenance their poor equipments, and bring health facilities closer to the rural areas. Infrastructural facilities such as roads, electricity etc., should be provided to make the rural areas more accessible. This will reduce the money spent on travelling to receive health care. ■

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## **International Journal of Business & Management Tomorrow**

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### **The execution of mergers and acquisitions as a strategy for Mexican companies within the growth achievement in major world rankings**

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## Summary

Mergers and Acquisitions, M & As has become a trend for the growth of Mexican companies. Although the diverse, all companies seeking the ultimate goal of growth of the firm. Through the job description in the three largest companies in Mexico and the results we achieved demonstrate the profitability of this kind of strategic alliances and detected elements which may be useful for growing companies that are selecting the appropriate strategy to their resources and goals. This article aims to describe the execution of mergers and acquisitions as a strategy for Mexican companies best positioned within the major world rankings to achieve growth. The corporate strategy is critical to achieving the higher rank and must be set out clearly and according to their needs.

**Keywords:** Corporate Strategy, Mergers and Acquisitions, Mexican leader.

**JEL:** L19, M10.

## 1. Introduction

Companies must give direction to the resources. They have to change their environment and absorb uncertainty in order to maximize their profits. There are different perspectives and strategy firms, according to their particular situation and the area of interference, they use one that most suits of them.

The strategies of Mexican companies tend to focus on the use of resources and capabilities to generate profit. But the results obtained by some of the strongest Mexican worldwide companies are the result of market development and practice of M & A, which are mostly related to areas of its core business.

There is no universal strategy that works for all organizations and generates the best profits. Company must also assess favorable and unfavorable conditions for implementation and most importantly, act on that strategy which is most appropriate and effective company in the search to achieve their goals.

There are a number of multinational companies originating from emerging economies, but there are few that generate a level of utility comparable to large multinationals in the developed economies.

## 2. Theoretical Framework

Strategic management is responsible for developing the knowledge in this era. From the study of the actions taken by companies for their growth and measuring the results obtained with the different perspectives that have been consolidated. From this we find that the organizational structure is the foundation for large businesses to achieve their goals, but there must be a record in its efforts to continue to achieve its objectives through the implementation of its corporate philosophy in the various processes that are performed. Corporate behavior is what really makes a company great and make it successful and internationally recognized.

We must understand the nature of the signatures; leaving conceive as seeing them as productive functions and structures of governance, in which economic goals are internal structures (Williamson, 2000). In pursuit of creating value firms have turned to new business models that have changed schemes and developed new strategic options, both in their local markets as its internationalization, strategic alliances are voluntary arrangements between firms to exchange or jointly develop products, technology or services are increasingly common, and the problem for those responsible for making decisions is to establish the appropriate changes to their specific structures.

The key is that organizations seeking returns must have a good understanding of the resources they acquire to maximize their profits. In recent years, emerging economies have reached a considerable level of development, foreign investment has greatly facilitated the growth of these economies through the strategies and policies have been established (Wright, 2005), not only as host economies capital but also through numerous international investment that you make on other economies around the world.

Strategic alliances are an alternative to the growth of organizations whether we speak of contractual alliances in which by signing a contract two of the undertakings, specific projects, joint marketing, research and development contracts or licenses and franchises. Or question of alliances based on the exchange of capital through: joint ventures, mergers or acquisitions. According to the desired degree of integration with the other hand, have the resources and reach goals they had set the strategy, the selection will depend on the type of alliance. With special emphasis on understanding the rules of the game on the market in which you want to venture and an analysis of the advantages and scope to be the alliance (Peng, 2006).

The goal of all business decisions is the highest possible value creation, and here you can establish whether a strategic decision, as it can be an alliance based in the capital, has the right motivation. The rationale for mergers and acquisitions (M & A) is that they must create the new company in the case of mergers or the signing buyer in the case of acquisitions, has a value greater than the sum of values that had the signatures independently before integration (Herrera Avendaño, 2001).

Some companies in Latin America (LA) have achieved little by little making its global market space, including several Mexican companies also achieved success at national level, also found in international markets through growth opportunities F & A, both public and parastatal companies in different countries.

According to the ranking of the magazine *América Economía*, of the 500 most important companies in AL, in 2009 Brazil was the country's 226 companies with more companies in the ranking, while only 119 signatures were from Mexico (Figure 1). Note that in 2002 Mexico had peaked in the 20-year history of this ranking, with 241 companies (*América Economía*, 2010).

Some of the major companies that lead this list have made F & A of other companies and this could be a cause of increased participation in international markets and their stay in the charts. There are several reasons to consider before establishing a strategy of this kind, although sometimes the reasons do not seem logical, the view of strategists usually yield good fruit in the medium term. Among the main reasons we can mention the interest of achieving increased revenues, reduced costs, gaining market power, integration with specialized companies in areas where the other is weak, eliminating a competitor, getting a raise certain types of resources, improving yields through new management, achieve tax benefits or a combination of resources to increase productivity (Mascarenhas, 2006).

In late 2009 and early 2010 the major Mexican companies dedicated to consolidate and integrate into their organization the various F & A conducted in early 2009, the global economic crisis affected the growth of companies, but most knew how to deal with the situation and move forward to consolidate their resources. The strategy not only carried out in its own lines of business but also the incursion into areas outside their main economic activities. But in some way help they make a profit. A clear example of this was the purchase of 17% of the New York Times by the billionaire Carlos Slim, who despite having businesses in different economic sectors had not yet ventured in press (Buchanan, 2010).

In that sense, M & A has become a trend for the growth of Mexican companies, although this was not the only alternative strategy carried out by the firm and sometimes the companies selected were not the most appropriate in most cases we can see increases for firms that make us assume the effectiveness of F & A. Regardless of the reason that companies choose to implement this strategy, the results should be beneficial and be oriented growth of the firm considering the organizational team, without affecting the innovation and not follow the trend to acquire by purchase.

### **3. Objective**

Based on the foregoing, setting a goal to describe the execution of mergers and acquisitions as a strategy for Mexican companies best positioned within the major world rankings to achieve growth. Mexican companies seeking development and media can find items for their own consolidation in the markets.

Of which raised the hypothesis of whether the major Mexican companies in their strategies have made M & A, if these have been within its sector and if they got support their growth.

## **4. Methodology**

The methodology developed will be first the selection and justification of Mexican companies which made the descriptive analysis of the implementation of F & A from determining what is your current place in the world rankings?, This analysis pointed out aspects main and a brief description of the strategy developed for each of the selected companies responding to the questions of what strategies are being implemented for growth? And what are the benefits of M & A? Then be presented general findings of the strategies carried out, based on what is the level of income and productivity achieved? and finally identify elements to be considered by other organizations choice of M & A value creation and growth of their firms.

### ***Selection and justification of Mexican companies***

Different worldwide rankings to recognize the largest companies in the world by their level of income, profit margins, production capacities and other factors significantly outweigh the other organizations worldwide. Two of the most internationally recognized tabs are the FORBES and FORTUNE magazine, and journal Economics in Latin America.

From 2009 to date has remained constant the number of Mexican companies (18) in the 2000 world leading companies (Forbes Staff, 2011), while ranking in the magazine America Economía in a period of only seven years, from 2002 to 2009, the number of Mexican companies within the first 500 in TO 50% down (América Economía, 2010). From this we can conclude that a small number of Mexican organizations have consolidated their presence in international markets while other smaller companies have lost its position in international markets and their productivity has decreased significantly.

Moreover, when analyzing the situation of Brazilian companies, whose country was compared to Mexico early this century by its geographical location, economic conditions and growth potential, since both countries were seen as major economies region, we find that these companies generally have a better development. From the figure of 19 companies that appeared on the Forbes list in 2006, has grown to 37 companies in 2011 within the first 2000 worldwide (Forbes Staff, 2011) While in the region, by 2009 already had 226 companies in the ranking of America Economía magazine top 500 companies (América Economía, 2010).

Mexico is widely recognized in international markets, is the country with the largest number of international trade agreements, products and quality of its workforce have accepted worldwide and is a nation favored by their geographical position it occupies. For this and other issues is that it is difficult to understand why more companies do not have positioned in the world and what has relied on only a few companies have managed to gain a favored position as compared to other national firms, this concern arises to analyze and understand the strategy of these leaders and Mexican companies to make their activities serve as an example in the development of other large and medium enterprises.

Mexican companies included in Forbes' list of 2011 are shown in Table 1, among which are America Movil (# 88), Femsa (# 406) and Grupo Mexico (# 485) as the first three Mexican companies and they are the only Mexican in the top 500 worldwide in this ranking. Therefore be at these three firms in which to base the study to analyze their strategies, seen as the main cause of their achievements, and what subsequent to refer to them as we do with the term leading Mexican companies (EML).

## **5. Business Analysis**

Below is a description of the situation of EML and a narrative of the main strategies of F & A who have developed, starting with the corporate Grupo Mexico ranks third, followed by analysis of FEMSA to conclude this section with the company America Movil.

Grupo Mexico.

Utilities 2010: 1.800 million dollars

Director: Larrea.

National companies that comprise: Minera Mexico, Southern Copper Corporation, Ferromex, Ferrosur, Intermodal, PEMSA, Mexico and Consutec Construction Company.

International companies owned: Americas Mining Corporation and ASARCO.

Grupo Mexico is the number one Mexican mining company and has the second largest copper reserves in the world, has operations in Mexico, Chile and Peru. It currently has 13 operating mines and 10 projects in operation.

Mexico Construction Company was the first of this group, created in 1942 soon becoming one of the main building of the country. For the year 1965, acquired 49% of ASARCO is a mining company based in Arizona and created ASARCO Mexicana, which in 1974 became Industrial Minera Mexico (IMMSA). To be listed on the Mexican stock exchange was created in 1978 Grupo Industrial Minera Mexico (GIMMEX) will be replaced by Grupo Mexico in 1994.

In 1997 buys 24% share of Union Miniere Acec the Cananea mine, and that same year, Grupo Mexico (74%) with ICA (13%) and Union-Pacific (13%) take on the granting of various lines of rail, creating the subsidiary Ferrocarril Mexicano purchase SA de CV (Ferromex). Soon Union-Pacific acquired the part of ICA.

Grupo Mexico acquired Asarco Incorporated in 1999, which controlled 54% of Souther Peru Copper Corporation and with this acquisition becomes the second company with the largest reserves of copper in the world. Later the company went through a phase of investment in infrastructure improvements at its mines and extraction was not until 2005 where he returned to participate in the market for corporate control, through the merger of Southern Peru Copper Corporation and Minera Mexico, Southern Copper Corporation transformed into and that Grupo Mexico's participation in the company grew to 75.1% (Grupo Mexico, 2011).

During the period from 2006 to 2010 the company went through a process of restructuring and reorganization of its business units and assets, channeling their income primarily in the modernization process, both in the extraction of minerals such as administrative control.

### FEMSA

Utilities 2010: 3.300 MDD.

Director: José Antonio Fernández.

Companies that integrate national: Coca-Cola FEMSA and OXXO.

International companies owned: Heineken (20%).

FEMSA is a leading company engaged in the beverage industry, through Coca-Cola FEMSA, the largest independent bottler of Coca-Cola products in the world with presence in 9 countries of LA, is also involved in trade, operating OXXO chain of convenience stores larger (8.621 stores) and fastest growing in AL with facilities in Mexico and Colombia, and participates in the sale of beer, the second largest shareholder of Heineken, one of the leading brewers in the world with presence in over 70 countries. (Femsa, 2011)

Each business unit has this interesting aspect of corporate analysis, but in this article we only focus on the strategies undertaken by each of them in their process of growth through M & A.

OXXO opened a daily average of 3 stores in Mexico during 2010, the same year began operations in Colombia and now has eight stores, the company has a large potential for growth in the region, and all of its growth strategy has been made based on resources the firm already operates as a franchise that has not carried out and F & A to boost growth.

Coca-Cola FEMSA's bottler in Mexico that is born of the acquisition of the franchise in the year 1979, distributing its products in much of the country, in 1994 acquired 51% of the shares of Coca-Cola in Buenos Aires, Argentina and in 2002 announced the acquisition of Panamco, the largest bottler of AL at the time, from this point the company's growth was substantial and that the acquisition was another part of the territory of Mexico, the countries of Costa Rica, Colombia, Guatemala, Nicaragua, Panama and Venezuela, and some regions of Brazil, becoming the leader of al-bottling company.

The company decided to follow the line of drinks and when it was believed that the soft drink market share would be enough, the company surprised in 2007 with the acquisition of Jugos del Valle in Mexico and Brazil REMIL bottling in 2008, it grew participation in the Brazilian market, together with Mexico are the most attractive markets in Latin America.

Not all acquisitions must be of large international companies and the purchase in 2008 of the Water Company of Angels, Valley of Mexico, is proof of that since the acquisition was achieved with double the share of that market in the city. In 2009, FEMSA acquired the Brisa bottled water and in 2010 returned to surprise us with the purchase of the Dairy Industry Group Panamanian Company, which will enter the milk products is one of the most dynamic markets and value in the beverage industry. As mentioned in the introduction, firms not only do strategies of F & A, but also establish other strategic alliances and contractual in the case of FEMSA such implementations are common such as recently showed in a contract with HP for that will provide technology services for five years in the business unit, Coca Cola FEMSA who provide not only computer equipment but also focus information operations in South America and perform tests and evaluations to identify growth options the company (Hewlett Packard Development Company, 2011), arguably is a contract research and development specialists left to the management of information and FEMSA only cares to continue doing a good distribution of their products.

Beer is the oldest business unit of the company and its history goes back to its founding in 1890 under the name of Cerveceria Cuauhtemoc Mexico, will later be established firms that were born as part of domestic production of inputs in brewery that later would become self-sufficient and independent companies, which contribute in making the bottles, labels and bottle caps necessary for packaging beer.

In 1985 a merger between two of the largest breweries in Mexico, Cerveceria Cuauhtemoc Cerveceria Moctezuma, a case that serves to show that the strategy of M & A has been several years a good option for growing firms, with the merger the company not only expanded its product offering to the market and therefore they also managed to increase their participation. In 1994, partners with the Canadian brewer John Labatt Ltd., which buys 30% stake in the brewery and thus the company gets an increase in its share capital to tackle the country's economic crisis. Later in 2004 the share repurchase was sold to begin its expansion strategy internationally which shows us a clear example that M & A does not always mean total loss of corporate control and in many cases are a source of impetus for the development of the organization.

That same year, implement a trade agreement with Heineken to distribute the products in the U.S. territory, responsible for the distribution, promotion and sales, for the domestic market signed an agreement with Coors Brewing Company for the exclusive marketing Coors Light beer. During 2005 continued the strategy of Sleeman Breweries contractual alliances in Canada and Molson Coors in the UK, establishing them as strategic suppliers to market their products in these territories.

It was in 2006 when the firm makes first acquisition in its history the purchase of Brazilian brewer Kaiser, acquiring 68% of the shares and thus operates in two Latin American markets more attractive. In what was a considerable increase in revenue and a commercial boost with greater market share, through which has been pushing their products through the extensive distribution network operates.

The consolidation of Cervecería Cuauhtémoc Moctezuma led the company Heineken, who already owned the U.S. distribution, acquired in 2010 for signature by the exchange of 100% of its operations by 20% of the shares of Heineken, this acquisition was a of the most important of the year with the sale of the company FEMSA

Brewery will focus more on growing its other business units (OXXO and Coca-Cola FEMSA) and participate in the administrative council of Heineken to care for the performance of the firm .

### America Movil

Utilities 2010: 7.300 MDD.

Director: Carlos Slim.

National companies that comprise: Telcel and Telmex.

International companies of their property: Telmex Internacional, Claro (15 countries: Argentina, Brazil, Chile, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Dominican Republic and Uruguay) Comcel (Colombia), Embratel (Brazil), Net (Brazil) and Tracfone (USA).

America Movil is not only a leader in the mobile telecommunications sector in Latin America operating in 18 countries, it is the fourth largest in the world in terms of proportionate subscribers and number one Mexican company by market value and income-rich.

Through the acquisition of several public companies and parastatals telephony has been consolidating its presence in the principal in the cell phone. Your participation in the cellular market in Mexico is 71%, 33% in Central America, Caribbean 43% and 9 countries in which it operates in South America all have a stake greater than 30% except for Chile where their participation is barely 22%. (America Movil, 2010)

"The acquisition by America Movil of its parent company, Carso Global Telecom (which controls Telefonos de Mexico or Telmex and Telmex International) was by far the largest merger in Latin America in 2010, valued at 33 billion dollars ". (Aagree, 2011)

America Movil was born in 2001 when it separated from fixed telephony company TELMEX, and nine years of his division is now the purchaser of the company that was born, the case of telecommunications companies of Mr. Carlos Slim is full of examples successful mergers and acquisitions for 20 years in which through its consortium of Southwestern Bell Telecom acquired the state-owned Telmex, while in turn the company America Movil was acquiring various telephone companies in Latin America and step to form the signature course, trade name under which it operates in most countries.

The acquisition by America Movil of its sister companies Telmex and Carso Global Telecom International, will report that in 2010 represented 211.3 million wireless subscribers, 27.4 million fixed lines, 12 million fixed broadband connections and 8.6 million TV subscribers . The company also reported an outstanding financial performance with net profits rising contrary to its main rival Telefonica in the last year reported a decline in profits. (Datamonitor, 2010)

America Movil continues its strategy of M & A in LA countries, and the proof is the recent purchase of the company Digicel in early 2011 that operated in Honduras and El Salvador, users of the company will become part of CLARO.

The current government in Mexico has not allowed America Movil to sell packages of telephony, television and the Internet, which have proved very attractive for the income from them and from which only the big national broadcasters are benefiting. But America Movil continues to grow despite the hardships and will strengthen this marketing strategy in Colombia, where it already does and Brazil in which the fusion medium-term business that has begun. Therefore no surprise that eventually will achieve its mission to perform in Mexico.

The growth in demand for bandwidth and pay TV in Latin means the sustained growth of the company, which only have to overcome institutional constraints to maximize their profits, and even in this sense the strategy of mergers that has been done will be useful to market their services in countries like Brazil with barriers of entry into foreign ownership of telecom case for which the company has decided to increase its share of Net through its subsidiary Embratel.

## 6. Effectiveness Of Mergers And Acquisitions

The purchase of Asarco in 1956 makes clear that the use of M & A as a means for the development of the company is not a strategy that just being started, and is an example of the vision they have had the EML for several years.

M & As has become steadily more present and in the last 15 years has increased the tendency of local firms to make such alliances. Even in areas other than the main economic activity of the company, either in activities that have a relationship, as in the case of Grupo Mexico, which through Ferromex rail networks can transport material from mines (Mascarenhas, 2006), or in activities that are not related to its activity as for the purchase of Slim a percentage of the New York Times commented in the introduction to this article.

In the latest merger by Grupo Mexico to Southern Peru Copper Corporation, clearly identified as their main motivation access to more resources and greater expertise that contributed significantly to the growth of the firm and its consolidation, giving reason to the reasons cited for a F & A.

In the case of Grupo Mexico is clear that, thanks to M & A can gain access to the resources that became the second company with the largest copper reserve on the planet, which could hardly have been achieved through other means, but we cannot downplay made to other strategies, mainly in the processes of restructuring, as though in recent years has not made any acquisition revenues and profits increased significantly in the last year.

At Coca-Cola FEMSA's strategic alliances have been crucial since its inception through the acquisition of the concession for the distribution of Coca-Cola. Its main thrust of internationalization has been achieved through acquisitions, Coca-Cola first in Buenos Aires in 1994, in 2002 and finally in 2008 PANAMCO REMIL. It is clear that M & A are effective strategies to support access to international markets (Femsa, 2011).

Even in small markets an acquisition may represent a source of consolidation as the example of Los Angeles Water, or can also serve to diversify and increase the product line as was the case with the purchase of Del Valle and Dairy Industries Group.

The area brewery is not very different from Coca-Cola FEMSA and in this area we also find that growth has been sustained in practice M & A throughout its history, from the merger of Cervecería Cuauhtémoc Moctezuma Brewery to reduce and production costs and gain greater power in the domestic market, to then develop a series of agreements to distribute its products with different breweries worldwide in order to internationalize their brand, After Kaiser bought the company I represent an increase in AL.

Increased participation in AL, their rapid growth and income levels were reported in 2010 decisive for the Dutch brewer Heineken, who already was familiar with their products marketed in the United States was willing to hand over 20% of its shares return of all brewery operations (Buchanan, 2010).

The case of FEMSA shows that even within the same firm strategies in its business units are not the same and although M & A have been an important factor for the growth of its operations in two business units to OXXO have not been the growth medium, although this does not mean that if done would not succeed, perhaps for future growth would be predicted to get OXXO in the event that made M & A.

Although revenues declined FEMSA in the last year, as expected mainly by revenues from brewery failed to receive after the sale the profits and assets which increased due to continued growth, a result of their internationalization in its other two business units (Forbes Staff, 2011). The company America Movil was from the beginning a successful business and began growing by leaps and bounds through the voracious acquisition of a large number of telephone companies in different markets of LA, which gradually consolidated their position as the company the continent's leading mobile growth projections and a substantial number of customers. But the determining factor of growth in recent years did so by buying the company Carso Global Telecom, which despite being the same owner does not mean you should not have the resources to acquire and thus establish his position far above its competitors (Agree, 2011). With this acquisition the company managed to improve performance through new management and increased

productivity through shared resources. In the case of the Brazilian market we find that M & A conducted achieved integration of telephone and television companies, achieving also prevent the entry barriers to foreign companies on television. A through M & A company America Movil has gained access to markets, competitors and has been removed has increased its presence in Latin by the large number of mobile phone users.

America Movil has income greater than twice those of FEMSA and Grupo Mexico together and last year were 50% higher than those achieved in the previous year (Forbes Staff, 2011). It has a considerably higher amount of assets to the rest of the EML and the resources to continue to give the talk of the coming years, and probably will be so for your next marketing packages that include television services in Mexico which is not far from become a reality now and thanks to a cooperative alliance with Dish satellite television company, has partially offset the inability to provide the services themselves. So surely soon find out how to enter and possibly move to Televisa in the medium term.

## 7. Conclusions

The EML has consolidated its place in the main rankings because of its strategic vision and outstanding performance compared to other firms, and their efforts are recognized worldwide, as mentioned in the beginning of this article are not unique strategies to achieve growth companies and many alternative firms, who based their resources attempting to find the most suitable for their own development.

In the analysis of companies is stated that M & A is a common strategy in organizations despite being of sectors and business activities very different, it is clear the importance that has occurred in recent years this type of strategic alliance as EML all have used at some stage as a means to grow and achieve their goals. Because of the variety among the reasons companies have obviously not been the same since we find cases that look from reduced costs and increased resources to improving the management and reduction of entry barriers, although to the above if it can be concluded that the implementation of the strategy has a tendency among the EML to be used to facilitate the internationalization of the firm and meets expectations in this regard as an effective tool in the process of incursion into new markets.

Growing companies need to analyze M & A as an attractive option for growth, regardless of the sector where they are and whatever economic activity they perform, trying to combine this strategy with others to maximize the performance of the firm as mentioned from the beginning, no strategy is complete and the best results are obtained from the right combination. Using this type of partnership should be done by companies with an average degree of maturity and sufficient resources to operate efficiently to the party who performed the alliance, because otherwise result in detriment to the benefit of the parties involved. ■

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## Appendix

### Tables

	COMPANY	RANKING
1	América Móvil	88
2	Femsa	406
3	Grupo México	485
4	Grupo Modelo	719
5	GFNorte	785
6	Cemex	810
7	Grupo Inbursa	864
8	Grupo Televisa	880
9	Grupo Bimbo	974
10	ALFA	1010

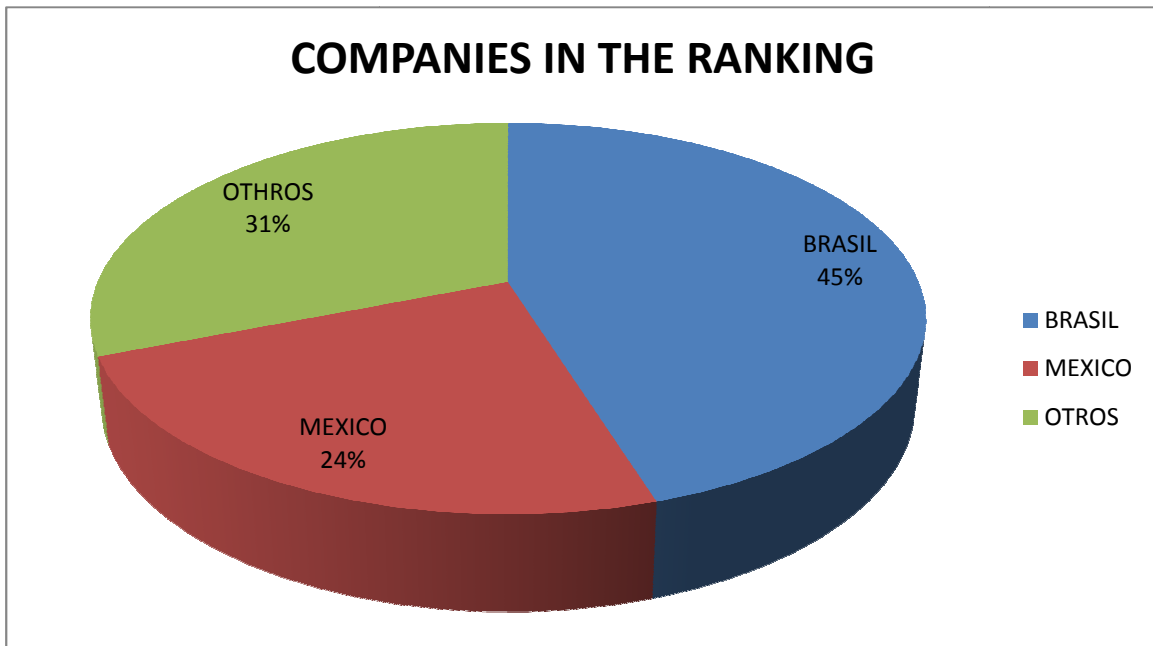
<b>11</b>	Industrias Peñoles	1077
<b>12</b>	Minera Frisco	1097
<b>13</b>	Fresnillo	1151
<b>14</b>	Grupo Carso	1256
<b>15</b>	El Puerto de Liverpool	1344
<b>16</b>	Soriana	1493
<b>17</b>	Grupo Elektra	1548
<b>18</b>	Kimberly-Clark de México	1926

TABLA 1. Fuente: (Forbes Staff, 2011).

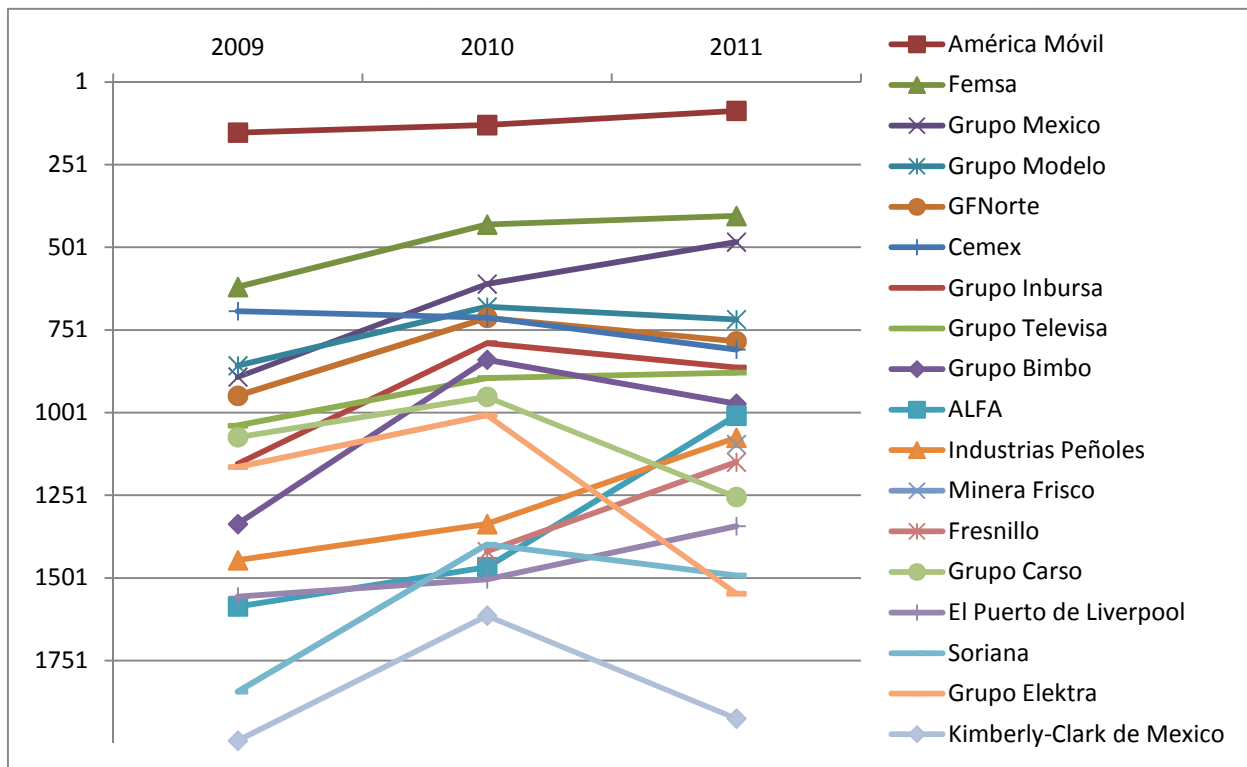
<b>Period</b>	<b>Company</b>	<b>Sales</b>	<b>Earnings</b>	<b>Assets</b>
<b>2011</b>	<b>América Móvil</b>	49.2	7.3	69.7
	<b>Femsa</b>	13.7	3.3	18.1
	<b>Grupo México</b>	8.3	1.8	14.9
<b>2010</b>	<b>América Móvil</b>	30.22	5.4	34.7
	<b>Femsa</b>	15.08	0.76	16.07
	<b>Grupo México</b>	5.02	0.9	12.01
<b>2009</b>	<b>América Móvil</b>	25.01	4.35	31.64
	<b>Femsa</b>	12.16	0.49	13.27
	<b>Grupo México</b>	4.69	8.1	8.82

TABLE 2. Fuente: (Forbes Staff, 2011).

## Graphics



**CHART 1. Source: (América Economía, 2010)**



**FIGURE 2. Source: (Forbes Staff, 2011).**



## **International Journal of Business & Management Tomorrow**



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### **Islamic vs. conventional microfinance: A comparative theoretical analysis**

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## 1. Introduction

Reducing poverty and improving income distribution are among the most important economic goals of Islam and subsequently Islamic economics. On the other hand, Islam has highly emphasized the importance of components of human capital like education and health (Hamdani, 2006, p.6). However, a quick glance at the current situation of the Muslim countries shows something different. In fact, there is a big gap between Islamic teachings about income inequality and poverty, and the present condition of Islamic countries. Having gone over the international data about the economic status of Muslim countries (specifically OIC<sup>4</sup> member countries), one can easily recognize that the majority of them are developing countries with high level of poverty and income inequality (WDR, 2008). There lies a question: What should Islamic countries do to solve their problems considering poverty and income distribution?

It seems that there are quite different suggestions to solve these problems. One of them is microfinance. Microfinance is an internationally accepted strategy for poverty alleviation that has been used by many developing, and even developed, countries to help the poor. It seems that it is essential to go over this experience and try to show that this poverty alleviation strategy has the potentials to be used within the context of Islamic economics and finance. However, this experience cannot be adopted in Islamic world exactly as it is practiced in non-Islamic countries. In other words, there should be some modifications in different aspects of microfinance to get suitable for Islamic countries. This theoretical article, tries to shed lights on the differences between Islamic and conventional microfinance. Understanding these differences, will help policy makers in Islamic countries to be able to design the best microfinance models that is both Islamic and suitable for their needs. Before going into the discussion of the differences, it would be useful to define microfinance and subsequently, Islamic microfinance.

## 2. What is microfinance?

Microfinance can be defined as provision of financial services such as deposits, loans, payment services, and so on to low-income people and to the underprivileged. In other words, microfinance is a financial activity that tries to provide financial services to those sections of the society such as artisans, farmers, and small proprietors and entrepreneurs. The traditional banks and other financial institutions generally leave out these people as they are considered less credit worthy and risky. Financial institutions are also reluctant to advance small loans due to the high processing and monitoring cost involved (Kaleem and Ahmed, 2009, p. 3).

In the international scene, microfinance has proved to be a useful and effective poverty eradication strategy and has grown dramatically. As data shows, Since Professor Muhammad Yunus (from Grameen Bank) received the Nobel Peace Prize for his work in microfinance, the industry has been receiving much press, most of it positive. In means that, microfinance has developed rapidly, particularly in the last five years. For example, as one of the best known microfinance institutions (MFIs), the Grameen Bank in Bangladesh, saw growth in loans from \$229.14 million in 2001 to \$488.41 million in 2006, an increase of 113.15% (14.4% annually) (Grameen Bank, 2006). Despite this growth, most banks (including Islamic banks) in developed, developing, and especially, less developed countries still ignore poor clients because their lack of collateral makes them more risky, and the lenders fear the poor clients will feel little obligation to repay loans.

MFIs function under the theory of group lending and peer pressure and many papers have shown that this characteristic have helped them most to be successful in reaching their goals. For example, Besley and Coate (1995) believe that group loans are a powerful device to yield higher repayment rates than individual loans. The self-selected group shares the common interest of gaining access to credit at low information cost and applying sanctions to those who do not comply with the rules.

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<sup>4</sup>. Organization of Islamic Conference

### **3. What is Islamic micro finance?**

Because of the problems of the conventional microfinance, specifically the interest-based financial activities, Islamic scholars and researchers have tried to define and emphasize Islamic microfinance. Going through the available literature on Islamic microfinance, one can clearly come to the point that most of the writers on the topic, have taken it for granted that Islamic microfinance is nothing more than the conventional microfinance less than interest (Imboden, 2005). Unlike previous literature that confines Islamic microfinance to the abolition of interest, in this paper, it is claimed that there are other areas and dimensions that are different between Islamic and conventional microfinance.

### **4. Differences between Islamic and conventional microfinance**

In this part, we try to make a theoretical comparison between the Islamic MFIs and conventional MFIs. Conventional MFIs follow the well-known example of the Grameen Bank of Bangladesh, which is considered a pioneer of microfinance. This model is interest-based model. The proposed and currently used models for Islamic MFIs is also based on Grameen model, but in these models interest is eliminated and Islamic instruments or modes of financing like Mudārabah, Mushārah, Bay Bithaman Ajil, etc., are used. However, it seems that Islamic MFIs are different from conventional MFIs at least in the following areas:

#### **a. Sources of funds**

Conventional MFIs usually get the funds from foreign donors. They also finance themselves from the savings of the clients and external funds (Habib, 2001, p. 12). Islamic MFIs, however, apart from these sources of funds, can get the funds from religious institutions such as Waqf, Zakat, Anfal etc., which are prevailing in most of the Islamic countries.

#### **b. Modes of financing**

Conventional MFIs are interest-based while Islamic MFIs are interest free. Islamic MFIs operate through several Islamic modes of financing such as Ijārah, Murābaha, Istisna, Mudārabah, Mushārah, Bay Bithaman Ajil, etc.

#### **c. Paying attention to the poorest**

Although the microfinance movement is meant to help the poor out of poverty, still the poorest population is left out by conventional MFIs (Choudhary, 2002). However, this is not (or should not be) the case within Islamic MFIs. IMFIs can integrate the poverty eradication institutions of Islamic economic system like Zakat, Qard-Alhasan and other voluntary charities (Sadaqat) to provide the poorest people with financial services

#### **d. Amount and deviation of the funds**

It is a practice of conventional MFIs to deduct an amount from the loan before disbursement. This deduction is for different reasons such as group and emergency funds. However, the interest paid by a beneficiary is calculated on total amount. Under these conditions, the effective interest rate paid by beneficiary to the MFI increases. Furthermore, there is a risk that the funds, once transferred to the poor, might be diverted to non-productive uses. Under the IMFIs, there is no such deduction. Here, usually the total amount is used to purchase the good and that good is transferred directly to the beneficiary. By doing so, the risk that the funds will be used for non-productive uses is minimized (Habib, 2002).

#### **e. Target group**

While conventional MFIs mostly target women, Islamic MFIs are targeting family as whole. The objective of targeting women in conventional MFIs is to empower them. It is believed that women use funds more productively and this increases their incomes (Mboden, 2005). However, in Islam, family is the cornerstone of the social system. Family is not a casual or spontaneous organization of people, but it is a divinely ordained institution. Family and marriage are regarded as noble and sacred. As a result, the IMFIs should focus on the

family as whole and not only women. Consequently, unlike conventional microfinance, in case of IMFIs, both recipient and spouse are responsible for the loan since IMFIs are targeting the family as a whole.

#### **f. Incentives of staff**

In the case of conventional MFIs, usually, the main motives of employees are monetary, while the work incentives of employees of IMFIs are first of all, religious and after that monetary. It means that In IMFIs, the work is seen as a part of religious duty (i.e. to help those in need).

## **5. Conclusion**

Poverty is a real problem in most of the Islamic world (specifically the OIC member countries). It necessitates finding ways and solutions to solve this problem. One of these solutions is microfinance, an internationally successful experience for poverty eradication. However, this experience cannot be adopted in Islamic world exactly as it is practiced in non-Islamic countries. In other words, there should be some modifications in different aspects of microfinance to get suitable for Islamic countries. This theoretical article, has tried to briefly shed lights on the differences between Islamic and conventional microfinance. Understanding these differences, will help policy makers in Islamic countries to be able to design the best microfinance models that is both Islamic and suitable for their needs. Future research can be based on this theoretical paper and try to use Islamic instruments and institutions to make conventional microfiche suitable for the need of different Islamic countries. ■

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## **International Journal of Business & Management Tomorrow**



# **The Competing Determinants of Divestiture and Strategic Alliance Transactions in Creating Value: Evidence from an Emerging Market**

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## 1. Abstract

Prior researches reveal that divestiture and alliance transactions have been viewed as strategic-oriented transactions to increase company's value. The objective of this study is to test the implication of divestiture and alliance transactions announcements. Particularly, this study explores the implication of the competing determinants, i.e. type of divestiture and alliance transactions characteristic, the strategic focus, company's capital structure, and ownership. This study used event study to test divestiture and alliance transactions sample in Indonesia Stock Exchange (IDX) for the period of 1991-2005. Generally, the results demonstrate that divestiture and alliance transactions in IDX produce wealth for company's stockholders. Debt and managerial ownership influence significantly the corporate control transactions as well as the transaction value; meanwhile, other control variables do not significantly influence the cumulative abnormal return. The results also reveal that the investors in IDX do not pay attention to the strategic focus of divestiture and alliance transactions.

**Keywords:** Divestiture, Strategic Alliance, Strategic Focus, Debt, Ownership Structure

## 2. Introduction

Following the frenzy of corporate control transaction activities of the last several years, the current trend is towards strategic alliances and divestitures, which are considered as strategic corporate-control-transactions, as companies rethink the strategic benefits of consolidation. Divestitures are viewed as a vehicle for innovation and can allow for upside growth, wealth creation, and survival for the parent company. Increasingly, companies are selling non-core businesses to focus on core competencies, divesting business units that no longer fit strategic goals and selling under-performing assets to generate cash. Meanwhile, strategic alliance which is chosen due to companies continue to face economic uncertainty, restricted access to capital for acquisitions and a sluggish market for their non-core businesses, becomes a formula that may present less financial risk or allow companies to postpone major transactions to more favorable times and achieve strategic goals.

Prior empirical findings reveal that both corporate-control-transactions produce mixed result related to shareholder wealth, such as 73 percent of senior leaders at Fortune 1000 companies queried in a recent KPMG survey predicted that the annual number of corporate divestitures in the U.S. would increase in the next five years (Kelly, 2002). In other words, divestitures are viewed as a preferred way to create and preserve shareholder value. Jensen (1986) argues that divestitures in general result in positive wealth effects though the value increase might depend on how efficiently the divesting firms utilize the cash flow created or how they allocate the proceeds from the sale (Lang, Poulsen, & Stulz, 1995). Those empirical studies on voluntary sell-offs have not produced uniform positive or negative price movements. Instead, they show positive or zero announcement day cumulative average returns (CARs) and mixed (i.e. positive, negative, or zero) pre and post-announcement day share price changes (Klein, 1986).

Meanwhile, in analyzing the announcement effect of alliance, most researches find evidence that alliance announcements are on average, accompanied by a positive stock market response. Interestingly, the magnitude of this response varies with the capabilities and experience of the partner (McConnell & Lantel, 1985; Anand & Khanna, 2000; Kale, Dyer, & Singh, 2002), as well as with environmental and industry characteristics (Madhavan & Presscot, 1995; Merchant & Schendel, 2000). These findings have usually been interpreted as supportive of the competitiveness-enhancing view of alliances, whereby an alliance raises a firm's value by making it more competitive such that it can out-compete its rivals in the market. However, in context of international strategic alliances (ISAs), large negative abnormal returns are found for strategic alliances of Dutch companies with Japanese companies. The cumulative abnormal return for the latter group of alliances is equal to a loss of 3.65 per cent and decreases to minus 6.85 per cent for technological alliances, which suggests a strong negative effect that is identified early by the market (Sleuwaegen, Schep, den Hartog, & Commandeur, 2003). In addition, alliances with non-Triad (i.e. outside the EU, US and Japan) companies, which are competitively and culturally distant using Hofstede's metric, show a significant negative market response (Hofstede, 1983).

At the same time, other prior studies in firm's capital structure reveal that firm with active involvement in corporate alliance activities enjoy cheaper bank loans or in other words, these companies have more debts in its capital structure (Carter & Manaster, 1990; Carter, Dark, & Singh, 1998; Fang, 2005; Nicholson, Danzon, & McCullough, 2005). Firms that have higher leverage may be rewarded by pursuing strategies of forming alliances instead of acquiring other companies or investing in R&D. Pilotte (1992) found that abnormal returns were significantly positively related to a wide range of leverage measures. It is plausible certain industry characteristics and firm size are naturally linked to higher propensity for firm to form alliances. However, in case of divestiture, a different finding reveals that the negative effect of corporate debt on divestitures only existed for state-controlled firms (Wu, Xu, & Phan, 2011).

Other empirical studies focusing on firm's determinants also reveal that equity ownership and corresponding control rights can mitigate potential hold up problems between parties to a strategic alliance (Klein, Crawford, & Alchian, 1978; Grossman & Hart, 1986; Hart, 1988, 2001; and Aghion & Tirole, 1994). Matthews (2006) shows that ownership stakes by an established firm in an entrepreneurial alliance partner can serve to deter entry into the entrepreneur's market. Trade-offs occurs because the equity stake can decrease the incentive to produce entrepreneurial effort. In case of China enterprises, ownership concentration by the largest shareholder depressed corporate divestitures both in state-controlled and in non-state-controlled firms (Wu et al. 2011).

## **2.1 Problem purpose**

Much research has been done on how the two strategic approaches; strategic alliances and divestitures individually affect share prices and thereby affect shareholder value surrounding the announcement of these formations. However, one area which is not very much explored is the analysis of corporate-control transaction types and focus between strategic alliances and divestitures with regards to how they differ in their impact on the shareholder value creation due to the announcements of these formations. This study has a special contribution to the literature, especially in extending the relationship between announcement characteristics and corporate characteristics, is rarely investigated in East Asian emerging markets.

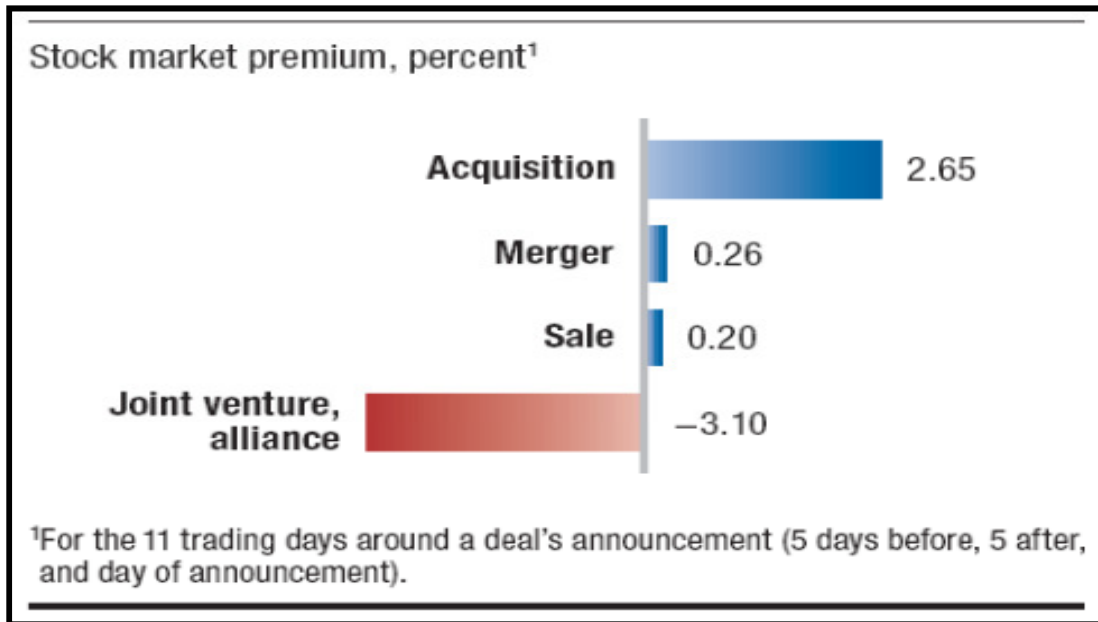
The study will be looking at the effects on shareholder value at the time of the firm's announcements of forming strategic alliances and divestitures. The research is only going to look at how the announcements of these strategic alliances and divestitures affect share prices, which are controlled by corporate characteristic variables, and meanwhile, other analyses on other factors that can have an impact on share prices, will not be included

## **3. Literature Review**

The research on corporate-control transactions, such as alliances and divestiture, has attracted much academic interest for a long period time. For example, early work on alliances posited a variety of benefits that could accrue to alliance partners, including learning, access to specialized resources, risk sharing, and shaping competition (Porter and Fuller, 1986). Other recent empirical findings, such as international strategic alliances (ISAs), have indicated that the positive effects of an ISA are strongest when both firms co-operate on a strategic level, develop unique higher order combinations of resources creating new market opportunities, and internalize the associated capabilities through joint learning (Doz and Hamel, 1998). In practice, however, the majority of companies does not systematically track the performance of their alliances nor relate them to their strategic objectives, despite the fact that investors often tend to react strongly to the announcement of an alliance (Sleuwaegen et al., 2003). These contradictory empirical findings, of course, have triggered a curiosity to explore more the characteristic of alliances in creating value, even though, scholarly research has found the formation of an alliance to have an important effect on the stock market value of the partnering companies (Chan, Kensinger, Keown, & Martin, 1997).

The same phenomena also happen to divestiture. In case of divestiture announcement, Markides (1992) found a total increase of 1.73% for the overall sample and cumulative above average returns of 4.23% for total

over diversified firms, suggesting that they benefit the most from divestiture. In contrast, Wright and Ferris (1997) found a slightly negative reaction of stock markets to firms' divestiture announcement. The far greater of event studies in finance research generated equally ambiguous results. Whereas some studies found significant increase (+1.12% to +3.9%) (e.g. Gartner, Powers, & Scharfstein, 2002; Klein, 1986; Krishnaswami & Subramaniam, 1999; Lang et al., 1995; Miles & Rosenfeld, 1983; Vijn, 1999) during the announcement window, other studies have found that voluntary divestiture may have an insignificant or even negative impact on the divesting firms' stock prices (-4% to 0%) (e.g. Masulis & Korwar, 1986; Schill & Zhou, 2001). This phenomenon is shown in the work of Bieshaar, Knight, and van Wassenauer (2000), which reveals the preferences of European investors on corporate-control transactions (Figure 1).



**Figure 1. What does the market prefer?**

Source: Bieshaar et al. (2000)

Regarding to corporate-control-transactions' focus, Bieshaar et al. (2000) also find that the market prefers deals that are intended to expansive programs, such as market consolidation, new region expansion, or adding new distribution for existed product and service. This result can be compared to deals that are characterized as transformative *-is defined as company efforts to enter into new line business or switch some business units into other promised business portfolio-* that market does not like it. The announcement of a transformative deal —a “portfolio refocus” or a “business diversification”—actually destroyed 5.3 percent of the company's value on average (Bieshaar et al., 2000). However, even within these two types of transactions, expansionist and transformative, the market appears to prefer one kind of transaction structure to another.

As shown in previous researches, the corporate control transactions influence the companies' stock prices that do the transaction, whether strategic alliances or divestiture. This situation becomes interesting when we analyze the factors that determine the unsuccessful corporate control strategies. Therefore, in this research, one of the key questions that this study tries to answer is the effect corporate control transactions on the companies' stock return by analyzing the type and focus of these transactions, such as sell-off/divestiture and joint venture/alliance.

### **3.1 The definition of corporate-control transactions**

Corporate control is frequently used to describe many phenomena ranging from the general forces that influence the use of corporate resources (such as legal and regulatory systems and competition in product and input markets) to the control of a majority of seats on a corporation's board of directors. Jensen and Rubback (1983) define corporate control transactions as transactions that give the rights to determine the management of

corporate resources – that is, the rights to hire, fire, and set the compensation of top-level managers. Corporate-control transactions can occur through some types, such as merger, tender offer, or proxy contest, alliance or joint-venture, divestiture, and sometimes some elements of all those transactions are involved.

According to Easterbrook and Fischel (1982), there are four types of divestitures: (1) sale of an operating unit to another firm, (2) setting up the business to be divested as a separate corporation and then “spinning it off” to the divesting firm’s stockholders, (3) following the steps for a spin-off but selling only some of the shares, and (4) outright liquidation of assets. Sale to another firm generally involves the sale of an entire division or unit, usually for cash but sometimes for stock of the acquiring firm. In a spin-off, the firm’s existing stockholders are given new stock representing separate ownership rights in the division that was divested. The division establishes its own board of directors and officers, and it becomes a separate company. The stockholders end up owning shares of two firms instead of one, but no cash has been transferred. In a carve-out, a minority interest in a corporate subsidiary is sold to new shareholders, so the parent gains new equity financing yet retains control. Finally, in a liquidation the assets of a division are sold off piecemeal, rather than as an operating entity.

A company undertakes a divestiture when it sells or disposes of a division, a business unit, a product line or a subsidiary to offer it on the market as a new autonomous company (Rosenfeld, 1984; Garvin, 1983). Divestitures have historically been perceived as financing operation, as correctors of previous mistakes, and as organizational efficiency tools (Hitt, Hoskisson, Johnson, & Moesel, 1996; Hoskisson, Johnson, & Moesel, 1994; Markides, 1992; Porter, 1987; Seth & Easterwood, 1993).

Meanwhile, strategic alliance, basically, is viewed as firms are motivated by a desire to acquire skills and resources from alliance partners, and that internalization of partners’ skills is an important indicator of alliance success, in addition to the creation of new resources. Prior empirical findings suggest that many alliances are designed not to promote knowledge sharing and inter-firm learning per se, but rather to facilitate co-specialization. It happens wherein partners continue to pursue their respective areas of specialization and the alliance serves as a vehicle for assembling complementary capabilities and resources without the need for significant technology transfer or sharing of proprietary knowledge (e.g., Nakamura, Shaver & Yeung, 1996; Khanna, Gulati, & Norhia, 1998; Dussauge, Garrette & Mitchell, 2000). A classic example of this type of alliance is Airbus Industries, the European producer of large commercial aircraft, in which member firms specialize in the design and manufacture of different components that are then brought together in the final aircraft (Mowery, Oxley, & Silverman, 2002).

Strategic alliance is also defined as an agreement between two or more individuals or entities stating that the involved parties will act in a certain way in order to achieve a common goal. Strategic alliances usually make sense when the parties involved have complementary strengths. A strategic alliance is less involved than a joint venture where two companies typically pool resources in creating a separate entity.

A joint venture is a contractual agreement joining two or more parties for the purpose of executing a particular business undertaking. All parties agree to share in the profits and losses of the enterprise. This is a good way for companies to partner without having to merge. Joint ventures are typically taxed as a partnership. Early theoretical work in economics on joint ventures and other alliances emphasized the potentially anti-competitive effects of cooperative ventures (e.g., Dixon, 1962). This work argues that joint ventures could become a forum for more general discussions between competitors, that common sourcing could lead to common cost structures and identical pricing, and it could be the mechanism through which emerging industries could be dominated by existing large firms in related industries (Porter & Fuller, 1986).

### ***3.2 Motives for corporate-control transactions***

Why do firms engage in corporate-control transactions? There are many reasons, and it depends on the type of corporate-control transactions. For example, firms have a wide variety of reasons for divestiture, such as a common reason is to increase a firm’s focus. Comment and Jarrell (1995) document a trend toward corporate focus. John and Ofek (1995) find that asset sales lead to an improvement in the subsequent operating

performance of the seller's remaining assets. They find that the improvement in performance occurs primarily in firms that increase their focus. Borde, Madura, and Akhigbe (1999) find that evaluation effects are more favorable when foreign divestiture are for strategic reorganization purpose. Another reason is to eliminate a low-performing division or business. By divesting the business, especially one in an unrelated area resulting from a previous conglomerate merger, a company may be able to recreate the value destroyed at the time of the earlier acquisition. Allen, Lummer, McConnell, and Reed (1995) examine the correction-of-a-mistake hypothesis with a sample of 94 spin-offs that occurred during the 1962-1991 period. Their results suggest that managers who undertake poor acquisitions can redeem themselves, at least partially, by subsequently divesting the unwise acquisition.

Firms undertake strategic alliances for many reasons: to enhance their productive capacities, to reduce uncertainties in their internal structures and external environments, to acquire competitive advantages that enables them to increase profits, or to gain future business opportunities that will allow them to command higher market values for their outputs (Webster, 1999). Partners choose a specific alliances form not only to achieve greater control, but also for more operational flexibility and realization of market potential. Their expectation is that flexibility will result from reaching out for new skills, knowledge, and markets through shared investment risks. The strategic motives for organizations to engage in alliance formation vary according to firm-specific characteristics and the multiple environment factors.

### ***3.3 The effect of corporate-control transaction announcement on stock return***

The response of stock returns to announcements of corporate-control transactions is proven by many researches. In most corporate-control transactions, market responds the announcement by giving a change in stock price for the companies that are involved in it, as the result of the announcement. The shareholder wealth itself is measured by abnormal return (the difference between the actual and the 'normal' expected price performance) and it expresses the shareholders' evaluation of the underlying transaction and its impact on the company's future performance. In a semi-efficient capital market (Fama, 1970), this announcement effect reflects the long-term consequences of the corporate-control transactions' strategy and gives an unbiased picture of the average stock market's valuation (Linn & Rozeff, 1984).

Prior empirical findings reveal that the announcement effects of alliances are, on average, accompanied by a positive stock market response. Interestingly, the magnitude of this response varies with the capabilities and experience of the partner (McConnell & Lantel, 1985; Anand & Khanna, 2000; Kale, Dyer, & Singh, 2002), as well as with environmental and industry characteristics (Madhavan & Presscot, 1995; Merchant & Schendel, 2000). These findings have usually been interpreted as supportive of the competitiveness-enhancing view of alliances, whereby an alliance raises a firm's value by making it more competitive such that it can out-compete its rivals in the market. However, positive abnormal returns to alliance partners are equally compatible with the competition-attention view of alliances.

In case of divestiture announcement, Markides (1992) found a total increase of 1.73% for the overall sample and cumulative above average returns of 4.23% for total over diversified firms, suggesting that they benefit the most from divestiture. In contrast, Wright and Ferris (1997) found a slightly negative reaction of stock markets to firms' divestiture announcement. The far greater of event studies in finance research generated equally ambiguous results. For example, announcements of spin-offs by US firms are associated with strongly significant abnormal returns that range from 1.32% to 5.56% (Rosenfeld, 1984; Copeland et al., 1987; Slovin et al., 1995; Johnson et al., 1996; Daley et al., 1997; Desai & Jain, 1999; Krishnaswami & Subramaniam, 1999; Mulherin & Boone, 2000). A number of US studies also find long-run superior performance of spun-off firms and their parents. Cusatis et al. (1993), Desai and Jain (1999) and McConnell et al. (2001) find that parents and subsidiaries, involved in a spin-off, outperform matching firms. Meanwhile, for European spin-offs, Veld and Veld-Merkoulova (2004) report 156 spin-offs that were announced by European companies over the period from January 1987 to September 2000 reveal that the cumulative average abnormal return is 2.62% over the 3-day event window. This number increases to 2.66% for the subsequently completed spin-offs. The cumulative

average abnormal return is 3.57% for completed spin-offs by companies that increase their industrial focus and only 0.76% for non-focus increasing companies. In general, we can say that the announcement of corporate-control transactions has effect on companies' stock return and shareholders wealth that are involved in it.

### **3.4 Hypotheses development**

This study will test five hypotheses. Firstly, it will test the effect of corporate-control-transactions on shareholder's stock return. The previous researches give evidences that abnormal return exist as the response of market to the announcement and all researches have common reasons that underlie why market significantly responds it. Clarke et al. (1990) summarizes these reasons as the existence of reasonable motives, in which the market expects corporate-control transactions could: (1) give operating economies, (2) create economies of scale, (3) eliminate inefficient management, and (4) create financial synergy. Based on these reasons, we can formulate a hypothesis as follow:

**Hypothesis 1.** The announcement of corporate-control transactions has a significant effect on companies' stock abnormal returns that are involved in it.

Secondly, Bieshaar et al. (2000) reports that market reacts differently to various structural forms of a deal might take: a merger, a sale, or a joint venture or alliance. Prior studies also find a positive abnormal return for partner firms following the announcement of an alliance, with average positive returns varying from less than 0.01% (Das, Pradyot & Sengupta, 1998) to 0.87% (Koh & Venkatraman, 1991). The one notable exception to this consensus regarding the positive stock market reaction to alliance announcements comes from a recent study by McGahan and Villalonga (2003) analyzing the stock market reaction in a comprehensive sample of deals by 86 members of the Fortune 100 from 1990-2000. Lee and Wyatt (1990) report significantly negative stock price reactions associated with joint venture announcements thus leading to a decrease in the firms' shareholder value. Most studies have found that increase in shareholder value is obtained for about half the number of firms studied, but value is destroyed for the remaining firms. Chan et al. (1997) investigated share price reactions to the formation of 345 strategic alliances during the period from 1983 to 1992. Their finding shows that establishing strategic alliances creates a statistically significant average abnormal return of 0.64% for the stockholders of the partnering companies.

Spin-offs of companies, as one of divestiture types, increase their industrial focus by divesting a division in a different branch than the parent company are associated with higher abnormal returns than spin-offs of companies that do not increase their industrial focus (see e.g. Daley et al., 1997; Desai & Jain, 1999). In addition, Krishnaswami and Subramaniam (1999) also find that firms with higher levels of information asymmetry exhibit higher abnormal returns in the announcement period. These results show that the market efficiently responds to the spin-off announcements by incorporating expected future benefits into the current stock price. Those research findings contain one logical conclusion that there is a difference of effect on corporate-control transaction type; therefore, we can formulate the second hypothesis as follow:

**Hypothesis 2.** The type of corporate-control transactions has a significant effect on companies' stock abnormal returns that are involved in it.

We divide the corporate-control transaction types into two groups: strategic alliance/joint venture in one groups, and sell-off/divestiture into other group.

Thirdly, Bieshaar et al. (2000) also document that the focus or intention of corporate-control transaction has a significant effect. They found that the market apparently prefers deals that are part of an "expansionist" program, in which a company seeks to boost its market share by consolidating, by moving into new geographic regions, or by adding new distribution channels for existing products and service. The market seem to be less tolerant of "transformative" deals, those that seeks to move companies into new lines of business or to remove a chunk of an otherwise healthy business portfolio. The market's tendency to favor expansionist over transformative is based on some reasons. The potential synergies from expansionist transaction are usually much greater because they combine similar assets. Even when a transformative deal does promise synergies,

they tend to be less predictable than those in expansionist deals are and not as easily verified by investors at the same time of the announcement (Bieshaar et al., 2000).

John and Ofek (1995) find empirical evidence that companies that sell assets in order to concentrate on core business eliminate negative synergy (e.g. diseconomies of decision management and decision control inherent in diverse lines of business) between the divested assets and the remaining assets, which leads to better performance for the seller. Daley et al. (1997), Krishnaswami and Subramaniam (1999), and Desai and Jain (1999) find that the abnormal returns for the focus increasing spin-offs are larger than for the non-focus increasing spin-offs. Based on these reasons, we can formulate a hypothesis as follow:

**Hypothesis 3.** The focus of corporate-control transactions has a significant effect on companies' stock abnormal returns that are involved in it.

We divide the corporate-control transaction focus into two groups: market consolidation/ geographic expansion and business system extension as the focus of expansionist, and portfolio refocus and business diversification into the focus of transformative.

Fourthly, in their seminal work, Jensen and Meckling (1976) argued that in the traditional agency theory framework, the existence of outside equity and corporate debt can lead to agency costs. Thus, the appropriate structuring of ownership and debt can serve to reduce agency costs by restraining value-destroying managerial behaviors. In his research, Bhide (1989) found that when a firm is performing poorly, corporate restructuring activity can be triggered by significant changes in ownership structure and the corresponding improvements in corporate governance practices. Empirical studies generally show that ownership concentration is negatively correlated with unrelated diversification (Amihud & Lev, 1981; Denis, Denis, & Sarin 1999). In context of divestiture, Bergh (1995) found a positive effect of ownership concentration on the sale of unrelated units among Fortune 500 firms, and Hoskisson and colleagues (1994) found an indirect effect of block holder equity on divestiture activity.

Divestitures reduce the asset base of the firm and hence the relative control of the large shareholders. By rendering the corporate structure more efficient and transparent, divestitures make the assets of the corporation more difficult to manipulate. Thus, large shareholders will be inclined to disfavor divestitures since the benefits from control (e.g., the ability to shift asset risks to minority shareholders) exceed the benefits of greater efficiency (Claessens, Djankov, Fan, & Lang, 2002). Based on these reasons, we can formulate a hypothesis as follow:

**Hypothesis 4.** Ownership held by the largest shareholder of the firm taking corporate-control transactions has a significant effect on companies' stock abnormal returns that are involved in it.

We use percentage of ordinary shares held by the larger shareholders. Data for the top two, five, and 20 external shareholders are used as the proxy for external block ownership.

Finally, empirical results from the research in developed economies suggest that debt can reduce agency costs and prompt corporate restructuring activity (Bergh, 1997; Gibbs, 1993; Haynes, Thompson, & Wright, 2003; Hoskisson et al., 1994). The divest strategy occurs when the business unit is exiting the market and seeking to withdraw or sell its share in the market, or out of the competition. On the other hand, foresighted firms use low debt levels as a strategic instrument to signal their solvency and toughness to the market, thus deterring any predatory action and risk of aggressive behavior by rivals. According to Nickell (1996), competition and debt can be considered as a trade-off, which is under the incentive theory and the agency model, a high level of competition in the product market can replace leverage as a disciplinary mechanism for managers à la Jensen (1986), thereby inducing more efficient behavior. Based on these reasons, we can formulate a hypothesis as follow:

**Hypothesis 5.** Leverage of the firm taking corporate-control transactions has a significant effect on companies' stock abnormal returns that are involved in it.

We measure corporate debt as the ratio of long-term debt over equity (Hoskisson et al., 1994; Brailsford, Oliver, & Pua, 2002). We follow the proposed long-term debt measurement by Wu et al. (2011), instead of total debt, because from an agency perspective, we were interested in the continuous monitoring and bonding mechanism afforded by holders of long-term debt.

## 4. Methodology

The empirical methodology used in this research is the event study approach, which has been used extensively in finance, accounting, regulatory economics, and management to assess the value implications of the release of firm-specific information. The event study methodology was first introduced in 1969 by Fama, Fisher, Jensen and Roll, who started a methodology revolution in economic and finance (Binder, 1998). The approach is based on the assumption that in an informative efficient market, any new information will be shown in share prices. Hence, the value relevance of any secret information and its impact on a firm can be assessed by examining the price changes surrounding the release of the information (Das, Sen & Sengupta, 1998).

In this study, the 11-days event window has been chosen: 5 trading days before the announcement, 5 days after it, and the day of the announcement itself. The reason for choosing this short event window is to increase the reliability in the results derived. This would imply that no confounding effects have influenced the event period and that the significant effects have been captured. The time horizon of this research is 1991 - 2005 and it is mainly because before 1991 the number corporate-control transactions were so limited. The research chooses to 14-years observation due to the fact that the availability of data since 1991 is practically easy. In addition, the 14-years observation is hoped to be able to give enough information of corporate-control transactions at the time of emerging Indonesia Capital Market. The final sample of this study is 55 transactions.

The study carries out a multivariate regression to assess the correlations between the excess returns created by each corporate-control transactions and various characteristics of that deal. Divestitures, in this study, are sales of subunits through sell-offs, buyouts, equity carve-outs, or spinoffs that a firm completed in a given year (Hoskisson et al. 1994). In this study, the dependent variable is defined as excess returns relative to the local stock market (abnormal returns), during the 11 trading days surrounding the announcement of the deal, and the model of multivariate regression is:

$$CAAR_j = \beta_1 D_1 + \beta_2 D_2 + \beta_3 EBO + \beta_4 Leverage + \beta_5 \text{Log}T_{\text{value}} + \beta_6 \text{Log}F_{\text{size}} + \beta_7 \text{Log}F_{\text{age}} + e_j$$

It is a multivariate regression model with zero intercept. The motive is to see the net effect of five independent variables on abnormal return, where:

CAR <sub>j</sub>	the cumulative abnormal return around the announcement date for firm j
D <sub>1</sub>	dummy variable indicating type of corporate-control transactions, taking a value of 1 if the type of transactions is divestiture, otherwise a value of 0
D <sub>2</sub>	dummy variable indicating focus of corporate-control transactions, taking a value of 1 if the focus of transactions is expansionist, otherwise a value of 0
EBO	percentage of ordinary shares held by the larger shareholders (external block holders). Data for the top two, five, and 20 external shareholders are used as the proxy for external block ownership.
Leverage	natural log transformation of long-term debt/equity ratio
T <sub>value</sub>	transaction value (natural logarithm)
F <sub>size</sub>	firm size (natural logarithm)
F <sub>age</sub>	firm age (natural logarithm)

In order to test whether the information content of the corporate-control transactions announcement will be responded by investor, it needs to do a companies' abnormal returns test in the period around the announcement. This test is done by using t-test two-tail comparing the t-statistics to its t-table. How does the stock market react towards corporate-control transaction announcements? Table 1 below presents the results derived from the total sample of observations for companies' abnormal returns including 55 observations.

<b>t</b>	<b>AAR<sub>t</sub></b>	<b>T-statistics</b>
t-5	0.00127	0.15971
t-4	0.00491	0.61852
t-3	-0.00323	-0.40750
t-2	0.00684	0.86258
t-1	0.00619	0.78003
<b>0</b>	<b>0.01367***</b>	<b>1.72361</b>
t+1	0.00065	0.08226
t+2	0.00756	0.95316
t+3	-0.01017	-1.28226
t+4	-0.00372	-0.46900
t+5	-0.00605	-0.76205
<b>CAAR</b>	<b>0.01792**</b>	<b>2.25906</b>

Note: AAR<sub>t</sub>= average abnormal returns at – t,

\* p < 1%, \*\* p < 5%, \*\*\* p < 10%

**Table 1: Average Abnormal Returns (AAR) in the event window (-5; +5)**

The results in Table 1 are supportive of hypothesis H1. The market reacts to the announcement of corporate-control transactions by giving statistically significant average abnormal return at day 0. This result accepts hypothesis that it states that announcement of corporate-control transactions has significant effect on companies' stock abnormal returns that are engaged in it. In general, the results in Table 1 are consistent with the information content hypothesis, which predicts the existence of abnormal return as market's reaction on announcement of corporate control transaction.

On the other side, a positive statistically significant abnormal return at day 0 signifies efficient information in market's reaction to corporate-control announcement. This result is different from previous research (Warokka, 2000) that reports some symptoms of inefficiency market in case of merger and acquisition transactions, which are shown by statistically significant abnormal returns since day -1 until day +2. We usually find this condition in a stock market where there are naïve investors who are unable to distinguish between information.

To test second until fifth hypothesis, the regression model uses zero-intercept model. The motive of using zero-intercept regression model is to see the net effect of independent variables on companies' stock abnormal returns (Table 2).

The Effect of Transaction's Type and Focus		
Regression Model with Zero-Intercept (No-Constant)		
$CAAR_j = \beta_1 D_1 + \beta_2 D_2 + \beta_3 EBO + \beta_4 Leverage + \beta_5 LogT_{value} + \beta_6 LogF_{size} + \beta_7 LogF_{age} + e_j$		
CAAR		
Variable	Coefficient	T-Statistic
Constant		
Type (Divestiture)	0.020	0.547
(Alliance)	0.018	0.956
Focus (Expansive)	0.026	0.662
(Transformative)	0.021	0.511
External Block Ownership	-0.944	-1.373
Leverage	-1.082	-1.529
Tvalue	-0.033	-1.723 ***
Fsize	0.032	1.498
Fage	-0.024	-1.891***
F-Value	0.991	
R-square	0.232	

\* p < 1%, \*\* p < 5%, \*\*\* p < 10%

**Table 2: The Effect of Transaction's Type and Focus**

One striking discovery in this study is insignificant effect of corporate-control's type and focus. In other words, the market's reaction is not statistically significant influenced by various structural forms of a deal might take: a sale or a joint venture or alliance. In this study, divestitures are still the most preferred option to gain abnormal return for investor in stock market in responding corporate-control announcement. It boosts the announcement impact of a deal on companies' stock that engaged in it by 2 percent in zero intercept model.

The most likely explanation is that in a divestiture it is always clear which company controls the post-divestiture process. It is therefore much more likely that market consider divestiture as a strong intention of company to concentrate on its core business and create more values for shareholders.

As for joint ventures and alliances, their announcement does not affect companies' stock abnormal returns. Perhaps the investment community views these deals as incomplete asset combinations that create few immediate synergies but can limit a company's strategic options and sap the attention of managers. There are, of course, a number of outstanding exceptions to the rule, but it does seem to be the case that, all else being equal, "partial" deals are more likely to diminish a company's value than others are (Ernst & Halevy, 2000).

This condition is a little bit different from the 2004 Price Waterhouse Coopers study of 201 senior finance executives that finds nearly two thirds of respondents were more willingly to strike alliance that they were 3 years earlier. Another study of Fortune 500 companies shows that the top 25 successfully embrace alliance strategies consistently performed better than those that do not.

Nevertheless, as it has been mentioned above, the Indonesian stock market characteristics play important impact on the capability of investment community in responding the information. Especially, Indonesian investors are able to be categorized as naïve investors who are unable to respond, analyze, and use the information optimally and wisely.

Other interesting results in this study are transaction focus. The thesis finds that if a deal aimed to consolidate a market by combining two companies in the same industry or to expand a company's geographic bounds ("market consolidation" or "geographic expansion," respectively), all else being equal it earned a 2.6% of zero intercept model in the 11 trading days surrounding its announcement. In other words, expansionist takes a favor of market.

The market's tendency to favor expansionist over transformative deals makes intuitive sense. The potential synergies from expansionist transactions are usually much greater because they combine similar assets. Even when a transformative deal does promise synergies, they tend to be less predictable than those in expansionist deals are and not as easily verified by investors at the time of announcement. For managers, the lesson is clear: not to shy away from transformative transactions but to ensure that they get closer scrutiny – and pass a higher hurdle – than expansionist one, and that they actually create tangible value.

One of interesting findings in this study is the negative relationship between ownership concentration and corporate debt on divestiture and strategic alliance transactions. Large shareholders perceive divestiture and alliance as non-creating value transactions and it seems that those transactions happen when the number of large shareholders is quite small. This result is consistent with the work of Wu et al. (2011) that the institutional environment (where large shareholders normally exist) in emerging economies will cause managerial behavior and firm strategy to exhibit strategy and behavior patterns that are different from those in developed economies, as we have shown on the divestiture and alliance issue.

As to corporate debt, which has negative relationship, companies that are involved into divestiture and alliance transactions see that those transactions do not provide growth opportunities. We follow the argument of Rocca, Rocca, and Gerrace (2008) that the impact of risky debt on firm decision-making depends on whether or not there are future opportunities for investment of value; excessively risky investment policies could damage the firm's possibility to survive at least up until the time when such growth opportunities can be taken advantage of. These companies are seeking to reduce its uncertainty and risky portfolios by selling its assets or creating alliances. Incentives for risk avoidance, that are generally the result of information asymmetries, allow us to understand why firms with high levels of risky debt and growth opportunities not yet taken advantage of adopt quite conservative divestiture or alliance strategies (Rocca et al., 2008).

In this study, the result shows that the wealth creation for corporate-control transactions is directly and significantly related to transaction size and firm age in 11 trading days surrounding the announcement. It indicates that the transaction size and firm age in event window decreases a 3.3 percent and 2.4 percent, respectively, stock market premium. This study reveals that Indonesian stock market practitioners view the amount of transaction size and firm age as indicators of decreasing return. This phenomenon is in line with the study of Koh et al. (2004) that report transaction size affect firm abnormal return, which is transacting a divestiture. However, this study is different from prior empirical findings that find older and larger firms may be particularly susceptible to embedded rules, routines, and bureaucratic processes, and therefore, is assumed that firms are more experienced and able to create more values to shareholders (Kelly and Amburgey, 1991; Ruef, 1997). Experience helps a firm establish routines for making divestitures. Thus, such experience enhances the validity of a decision to divest in response to poor unit performance. In case of Indonesia stock market, the firm age does not have any influence into investor perceptions on divestiture transactions, or in other words, the findings pertaining to shareholder wealth suggest that the size of divestiture has effects on shareholder returns. Meanwhile, the company size is positively related corporate control transactions. This result is line with prior empirical findings that report company size influences companies' abnormal return in case of joint venture and alliance (Jones and Danbolt, 2004; Socher, 2004). It means that the market reacts more favorably to the

announcement of joint venture investments that are made by smaller companies and large relative to the size of the company.

## 5. Conclusion

When analyzing corporate-control transactions and their impact on share prices, it can be concluded that shareholder value increases at the time of the announcements of these formations. Corporate-control transactions, which are studied in the event study of this thesis, averagely earned positive returns in 11 trading days of event period. Although, it was a small positive increase, the market reacted positively to the news of these deals. The results of shareholder value creation at the announcements of corporate-control transactions coincide with earlier research of these deals, which suggest that corporate-control transactions create value. In general, shareholders have increased their wealth by 0.01367 percent of positive abnormal return when they reacted on corporate-control announcement. It can be concluded that investors consider positively on the news and view it contains information. Thus, they respond the announcement based on it.

The results for the total sample of observations on divestiture and joint ventures or alliances, indicate that companies engaged in it experience positive shareholder value, while statistically are not significant. In case of type of deals, divestitures are more preferred for investment community than other deals, indicates that divestiture are more believed to create wealth for shareholders and are much faster in applying corporate strategic decisions than other deals. The other deals, i.e. alliances, are not strong enough to convince investor as strategic decisions that are also able to give shareholder wealth, or in other words, the market views alliances are much more complex and take much effort to realize its strategic decisions.

In this study, the market considers divestitures are able to facilitate the business consolidation and expansion. In case of focus of deals, the results show that market apparently prefers deals that are part of an “expansionist” program, in which a company seeks to boosts its market share by consolidating, by moving into new geographic regions, or by adding new distribution channels for existing products and services. The market seems to be less tolerant of ‘transformative’ deals, those that seek to move companies into new lines of business or to remove a chunk of an otherwise healthy business portfolio.

The market tends to favor expansionist over transformative because the potential synergies from expansionist transactions are usually much greater. They combine similar assets. On the other side, even when a transformative deal promises synergies, they tend to be less predictable than those in expansionist deals are and not as easily verified by investors at the time of the announcement. ■

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**Quality And Cost Of Healthcare: An Indian Prespective An  
Assessment Of Direct Cost Of Quality Across Hospitals In India**

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## Abstract

With recent advances in healthcare, quality has become a pertinent issue. As the demand for healthcare is rapidly rising with increasing population base and increasing levels of affordability, so is the demand for quality healthcare services. Superior quality of medical care is often associated with higher costs of hospitalization. This paper attempts to explore the relationship between quality of medical care services and the cost of hospitalization across hospitals in India. The findings have indicated a strong positive association between the cost of hospitalization and infrastructure, while a negative association was observed between staff to patient ratios. Though both these parameters affect and contribute to superior quality of care their impact of cost of hospitalization differs significantly.

**Key Words:** Quality of Medical Care, Cost of healthcare, Average cost of hospitalization, Quality indicators, Indian Health System, Accreditation in India

## 1.0. Prelude

Rapidly rising cost in healthcare is an increasing cause of concern across the world. Indian healthcare is also experiencing a change, with increasing focus on better quality of medical care services. With a large section of healthcare practitioners in the private sector, the government has realized the need to improve medical care services and has stepped in to regulate the quality of medical care services by introduction of various quality accreditation norms like the NABH and NABL.

As per available information (Care Continuum, 2005), the healthcare spending per capita per annum in India was about \$109, with total healthcare spending in the range of 4.9% of the country's GDP. Most of the spending occurs from the private sector with public sector contributing to a mere \$ 19 per capita per annum. Concurrently, the average spending per capita per annum in the United States during the same time frame was approximately \$4271 whilst United Kingdom the spending was \$ 1675. These figures clearly indicate that healthcare in India is fairly cheaper, a strong reason for a growing medical tourism market in the country. However, when compared with paying power parity and affordability, the cost of medical care is escalating. It is worthwhile to note that as per World Bank (2005) estimates more than 44% of Indian population earns less than one dollar a day.

As per the Finance Ministry, the overall inflation rate in India was about 9.4 percent during April-December 2010, while inflation in medical expenses was in excess of 10 percent for the fourth year in a row (Business Today, 2011). There are several other factors that have been contributing to the escalation in cost of medical care. These factors include increasing demand for medical care services with consistently limited supply, increased penetration of health insurance, improvement in medical technology with new innovations improving diagnostic capabilities and increasing dependence of doctors on diagnostic procedures. Increasing demand for quality in medical care services plays a critical role in increasing the overall cost of medical care services.

While empirical evidence suggests that there is an increasing demand for healthcare services across India, affordability remains a pertinent issue. This has resulted in market segmentation (Shah, Mohanty, 2010), where on one hand there is an increasing demand for quality medical care services while on the other hand there is a demand for medical care services at affordable cost. The demand for the latter has inevitably resulted in poor quality of medical care services with poor health outcomes.

It is simple to compute the direct costs for various medical services, however to compute the cost of quality is not only difficult but rather elusive, which has resulted in over dependence on subjective criterions (Klint, Long, 1989). Various modalities like manpower ratios, infrastructure, medical technological capabilities, accreditation and quality assurance policies and mortality rates, have been considered as quality indicators and have been used to evaluate the quality of healthcare services. The paper attempts to explore the implication of these quality indicators on the direct expenses incurred by patients whilst seek healthcare services across India.

## 2.0. Understanding Quality In Healthcare: Components Of Quality

Quality in healthcare (Gyani, 2010) may comprise of newer technology, newer and effective medication, higher staff to patient ratios, affordability, efficiency and effectiveness of healthcare delivery. Quality as defined by the Institute of Medicine, USA, is *'The degree to which health services for individuals and populations increase the likelihood of desired health outcomes and are consistent with current professional knowledge.'*

Conceptually, Quality refers to any intervention made to improve the health outcome in totality. At a macro-level, quality for health systems comprises of six building blocks namely healthcare services, healthcare workforce, Healthcare Information System, Technology and Medications, Healthcare financing and Leadership and Governance (WHO, 2007). Though the sequence in terms of priorities may change, these building blocks are also essential at micro-level to have a pertinent impact on the overall healthcare outcomes.

For a hospital or a healthcare institution, it is imperative to understand the components which can influence the overall quality of medical care services. Quality hence can be understood based on their overall implication on health outcomes of the patients. The various components that impact the health outcomes and thereby influence quality include,

1. Comprehensive and integrated services, based on the demand, with adequate infrastructure and logistics. Building, equipments, water supply, sanitation, power, etc play a crucial role and considerably influence quality of medical care.
2. Manpower skills, knowledge, qualification, technical knowhow, training and their availability is also critical for improving the healthcare outcomes and hence enhancing quality.
3. An information system helps retrieve data and information easily and also aids in planning for expansion and need based requirement of the population. Quality is affected by the nature and comprehensiveness of the information system, which helps identify existing lacunae and take corrective action.
4. Availability of safe and effective drugs, technology and medications directly impact on the health outcome and should be considered as an integral part of quality
5. Accountability improves health outcomes and hence enhances quality. Effective and efficient governance is a cornerstone to ensure quality medical care services
6. Finally, cost effectiveness plays a crucial role. Quality can be acceptable only if it affordable for the general population.

Though the aforementioned parameters have direct impact on health outcomes, it is difficult to measure their influence on quality of medical care. It is vital to convert these parameters into specific indicators, which can be used to define and measure quality more rationally.

## 3.0. Defining the Quality Indicators: Literature Review

In healthcare, health outcomes play a crucial role in determining quality. However, the importance of customer experience and customer delight can't be underestimated. Hospitals and Healthcare institutions have consistently focused on improving the patients experience and providing services in timely and orderly fashion. However it is often difficult to rate the quality of services (both clinical and non clinical), using similar indicators.

Healthcare providers often use patient satisfaction surveys to understand the lacunae in quality of care provided and identify critical areas of improvement. Patient satisfaction surveys can be used to measure the quality of services from the prospective of subjective opinion of the patients/beneficiaries. As per a study conducted in Taiwan (Cheng, et al 2001), it was concluded that patients lack the ability to judge the quality of

care in healthcare institutions are in general lack awareness regarding the various quality indicators. The study indicated that patients are not able to rate the infrastructural and technological capabilities of the institution or the technical competences of their physicians or medical staff.

A healthcare institution hence has to depend on various objective parameters to ascertain quality. For the purpose of this research, some quality indicators have been identified, which have been presumed to be directly linked with the ability of the institution to provide quality medical care services. Relevant literature review to support these views has also been provided.

- **Asset value:** Asset value is indicative of the medical technology along with the other infrastructural amenities like elevators, air conditioning units, fire fighting services, etc. These services will implicate the overall quality of medical care as it directly impacts on patient safety, infection control rates and ability of the institution to provide critical care services, etc. In a study conducted in Mexico (Aguilera, Marrufo, 2007), it was observed that the infrastructure of the hospital determines the mortality rate among its beneficiaries. In another study conducted across 87 hospitals in Massachusetts (Levitt, 1994), a clear positive correlation between the investment in plant, machinery and property was observed with the quality of care and patient outcomes.
- **Manpower ratios:** Hospitals and healthcare institutions are human resource intensive units. Higher nurse to bed and higher staff to bed ratio are indicative of reduced burden on the staff, which in turn directly enhances their ability to pay greater attention to details of patient care. In a study conducted (Grujic, et al, 1989) it was observed that the educational qualification, attitude and behavior of the staff impacted their overall ability to provide medical services and fulfilling patient expectations. The Joint Commission on Accreditation of Healthcare Organizations (JCAHO) found that staffing levels have been a factor in 24% of sentinel adverse events that resulted in death, injury, or permanent loss of function (SHS, 2005). Another research study conducted in the United States (Rothberg et al, 2005) indicated that a ratio of 8 patients to one nurse was least expensive but associated with highest patient mortality and the effectiveness of the staff increased with improvement in the ratio. These studies reiterate the importance of better staff to patient ratios and their significance in enhancing quality of medical care.
- **Accreditations and quality assurance systems:** There are various accreditations and quality assurance systems presently available. These accreditation and quality assurance systems help organizations to streamline their processes, provide timely services and thereby enhance patient outcomes. Evidence from JCI (JCI, nd) has indicated that accreditation tends to help enhance the overall quality of patient care services, based on select case studies from across the globe. Unfortunately there is little documented evidence about the effectiveness of NABH in improving patient outcomes and quality.
- **Mortality Rate:** Though this research study has not been able to evaluate the quality of medical care based on this parameter due to ethical issues, standardized mortality rates are used as a parameter to evaluate quality by many. However, there is considerable opposition to this concept and standardized mortality rate is considered a bad parameter to judge quality of medical care (Pronovost, 2010). Though risk adjustment is aimed at standardizing the mortality rate and identifies the preventable deaths, it still has several limitations.
- **Patient Experience:** In the era of consumerism, the role of patient experience is undisputed and impacts the assessment of total quality of medical care. Timely service provision, promptly addressing patient grievances, etc play a crucial role in the impression the hospital management creates on patients and thereby influences the perception of the patient about the overall healthcare services provided by the institution (Cleary, 1999). However the use of patient satisfaction should be ideally limited to a few parameters aimed at enhancing patient experience.

#### 4.0. Expenditure on Medical Care: Does quality impact cost?

A hospital which rates high in its performance of the quality indicators can be improve patient outcomes, which would explicitly affect the quality of healthcare services. Evidence from across the globe indicates that improvement in healthcare has direct relationship with the resources diverted for healthcare services. **Table1. Per capita Expenditure on Healthcare Vs Key Health Indicators**, provides an overview of the performance of various health systems across the globe.

**Table1.** indicates that the expenditure on healthcare has a direct impact on the outcomes, using life expectancy and infant mortality rates, as a measure of quality of a health system. However this doesn't imply that quality comes at a cost. **Figure1. Life Expectancy Vs Spending on Healthcare Globally**, explains why?

It can be observed in **Figure 1.** that with a life expectancy of 76.9 years, Cuba ranks 28<sup>th</sup> in the world, just behind the US. However, its spending per person on health care is one of the lowest in the world, at \$186, or about 1/25 the spending of the United States. The countries ability to utilize its resources optimally determines its ability to improve its health outcomes.

With a life expectancy of 76.9 years, Cuba ranks 28<sup>th</sup> in the world, just behind the US. However, its spending per person on health care is one of the lowest in the world, at \$186, or about 1/25 the spending of the United States. The countries ability to utilize its resources optimally determines its ability to improve its health outcomes.

Then can better health outcomes (and overall quality of medical care) be improved without increasing the healthcare expenditure? For a nation, the answer lies in its ability to optimally utilize its resources and maximize the outcomes. The role of public sector and government in enhancing health outcomes of its population is crucial. Provisions for safe drinking water, health awareness, sanitation, availability of essential drugs, etc are public goods, which need to be provided by the government.

Private sector in India has evolved primarily due to lack of the State to provide some of the basic services to its population. Quality has often been considered to be one of the crucial aspects governing the higher utilization of private sector institution; however it is not always the case (Shah, Mohanty, 2010). Private Sector is often driven by profit orientation and hence, over utilization of private sector in India can be assumed to be one of the reasons for increasing cost of medical care services in India. Role of quality in escalating medical cost remains debatable.

#### 5.0. Methodology and Study Design

This research paper aims at understanding the implication of the quality (as derived from the various quality indicators identified above) on the direct cost incurred to purchase medical care services. This paper compares the data from various hospitals across India, to appreciate and ascertain if higher quality of care is associated with higher patient bills.

A review of discrete primary data collected between 2009-11, from twelve different private sector hospitals from across India, was used to understand the implication of quality on cost of medical care. The hospitals were categories as Tertiary care hospitals (n=3), Multispecialty Hospitals (n=4) and secondary care hospitals (n= 5), depending upon the service mix and focus areas. The focus areas of the various categories of hospitals included,

- Tertiary care Hospitals- Cardiac care, Neurology, Gastro-entrolgy, Oncology and Advanced Trauma rehabilitation.
- Multi Specialty Hospitals- Ophthalmology, Orthopedics, Nephrology, ENT, Respiratory Medicine, etc.
- Secondary care hospitals and Nursing Homes primarily focusing on Gynecology, Obstetrics, General Medicine, General Surgery, General Medicine and Pediatrics

It should be noted that the list of services provided above was not exclusive, but indicative of the level of advanced specialty services provided by the hospital. Tertiary care hospitals and Multi-specialty hospitals, surveyed in the study, provided the secondary care services, in addition to the aforementioned services.

### **5.1. Analysis Considerations**

The average cost of hospitalization, for these institutions was evaluated against the various quality indicators, to identify an association between cost of medical care services and quality standards. The average cost of hospitalization only included the direct expenditure incurred by the patient and didn't include other tangible and non tangible costs like income lost due to sickness, travel expenditures, etc.

The average cost of hospitalization was computed based on the revenue generated by the hospital, over a period of preceding six months, since individual patient bills could not be evaluated. Revenue generated by the hospital is indicative of the expenditure made by the patients; however the components of total hospital revenue were different in different hospitals. Some hospitals (in the survey sample), provided support services like canteen and pharmacy in-house while others have outsourced the services and don't reflect in the direct revenue of the hospital. In such situations, the pharmacy and canteen sales were incorporated separately to provide a comparative estimate

No separate patient satisfaction surveys were conducted. Already existing data from the same time frame was collected, codified and the comments were categories to reflect patient opinion about specific parameters.

### **5.2. Limitations of the Study design**

1. Fifteen different hospitals of different bed capacities, different facility and service mix were evaluated. It should be noted that perception of quality is affected by a wide range of factors including purchasing power parity, educational status and awareness of the population and general healthcare trends in the region. The selected hospitals were located in different regions (Mumbai, Kolkotta and Delhi). These inherent differences in the population dynamics could have acted as confounding variables in the analysis of the study.
2. Internal comparison was made to provide a realistic picture; but considering the small sample size for internal comparison, the findings could not be substantiated.
3. No data regarding the mortality rates was shared and hence it could not be used to evaluate the quality of healthcare services with specific reference to patient outcomes.

## **6.0. Findings of the Study**

The direct cost of healthcare services (in terms of average cost of hospitalization per bed per day) was evaluated against the various quality indicators described in section.3, which have been associated with quality of medical care services. This was aimed at understanding the overall implication of cost of quality of healthcare services.

### **6.1. Asset Value and Impact on Direct Cost of Hospitalization**

Literature Review shows that the Asset value of a healthcare institution is directly related to the healthcare outcomes, which higher asset value associated with better quality of care.

The asset value in terms of medical equipment technology varies primarily due to variation in the installed infrastructure capacity of the healthcare institution. A secondary care hospital has limited diagnostic and imaging services (like CT scan, MRI, Immunoassay, etc), which in turn affects the ability of the physician to diagnose and treat the patient appropriately. Further, equipments and technology, like a well equipped Intensive care unit improved the chances of patient survival (Lee, 2009). This directly impacts the overall

outcome and thereby has an implication on quality of medical care. The cost of infrastructure includes various aspects like evidenced based design of the hospital, hospital ambiance, furniture and finishing of the facility. It also is indicative in terms of availability of various amenities like clean drinking water, toilet facilities, etc.

Also operating costs for these institutions may vary considerably depending upon the infrastructure. In institutions with a centralized chiller plant the average consumption of energy per bed per day was observed to be approximately 80 units, whereas in institutions without a centralized unit, the average energy consumption per bed per day was as low as 25 units. A centralized unit plays a crucial role in enhancing patient experience and providing comfort but also plays a crucial role in controlling the infection rates (Desai, 2002), which in turn has a direct impact on the outcome and quality of care.

**Table 2: Indicative Asset Value Vs Av Revenue per bed (n=12)** provides average estimates for the cost of infrastructure and the average cost per hospitalization in the hospitals. While considering the estimated cost of medical technology, estimates were based on the audited financial sheets of the hospital, which included depreciation of older equipments. Pearson Liner correlation coefficient for the cost of infrastructure verses the average cost of hospitalization was  $R=0.975$ . **Figure 2: Relation of Asset Value with Cost of Hospitalization (n=12)**, shows that higher asset values were linked with higher cost of hospitalization.

Asset value of a healthcare institution is considered as a quality indicator and higher asset value is strongly associated with better quality of care. The findings of this study indicate that cost of hospitalization increases with the overall asset value of the healthcare institution.

## **6.2. Manpower Ratios and Direct Cost of Hospitalization**

The deployed manpower at different facilities varies depending upon the complexity of the medical care services provided. Though some studies in the United States (Needleman et al, 2002) have shown that staffing can't be considered as a measure of quality of care, evidence for other studies indicates staffing affects morbidity patterns of hospitals and hence is crucial measure of quality. For the purpose of this study, we have assumed that staffing plays a strong role in quality of medical care, however comparing staffing parameters across different hospitals with different facility matrix may not provide a rational and realistic picture. Hence this assessment has to be based on internal comparison of the three categories of hospitals covered in the survey. The relationship in presented in the **Figure 3 Nurse to bed ratio versus average cost of hospitalization per bed per day**

The Figure.3 clearly depicts that the average cost of hospitalization per bed per day is related to Nurse to bed ratio. Pearson Liner correlation coefficient for secondary care hospitals was -0.15, for multispecialty hospitals was -0.19 and for tertiary care hospitals was -0.5.

Different studies have indicated that higher Nurse to patient ratios reduce hospitalization stay, which impact the cost of care (Amaravadi et al., 2000 and Cho et al., 2003). Though these studies have computed cost of hospitalization in terms of reduction of average length of stay, the reduced requirement for intensive care also reduces the cost of hospitalization significantly. This reiterates the findings of this study which observed a negative correlation between nurse to bed ratio and the average cost of hospitalization. Negative correlation was also observed when staffs to patient ratios were compared with cost of hospitalization. This implies that higher patient to nurse/staff ratio, tend to reduce the hospitalization cost, while enhancing quality of medical care services.

While evaluating the manpower deployed in healthcare institutions, the other basic parameters that need to be evaluated is the basic training and qualification of the deployed staff. In the Indian context, hospitals may have designated nurses in its staff, but most of them lack formal degree or qualifications. Higher the proportion of qualified staff is an indication of better quality of medical services provided and the proportions are depicted in **Figure 4 Percentage of Qualified Nursing Staff Vs the Average Cost of hospitalization per day per bed of the hospital.**

A similar negative correlation was observed when hospitalization costs were compared with the percentage of qualified nursing staff deployed at the hospital.

### **6.3. Accreditation and Quality Assurance and Direct Cost of Hospitalization**

National Accreditation Board for Hospitals and Healthcare institution is the nonprofit organization that provides accreditation to Indian hospitals that comply with certain quality standards. The process of accreditation is voluntary and lack of certification doesn't imply that the overall quality of services of the healthcare institution are poor, however accreditation standardizes certain quality protocols which impacts the quality of medical care. Some hospitals, in India opt for Joint Commission International (JCI) accreditation to attract medical tourists. The NABH guidelines are similar to JCI with a basic difference in cost and overall flexibility.

Similar, certain hospitals also opt for ISO certification, which unlike accreditation is a quality assurance system. Though, similar to accreditation, lack of ISO certification doesn't imply poor quality, but it points towards the organizations commitment to provide quality services to its beneficiaries.

Analysis of data with hospitals with and without accreditation pointed out towards marginal variation in cost of medical care services. The **Figure 5 Accreditation and cost of Healthcare** depicts the impact of accreditation on cost of medical care.

The analysis of the findings was two dimensional. For secondary care hospitals, accreditation resulted in increase in cost of medical care services, which was due to the need to comply with various mandatory requirements. On the other extreme, accreditation for tertiary care hospitals actually helped in reducing the cost of medical care to a considerable extent, due to standardized procedures and policies. Hence the role of accreditation, especially for larger hospitals has been proven beneficial in improving quality of care and relatively affordable costs.

### **6.4. Patient Experience and Direct Cost of Hospitalization**

Data from Patient satisfaction surveys conducted internally by the twelve surveyed hospital, was codified and integrated to evaluate patient satisfaction across three basic categories including the quality of medical staff, infrastructure and cost effectiveness.

**Figure.6. Average cost of hospitalization Vs Overall patient perception** suggests a clear association between patient satisfaction index and the average cost of hospitalization. It should be noted that patient satisfaction is a subjective evaluation of the quality of care, but is crucial in understanding the deficiencies in service provision. On comparing data internally, a positive correlation was observed for secondary care services with  $R= 0.656$  while a strong positive correlation was observed for multispecialty hospitals and territory care hospitals at  $R= 0.97$  and  $0.923$  respectively.

## **7.0. Conclusion And Discussion**

Cost of healthcare depends upon a host of modalities including the disease condition, insurance coverage, age of the individual, etc. In addition, cost of healthcare is influenced by other institutional factors namely the service mix, the treatment modalities, brand image of the institution, etc. Whilst defining quality of care is difficult and subjective, quality parameters can be used to assess the overall quality of medical care services.

Studies have shown that there is a non linear U shaped association between quality and hospital charges. This implies that for the lowest quality will have the lowest price and as quality improves the hospitalization charges are bound to increase (Peabody, et al, 2010). However, to generalize the findings of this study to all contexts may lead to misinterpretations, as the methodology used was purely exit interviews and patient opinions. In another study conducted in the United States, it was observed that there was no relation between patient satisfaction levels and the expenditure made on healthcare services (Fu, Wang, 2008). Taking lessons

from the United States and Cuba example, optimum utilization of resources plays a crucial role in controlling costs in a healthcare institution.

Quality indicators namely manpower ratios, infrastructure and asset value, accreditation and quality control procedures can be used to ascertain the quality of healthcare services. Patient satisfaction surveys also play a crucial role in assessing the quality of care provided by the healthcare institutions (Express Healthcare, 2007). Patients appreciate better quality of medical care services (Express Healthcare, 2007). Though several organizations use patient satisfaction reports to evaluate the quality of medical care services, the findings are often not very compelling. Patients are often considerably biased towards reporting satisfaction depending upon various factors including their underlying condition, ethnicity, age, improvement in the condition, etc (Thiedke.C, 2007). However, careful and appropriate evaluation of patient satisfaction surveys could also act as a vital quality indicator can provide insights into areas of improvement. Though other factors like disease standardized mortality rates may be used, their application is constrained due to technical issues and statistical limitations.

Asset value of hospitals, implying the infrastructure, medical equipment technology, basic amenities and additional services provided play a crucial role in cost of hospitalization. This study observes that with higher asset value the average cost of hospitalization increases. Reports indicate that hospitals with centralized air conditioning units are associated with higher cost of hospitalization (Times of India, 2011).

Nurse to patient ratios and staff to bed ratios also influence quality of care. Though it may appear that higher staff would increase the cost of medical care borne by the common man, the findings of the study indicate otherwise. The rationale for higher staff to bed ratio, results in provision of better quality of care, which in turn reduces the average length of stay and hence average hospitalization cost. Higher staff to bed ratio reduce the need for intensive care services and medical equipment support, which in turn reduce the cost of hospitalization.

Accreditations and quality assurance systems have also been observed to reduce the average cost of hospitalization. This clearly indicates that accreditations and quality assurance systems help hospitals to streamline their functions and processes, minimize wastage and thereby aid in enhancing quality and reducing cost of care.

Then, does higher quality of care imply higher costs? On considering the intangible cost including man days lost due to morbidity or life years lost due to premature mortality, poor quality of services actually increase the overall cost of medical care services (Kaiser Family Foundation, 2009).

As per the latest estimates by the Central Statistical Organization, the per capita income of Indian population stands at INR 46,492 which is about 14.5% higher than the previous year estimates (TOI, 2011). As per the Human Development Report, 2009 of the UNDP, the estimated income in US dollars was \$ 2753 (adjusted by purchasing power parity). The public expenditure on healthcare was about \$21 (adjusted to Purchasing Power Parity), which implied that the overall expenditure on healthcare was approximately \$140 (adjusted to PPP).

This paper attempts to answer this question by evaluating the various quality indicators and their association with cost of hospitalization. The findings have indicated the role of each specific indicator in cost of hospitalization, but fail to answer the pertinent question. The various quality indicators evaluated in the study impact the overall quality of care, with varying degree of intensity. This makes it difficult to estimate the contribution of each specific indicator to quality of care, which in turn results in failure to understand the overall association of quality of care and cost of hospitalization.

## 8.0 Acknowledgment

The author would like to acknowledge Pinnacle Healthcare Consultants, a consultancy firm based in Mumbai, which provided most of the primary data to conduct the aforementioned study. The data used for the study was part of assessment data collected for specific clients by Pinnacle Healthcare Consultants. ■

### 9.0. TABLES:

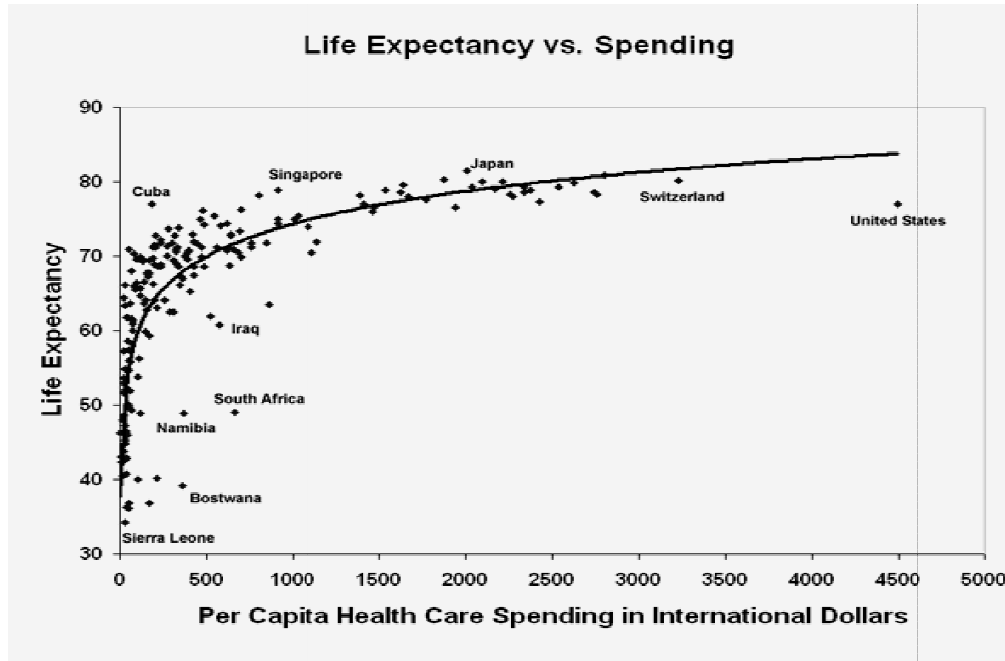
Country	Per Capita Expense on Healthcare per annum (in US\$)	Infant Mortality Rate ( per 1000 live births)	Life Expectancy( in years)
United States	6096	6.1	78.2
United Kingdom	2560	4.7	79.9
Australia	3123	4.7	81.7
Kenya	86	53.5	58.8
Sudan	54	68.07	55.42

**Table 1: Per capita Expenditure on Healthcare Vs Key Health Indicators**

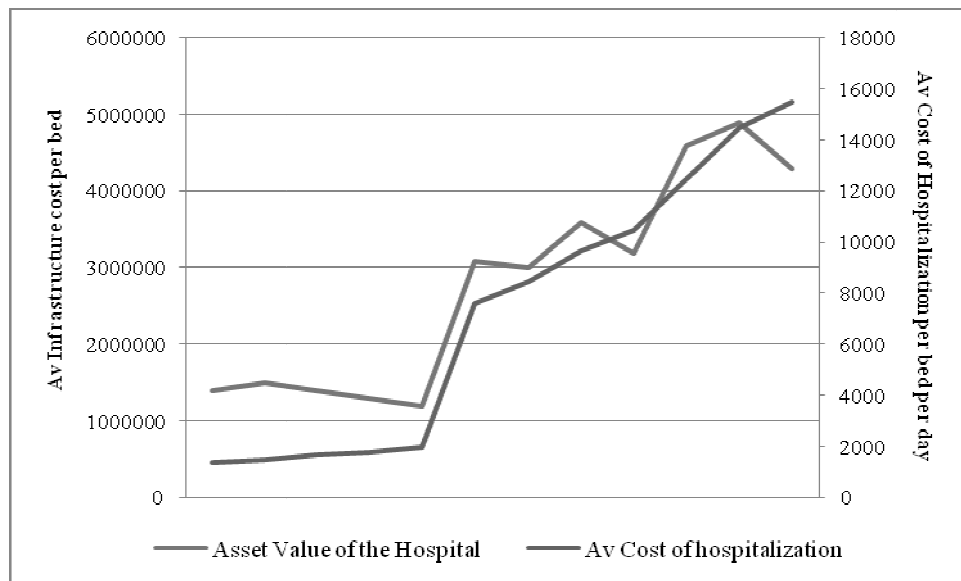
Type of Hospital	Cost of Infrastructure/ bed in million INR ( Std. Deviation)	Cost of Medical Technology/ bed in million INR ( Std. Deviation)	Av Cost of hospitalization per day in INR ( Std. Deviation)
<i>Tertiary care</i>	4.6 (0.3)	0.44 ( 0.054)	14,167 (1527.5)
<i>Multi Specialty</i>	3.225 (0.263)	1 (0.141)	9,075 (1281.6)
<i>Secondary Care</i>	1.36 (0.114)	1.7 (0.1)	1,680 (238.7)

**Table 2 : Indicative Asset Value Vs Av Revenue per bed (n=12)**

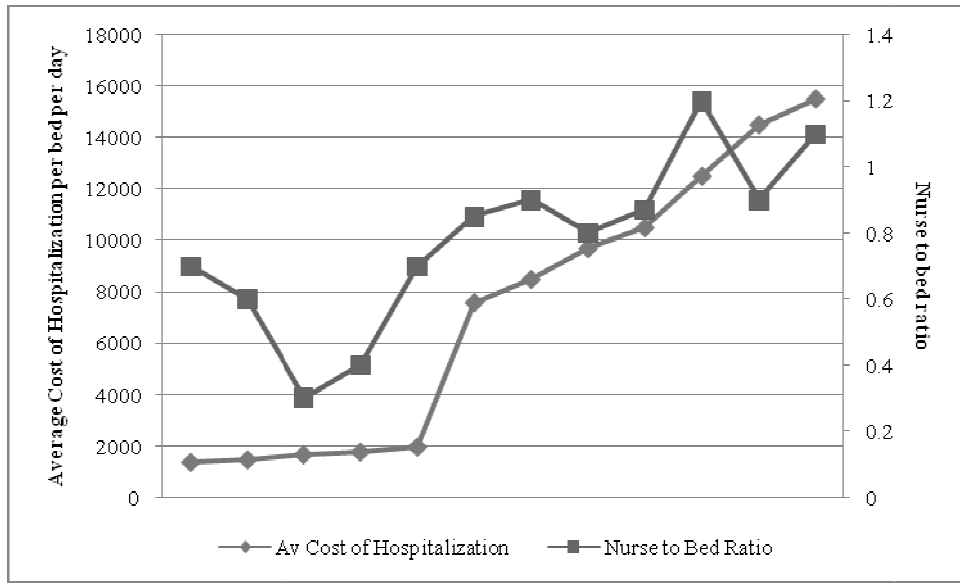
**10.0. FIGURES:**



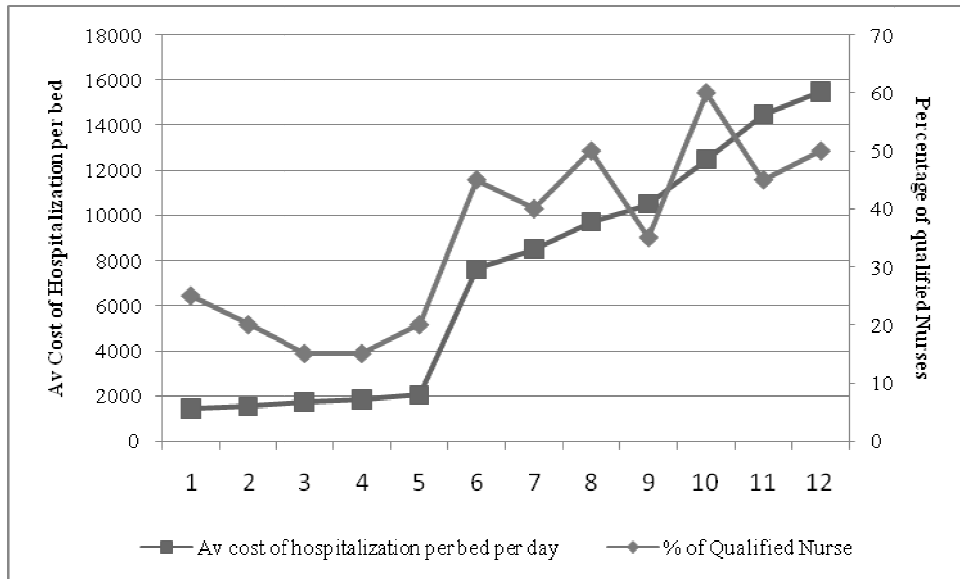
**Figure 1: Life Expectancy Vs Spending on Healthcare Globally**  
(Source: US Atlas for Global Inequality, <http://ucatlans.ucsc.edu/spend.php>)



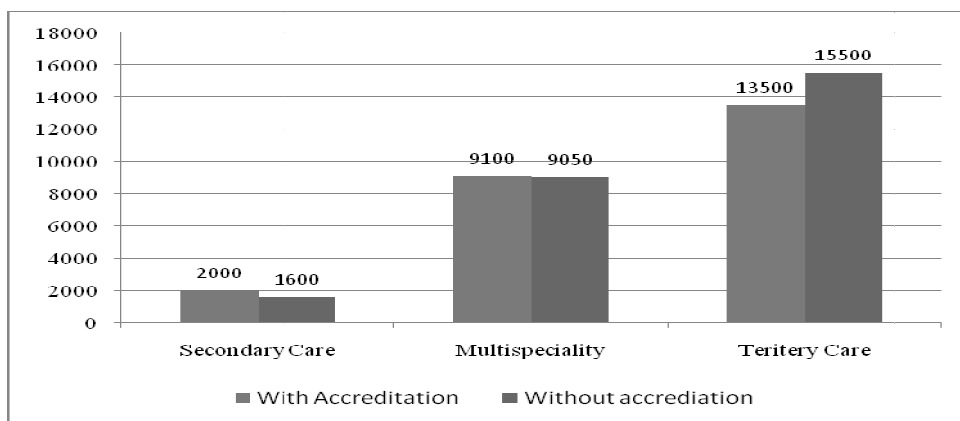
**Figure 2: Relation of Asset Value with Cost of Hospitalization (n=12)**



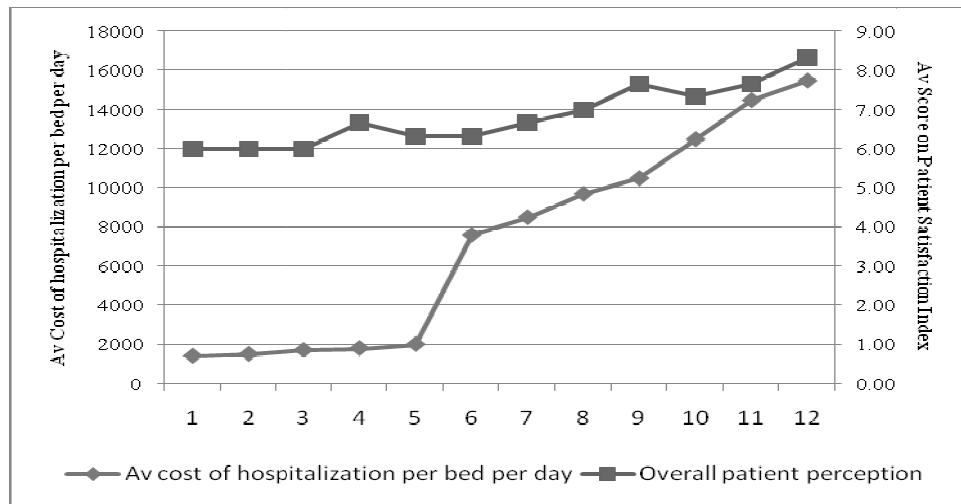
**Figure 3: Nurse to bed ratio versus average cost of hospitalization per bed per day**



**Figure 4: Percentage of Qualified Nursing Staff Vs the Average Cost of hospitalization per day per bed of the hospital**



**Figure 5: Accreditation and cost of Healthcare**



**Figure 6: Average cost of hospitalization Vs Overall patient perception**

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## **International Journal of Business & Management Tomorrow**



### **Compensation-satisfaction correlation at workplace: A study on BPOs at Orissa**

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## Abstract

Indian BPOs have been in news for certain contradictory issues. While this industry is able to create more employment on the other hand is facing the problem of attrition. Although these issues have been addressed from different perspective, more and more researches are required to understand the employment trends and employee expectation and satisfaction, may be in the local level. An online survey was conducted at Orissa to address compensation issue in different BPOs. 106 respondents selected on the basis of snowball sampling fully completed the survey. With the help of descriptive statistics and correlation tests findings were generated. Overall it was found out that BPOs are no more considered as stepping stones to other jobs rather are thought of as long term career prospects. And the compensation satisfaction was highly correlated to job satisfaction among the respondents.

**Key Words:** Compensation, Job satisfaction, BPOs, Orissa, India

## 1.0 Introduction

The level of compensation is one of the more important job attributes to individuals (Jurgensen, 1978). Not surprisingly, salary or wages as measures of pay level consistently have been shown to predict pay satisfaction among a number of different occupational groups (Berger & Schwab, 1980; Dreher, 1980; Dreher et al., 1988; Futrell, 1978; Hemmasi, Graf, & Lust, 1992; Lawler, 1971; Motowidlo, 1982; Ronan & Qrgant, 1973; Schwab & Wallace, 1974). Moreover, for almost all motivational theorists salary or compensation is a strong motivator. For example, as per Herzberg's (1968) two factor theory, salary is a hygiene factor as well as motivator.

In fact, the study of employee satisfaction with pay has been a longstanding interest to psychologists. Way back in 1935 Hoppock's seminal work on job satisfaction revealed that dissatisfaction with wages was the most important reason for voluntary separation across a broad range of occupations. Other consequences of wage related dissatisfaction has been studied in subsequent times. Those include reduced level of performance (Bretz & Thomas, 1992); coming late to the office (Koslowsky, Sagie, Hrausz & Singer, 1997); absenteeism (Weiner, 1980); theft (Greenberg, 1993); turnover and turnover intentions (Motowidlow, 1983). Even there are studies that tried to relate pay satisfaction with outcomes in the organizational level analysis (Griffin, Mathieu, and Jacobs, 2001; Schneider, Hanges, Smith, & Salvaggio, 2003). While Griffin et al. studied the effect of pay satisfaction on the teachers' perception of local community support for education, Schneider et al. tried to find out the relationship between pay satisfaction and organisations' actual financial performance. A relatively recent finding reveals that pay satisfaction is related to student academic performance, teacher intention to quit, and student dropout level (Currall, Towler, Judge, & Kohn, 2005).

Employees' perception of equity and procedural justice in pay fixation is considerably related to pay satisfaction. This has been supported by both theoretical and empirical evidences (Heneman & Judge, 2000; Greenberg & Weithoff, 2001). Studies suggest that individuals who historically have received higher raises in the past should be more satisfied with their raises (Dyer & Theriault, 1976). And people report more satisfaction to pay raises when it is related to performance (Folger & Konovsky 1989) and that to follows fair criteria (Dyer & Theriault 1976)

In a recent study (Carragher, 2011) it has been found out that attitudes towards benefits were significant predictors of turnover for employees and entrepreneurs over a four-year time period while satisfaction with pay was typically significant for employees but not for entrepreneurs. It was also found that for the employees both equity and expectancy considerations were able to explain differences in turnover rates while for entrepreneurs expectancy theory considerations were more powerful than equity theory explanations.

Previous research has identified several background factors that influence employees' satisfaction with compensation such as age (Dreher, Ash & Bretz, 1988), educational level (Klein & Maher, 1966), gender (Nash & Carroll 1975) & tenure (Dreher 1981). Similarly, one Indian study reveals that people from private and public sector differ in their pay satisfaction which acts as a catalyst for job satisfaction (Sharma & Bajpai,

2011). Although it is not denied that pay satisfaction has multiple correlates (Hemmasi, Graf & Lust 1992), some studies find no relationship between compensation and job satisfaction (Igalens & Roussel 2000).

### **Overview of BPO industry**

Business Process Outsourcing (BPO) is one of the fastest growing segments of the Information Technology Enabled Services (ITES) industry. A major success of the BPOs can be attributed to its ability to attract the youth of India. The changing lifestyles, demand for luxury and emergence of high-income spending groups coupled with a thoroughly cosmopolitan outlook of life are the factors along with the glamour attached with the BPO jobs generated passion in Indian youth for BPO jobs (Purwar, 2010).

India has become the leading destination for such companies with 46 percent of the global business-process-off shoring (BPO) market (Kaka, Kekre & Sarangan, 2006) and will probably remain so for sometime as it is predicted from its growth. The driving forces that account for this growth of BPO in India are emphasis on quality service, skilled sets and workers, cost effectiveness, English speaking manpower, enabling business policy and regulatory environment, rapid growth in key business infrastructure etc. (NASSCOM-McKinsey, 2002).

In present scenario, the Indian BPO employees represent a new middle class—with its employment base in the increasingly globalized private sector. The new middle class identifies with an image of a professional that the BPO work provides them (Sandhu, 2006). In terms of the moral fiber of BPO employees, this particular group, above all, exemplifies an interesting and important part of the so-called knowledge workforce holding a significant covert influence through their proximity to and involvement with electronic means of production and accumulation (Batstone, Boraston, & Frenkel, 1978).

BPOs have been found to be creating highest number of employment in India. According to the sixth quarterly survey by the Ministry of Labour and Employment the IT/BPO sector has shown the highest increase at 6.9 lakh during 2009-10. Also, the wages for the IT/BPO sector showed the maximum growth of 9.3 percent during the last quarter (Siliconindia 2010). With all these achievements and characteristics BPOs could draw the attention of researchers and media equally.

While there was publicity regarding its popularity among the Indian middleclass job seekers, on the other hand lots of reporting were there regarding its attrition problems and job induced stress with its consequences. While unraveling the causes of attrition, HayGroup in its 2008 "BPO Sector Special Survey," came to the following findings. a) the salary structure is not competitive in BPO firms as compared to the rest of the Indian market; b) the short-term variable component was just 4% last year while the rest of India's workers enjoyed 10%. Such a low figure does not give any scope in creating incentive programs to encourage employees to work harder or stay at the organization; c) the attrition rate at BPOs last year was 23.5% compared to 15% in the general market; d) the benefits package mainly focused on retirement benefits, which clearly does not mean much of an incentive for a 20 year old. The employee gets the money at age 60. So retirement benefits like PF do not encourage employees to stay at one company (BPOWATCH, 2010).

In the same line the present study tries to find out the satisfaction level of BPO employees related to their compensation package and other benefits. It tries to answer the basic questions like –a) what is the satisfaction level of employees of the different components of compensation; b) Do people differ in perception of compensation satisfaction with regards to their demography?; c) what is their job satisfaction level with respect to different employee benefit schemes?

## **2.0 Method**

### **2.1 Sample**

A snowball sampling method was adopted to select the respondents. On the basis of personal contacts some respondents were identified. Then they were requested to pass on the URL of the online questionnaire to their acquaintances working in BPO sector. However, the study was limited to the BPO companies situated in

and around Bhubaneswar city of Orissa, India. In total 145 persons had responded to the questionnaire from which 106 respondents had completed the questionnaire fully.

<Insert Table 1>

Out of them 69.8 % were male and 30.2 % were female and the majority is within 20 to 30 age group. From the above table it could be also noticed that the majority of the people are master's degree (PG Level) holders (48.1%). Most of the respondents (36.8%) had 7-12 months experience in the present company however it was also found out that maximum people (27.4%) had 5-10 years experience in the BPO industry. None of the respondents were getting salary less than 2 Lacs per annum and maximum people (38.7%) had the salary 2-4 Lacs followed by 34.0% of respondents having more than 6 Lacs per annum.

## **2.2 Instrument & Data collection**

A survey instrument was prepared that contained demographic information along with questions measuring the level of satisfaction from different components, and satisfaction on different employee benefit schemes. The items contained the different financial benefits provided in different organizations. Four experts having more than ten years experience in corporate were consulted while preparing the questionnaire. Perception regarding the salary components was obtained through a 23 item questionnaire having different components of salary and benefits as items. The responses were collected in a five point Likert type of scale (1= least important to 5= highly important). The scale had high reliability score ( $\alpha = 0.95$ ). The job satisfaction employee benefit scheme scale consisting of 25 items measured responses in a five point scale ranging from 1= lowest, 2= somewhat, 3= neutral, 4= good, 5= excellent ( $\alpha = 0.94$ ).

For data collection, the survey instrument was made online and the link was distributed to contact persons with a request to forward it to their known persons working in BPOs. The responses were directly stored in the main computer of one of the investigators. The stored data then was imported to SPSS for further analysis. The responses which were complete in all respects were retained and others were rejected.

## **3.0 Results**

The data were analyzed with the help of SPSS. Along with the descriptive statistics, correlation tests were used to generate the findings.

Table 2. Satisfaction derived from different components of compensation (in percentage)

<Insert table 2>

The table shows that the people are deriving the maximum satisfaction from Night shift allowances (60.4%), Tour allowances (63.2%), Family get together (61.3%), Gym and other recreational amenities (67.9%) that means the people are actually becoming more family and health oriented and seeking night shift disturbance allowances due to the nature of work in odd hours. Next level of priority they have given to the factors e.g. Pickup and drop (58.5%), Retirement benefits (59.4%) which shows the crowd is looking this sector from more long term perspective and may be life long career where they might find even the retirement benefits. This Indian generation is habituated in seeing their earlier generation enjoying retirement benefits being public servant. Group Insurance (51.9%), Yearly paid vacation (51.9%) also motivates people and they draw satisfaction in the next level priority that shows this segment is getting much matured and looking for more family orientation. The above said factors are more important compared to Basic (16.0%), HRA (17%).

< Insert table 3>

Further attempt was made to find out the mean satisfaction level of males and female respondents. It was found out that although their mean compensation satisfaction and job satisfaction level differed slightly, further t test confirmed that there is no significant difference (Table 3). It implies that although female employees have problems related to nightshifts (Jayanthi & Venkatramaraju 2009), the compensation has not been compromised.

<Insert Table 4>

As it is reflected in the Table 4, respondents of different age groups significantly differed in the perceived levels of compensation satisfaction, however, their job satisfaction level did not differ significantly. From the mean scores it is evident that respondents in the range of 31-40 years were highly satisfied with their compensation package in comparison to others but it was not reflected in their job satisfaction level. Youngsters in the age group 21-25 years found to be more satisfied with the job. Such finding invites more insight into this phenomenon.

< Insert table 5>

The satisfaction perceived from different components of compensation was obtained from a five point rating scale. The total score of individual respondents in each component was compared with their job satisfaction level obtained from a five point Likert type of scale. The correlation coefficient score (0.48) of both variables being significant at .001 level of significance (Table 5) implies that the satisfaction level on different components of the compensation is highly correlated with the job satisfaction level.

## **4.0 Discussion and Conclusion**

The overall finding suggests that people were relatively happy with upcoming compensation strategies formulated by BPOs and compensation had highly correlated with job satisfaction. This finding is in line with other findings that compensation satisfaction leads to job satisfaction (Sharma & Bajpai, 2011). The finding that people were satisfied with the compensation can be substantiated with the finding that perceived job characteristics positively relates to compensation satisfaction (Yen & McKinney, 1992) and so far as the job characteristics of Indian BPOs are concerned they have a formal, structured, and rationalized HRM system (Budhwar, Luthar and Bhatnagar 2006). Moreover, in support of the previous findings (Dreher, Ash & Bretz, 1988), this study found out that there is age difference so far as perception of compensation satisfaction is concerned.

Our findings are in line with certain surveys conducted by reputed organizations. For example, a Towers Watson's Global Workforce Study (2010) noted that increasingly more employees in India are taking an opportunistic attitude and are open to job shifts to advance their careers. Similarly, our study also found that the people are more interested to find on the job training, interested to study more while working and which would enhance their career path. As per the same study, only 25 percent Indians and 23 percent of Chinese employees listed working for one organisation as their preferred career model. This trend in China and India is symptomatic of growing economies and the optimism it generates. Employees here are more bullish about the future and are willing to follow opportunities as they arise. To retain talent, India Inc will have to increasingly engage its employees in every aspect-be it competitive pay, learning opportunities, challenging work, career advancement opportunities or being an employer of choice. Because with the time our study found the ITES/BPO sector is also getting matured people who're looking for long term career within this sector are slowly trying to get settled and looking for long term growth and career. Despite being a decade or more removed from a highly paternalistic employment deal in parts of the world, findings in several studies now indicating that self- reliance is more of an intellectual construct than the behavioral reality for employees. This is most obvious when it comes to employees' views about providing for their working lives and into retirement. The study shows that globally employees understand that, they are solely or chiefly responsible for ensuring their futures and their long-term financial and physical health and well-being. Our study also shows that pattern and validates the above observations. Many employees are currently sacrificing advancement for job security.

Moreover, Indian BPOs are not far behind so far as good human resource practices are concerned. One of the recent finding suggest that a number of Indian BPO firms employ exclusivist strategies, such as open human resource policies and other collectivistic human resources practices such as team reward and compensation, team performance evaluation, etc. (Sarkar, 2009).

This study pertains to a small part of India i.e. Orissa and the findings of the study should be generalized with caution. Other limitations of the study include non probability sampling and small sample size. However, the findings generated can be directly helpful for the BPOs at Orissa and some generalizations for India can be taken with caution. ■

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**Table 1. Sample Profile**

Variables	Frequency	Percentage
<b>Age</b>		
=< 20 years	0	0
21-25 years	38	35.8
26-30 years	42	39.6
31-40 years	20	18.9
>= 41 years	6	5.7
<b>Sex</b>		
Male	32	69.8
Female	74	30.2
<b>Qualification</b>		
Under Graduate	9	8.5
University Degree	39	36.8

Masters Degree	51	48.1
Ph. D.	3	2.8
Other	4	3.8
<b>Experience in current company</b>		
=< 6 months	0	0
7-12 months	39	36.8
1-2 years	32	30.2
2-5 years	18	17.0
>=5 years	17	16.0
<b>Total work experience</b>		
=< 6 months	0	0
7-12 months	18	17.0
1-2 years	10	9.4
2-5 years	28	26.4
5-10 years	29	27.4
>=10 years	21	19.8
<b>Current cost to the company</b>		
<= 2 Lacs	0	0
2-4 Lacs	41	38.7
4-6 Lacs	29	27.4
>= 6 Lacs	36	34.0

**Table 2.**

Salary components	Delighted	Satisfied	Neutral	Not Satisfied	Completely dejected
Basic	16.0	16.0	39.6	16.0	12.3
HRA	17.0	13.2	39.6	19.8	10.4
Group Insurance	51.9	16.0	19.8	7.5	4.7
Bonuses	48.1	21.7	12.3	7.5	10.4
Medical Benefits	44.3	11.3	16.0	17.0	11.3
Abroad traveling opportunities	35.8	9.4	39.6	9.4	5.7
Paid time off	30.2	13.2	35.8	8.5	12.3
Higher education options	34.0	15.1	18.9	7.5	24.5
Gym and other recreational amenities	67.9	10.4	11.3	5.7	4.7
Pickup and drop	58.5	12.3	14.2	7.5	7.5
Training and upgrading skills	26.4	12.3	16.0	13.2	32.1

Regular management feedback to improve mistakes	28.3	11.3	34.9	15.1	10.4
Cafeteria facilities	50.0	17.0	15.1	14.2	3.8
Yearly paid vacation	51.9	12.3	17.9	8.5	9.4
Tour allowances	63.2	8.5	18.9	5.7	3.8
Night shift allowances	60.4	3.8	23.6	10.4	1.9
Family get together	61.3	9.4	17.9	9.4	1.9
Office parties	51.9	8.5	24.5	7.5	7.5
Monthly achiever recognition	51.9	19.8	13.2	4.7	10.4
Target achievement recognition and cash prize	50.9	20.8	14.2	4.7	9.4
On call training and guidance by trained supervisor	29.2	8.5	15.1	14.2	33.0
Quality assurance & failure root cause analysis and further training	26.4	11.3	14.2	14.2	34.0
Retirement benefit	59.4	11.3	11.3	3.8	14.2

**Table 3. Sex and compensation satisfaction**

		Mean	SD	t
<b>Compensation</b>	Male	52.66	20.07	-.33 (df = 104)
	Female	54.16	20.77	
<b>Job satisfaction</b>	Male	65.69	22.07	1.74 (df = 104)
	Female	59.15	16.32	

**Table 4. Age group and compensation satisfaction**

	Age group	Mean	SD	F
<b>Compensation</b>	21-25 years	52.18	17.84	3.36* (df = 102/3)
	26-30 years	48.59	19.19	
	31-40 years	66.0	26.94	
	>= 41 years	58.17	24.93	
<b>Job satisfaction</b>	21-25 years	64.45	19.08	.75 (df = 102/3)
	26-30 years	59.64	16.71	
	31-40 years	59.50	16.86	
	>= 41 years	55.83	23.43	

\*p<.05

**Table 5. Compensation satisfaction correlation**

	Mean	SD	Pearson's <i>r</i>
<b>Compensation</b>	53.71	21.40	0.48***
<b>Job satisfaction</b>	61.12	17.94	

\*\*\*  
p < .001



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**Exploring The Relationship Quality Among Organizational  
Innovation, Member's Job Involvement And Individual  
Creativity**

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## Abstract

This research is based on member's viewpoint to explore their attitudes towards the organizational innovation, hoping to clarify a vague relationship among innovation, organization and members; to explore the effect from the relationship quality among members, colleagues and management on member's job involvement and creativity performance; and to know in depth the innovation's effect on the organization for making up the unexplored in the existing literature. Through this research, leader's innovation is explored in two parts. First, a significant negative correlation exists between the extension of innovation and the vertical subordinate's relationship quality. Second, a significant positive correlation exists between the implementation of innovation and the vertical subordinate's relationship quality. As well, in an organization, the higher the horizontal relationship quality perceived by subordinates, the more the job involvement; however, the higher the vertical relationship quality perceived by subordinates, the less the job involvement. Consequently, when the innovation is carried out, instead of overly intervening, leaders should play a role of an assistant and communicator and focus on encouraging members to build up a specific relationship of mutually helping, communicating and, further, sharing experience. Moreover, to achieve a win-win strategy, leaders should give their members more job autonomy and decision-making power.

**Key words:** Innovation, relationship quality, personality, job involvement, creativity performance.

## 1. Introduction

In the global economy nowadays, the environment for business' operation changes fast and is hard to be controlled. Only reducing personnel, lowering cost, changing production procedure, etc, are not enough for the business' continuity (Porter, 1996). Taking Taiwan's traditional textile industry as example, ever since the quotas, set by USA, were ceased in 2005, this industry is much harder to run and many relevant businesses have started upgrading and innovating themselves to pursue new profit. Innovation has now become a hot topic. In existing literature, the most renowned two studies of Mumford et al. (2002) are mainly focusing on creativity and innovation. Through the organizational innovation, businesses can make their capital invested more valuable (Schempeter, 1934). Besides, reviewing the successful businesses, the study found the innovation has become one of the necessary tasks for a business to be more competitive. So businesses work hard on being innovative for keeping or enlarging their market occupation and continuity.

In the existing literature, most innovation-related studies are focusing on the factors of innovation, such as the innovative procedures of individuals and organizations, the relationship between organizational culture and innovation, and the effect of innovation on organizational performance. But, to innovate, work willingness and employee cooperation are definitely needed. And, innovation is a collective process (Kanter, 1988) to put new ideas and strategies of solution into practice. As for the organizational creative activities, they should be regarded as an organizational innovation. Furthermore, innovative activities are the products or procedures made by the collective effort of individuals, groups and the organization (Gattiker, 1990), so members play a key role while innovating. However, being worried about the danger, uncertainty and pressure coming with the innovation, colleagues might resist it (Lewin, 1951). The resistance, thus, affects the satisfaction of role relationship in an organization. In the existing literature, there were few studies about the effect of innovation on the inner role relationship (Janssen, 2003).

Therefore, this research aims at knowing how the innovation affects and changes the organizational inner role relationship to further explore the relationship between the change of role relationship and the member's reaction.

Innovation will impact all members' daily life. The biggest impact could come from leaderships (Amabile et al., 2004). In other words, when processing the innovation, leaders might affect greatly on member's job performance, helping or hindering them from acquiring resources and information. However, management has perceived that to be competitive and to successfully achieve the innovation performance, they must encourage their members to actively involve in their job (Shalley and Gilson, 2004). Based on the

description above, while extending and implementing the innovation, businesses should well know the change of relationship among all members and their attitude and performance. So this research also explores what types of support and assistance leaders should give their subordinates in the process of innovation.

## **2. Exploration Of Existing Literature And Hypothesis**

### ***Relationship between Innovation and Relationship Quality***

Innovation means for adapting new environment and solve new problems, businesses assign their members new tasks, applying new methods, techniques, role relationship and standard operation procedures. The innovation in this research mainly focuses on leader's supervision and execution.

Colleagues could resist the innovation as they might feel perilous, uncertain and pressured (Lewin, 1951; Likert, 1967). On the other hand, due to being used to the present environment, it's hard for members to change work habits (Jones, 2001; Triandis, 1960).

Moreover, innovation also brings about conflicts among colleagues and further affects their relationship of satisfaction (Janssen, 2003), since though implementing innovation can cope with organization's new problems or help members to adapt a new environment, it might affect the exchange relationship among members. In other words, if the innovation is commanded directly by leaders, the relationship between leaders and subordinates could be affected. In short, based on the existing literature about resisting changes, colleagues could resist the innovation to avoid peril and pressure. They could further try to keep their original job and habits and persist in their current organization structure to avoid different recognition. In other words, members not willing to innovate will be unhappy, resisting and even enraged about company's innovation.

Because the interpersonal relationship between leaders and subordinates is based on rewards and interests, it's hard to avoid the fact that members mainly pursue individual interests, not being loyal and cooperation each other (Liaw and Wu, 2003). In other words, in-group members might be afraid that innovation could cause the role relationship to change, and out-group members might resist the innovation for being afraid of pressure and work habits changed. So, when leaders are planning to innovate, the interaction between leaders and subordinates could result in less contribution from subordinates, a poor interpersonal relationship between leaders and subordinates, and less loyalty and respect from subordinates.

Because of different viewpoints and values, conflicts could happen among subordinates and members when processing innovation. Different attitudes or values will affect the relationship among members. Supportive members might cooperate and figure out new ideas, but members against the innovation would rather keep the original environment. These different viewpoints could also be an obstacle to the relationship between supporters and resisters. Therefore, based on the description above, this research makes the first hypothesis:

H1: A significant negative correlation exists between innovation and relationship quality

H1-1a: A significant negative correlation exists between extension of leader's innovation and vertical subordinate's relationship quality.

H1-1b: A significant negative correlation exists between extension of leader's innovation and horizontal subordinate's relationship quality.

H1-2a: A significant negative correlation exists between implementation of leader's innovation and vertical subordinate's relationship quality.

H1-2b: A significant negative correlation exists between implementation of leader's innovation and horizontal subordinate's relationship quality.

### **3. Relationship among Innovation, Personality, and Relationship Quality**

Personality is a dynamic organization in one's psychological system, and it's a unique mode guiding one's thought and behavior (Allport, 1937). Personality is also a totality of one's characteristics, attributes and properties, a special quality for each single individual (Guilford, 1959). Hence, on exploring organizational behavior, the effect of individual difference on the response variables is also often probed into based on personality characteristics.

#### ***Locus of control (Internal and External Control)***

Of all personality structures, the most lasting and useable structure is "Locus of Control" (Furnham and Steele, 1993; Rotter, 1966). It is defined as "an extent that an individual believes he/she can overcome the environmental change or adversities." According to Robbins' (2001), internal-control members are more active and will handle problems in constructive ways. Hence, this research infers that locus of control has a significant interference effect between innovation carried out by leaders and relationship quality. Hypothesis is as follows,

H2: In the relationship between innovation and relationship quality, personality has an interference effect

H2-1a: Through the high internals, a negative correlation becomes weaker between extension of innovation and vertical subordinate's relationship quality.

H2-1b: Through the high internals, a negative correlation becomes weaker between extension of innovation and horizontal subordinate's relationship quality.

H2-2a: Through the members with high organizational-based self-esteem (OBSE), the negative correlation becomes weaker between implementation of innovation and vertical subordinate's relationship quality.

H2-2b: Through the members with OBSE, the negative correlation becomes weaker between implementation of innovation and horizontal subordinate's relationship quality.

#### ***Organizational-Based Self-Esteem (OBSE)***

Theoretically, OBSE is an ability of self-perception formed through the individual actual work experience, attitude and motive in an organization.

Upon facing the negative situation, low OBSE members will think and act negatively, but high OBSE members tend to take positive and constructive attitude to reduce the effect of negative situation (Brockner, 1988). OBSE has an interference effect on the variables, such as organizational uncertainty, intrinsic stimulation, organizational commitment, no-reason absence, etc. (Brockner, 1983). And the self-esteem can be an observing variable for member's plasticity (Brockner, 1988). When colleagues interact well, the job performance of high OBSE members will be better (Mossholder et al., 1982). Based on the description above, this research makes hypotheses as follows:

H2-3a: Through high OBSE members, the negative correlation becomes weaker between extension of innovation and vertical subordinate's relationship quality.

H2-3b: Through high OBSE members, the negative correlation becomes weaker between extension of innovation and horizontal subordinate's relationship quality.

H2-4a: Through high OBSE members, the negative correlation becomes weaker between implementation of innovation and vertical subordinate's relationship quality.

H2-4b: Through high OBSE members, the negative correlation becomes weaker between implementation of innovation and horizontal subordinate's relationship quality.

### **4. Relationship between Relationship Quality and Job Involvement**

In the existing literature about job involvement, most scholars are focusing on “intrinsic motive” and “stimulation from extrinsic environment”. Intrinsic motive is a sense of self-esteem, individual experience accumulated and valuable achievements (Lawler and Hall, 1970); extrinsic characteristics are the rewards (such as promotions and bonus), extrinsic consolation (such as sense of safety) and socialization consolation (such as colleague’s support and personal relationship with superiors). In the process of developing different relationship qualities between leaders and subordinates, subordinates show loyalty and develop good relationship with their superiors based on trusts and good wills, prone to the relationship of socialization exchange. Therefore, this high-quality exchange relationship should have a positive effect on leaders, subordinates and the organization. It’s also helpful for job involvement (Liaw and Wu , 2003).

As for the exchange relationship, when leaders and subordinates have a better relationship quality, leaders will offer subordinates more resources and rewards. Relatively, subordinates will contribute themselves more in return, so theoretically the better the interpersonal relationship between leaders and subordinates, the more rewards and affirmation the subordinates will receive, and their job involvement will surely be better.

On the other hand, according to TMX (Team-Member Exchange) theory, to finish tasks, members will cultivate a mutual trust relationship (Graen and Scandura, 1987). When the exchange quality between member’s perception and colleague’s TMX is high, based on mutual beneficial principle, they will feed back each other by mutual help and cognition (Seers et al., 1995). Regarding the organizational behavior, some existing literature shows that the different attitudes or values will hinder the communications and relationship among colleagues (Harrison et al., 1998; Williams and O’Reilly, 1998). In other words, individuals and the organization they work for is a model of role-making process, resulting in cooperation in the organization to produce a high-quality TMX. Moreover, due to an excellent interaction, colleagues will highly mutually help and a higher job involvement happens. When individuals have little job involvement and don’t mutually cooperate, trust and respect, low-quality TMX happens. They, thus, don’t mutually encourage or contribute more efforts, and they don’t even do what they need. Based on the description above, this research addresses the third hypothesis:

H3: A significant positive correlation exists between relationship quality and subordinate’s job involvement.

H3a: A significant positive correlation exists between vertical leader-subordinate relationship quality and subordinate’s job involvement.

H3b: A significant positive correlation exists between horizontal group-member relationship quality and subordinate’s job involvement.

## **5. Relationship between Relationship Quality and Individual Creativity**

Because of the limited time and resources, management treats each of members differently. This is so-called basic hypothesis of LMX, leader-member exchange theory (Graen).

LMX theory tells the relationship quality between management and subordinates has something to do with innovation (Graen and Scandura, 1987). Theoretically, the role-developing procedures of management and subordinates are to achieve decision latitude, to have influence, and to allow subordinates to have job autonomy (Graen and Cashman, 1975).

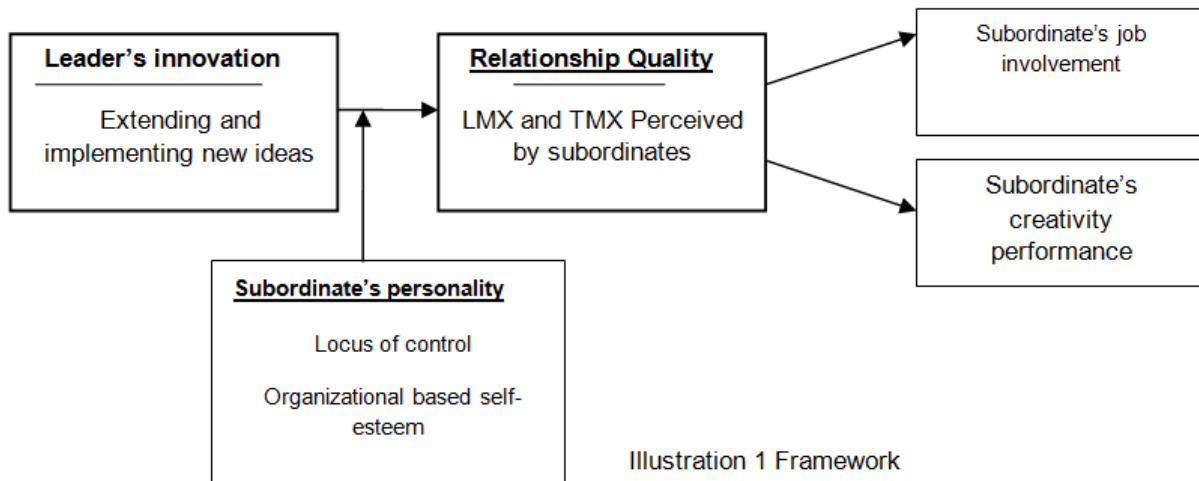
Some relationships between leaders and subordinates are developed from a formal and impersonal interaction, starting with a low-quality LMX and ending up a high-quality LMX of interpersonal exchange. With high-quality LMX, subordinates have a better autonomy and decision latitude, which are necessary for innovation (Pelz and Andrews, 1956). In the existing literature, there has been a preliminary study showing a positive relationship exists between LMX and the whole innovation procedures (Scott and Bruce, 1994). Once the management makes decision, paying attention to what members really care about, scientist’s creativity will more likely happen (Andrews and Farris, 1967). Member’s intrinsic motivation, cognition and LMX will affect creativity (Tierney et al., 1999). Furthermore, the inter-effect between leaders and members, and between members and cognition all have lots to do with creativity performance.

In addition, an organizational coherence makes individuals address their opinions, without being afraid of being blamed. It is a decisive factor to work together for producing new ideas (Sethia, 1991). According to the creativity described above, one of the factors affecting creativity is colleagues and the group (Scott and Bruce, 1994). Therefore, this research infers that under the circumstances of a high-quality group and colleague's TMX, while sharing new ideas and getting feedback, individuals will receive extra useful resources. The study hypothesize this profitability would have positive correlation with creativity. Based on above, this research brings a hypothesis as follows:

H4: A significant positive correlation exists between relationship quality and subordinate's creativity.

H4a: A significant positive correlation exists between the vertical leader-subordinate relationship quality and subordinate's creativity.

H4b: A significant positive correlation exists between the horizontal group-member relationship quality and subordinate's creativity.



## 6. Methodology

### *Framework*

Based on this research's purpose, existing literature and scholars' conclusions, this research increasingly set up a framework and hypotheses. The innovation and the relationship between subordinate's personality and relationship quality in an organization were mainly explored. This research also explored the connections among the relationship quality, "subordinate's job involvement" and "individual creativity". Then, it further verified if the relationship quality is a mediate variable among the innovation, subordinate's personality's attributes and job involvement, and individual creativity. (See illustration 1)

## 7. Operational Definition of Variables and Tools for Measuring

### *Innovation*

1. Operational definition: To adapt a new environment or solve new problems, leaders adopt new methods, techniques, roles relationship and formal standard to carry out new tasks.
2. Based on Kanter's(1988) literature regarding the study of innovation stages, this research adopted Jansses's (2001, 2003) nine measures. Three of them are for the incurrence of the new ideas, three for the extension of the new ideas and the last three for the implementation of the new ideas. Only exploration of the extension and implementation was explored. The higher the mark, the higher the construct of the innovation level.

### ***Relationship Quality***

1. Operational definition: in an organization, relationship quality is an extent of exchange relationship of various qualities between leaders and subordinates, and between colleagues and co-workers.
2. Tools for measuring: based on the studies of Dienesch and Liden (1986) and Seers (1989), two constructs were induced, the vertical leader-subordinate relationship and the horizontal group-member relationship. Vertical leader-subordinate relationship means leaders make use of their authorities to develop a certain extent of exchange relationship of various qualities with their subordinates. Horizontal group-member relationship means based on the member's overall viewpoint on the relationship quality between themselves and colleagues, members describe the relationship quality about mutual help, experience sharing, communication, mutual feedback, mutual cognition and mutual respects.

Regarding relationship qualities, questionnaires of LMX were made based on the scales of Liden and Maslyn ( 1998 ), called LMX-MDM. Total were 11 questions, including constructs such as contribution, loyalty, feelings, respect, etc. Questionnaires of TMX were made based on the scale of unidimensional construct. For these two constructs, Likert's five-point scale was used to measure the exchange relationship quality perceived by members between leaders and colleagues. The higher is mark, the better the relationship qualities.

### ***Difference of Personality***

1. Operational definition: the differences in an individual inner personality.
2. Tools for measuring: according to the researches of Robbins (1988), Korman (1976) and Pierce at al.(1993), there are two constructs, Locus of Control and OBSE. Locus of Control means an extent that an individual believes he/she can overcome the environmental change or adverse factors. OBSE means through the actual individual work experience, attitude and motive, individuals develop a value of their self-cognition.

A modified scale was used based on Rotter's Internal-External Control Scale (1966) and a scale of Pierce et al (1989). Likert's five-point scale was also used to measure the inclination of member's locus of control. The higher the mark, the more the personality inclines towards internal control.

### ***Job Involvement***

1. Operational definition: an extent that one devotes him/herself to the current job.
2. Tool for measuring: a questionnaire scale was made based on this research's purpose and Kanungo's (1982) ten-question scale. Also, Likert's five-point scale was used to measure how much members perceived their own job involvement. The higher the mark, the more the job involvement.

### ***Individual Creativity***

1. Operational definition: to solve problems or adapt new circumstances, an individual creates new and useful techniques, production procedures, products, or ideas of service.
2. Tools for measuring: this scale was made based on the first stage of Kanter's (1988) three-stage-innovation scale – three items that create ideas. Likert's five-point scale is also used to measure how much members perceive their own creativity performance.

## **8. Analysis And Results**

### ***Samples description***

Samples for this research were members from various departments in Taiwan's textile industries. To be prudent, a qualified sample must have worked over three months (Three-month probation was taken as a usual practice before being a formal employee). 450 questionnaires were handed out, 306 effective, recovery rate 68%.

### Reliability Analysis

The reliability was analyzed in two parts. First, Cronbach's  $\alpha$  reliability coefficient was analyzed and second the confirmatory factor analysis. Maximum Likelihood was applied so to understand the Composite Reliability and goodness-of-fit between each construct's questions and factors.

**Table1.** Analysis of Each Construct's Confirmatory Factors.

Variable	Variable's construct	Questions	Cronbach's $\alpha$	CR	GFI	AGFI	CFI	Workload	T-Value	
Innovation	1. Innovation	Extending New Ideas	3	0.82	0.86	0.99	0.97	0.9	0.77~0.79	13.38~13.69
		Implementing New Ideas	3	0.88	0.88				0.83~0.86	16.92~17.99
quality	2. Relationship	Between Superiors and Subordinates	11	0.94	0.93	0.91	0.88	0.9	0.49~0.81	8.65~20.01
		Among Colleagues	10	0.85	0.83				0.25~0.82	4.32~7.53
involvement	3. Personality	Locus of Control	4	0.65	0.65	0.93	0.87	0.9	0.29~0.84	4.39~6.60
		OBSE	4	0.83	0.83				0.50~0.87	8.29~8.37
	4. Job involvement	Job involvement	10	0.89	0.89	0.96	0.91	0.9	0.40~0.81	5.72~8.90

Table 1 shows the Cronbach's  $\alpha$  coefficients of 7 constructs all reach 0.8 or higher, matching the standard, 0.7; only the coefficient of locus of control is a little bit lower, 0.65, but acceptable. Based on Garver and Mentzer's (1999) inference, the qualified level of composite reliability (CR) should be 0.7 or higher. On the other hand, the coefficient of each construct's Good-of-fit index (GFI) is higher than 0.9 and adjusted GFI (AGFI) is between 0.87 and 0.97, having reached 0.8, suggested by Bagozzi and Yi (1988). All coefficients of root mean square residua (RMR) are all lower than 0.8, reaching the standard. The coefficients of comparison fit index (CFI) are all higher than 0.9, matching the standard, 0.9. Of all CRs, the coefficient of locus of control is 0.65, lower but acceptable. All other coefficients are between 0.83 and 0.93, matching the point at issue of Garver

and Mentzer (1999), which CR at 0.7 or higher will be better. On the basis of above, this scale has an excellent conformity and goodness-of-fit.

## 8. Validity Analysis

This research adopted linear structural relationship model (LISREL) to analyze convergent validity (CV) and discriminative validity (DV). Regarding CV, the T absolute value of each variable has a significant standard higher than 2, showing this scale has an excellent CV. Regarding DV, the  $\chi^2$  value of constrained model is calculated separately for three variables – innovation, relationship quality and personality. Then, the full models are compared with constrained models one by one. Table 2 shows each  $\Delta\chi^2$  reaches a significant standard, meaning the three variables – leader’s innovation, relationship quality and personality – all have excellent DV.

**Table 2.** DV Examination between Variable’s Constructs.

Variable’s Construct (Model)	$\chi^2$	df	$\Delta\chi^2$	$\Delta$ df	P-value	RMSE A
1. Original Innovation	11.61	8	-----	----	---	0.038
Innovation’s Extension Implementation	→ 39.34	9	27.73***	1	P<.01	0.105
2. Original Relationship Quality	302.44	170	----	----	---	0.051
Subordinates’ Relationship Vertical→ Horizontal	385.35	171	82.91***	1	P<.01	0.064
3. Original Job involvement	87.33	19	----	----	---	0.109
Locus of Control, and OBSE	200.39	20	113.06** *	1	P<.01	0.172

Note: 1. In model ( ), shows the value of each construct’s Cronbach’s  $\alpha$ . 2. The comparison of value  $\chi^2$  between models is based on original model. 3. \*P<0.1 \*\*P<0.05 \*\*\*P<0.01.

## 9. Correlation Analysis

To examine the correlation between variable’s constructs, this research further analyzed the relevant coefficients. Table 3 shows except no significant correlation between locus of control, each construct of innovation and relationship quality and OBSE; between vertical subordinate’s relationship and locus of control; and between vertical relationship quality and individual creativity, all other constructs show significant correlations. However, these only conclude an extent of direct correlation between two variables, so it can only be an approximate estimate. To have actual results, it needs other statistical methods to verify.

**Table 3.** Correlation Matrix between Each Variable’s Construct.

variable	Variable construct	1	2	3	4	5	6	7	8
1. Innovation	Extending new ideas	(.82 )							
	Implementing new ideas	.77*	(.88 )						
2. Relationship Quality	between superiors and subordinates	.63*	.69*	(.94 )					

	among colleagues	.35*	.36*	.39*	(.85)			
	locus of control	.03	.10	-.01	.11	(.65)		
3. Personality	Organizational Based Self-Esteem	.32*	.30*	.33*	.46*	0.09	(.83)	
4. Job Involvement	Job Involvement	.28*	.27*	.26*	.41*	.19*	.49*	(.89)
5. Individual creativity	Individual creativity	.12*	.13*	.06	.36*	.15*	.26*	.29*
Average		3.97	3.85	3.74	3.87	2.87	3.44	3.41
Standard deviation		.79	.87	.77	.50	.77	.71	.74

Notes: 1. In model ( ), shows the reliability coefficient of Cronbach's  $\alpha$  between each construct. 2. \*  $P < 0.05$

## 10. Hypothesis Route Verification

Using the structural model of LISREL and Method of Maximum Likelihood (ML), this research got non-standard estimated values and T-values to verify if the hypotheses reached the significant level. Table 4 shows all the results.

**Table 4.** Verification Results of Hypothesis Routes.

Cause and effect Route	Variable relationship	ML Estimated Value Non-standard	T-value for test	Hypothesis symbol	Verification Results
PH1-1: $\xi_1 \rightarrow \eta_1$	Extension of innovation $\rightarrow$ vertical subordinates' relationship quality ( $\gamma_{11}$ )	-0.66	-2.00*	-	Stand
PH1-2: $\xi_1 \rightarrow \eta_2$	Extension of innovation $\rightarrow$ horizontal subordinates' relationship quality ( $\gamma_{21}$ )	-0.20	-1.50	-	Not stand
PH1-3: $\xi_2 \rightarrow \eta_1$	Implementation of innovation $\rightarrow$ vertical subordinates' relationship quality ( $\gamma_{12}$ )	1.42	4.26*	-	Not stand
PH1-4: $\xi_2 \rightarrow \eta_2$	Implementation of innovation $\rightarrow$ horizontal subordinates' relationship quality ( $\gamma_{22}$ )	1.21	3.40*	-	Not stand

PH3-1: $\eta_1 \rightarrow \eta_3$	Vertical subordinate's relationship quality $\rightarrow$ Job involvement ( $\gamma_{31}$ )	-0.10	-1.06	+	Not stand
PH3-2: $\eta_2 \rightarrow \eta_3$	Horizontal subordinate's relationship quality $\rightarrow$ Job involvement ( $\gamma_{32}$ )	1.47	5.62*	+	Stand
PH4-1: $\eta_1 \rightarrow \eta_4$	Vertical subordinate's relationship quality $\rightarrow$ individual creativity ( $\gamma_{41}$ )	-0.34	-3.61*	+	Not stand
PH4-2: $\eta_2 \rightarrow \eta_4$	Horizontal subordinate's relationship quality $\rightarrow$ individual creativity ( $\gamma_{42}$ )	1.49	5.71*	+	Stand
Note: 1. $\chi^2=4.88$ , $df=6$ , $GFI=0.99$ , $CFI=0.99$ , $RMR=0.017$ 2. In the column of ML,* means the standard coefficient   T-value   $\geq 2$					

In Table 4, the relationship between extension of innovation and vertical subordinate's relationship ( $\gamma_{11}=-0.66$ ) shows a significant negative correlation. Hypothesis 1-2 ( $\gamma_{21}=-0.20$ ) does not reach a significant standard ( $\gamma_{21}=-1.50$ ) and shows a negative correlation, meaning the innovation carried out by leaders will indeed have a negative effect on the vertical and horizontal relationship in the organization. On the other hand, the hypotheses 1-3 and 1-4,  $\gamma_{12}=1.42$ ,  $\gamma_{22}=1.21$ , have opposite results to this research's theoretical hypotheses, which will be explained later.

Moreover, the coefficient,  $\gamma_{32}=1.47$ , of hypothesis 3-2 reaches a significant standard, | T-value |  $\geq 2$ , showing the higher the vertical subordinate's relationship, the more the job involvement. The coefficient,  $\gamma_{42}=1.49$ , of hypothesis 4-2 also reaches a significant standard, | T-value |  $\geq 2$ , meaning the more the job involvement, the more the individual creativity. With these two results, this research infers that when Taiwan's textile industries are trying to extend the innovation, they should think highly of creating a harmonious relationship among colleagues so to brainstorm more new ideas from them, instead of creating them a competitive environment. Hypothesis 3-1,  $\gamma_{31}=-0.10$ , shows a negative correlation, but not significant. Hypothesis 4-1,  $\gamma_{41}=-0.34$ , shows a significant negative correlation, which is opposite to the hypothesis of this research and will be explained later.

## 11. Interference Effect Analysis of Personality

To explore how different personalities affect innovation and relationship quality, this research regarded locus of control and OBSE as two constructs to be measured. Table 5 and 7 show the results.

### *Locus of Control*

**Table 5.** Interference Effect of Personalities of Locus of control.

Hypothesis route	Standard structural coefficient		Verification result
	Internal attribute	External attribute	
H2-1:Extension of innovation $\rightarrow$ vertical subordinates' relationship quality( $\gamma_{11}$ )	0.30*	0.06	Support
H2-2:Extension of innovation $\rightarrow$ horizontal	0.20*	0.25*	Support

subordinate's relationship quality( $\gamma_{21}$ )			
H2-3:Implementation of innovation → vertical subordinates' relationship quality ( $\gamma_{12}$ )	0.23*	0.32*	Not support
H2-4:Implementation of innovation → horizontal subordinates' relationship quality ( $\gamma_{22}$ )	0.28*	-0.05*	Support
Note: 1. The verification results of hypothesis model, $\chi^2=44.86$ , $df=12$ , $GFI=0.97$ 。 2. Result of $P<0.01$ tested separately by $\Delta\chi^2$			

Table 5 shows the hypothesis of interference effect is partly supported. Both internal- and external-control personalities indeed will have interference effect on relationship quality. In the routes of hypotheses 2-1 and 2-4, when subordinate's personality is of internal control, a significant correlation shows, but not significant; when personality is of external control, meaning while the innovation is being extended and implemented, the vertical subordinate's relationship perceived by internal-control members is better than that perceived by external-control members. In the route of hypothesis 2-2, interference effect of both personalities are all positive correlations, which are opposite to the negative correlation before being interfered ( $\gamma_{21}=-0.20$ ). Therefore, the interference effect exists. As for the route of hypothesis 2-3, both internal- and external-control personalities all reach a significant correlation. Interference effect on the personality of both internal and external control in the route of  $\Delta\chi^2$  values is not significant as no significant difference is found.

### **Organizational Based Self-Esteem (OBSE)**

**Table 6.** Interference relationship of OBSE Attributes.

Hypothesis Route	Standard structural coefficient		Verification result
	High OBSE attribute	Low OBSE attribute	
H2-5:Extension of innovation → Vertical subordinates' relation quality( $\gamma_{11}$ )	0.19*	0.31	Stand
H2-6:Extension of innovation → horizontal subordinates' relation quality ( $\gamma_{21}$ )	0.16	0.09	Stand
H2-7:Implementation of innovation → vertical subordinates' relationship quality( $\gamma_{12}$ )	0.54*	0.37	Stand
H2-8:Implementation of innovation→ horizontal subordinates' relationship quality( $\gamma_{22}$ )	0.29*	-0.05	Stand
Note: 1. The verification results of hypothesis model , $\chi^2=27.82$ , $df=12$ , $GFI=0.95$ 。 2. Result of $P<0.01$ tested separately by $\Delta\chi^2$			

Table 6 shows hypotheses 2-5, 2-7, 2-8 all reach a significant standard, have positive correlation and have an interference effect. As for hypothesis 2-6, the interference effects of its personality of both internal and external control all reach positive correlation, which is opposite to the negative correlation ( $\gamma_{21} = -0.20$ ) before being interfered, so interference effects exist. Based on above, OBSE is the interference variable of innovation and relationship quality. Their relationship is significant and positive, meaning the negative correlation will be weaker between the innovation done by high OBSE members and LMX and TMX perceived by subordinates.

## 12. Implications And Conclusions

This research aims at offering useful information to the managements of Taiwan's textile industries so to make them pay serious attention to member's psychology; to choose right people to help company's innovation; to encourage them to more contribute; and to develop individual creativity, when carrying out and extending an innovation. Based on the findings, the study further expounds some points of the meanings of management as follows:

1. This research verified that subordinates will resist the innovation as they do not fully understand or are afraid of the uncertainty in the beginning. So, during the period of extension, managers must well communicate with their members, making them well understand. On the other hand, this research added two constructs, locus of control of the personality and OBSE. Internal-control and high OBSE members can make the negative relationship weaker, even turning it into a positive correlation, meaning when internal-control and high OBSE members cooperate with company's innovation, they have higher sense of satisfaction with their new job, easily adapt new environment and keep, even develop, a positive attitude. Hence, internal-control and high OBSE members are more suitable to participate in the innovation, and they can further improve the quality of role relationship and reduce the resistance in their organization so to let the innovation go smoothly.

2. In the past, most scholars regarded the three constructs as a whole construct to analyze. This research was trying to divide the innovation into three constructs based on the three steps of innovation variables so to explore something unexplored. The result shows that when processing innovation, the more positive and acceptable attitude subordinates have and the more innovation leaders do, the better the relationship will show between leaders and subordinates. At this point, personality has no significant interference effect, meaning when facing different innovation procedures, subordinates have different attitudes. Attitudes to resist or expel the innovation mainly take place when the idea pops up and is extended.

Based on the description above, subordinates would not be fully resisting the innovation. Only if the innovation is for company's good and can improve present work environment, job performance and productivity, most of them are willing to help. However, when carrying out the innovation at the onset, management should watch member's attitude. Once there is a good communication and the innovation gets support, the innovation goes better and so is the relationship quality.

3. Regarding subordinate's job involvement and individual creativity, this research concludes when the exchange quality is high between member's perception and colleague's TMX, they will surely cooperate well based on the principle of mutual benefit. And, an excellent co-working relationship can improve a work environment to make members contribute themselves more and cooperate better. Furthermore, through this excellent relationship quality, colleagues will mutually encourage to create and develop newer and more useful ideas to help their company.

This research also shows that about subordinate's job involvement and individual creativity, colleague's influence is stronger than that of leader's power. The better the relationship quality between leaders and subordinates, the more the idle situation will happen as subordinates think they have good personal relationships with their leaders. On the contrary, if subordinates are overly obedient and respect leader's opinion, they will be losing the ability of expression. Therefore, when carrying out the innovation, to make things go smoothly, leaders should play a role of an assistant and communicator, instead of a role of interference. They should also focus on members' mutual assistance, communication and experience sharing, and give them more job

autonomy and decision-making power to greatly reduce the resistance, improve job performance and make a win-win situation. ■

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**Developing Child Friendly Environment In Early Childhood  
Education Classrooms In Pakistan**

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## Abstract

Among all levels of education, Early Childhood Education and Development (ECEd) is considered to be the most critical level for social (relationship to others), emotional (self-image and security), cognitive (thinking and reasoning) and physical development of children. Therefore, the teachers of early years need to play a significant role in the teaching and learning process through providing a friendly environment in their schools.

The study employed a case study approach. Information was gathered through a combination of methods, which included classroom observations, field notes, document analysis, focus group and semi structured interviews. The focus group participants and the interviewees were selected from a variety of stakeholders, which included parents, students, teachers and head teachers from public sector to get a comprehensive and representative analysis. Informal conversations with different stakeholders and self reflections contributed to clarify different aspects of the issues and findings. In this study I explored teachers' role in developing child friendly environment in ECE classrooms. Thus, two female ECE classroom teachers from a public secondary school in Gilgit-Baltistan of Pakistan were the primary participants of the study and they taught in early setup.

The study revealed that institutional support and monitoring teachers' personal propensity to learning for improving pupils' learning, the prior ECED learning experiences and pedagogical content knowledge play an important role in engaging teachers in developing their thinking and teaching practice. The contribution of this thesis is that institutional and socio cultural influences are local, and derive from the Pakistani context, so have a particular significance for designing teacher development programs.

**Key words:** Child friendly environment environment, early childhood education and development, holistic development, Professional Development Centre North, Aga Khan University,

## 1. Introduction

The age of ECED is very critical for young children's holistic development (social, emotional, cognitive and physical). Therefore, many countries have substantial investment in the early years of children's education. Several world organizations and forums have also emphasized the provision of equal opportunities for young children for their growth and development. However, in ECE, emphasis is placed on the holistic development of children.

In the 1980s, an additional dimension i.e. 'care' was added to ECE/ECD to broaden its frame work. Later on, it was referred to as Early Childhood Care and Development (ECCD). Various academics, practitioners and policy makers use different terms such as Early Childhood Education (ECE), Early Childhood Development (ECD) and Early Childhood Care and Development (ECCD) according to their preferences, orientations and purposes. Nevertheless, the current emphasis of an ECE seems to be more on the holistic development of children by using a multidisciplinary approach to meet children's needs in the areas of health, nutrition, care and education. Development and education are considered to be essential dimensions of Early Childhood Education and Development (ECED). Development is considered as a process of change in which children learn through interactions with adults, objects and environment. Similarly, learning is considered as a key part of the development process and the outcome of children's development. Therefore, ECED programs are important for the holistic development of children. Such programs can enhance physical well being and motor development, social and emotional development, language development and basic cognitive skills. Early years education helps children get the best possible start in life. It gives them a firm foundation for future success in school, socially and emotionally.

But unfortunately in Pakistan, not enough research work has been done on ECED. The reason behind it is that, in general, most of the developing countries and particularly, in Pakistan people are not aware about the importance of this significant concept. Even at ministry level they give more attention to primary education rather than giving importance to ECE. Realizing the role and significance of ECE, especially its impact on learning achievement, provision was made in the National Education Policy (1998-2010) to reintroduce 'Katchi' as a formal class in primary schools, thereby extending the number of primary education years. However, the implementation process has not started yet due to scarcity of resources. Pakistan's priority area is primary education (5-9 age groups). Once the target of Universal Primary Education (UPE) is achieved, the next priority area may be Early Childhood Care and Development (UNESCO, Education for All 2000).

This research was conducted in the specific social and cultural context of Pakistan to seek answers to the following research question:

- How do teachers play their role in developing child friendly environment in Early Childhood Education classrooms of Gilgit-Baltistan of Pakistan?

Thus, this research provides a unique contribution to the pool of existing literature, which deals with understanding the underlying child friendly environment and its deep rooted influences on the practices of ECE teachers in a non Western cultural context.

## **2. Literature Review**

Reviewing the existing literature, I found that various authors have defined child friendly environment based on their own perspectives and views. However, the embedded message in each is not very different. For instance, "Child friendly environment aims to develop a learning environment in which children are motivated and able to learn. Staff members are friendly and welcoming to children and attend to all their health and safety needs" (Young, 2002, p. 18).

Learning begins at birth and continues throughout our lives. A child who develops well physically, mentally, socially, emotionally and intellectually during the early years is more likely to be a happy and productive member of the society than one who does not. Children whose basic health, nutritional and psycho-social needs are being met will develop and perform better than those less fortunate.

More related to the context of this particular research Mustard (2002) posit that poor development during early childhood years affects key aspects of brain development. For example, it affects all body tissues during life including the immune system, and the brain development influences the cognition, imagination, behavior and skills. Children can get all these skills when they have a friendly environment in their school and only the teachers can create this environment if they are competent and knowledgeable. Therefore, the role of the practitioners and teachers in early childhood education is complex and teachers have to keep pace with the current knowledge and teaching strategies on an ongoing basis. The educational, social and cultural changes require teachers to equip themselves with the required skills, knowledge and teaching techniques to be more effective in their profession. Bath (1990, p. 49) postulates that, 'probably nothing in the school has more impact on students in terms of skills development, self confidence or classroom behavior than the personal and professional growth of their teachers'.

The classroom is not simply a place in which students learn academic lessons. It is a social context in which students learn social lessons such as friendship, cooperation and appropriate behaviour. All this takes place provided a teacher has the capacity to attract the students by demonstrating care and making the classroom fun for young children (Lee, 2006). According to Edgington (1998) the starting point of making the

classroom child friendly is to capture the interest of a child and then to sustain and extend it. This can lead to curiosity among the children for further learning.

In a child friendly environment, the most important thing for teachers is viewing children as competent and strong rather than needy and weak. In such a situation teachers avoid corporal punishment because they believe that it is very dangerous for children. Similarly, Jamal (2007) believes that physical punishment hinders learning and causes irreparable psychological damage, including confidence and self esteem. (Kaplan, 2006) adds that corporal punishment has negative emotional effects. It can cause depression, anxiety, and other emotional problems. The writer further elaborates that those who were beaten in their childhood were more prone to suicide, violence against others and criminal activity. This shows that corporal punishment not only hurts a child's body but also it causes mental torture and damages the whole personality of a child. This violence can be curtailed or eliminated through laws enacted by the state, mutual cooperation between parents and teachers and proper training of teachers.

The attitudes of teachers and students are also very important in a child friendly environment. They have to be friendly towards the children. Practitioners working with young children set the scene for the emotional environment that the children play in. It is important that they are able to represent a secure world in which children are encouraged to take risks knowing that they will be supported if necessary (Skinner, 2007).

Similarly, studies in none-Western contexts have also proved the importance of child friendly environment. Yunus, (2003) maintains, "Giving the right opportunities and the right learning environment, children will develop in similar ways whatever their background has (p. 110). Therefore, it is important to give more opportunities for young children to learn in a better way.

Likewise parental involvement in ECED is significant. Dean, (2000) said,

"If most of a child's education happens outside school, especially in the home, and if parents are co-educators of the child with teachers, then it seems logical to make the two elements of school learning and home learning compatible, and for teachers to use that home learning as a resource" (p. 140).

It is true that parents who give more time to their children, their home learning takes place well and children learn in a better way. Stern, (2003) supports Dean's ideas and said, "Parents are the children's first and most enduring educators. When parents and practitioners work together in early years' setting, the results have a positive impact on children's development and learning" (p. 78).

Finally, in order to further understand the nature of child friendly environment Click (1998) argues that in a developmentally appropriate child care environment children can enhance their cognitive abilities as they are active participants in the development of their own intelligence. In order to do that, the environment must invite participation and offer a wide variety of choices. Children must be free to explore and discover, to hypothesize and experiment to increase their knowledge about the world around them. Each area in the classroom must include space for children to work comfortably and to have their materials close at hand (Sadu, 2004).

This study strives to further investigate the nature, function and influence of child friendly environment in ECED classes in a Pakistani school.

### **3. Methodology**

#### ***Research Design***

The social world of human beings is composed of a complex array of realities that are highly context bound and in a flux (Cohen, Manion & Morrison, 2000, p. 181). Tajik (2004) says that “the social world in which we live, breathe, and acts ever-changing, multidimensional, and therefore, very complex” (p. 62). If realities are complex and context-bound then studying the life world of human beings would need a research approach which is scientifically rigorous and yet sensitive to these complex realities. A phenomenological approach may be employed to study a social phenomenon (Van, 1997). This means that studying a social phenomenon needs a qualitative approach that takes the researcher into the very heart of the research setting to describe, analyze and draw conclusions of the research participants and their world. Hence, a qualitative approach to this study was adopted as the most appropriate course of action. Within this particular qualitative approach, a comparative case study method (Bogdan & Biklen, 1998) was deemed to be most beneficial.

In addition, data was collected through a combination of tools, which included observations, document analysis, field notes, focus group and semi structured interviews. The focus group participants and the interviewees were selected from a variety of stakeholders, which included parents, students, teachers and head teachers from public sector to get a comprehensive and representative analysis. Informal conversations with different stakeholders and self reflections contributed to clarify different aspects of the issues and findings. The approach of using multiple methods or data sources in research is called ‘triangulation’ (Cohen, 2000), which enables a greater understanding of complex human behaviour and provides multiple perspectives, (Denscombe, 1998).

### **Research Context**

This research was conducted in one of the cooperating schools of Aga Khan University-Professional Development Centre North (AKU-PDCN) located in its close proximity. It is a public school and is one of the largest schools in the region with one thousand female students and thirty teachers (four male and twenty six female). The school has ten levels; (two sections for each level) graded as pre-primary, primary, middle and secondary. The rationale for selecting this school was that it is a unique public school which has a strong interest and preference for ECED classes, which provides a better chance of finding rich data about child friendly ECED classes (Edgington, 1998).

### **Research Methodology**

Themes were focused to extract the data. The study employed the process of organizing, general sense making, coding, drawing themes, and, finally, interpreting and making meaning out of the collected data (Cresswell, 2003). The research participants were informed about the nature, purpose, time and methods involved in the study. Moreover, each participant has a right to see the interview transcripts for any clarification in their views. To maintain confidentiality, pseudonyms for each research participant, and their school related data, is used.

### **4. Discussion**

As suggested by the literature, that child friendly environment is considered a significant source in children’s better learning in ECED classes. This research seeks to explore this understanding within a Pakistani context. While an analysis of the data suggests the presence of a number of facilitating factors, due to the structural limitations of this publication only some significant areas: (i) personal profile and (ii) facilitating

factors will be considered. Hence, only data associated with child friendly environment will be discussed. In addition, this discussion will seek to describe how each of these facilitating factors led to the establishment of child friendly environment in ECED classrooms.

### **1) Ms. Deeya's profile and teaching experiences**

Deeya is a young lady with an Intermediate's degree (grade 12 pass). She is a dedicated and hard working teacher. Deeya likes teaching young children from the beginning and this is why she decided to work in ECED classes. She is twenty five years old and has been teaching in the same school for the last three years.

### **2) Ms. Sonia's profile and teaching experiences**

Sonia is a relatively young lady aged between twenty five and thirty. She has attended various courses about teaching young children. She likes to teach in Early Childhood Education because she loves young children. She also holds an Intermediate diploma and has been teaching for the last five years. In this school she has taught for only one year having spent the rest of her teaching career in another school.

From the whole process it appears that teachers (the research participants) were in favor of child friendly environment. They tried to understand and provide students a friendly environment. In the process they explained and defined what a child friendly environment is? Deeya said,

It is an environment where young children come to school with joy and happiness. They live in a peaceful and comfortable place where they share their ideas and experiences with other colleagues. They also involve in various hands on activities and learn independently (Interview, 7<sup>th</sup> May, 2007).

Sonia had the same perceptions about child friendly environment and said,

It is a kind of environment where young children do not feel fear and hesitate to come to school from their homes. In such an environment where they can share their feelings and experiences confidently and their overall development has taken place (Interview, 10<sup>th</sup> May, 2007).

In addition, she mentioned, "An environment where children can share their feelings, experiences frankly and confidently. They can trust with each other and share their concerns in an effective manner" (Interview 12<sup>th</sup> May, 2007).

It is evident from the above definitions that a child friendly environment encourages teachers to enhance students' learning. In such an environment students can share their ideas; they can interact, ask questions, and provide support to each other. This kind of environment supports students to improve their learning. In such an environment teachers perceive children as a very important part of the environment. They encourage students to share their ideas with their colleagues and participate equally in all activities which they have in their classrooms. They also share their concerns and problems confidently and try to find solutions with the support of adults. In other words it gives an opportunity to enhance individuals' learning and they can develop further.

Moreover, teachers also said that child friendly environment increased the students' motivation, and even those students who did not take interest in their studies initially. They started to take interest and tried to find out solutions, if they faced any problems. While sharing her experiences Deeya also repeatedly cited that whenever she provided a friendly environment, students' participation increased which really made her happy. Similarly Sonia had the same comments and feelings that because of friendly environment most of the students participated in the lesson which really fascinated her.

On the basis of these observations and experiences I can say that both the teachers had a fairly similar conception of child friendly environment. They both frequently mentioned the friendly environment and tried to provide it for their children.

They further stressed some other factors which facilitate child friendly environment, for instance,

collaborative work helps teachers and students to develop themselves. In collaborative work e.g. reflection, feedback, co-teaching, co-planning, and discussions are helpful for teachers' learning. Hopkins et al (1998) further support collaborative work and state, "Teacher development takes place most effectively in a school where there is a culture of collaboration (p. 482)."

Both of the teachers strongly felt that young children learn better when they use concrete materials in ECE classroom. They manipulate the materials, play and observe them with different angles which help them learn more and more. While talking about a child friendly environment, Deeya said, "We encourage students to participate in different activities. They share their ideas, listen to each other, and work in groups" (Interview, 8<sup>th</sup> May, 2007).

Soniya has also the same feelings and notions about her experiences and said,

We always try to provide child friendly environment for our students. For instance, we encourage them to express their ideas freely. We also provide them different materials to play and work in pairs and groups. Therefore, we have established learning areas in our classrooms. The purpose of these areas is to provide an environment where children can play and manipulate with materials; they can use these materials for their learning (Interview 10<sup>th</sup> May, 2007).

The purpose of providing all these things is to provide a friendly and conducive environment where children will improve their own learning through a variety of activities. In such kind of environment children learn in a better way. Hence, it is important to provide them all the materials for their better learning and understanding.

Both of the teachers agreed that they use meaningful and relevant activities in various learning areas. Without these activities students do not take interest. Thus, I think that while preparing activities teachers need to think about students' abilities, because they have different abilities and levels of understanding. Soniya maintained,

We have different abilities of students, for example, slow learners and fast learners. According to their abilities teachers need to prepare activities which involve all the learners and engage them fully in the learning process. No one should be free without doing anything (Interview 12<sup>th</sup> May, 2007).

The school culture particularly in pre-primary section seems to reflect many of these points both teachers uphold. They appear to favor child friendly environment in ECED classes. Consequently, their particular school culture upholds the teaching in ECED classes as a prominent profession. Deeya stated,

ECED classes are considered foundation classes in formal schooling and it plays a vital role in young children's development. If children get good environment in this age, it effects their whole life. Thus, it is very important to provide a friendly environment for them (Interview 14<sup>th</sup> May, 2007).

Establishing a collegial relationship between the teachers was an important part of the process, because, without a sense of collegial relationship professional learning may not occur properly. Little (1990, p. 531), talking about the influence of collegiality on professional relations says, "the various forms of teacher exchange

that pass as collegiality comprise fundamentally different conceptions of teachers' professional relations. 'Weak' and 'strong' versions collegial relations plausibly produce or sustain quite different conditions of teacher performance and commitment".

Thousand, Villa & Nevin (1994, p. 40) say further,

“Cooperative and collaborative learning promotes creative thinking by increasing the number of ideas, feelings of stimulating and enjoyment, and originality of expression in creative problem solving”.

Both participants also agreed that good relationship and trust building between colleagues, teachers and principal are very important for better learning. Learning does not take place without them. So it is crucial to establish a healthy and warm environment where teachers can get support and encouragement, because in such an environment they can discuss with their colleagues, share their problems and try to solve each others' problems through collaboration and cooperation. Teachers are personally involved in different activities, which help them to enhance their learning.

After interviewing and discussing with the teacher another significant facilitating factor was the role of the system (Government Education Department). If it wants to support schools and teachers, it can work without any disturbance. As Deeya mentioned in her interview

I always try to provide different materials for my children in ECE classroom. Among these materials some are low cost and some are ready made materials which I buy from the bazaar. If our system does not provide us material and support, it is difficult for us to buy ourselves because we do not have sufficient salaries from where we could contribute. We are also very thankful to our department which has nominated our school as an ECE school in the whole region and which provides us various materials. We use these materials in our classrooms for better teaching and learning (Interview 7<sup>th</sup> May, 2007).

The other significant point which has rightly come out from the interview is that most of the teachers are not well qualified or trained particularly in ECE schools. Teachers and head teachers think that the support system plays a vital role in ECE classrooms in terms of providing materials and training opportunities for teachers. As Sonia said, “

Our system cooperates with us very well. Every time whenever we require any sort of teaching materials we buy for our children. We had budget for our schools which we utilized with support of our head teacher for classroom materials.

## **5. Conclusions**

In conclusion, I can say that in the process of education, early childhood education is the blossoming stage of human personality. The development fostered during this period acts as a frame and foundation on which the superstructure of an individual's personality is built (Sadu, 2004). Realizing this fact, the National Education Policy 1998-2010 recognized ECE as crucial for reducing dropout rate of students at primary level and a powerful means to eliminate poverty in the long run. The new idea (ECE) had not reached the implementation level when the government of that time introduced another plan (2001-2011) called the National Plan of Action (NPA) in the support of its agenda to revamp and modernize the education with special emphasis on early education (ICG international crises group 2004). The plan, along with its suggested strategies, was; of course, smart in theory but on a practical level it was not implemented properly.

Likewise, in the context of Gilgit-Baltistan of Pakistan, the teacher community feels that child friendly environment is very important in ECED setup. It is basic foundation stage where children can develop their skills when they get a friendly environment. Both the participants of this study strongly believed in the concept of child friendly environment in ECE classrooms. They also tried their level best to develop such an attractive environment and were a good source of documenting and recording their practical work and learning. Yet although each of the participant teacher in this study displayed a strong connection with ECED children and teaching, the study also concludes that ECED teachers in Pakistan may need to reflect on and understand how their classroom environments and behaviors are likely to influence students' learning. They need to reflect on what strategies and skills should they apply to develop child friendly environment in the schools of the region. ■

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**Engineering Functions for Bangladesh Socio-Economic  
Development Aspects**

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## Abstract

The All branches of Engineers have in its roll more than 25000 engineers from 0.1 million engineers from 142.319 million people of Bangladesh with about 30% in the category of Fellows, 60% Members and the rest as Associate Members at the Institution of Engineers of Bangladesh for the commitment to develop better world. All Engineers in Bangladesh are acted with science; mathematics and management function for socio economic development aspects in Bangladesh. Besides, the sources of energy in nature are made useful to people in structures, machines, products, systems and processes through engineering and management activities for human being. While the most widely accepted functions of management are planning, organizing, staffing, directing and controlling for economic value adding purposes. Generally engineering activities is genetically compatible with management functions for also adding more value. In this paper is focused on engineering activities with management functions for all branches of engineering activities for socio–economic aspect for human being in Bangladesh as well as the globe.

**Keywords:** Engineering Activities; Management Functions; Value adding; Socio Economic Aspects.

## 1. Introduction

Problem can be caused any difficulty or inconvenience. Common function to all engineering works can be solving these difficulties. Moreover, engineers normally face with the rapid technological development, free market economy and Uruguay round agreements, depletion of world's natural resources, environment and development, human rights, role of government as executing agency of development, phenomenon growth of electronics and information technology [1-2]. The problems may involve quantitative or qualitative factors; physical or economical; abstract mathematics or common sense [3]. Although all engineering problems can be vary in scope and complexity [4]. For challenging the problems, an analysis of the situation and a preliminary decision on a plan of attack can be considered. Subsequently, the problem can be reduced to a more categorical question that can be clearly stated. Followed by the design can be always checked for accuracy and adequacy. Finally the results for the simplified problems can be interpreted in terms of the original problem and reported in an appropriate form [5]. According to above circumstances, management activity can be genetically worked with engineering activity for removing the difficulty for more value adding purpose in Bangladesh to achieve the vision 2021. This article is focused for engineering functions, how to more compatible with management functions to socio economic development in Bangladesh. The paper is divided into five sections:

- Disciplines of engineering
- Functional areas of all branches of engineering
- Discussion
- Recommendation
- Conclusion

## 2. Disciplines of Engineering

Many branches of engineering disciplines are in education and practices likes: Mechanical Engineering, Electrical and Electronics Engineering, Chemical Engineering, Civil Engineering, Computer Science & Engineering, Information Technology, Aerospace Engineering, Nuclear Engineering, Military Engineering, Agricultural Engineering, Petroleum Engineering, Naval Architecture & Marine Engineering, Water Resource Engineering, Recycling Engineering, Deep-sea Engineering, Micro-manufacturing Engineering, Ceramics

Technology, Composite Materials Technology, Bio-medical Engineering, Environmental Engineering, Mechatronics, Industrial & Production Engineering, Metallurgical Engineering, Instrument Engineering, Plastics Technology, Genetic Engineering, Renewable Energy, Artificial Intelligence, Engineering Synthesis, Geo-system Engineering, Quantum Engineering and Information Physics, Robotics Engineering, Telecommunication Engineering, Refrigeration and Air-conditioning Engineering, Power plant Engineering, Leather Engineering, Textile Engineering, Automobile Engineering, Refractory Engineering and Engineering Management. Among them of branches of engineering, the functions of Mechanical Engineering, Electrical & Electronics Engineering, Chemical Engineering, Civil Engineering and Engineering Management are discussed as follows due to their most important roles in Bangladesh:

## ***2.1 Mechanical Engineering***

The branch of mechanical engineering can be concerned with the design, manufacture installation & operation of engines, machines and manufacturing process. Mechanical engineering can be involved the application of the principles of dynamics, control, thermodynamics, heat transfer, fluid mechanics, computational fluid mechanics, and strength of materials, material science, tribology, mathematics & computation [1-2]. While increasing knowledge of electronics and in particular of microprocessor is now also required for mechanical engineer in Bangladesh. However it can further added that the knowledge of economics, language (for communication), law, accountancy, environment and management etc. is now an integral part of mechanical engineering profession also considered in Bangladesh. According to encyclopedia Britannica [8], four functions of the Mechanical Engineer are following: the first is the understanding the Mechanical Science. Second is the sequence of research, design and development to meet present and future needs through mechanical science. Third is production of products and power, which embraces planning, operation, and maintenance. The goal is to produce the maximum value with the minimum investment and cost while maintaining or enhancing longer-term viability and reputation. Management oriented activities likes; Operations research, value engineering, and PABLA (problem analysis by logical approach) can be linked with mechanical activities for more value adding purposes. Moreover, mechanical engineers can also analyze customer requirements, recommend satisfying needs economically, resolving related problems and decide how assets to be used. In Bangladesh, mechanical engineers are doing above functions including maintenance and installation management works in fertilizer/ chemical/power plant; roads and highway maintenance equipment maintenance management; local government engineering works; water sanitation works; management consulting/counselor; teacher for university/ College/polytechnic institutions for socio economic development aspects.

## ***2.2 Electrical and Electronics Engineering***

The following functions can be concerned of electrical and electronics engineering branch; basic research in physics, other sciences, and applied mathematics in order to extend knowledge applicable to the field of electronics; applied research based on the findings of basic research and directed at discovering new applications and principles of operations; development of new materials, devices, assemblies, and systems suitable for existing or proposed product lines; design of devices, equipment and systems for manufacture; and field –testing of equipment and systems. Besides, management activities can be done by electrical and electronics engineers to perform above tasks. In Bangladesh, electrical engineers are working above jobs including engineering management in telecommunication industry, power distribution, rural electrification and software/web development etc. for socio economic development aspects.

### ***2.3 Chemical Engineering***

Roles of the chemical engineers are chemical engineers are employed in the design and development of both processes and plant items; plant operation and control is increasingly the sphere of the chemical engineer rather than the chemist, chemical engineering provides an ideal background for the economic evaluation of new projects and in the plant construction sector for marketing. The fundamental principles of chemical engineering underlie the operation of processes extending well beyond the boundaries of the chemical industry and chemical engineers can be employed in a range of operations outside traditional areas. Plastics, polymers and synthetic fibers involve chemical-reaction engineering problems in their manufacture with fluid flow and heat transfer considerations dominating their fabrication. The dyeing of a fibre is a mass transfer problem. Pulp and paper manufacture involves considerations of fluid flow and heat transfer. While the materials are different, these again are found in modern continuous production of foodstuffs. The pharmaceuticals industry presents chemical engineering problems, the solutions, which have been essential to the availability of modern drugs. The nuclear industry can be made similar demands on the chemical engineering, particularly for fuel manufacture and reprocessing. Fuel management can be involved specifying procuring and managing fuel throughout its plant lifetime & beyond. Chemical engineers are involved in many sectors of the metals processing industry, which extends from steel manufacture to separation of rare metals. Moreover, in Bangladesh chemical engineers are served for management oriented activities can be performed successfully to run the plant including hydrocarbon related activities like NG gas identification, exploration and distribution related engineering management activities for socio economic development in Bangladesh.

### ***2.4 Civil Engineering***

Civil engineers have to know their science, can be able to make use of that science and understand the restrictions and uncertainties in their practicing art even more to face the challenges. The functions of civil engineer can be divided into three categories [3]: those performed before construction (feasibility studies, site investigation and design), those performed during construction (dealing with clients, consulting engineers and contractors), and those performed after construction (maintenance and research). No major project today is started without an extensive study of the objective and without preliminary studies of possible plans leading to a recommended scheme, perhaps with alternatives. Feasibility studies may cover alternatives methods e.g. bridge versus tunnels, in the case of a water crossing or once the method is decided, the choice of route. Both economic and engineering problems must be considered. An opening site investigation is part of the viability study, but once a plan has been adopted a more extensive investigation is usually crucial. Money spent in rigorous study of ground and substructure may save large sums later in remedial works or in changes made necessary in construction methods. The load-bearing qualities and stability of the grounds are important factors in any large-scale construction. The engineering manager may be in charge of setting the overall projects schedule and budget and needs to have the ability to keep big picture perspective. In civil engineering perspective, the managing of a specific project during construction, usually called construction engineering management, project director is done as the main persons or company in charge of getting a project constructed, including preparing the overall bid, managing subcontractors and maintain the relationship with owner for socio economic aspects in Bangladesh.

### ***2.5 Engineering Management***

The engineering manager possesses abilities to apply engineering principles and skills in organizing and directing people and projects through effectively and efficiently [6]. Engineering management functions are linking for two types of jobs; the management of technical functions (such as design, production and maintenance) and the top management of engineering and technology companies [7]. Moreover engineering manager does not actually perform the technical engineering tasks through supervision the management of

engineering and technology policy development, technology assessment, technology transfer, research, development, design, evaluation, production, commissioning or decommissioning of technical, electrical or electronic equipment/system, but coordinates the overall project effort by assigning the different technical tasks to the available staff. While management activities can be concerned include contract management, project management, partnering, office management, professional practice and development, financial management, human resources management, marketing and sales, ethics, technology and innovation management, information management, continuing education, organizational theory, strategic planning, conflict management, negotiating, risk management, globalization, networking, change management, teamwork, team building, communication, mentoring, coaching, and diversity for more value adding the engineering activity. All branches of engineering activity can be linked with management functions for better productivity in Bangladesh also for the humanity.

### **3. Functional Areas of all Branches of Engineer in the Globe**

From the above study has been come to the following decision for the work of all branches of engineering and can be applied in Bangladesh for overcome the poverty, unemployment, GDP growth etc to achieve the vision 2021:

#### ***3.1 Research and exploration***

Using mathematical and scientific concepts, experimental techniques and inductive reasoning, the research engineers in Bangladesh can be sought new principles and processes for advances of technology for human being at efficiently and effectively to change socio economic condition in Bangladesh.

#### ***3.2 Development and Improvement***

Engineers can be applied the results of research to useful purposes through creative application of new knowledge for a working model of a new electrical circuit, a chemical process, or an industrial machine in Bangladesh for development and improvement socio economic situation of Bangladesh people.

#### ***3.3 Design***

In designing a structure or a product can be preferred methods, specified materials, determined outlines, satisfied technical requirements and met performance specifications with the need of Bangladesh people aspects.

#### ***3.4 Construction***

Engineer is responsible for preparing the site, determining procedures that can economically and safely yield the desired quality directing the placement of materials and organizing the personnel and equipment for the need of Bangladesh.

#### ***3.5 Production***

Plant layout and equipment selections are the responsibility of the production engineer, who chooses processes and tools, integrates the flow of materials and components and provides for testing and inspection for complying with the need with people/customer of Bangladesh.

### **3.6 Operation**

Engineer can controlled machines, plants, and organizations providing power, transportation and communication; determines procedure and supervises personnel to obtain reliable and economic operation of complex equipment.

### **3.7 Management and other functions**

Almost industries engineers can be analyzed customer requirements, recommend units to satisfy needs economically and resolve related problems for developed new product to accelerate the socio economic development in Bangladesh.

## **4. Discussions**

The author is observed different branches of engineer activity with line of engineering management aspects in Bangladesh. In gist, at smaller companies, a single engineer can be suitable to perform most of this task. At larger companies, especially if working on enormous scale projects, an engineer can be appropriate to effort mostly one functional area. Engineers typically work in a team environment with constant communication among from each functional area or several depending on the size and complexity of the organization/project/programme using resources. The engineer can be made technological advances and availability of technology for people. Moreover, engineer can be actively participated to see that such progresses do really improve the welfare of people. The engineer can be concerned himself with the results of technological progress such as its effect on the physical environment and its social and economic impact, by virtue of his knowledge, skill and unique role in society. The results of engineering activities can be contributed to the welfare of people by furnishing food, shelter, and comfort; by making work, transportation and communication easier and safer; and by making life pleasant and satisfying. A successful engineer can be prepared for decision making on complex problems in broad areas; skilled in the use of sophisticated tools and creative in the development of new techniques; conceived vast projects, analyzed as integrated man-machine-environment systems, and the ability to predict technical performance and human impact. An engineer may be changed his profession 3-5 times for fasting changing the world due to information technology; to be flexible enough to adjust him with the changes in profession. Hence, engineering educational and professional institutions may be significantly affected. In this perspective, Bangladesh's engineer are now educated in Master in Business Administration (MBA) for coping their management activities with engineering activities for socio economic development aspects.

## **5. Recommendations**

The author has been made following recommendations for engineering activities all over the world all engineers not only for Bangladesh's engineers to make better world:

- A comprehensive statutory registration system for engineers can be done by respective government of UN for regulating their jobs. This registration can be assisted in protecting public health and safety, it also can be provided information for consumers protects the community from unethical practitioners, reduced the costs of doing business.
- An engineering organizations can be attempted to transform themselves to compete successfully in the future through variety of following management initiatives:
  - Total quality management

- Just-in-time (JIT) production and distribution systems.
  - Time-based competition
  - Lean production/lean enterprise
  - Building customer –focused organizations.
  - Activity-based cost management
  - Employee empowerment and
  - Reengineering etc.
- The engineers can be executed the own work independently control and direction by the use of initiative, skill and independent judgment, for this purposes an environment can be created by the respective authority /state/government.
- Moreover, the consultant for engineering activity can be performed , but not be limited to, the following:
- Examine the type of services and work provided by engineers in all branches of engineering and interrelated professions within the marketplace to determine the interrelationship that exists between the various branches of engineers and other interrelated professions.
  - Review and analyze educational requirements of engineers.
  - Identify the degree to which supplemental or overlapping work between engineering branches and interrelated professions occurs.
  - Identify the manner in which local and state agencies utilize regulations and statues to regulate engineering work.

## 6. Conclusions

For all branches of engineering, setting up of exact specifications and precise measurements is one of the challenging aspects in the world of engineering functions in any engineering organization as it reduces inventory problems and simplifies maintenance not only in Bangladesh. It can be concluded that the manager for engineering functions and activities in an organization can be developed a good leadership style such as the contingency theory of leadership, which is flexible to accommodate the variety of problems and situations that keep cropping up for socio-economic development perspective in the Earth. Each engineer in the globe must be followed for human being advance with socio economic development aspects for their own business. Hence the 50<sup>th</sup> anniversary of independence of Bangladesh, percentage of GDP with industrial ancestry can be grown from the present 28% to 40%, and where the proportion of the labour force employed can be raised from the present 16% to 25% in 2021 according to proposed industrial policy 2010. Bangladesh has to be a continuous development of human resources, especially where it concerns manufacturing and energy security. The government of Bangladesh can remain steadfast in taking environmentally-friendly and technologically-modern initiatives aiming at accelerating the growth of all important industrial sectors such as energy and fuel, agriculture and forestry, acquiring and processing of minerals, tourism and hospitality, construction, information and communications technology by mobilizing capital and manpower especially engineers. ■

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**How Prior Academic Exposure Affect Students Performance  
In Undergraduate Accounting Course In Tanzania**

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## Abstract

The researcher conducted this study at the Open University of Tanzania, an Open Distance Learning (ODL) university. Using descriptive statistics, Pearson correlation coefficient and regression analysis. Sampling procedures were used during data collection from a population of 1200 students; a sample of 122 students was drawn.

On the prior academic exposure and work experience, the study shows that work experience in accounting before starting the degree course and average grade obtained in the last Main test are significantly associated with the overall students' performance. However, accounting education prior to entering university and grade in English prior to entering university had no significant positive association with student performance. Grade in mathematics had insignificant negative association with student performance.

**Key words:** Academic exposure, work experience, Undergraduate Accounting Course and Open University of Tanzania.

## 1. Introduction

The Open University of Tanzania is an Open and Distance Learning higher education institution offering its non-degree and degree courses through Distance and Open Learning mode including effective exploitation of Information Communication Technology (ICT) and in particular e-Learning. Such systems of educational delivery involve various means of communication such as broadcasting, telecasting, correspondence courses, and seminars, ICT and in particular e-learning, face to face or a combination of any two or more of such means.

At the moment, the Open University of Tanzania consists of the following Faculties, Institutes and Directorates. The Faculty of Arts and Social Science; Faculty of Education; Faculty of Science, Technology and Environmental Studies; Faculty of Law, Faculty of Business Management, Institute of Continuing Education, Institute of Educational Technology, Directorate of Regional Services, and Directorate of Research & Postgraduate Studies.

The university in which the researcher is conducting this study is an ODL public university located in Dar es Salaam, Kinondoni Bafra as its headquarters and branches at every regional centre, and outside Tanzania such as Kenya, Burundi and Namibia. Currently there are 25 Regional Centers, 5 examination centers and 56 registered study centers.

**Tanzania faces a shortage of some 2,300 Certified Public Accountants (CPA), according to the National Board of Accountants and Auditors (NBAA).**

## 2. Literature Review

Previous research indicates that overall Grade Point Average (GPA) and accounting (principles) grade-point average are factors influencing students' performance in Intermediate Accounting. Hicks and Richardson (1984) focused on three possibilities for predicting success: Score on diagnostic test of knowledge at the beginning of the intermediate sequence; Overall grade-point average (GPA); and Accounting (principles) grade-point average. The results indicated that an entry examination covering the basic accounting cycle was a significant predictor of Student performance. However there are several factors contributing to the success or failure by students in accounting course.

Prior academic exposure (Canlar, 2001; Loveday, 1993) and performance (Doran, Bouillon & Smith, 1991; Gammie, Jones & Robertson-Millar, 2003; Koh & Koh, 1999; Wong & Chia, 1996; Tho, 1994); student demographics (Carpenter, Friar & Lipe, 1993; Harnett, Romcke & Yap, 2004; Koh & Koh, 1999); the personality factors of students ( Gul & Fong, 1993) work experience (Koh & Koh, 1999);

The findings of most of these studies suggest that many factors are positively associated with student performance, with a greater body of evidence existing in relation to previous university examination performance where overall GPA is used as an indicator. In some studies of student performance, researchers have attempted to understand the impact of critical thinking skills as additional predictors (Jenkins, 1998; Kealey et al., 2005). Kealey et al. (2005) found that critical thinking skills, overall GPA, aptitude (i.e., scores) in mathematics and English prior to entering university, and majoring in accounting were significant predictors of examination performance in a Principles of Accounting course. However, the length of stay (total hours completed) in the university prior to attempting the course was not significant.

### **3. Previous university examination performance**

Several researchers including Kealey (2005) have confirmed that GPA is a significant predictor of final examination performance (Davidson, 2002; Stout, Bonfield & Battista, 1987; Tickell & Smyrniotis, 2005).

Thus it is assumed here that GPA is positively associated with final examination performance. Although Kealey et al. (2005) investigated pre-university aptitude; this study did not do so, as it is based on an advanced financial accounting course rather than an entry-level course. As students stay longer in the university, the GPA becomes a more relevant predictor to investigate than does pre-university aptitude.

GPA is used frequently as a proxy for aptitude and prior academic performance. Researchers using US data have found evidence supporting GPA as a significant predictor of performance in accounting courses (for example: Eckel and Johnson 1983; Hicks and Richardson 1984; Ingram and Peterson 1987; Eskew and Faley 1988; Doran, Bouillon, and Smith 1991). The US findings are supported in Australia by Jackling and Anderson (1998). However, using another measure, pre-university examination performance, Gist, Goedde, and Ward (1996) found no significant association between academic performance and performance in university accounting courses.

Accounting is a subject area that requires accumulation of prior knowledge and considerable quantitative skills. Therefore, several studies have investigated the impact of prior exposure to accounting and mathematical background courses on performance in college accounting courses. However, the results are inconclusive. Some studies (for example, Baldwin and Howe 1982; Bergin 1983; and Schroeder 1986) found out that performance is not significantly associated with prior exposure to high school accounting education. However, some later studies (for example, Eskew and Faley 1988; Bartlett, Peel and Pendlebury 1993; Gul and Fong 1993; Rohde and Kavanagh 1996) found that prior accounting knowledge, obtained through high school education, is a significant determinant of performance in college-level accounting courses.

Conflicting results are also observed about the association between student performance in introductory accounting and their performance in non-introductory accounting courses. Canlar (1986) found evidence that college-level exposure to accounting is positively related to student performance in the first MBA-level financial accounting course. However, Doran, Bouillon, and Smith (1991) show that performance in the introductory accounting course has a negative impact on performance in subsequent accounting courses. The influence of mathematical background on performance in accounting courses is also ambiguous. Eskew and Faley (1988) and Gul and Fong (1993) suggest that students with strong mathematical backgrounds outperform students with weaker mathematical backgrounds. However, a later study (Gist, Goedde, and Ward 1996) does not obtain the same results.

Studies in the accounting education literature have focused on the evaluation of performance of students majoring in accounting or taking specific accounting courses, or some admission tests for accounting courses. Frakes (1997) reports the results of a study in which several factors are associated with performance. The results of his study show that prior college AICPA correlates well with performance in intermediate accounting course.

A candidate's background in respect of employment, training, qualifications and whether the examination papers entered have been sat before, could affect his or her examination performance.

## 4. Employment

Brahmasrene and Whitten's (2001) results indicated that CPA candidates with "private accounting experience" performed better in the examination relative to those with "no related work experience". An earlier study of CPA candidates by Titard and Russell (1989) reported that one or more years of public accounting experience helped candidates to pass the auditing section of the CPA examination. In the USA, Moses (1987) found work experience to be a predictor of grades in graduate accounting. Black and Duhon (2003) used age as a proxy for work experience, and found that older students performed better in a standardized US university business examination.

## 5. Qualifications

In the AICPA study of its 1980 CPA examination results, it was apparent that candidates with graduate training achieved above-average success in the examination. Data on CPA candidates analyzed by Titard and Russell (1989) showed "without question that individuals with advanced degrees are more successful on the exam than those without such degrees". This is further supported by a study of CPA candidates conducted by Boone, Legoria, Seifert and Stammerjohan (2006). Based on the literature, candidates with higher academic qualifications are likely to perform better in a professional accounting examination.

## 6. Examination attempts

One would expect that first-time candidates – those who sit a particular CIMA paper for the first time – may have different pass rates compared with candidates who had previously sat and failed a particular CIMA paper. In the US CPA examination, the pass rate for first-time candidates was traditionally in the vicinity of only 10%, a rate that has declined further because of the adoption of a new examination rule (Brahmasrene & Whitten, 2001). It should be noted that this pass rate refers to candidates passing all four parts of the CPA examination. In contrast to the situation in the USA, the examination pass rate in part 1 of the South African Institute of Chartered Accountants' (SAICA) Qualifying Examination is usually much higher for first-time candidates than for repeat candidates. In 2007, 66% of first-time candidates passed, while the corresponding figure was 75% in 2008. Only 27% of repeat candidates passed in 2007, while the corresponding figure was 32% in 2008 (SAICA, 2008). A number of university-level studies of accounting students support the higher success rate of first-time candidates: Gammie et al. (2003a) found that the number of resist in a student's first year was a significant predictor of the success of honours graduates in an accounting degree programme in the UK, while in Australia, De Lange et al. (1997) found that those who attempted an undergraduate accounting course for the first time were more likely to pass than repeat candidates. In South Africa, Du Plessis et al. (2005) and Müller et al. (2007) reported that students were more likely to pass a first-year distance education accounting course on their first attempt. Apart from findings relating to the US CPA examination, the literature therefore points to the fact that first-time candidates are likely to perform better than repeat candidates.

The paradigm of final examination performance and two dimensions, (a) in-house performance in tests and (b) students' previous performance in the university, may help us to understand how universities can ascertain the predictability of student performance in the university ( Indra Abeysekera, 2005)

A Singapore study by Koh and Koh (1999) indicated that students with work experience performed better in a university accounting degree. Schroeder (1986) acknowledged that work experience may provide sufficient prior knowledge "to create an advantage", but also speculated that employment work hours could be one of the primary factors that have a negative impact on the availability of study time. As mentioned earlier, Schroeder's results ultimately did not indicate that employment work hours were either positively or negatively associated with examination results. Evidence from the literature therefore suggests that relevant employment is likely to have a positive impact on examination performance.

Work experience in the area of accounting if any before joining university. A vibrant diversity of student background add more riches to the kind of experience and knowledge that a student would bring into an

organization. Many students possess prior work experience as well as academic exposure in varied fields, making them the choice additions to your valued force of employees. (Swapan Garain, Jan, 2011).

The lack of adequate resources in a number of educational institutions constrains provision of high quality education and training in accounting. About 130 colleges offer non-degree programs with the curriculum based on the syllabus of the Kenyan CPA examination. Students enroll in these programs to receive the training necessary for passing the CPA examination. Some colleges provide additional programs to prepare students to take the ACCA examination administered in Kenya by the Association of Chartered Certified Accountants of the United Kingdom. However, many of these colleges lack well-trained instructors and practical-oriented courses. Thus, students generally do not receive high-quality training in accounting and auditing and either fail the CPA examination. or start their professional career with a weak academic foundation. (<http://www.worldbank.org/ifa/kenyarosc.pdf>)

## 7. Methodology

### *Research Population*

The study population is 1,200 students of the open university of Tanzania finalist BBA (Accounting) 2010/2011, obtained from students registers at Open University of Tanzania.

### **Sample Size**

**The number of students in the sample of this study is 122 students, representing the total student population majoring in accounting at the Open University of Tanzania.**

The sample taken is big enough to represent the target population of 1,200 students under study. The population is the number of students taking accounting as a major; the same was obtained from registers of finalist's students at OUT.

### **Sampling Procedure**

Simple random sampling procedure was used in collecting data from the respective respondents. This procedure is suitable because it provides us with an efficient system of capturing data. Random sampling is the key to obtaining a representative sample. In random sampling, every sample of a given size in the accessible population has an equal chance of being selected.

### **Data Analysis**

The data were processed and analyzed as soon as collected. Descriptive statistics was used to analyze quantitative data. Descriptive statistics provide simple summaries about the sample and the measures. Descriptive statistics therefore allow us to present the data in a more meaningful way which allows simpler interpretation of the data. The researcher used descriptive statistics to compute the mean, percentages and to construct frequency distribution tables.

Inferential statistics are techniques that allow us to use these samples to make generalizations about the populations from which the samples were drawn. It is, therefore, important the sample accurately represents the population. The process of achieving this is called sampling. Inferential statistics arise out of the fact that sampling naturally incurs sampling error and thus a sample is not expected to perfectly represent the population.

## 8. FINDINGS

*Table 1 Years of Work Experience in Accounting*

<i>No of years</i>	<i>Frequency</i>	<i>Percent</i>
0 -1	48	39.3
2 - 4	36	29.5
5 - 6	37	30.3

7 – 8	1	0.8
<b>Total</b>	<b>122</b>	<b>100</b>

**Source: Field data (2011)**

Table 1 indicate that 48 students representing 39.3% of the entire sample had zero to 1 year prior work experience in accounting, 29.5% had two to four years experience, 30.3% had five to six years and 0.8% had seven to eight years of experience. The results signify that experience is closely associated to performance. The more people are experienced the more good performance is expected from students.

Table 2: Accounting Educations Prior to Entering University

<i>Education Level</i>	<i>Frequency</i>	<i>Percent</i>
'O' Level	51	41.8
Diploma	34	27.9
None	37	30.3
<b>Total</b>	<b>122</b>	<b>100</b>

Source: Field data (2011)

Table 2 indicates that 41.8% of students represented in the sample had 'O' level accounting education prior to degree course, 27.9% had diploma level and 30.3% had no prior accounting qualifications. The majority of students had prior education in accounting. It is an indication that prior accounting education is directly associated to students performance.

Table 3: Descriptive Statistics for Prior Academic Exposure and work Experience (n=122)

<b>Variables</b>	<b>Mean</b>	<b>Std. Error</b>
Work Experience	1.9262	0.07736
Grade in Main test	2.1148	0.07596
Accounting education	1.918	0.07596
Grade Maths	2.000	0.07721
Grade in English	2.0164	0.08146
GPA	3.2377	0.0387

Source: Field data (2011)

n= number of students in the sample

The mean score is based on the points ranging from 1-4 points. The mean average score of 1.9262 for work experience indicates that the majority of students had experience ranging from 1 to 4 years. The mean score of 2.1148 for grade in main test tell us that many students obtained an average of B. The mean score of 1.918 in accounting education prior to starting the course indicates that the majority had 'O' level accounting education prior to starting degree course. The mean score of 2.000 indicates that students had an average score of 'C' in mathematics. The mean score of 2.0164 indicates that students had a mean score of 'C' in English. The result shows that all the variables were relevant to the objective.

## 9. Descriptive statistics

These are those that give a measure of the relationship between two or more variables.

Table 3 shows descriptive statistics for 122 students the sample for this study. The data shows that the variables for grade obtained in the last main test have a good score in relation to other variables, followed by grade in English, grade in mathematics and prior accounting education.

## 10. Correlation Analysis

Table 4: Pearson Correlation Coefficients of Independent Variables Prior Academic Exposure and Work Experience with GPA

GPA	Work exp	Grade main test	Acctg educ.	Grade Maths	Grade English
Personal Correlation	.431**	.281**	0.097	-0.09	0.074
Sig. (2-tailed)	0	0.002	0.289	0.323	0.416
Sum of Squares and Cross-products	23.951	17.41	5.279	-5	4.344
Covariance	0.198	0.144	0.044	0.041	0.036

Source: Field data (2011)

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

\* . Correlation is significant at the 0.05 level (2-tailed).

Correlation technique is used to analyze the degree of relationship between two variables. The Pearson correlation is used when both variables that the researcher wishes to study are measured in ratio or interval cases and are continuous.

Table 4 shows the results of Pearson correlation coefficients of each independent variable with the overall grade performance (GPA) for the sample of 122 students. The correlation presented in Table 4 gives several observations. Work experience in accounting exhibited the highest correlation with independent variable and the value was 0.431. The correlation is strong and significant at 0.01.

The variables had a positive correlation ranging from (0.074 to 0.431). Grade in mathematics had a negative correlation, which indicates that as the GPA increases a grade in mathematics at 'O' level decreases, this means 'O' level mathematics is not associated to the overall performance. All the correlation are significant at 0.01\*\* and 0.05\* respectively. However, grade in English and prior accounting education had low correlation co-efficient which is not significant at 0.01 level.

In these research findings it shows that those who had O level accounting education prior to entering the undergraduate degree program performed better than those who had diplomas and those with none prior accounting qualifications. Those with diploma had performed better than those with no prior accounting qualifications. The performance of those without accounting qualifications was also good although they did not outperform those with prior qualifications.

Generally prior accounting qualifications are associated with the overall performance of the students. Table 4 gives us the detailed analysis.

Hence at university level, there is evidence to suggest that in some contexts, candidates with a first language other than English perform worse in accounting, while in other contexts they appear not to be at a disadvantage. In this research the grade obtained in O level English has an association with the overall performance in undergraduate accounting degree course.

## 11. Regression analysis

Table 5: Regression Analysis for Prior Academic Exposure and Work Experience

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.27	0.662		3.432	0.001
Work experience	0.256	0.059	0.407	4.344	0.001
Grade Main test	0.14	0.039	0.249	3.575	0.001
Accounting education	-0.033	0.052	-0.052	-0.64	0.524
Grade Math	0.014	0.047	0.023	0.306	0.761
Grade English	0.058	0.044	0.097	1.304	0.195

Source: Field data (2011)

The model  $GPA = a + bX_1 + cX_2 + dx_3 + eX_4 + fx_5$

Where;

GPA (Y) = Cumulative grade point average

X1 = work experience in accounting before starting the course

X2 = average grade obtained in the last main test grade

X3 = accounting education prior to entering university

X4 = grade in mathematics prior to entering university

X5 = grade in English prior to entering university

$Y = 2.27 + 0.256X_1 + 0.140X_2 - 0.033X_3 + 0.014X_4 + 0.058X_5$

Like correlation, regression analysis assumes that the relationship between variables is linear. We have used regression analysis to measure the relationship between independent variables against the dependent variable GPA.

One percent increase in prior work experience will cause an increase in GPA by 0.256, one percent increase in the grade for the last main test will cause an increase of GPA by 0.140, one percent increase in the grade in mathematics will cause an increase of 0.014 of GPA and one percent increase in the grade in English will cause an increase of 0.058 of GPA.

In table 5 the dependent variable  $y$  is measured by GPA. Other variables were employed as independent variables. Table 4.5 represents the result of regression analysis for the full sample. The  $t$  ratio and its significance help in assessing the importance of a single variable in explaining the variation in the dependent variable. The values show that the model is significant at the 0.001 level. Thus the model provided a good fit for the  $Y$  variable.

The sign for all beta coefficients of the independent variables entered the regression were all positive, except for accounting education prior to entering university. Work experience in accounting was found to be the most influencing variable followed by grade obtained in the last main test in the prior academic exposure and work experience. Table 5 shows that work experience and grade in main test,  $t$ -test is significant predictors of the dependent variable  $y$ .

Number of relatives has a low mean score and a negative of correlation of 0.055 and a beta of - 0.397. There is no relationship between relatives staying with students and performance.

## 12. Conclusions

The number of professional accountants has been declining due to the low input from the undergraduate level. The research shows that work experience in accounting before starting degree course had a significant association with the student's performance. Grade obtained in the Main test had a significant association with student's performance. It is important to revise the admission criteria so that it includes work experience as one of admission criteria. Students should be advised to make adequate preparations for Main test as the research findings show that those who perform well in the main test end up getting good performance results. Those who performed well in the last main test before the examination had good performance grades; this means that for the students with no good results in the main test would end earning low grades in the overall performance.

It has been revealed that the perceptions of university students regarding accounting and accountants, as well as the perceptions of accounting educators and the public who potentially influence these students affects performance of students to a great extent. The university accounting educators have a good view of accountants and are positive about a career in accounting, in contrast with the public who view an accounting career as dull and boring to other more exciting careers. Such public have affected performance of students in accounting.

The research finds that the aspirations of the students have a significant association with student's performance. The grade student would like to make in the course showed a strong positive correlation with performance, intention to pursue further education also showed a strong positive correlation as well as the intention to take CPA examinations. Majority of university students have little understanding of the tasks accountants perform. However final year students have a good understanding of what accounting entails and do not have a negative image of an accountant. Students should be advised to make strong aspiration for good grades, further studies and aspire for professional examinations as research findings show that students with such aspirations end up performing well. ■

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## **International Journal of Business & Management Tomorrow**



### **Intelligence Service Marketing: Myth or Reality**

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## Abstract

Intelligence and security issues have become increasingly important today due to a multiplication of dimensions and unpredictability of threats. A nontraditional area of deployment for marketing science is national intelligence. Intelligence services are using marketing concepts in order to adapt to the ever changing conditions and gain advantage over other intelligence services. However there is some confusion in adapting marketing elements such as product, price and competition to intelligence. Another problem is how to make the inherent secrecy of intelligence compatible with such marketing actions as launching product(s), informing and persuading users. Real life examples of intelligence marketing however reveal that intelligence services have overcome, to a certain extent, such difficulties by sharing information in a controlled manner. This study investigates intelligence service marketing from different perspectives by various examples.

**Keywords:** Intelligence service marketing, intelligence product, information, case officer

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## 1. Introduction

Intelligence is the front line of national defense (Scott, 2007) and a more cost effective way of protecting the nation from the internal and external existing threats than entering a war as stated by Sun Tzu 2500 years ago (Hulnick, 2004). It will certainly be influenced by strategic, tactical and technological changes in our globalizing and changing world (Devine, 2008). Intelligence has become an academic discipline for fifty years since the first publication of Strategic Intelligence for American Foreign Policy by Sherman Kent (Scott and Jackson 2004). It is based on solid theoretical foundations (Kahn, 2001). Today, intelligence and security issues have become vitally important both for international politics and for societies (Culliffo et al., 2001). Since existing threats stem from different sources, intelligence needs to have a large vision (Berkowitz, 2001).

The intelligence theory can be examined methodologically in different ways and perspectives. Intelligence is the process of collecting, analyzing and making ready the information obtained from open and secret sources necessary for authorities of a country to decide on a certain issue (Hulnick, 2004). This process involves the pre-determination of behavioral patterns, motivation and capacity of target individuals, groups or states (Adams, 1997). Intelligence is a tool to establish a suitable protection against foreign policies. It is related to the internal security and power of the state (Scott, 2007). Intelligence can be examined in three parts, namely strategic part, tactical part and counter-intelligence, that is, resisting against and foiling foreign intelligence efforts (Hulnick, 2004; Donovan, 1960).

One of the nontraditional fields where marketing is conceptually and functionally employed is intelligence. Intelligence services use marketing concepts in order to adapt to the changing conditions and establish advantage over other services. However there are dilemmas on adapting the marketing concepts such as product, rise and competition to the nature of intelligence. Another problem is how to make the inherent secrecy of intelligence compatible with such marketing actions as launching product(s), informing and persuading users. They also need to manage perception by the public in general who will agree, or not, to their vast budgets. They need moreover to convince policy-makers of their capabilities, and to continue to fund them. The differentiation between marketing to gain sources, and marketing to influence the domestic public, is not made throughout, those these are vastly different concepts. Real life examples of intelligence marketing however reveal that intelligence services have overcome, to a certain extent, such difficulties by sharing information in a controlled manner. In other words, the information shared with others does not harm the intelligence service and serves the purpose of informing and persuading the target market. This is clearly

illustrated in John F. Kennedy's statement in "the debacle of the Bay of Pigs" in 1961: 'You always assume that the military and intelligence people have some secret skill not available to ordinary mortals'. Namier made the same emphasis as 'Legends naturally surround all "secret service"; its very name inspires fear and distrust and stimulates men's imagination – it is believed to be wise and wicked, efficient and powerful' (Hughes, 2008). The existing conditions force the intelligence services to share information in order to gain advantage over their rivals and show themselves more powerful and successful than they actually are

## 2. Conceptual Framework

Intelligence marketing shows parallelism with traditional marketing as regards to understanding, collecting information about and establishing communication with the customers. At this point it is obvious that intelligence marketing needs consumer survey, market segmentation and brand management. Intelligence marketing is the use of traditional marketing techniques in order to devise programs necessary to make the target market to acquire the attitudes and behaviors desired by the intelligence services. In other words it is the use of marketing theories in order to reach the intelligence target market. This includes all the techniques to define the target market, show their difference compared to their rivals and obtain the necessary information with the minimum cost. The biggest difference from the traditional marketing strategies is that the main goal here is to have the target market acquire certain behaviors rather than sell products or make profits. Intelligence marketing activities are similar to those of psychological operations (PSYOPS) activities started by the US government after September 11 attacks. PSYOPS serves the purpose of motivating the foreign target governments, organizations and groups to support the US political goals (Lamb and Genalis, 2005). It also works to isolate the terrorist groups from the society, prevent them from obtaining any support and reduce their capacity to finance their operations and training activities.

The basis of traditional marketing exchange theory is that the reason for people to establish relations is obtaining the real or the perceived maximum value with the minimum cost (Sam et al., 2005). From this point on, we will examine intelligence marketing in different aspects and make suggestions for the future and make evaluations related to the target market, marketing mix elements and the brand. The examples of the study were chosen from the web pages of various intelligence services and the news about them appearing in the media.

### 2.1. Target Market

Terrorists today can easily hide within the society. It is obvious that intelligence services should be proactive in detecting the hidden threats and collecting information about them. This shows the necessity of different operational organizations and methodologies (Berkowitz, 2002). In espionage operations called as HUMINT (human Intelligence) it takes quite long time to find the suitable people furnished with necessary skills and knowledge for being a secret agent. The sophisticated technological equipment does not at all times assist secret services. For instance the US failed to help the UK in the Falkland War because all of her satellites were programmed to monitor the Soviet Union. This is also the case for open source intelligence (OSINT). This is counter espionage to protect the secrets of the country or obtaining secret information about other countries, the informants are of great importance for counter espionage. These people are not secret agents but the ones who inform the related institution about the cases which they find unusual. For instance the managers of a flight training school warned the FBI about a Middle Eastern man with suspicious activities who came to the school before September 11<sup>th</sup> (Hulnick, 2006). The importance of the informants as regards to the target market of the intelligence marketing is very obvious.

The target market of intelligence marketing is the people in and outside the intelligence business. The first category of such people includes those secret agents of other countries who may provide valuable information in return of asylum, financial gain or protection. The other targeted people are those normal people

who are not agents but used as the staff by the intelligence organization and provide information to them for once or on continuing basis. The basic strategy employed for these two types of markets is the establishment of trust as stated by interactive marketing and social exchange theories. Trust is an indispensable factor for every institution. The parties of the information exchange are focused on the long term gains rather than short term expectation and risks (Atuahene-Gima and Haiyang, 2002).

The importance of the trust for intelligence marketing has been explained by Zucker (1986). In process-based trust, there is confidence established based upon the brand name, reputation obtained. At this point, intelligence services employ certain strategies directed to the target market. The Czech Republic expresses the importance it accords to its community as follows in their web site: “The purpose and goal of this communication is to “e-demonize” the Service and convince the public that its *raison d’être* is to protect the citizens and act in their interest. In many cases, BIS cannot do without public support, and the more citizens it has on its side the more successful it will be.” FSB promises the protection, money and secrecy to the prospective agents with the motto of “be a spy” internet. FBI and CIA open their channels to the possible informants and prepare special pages for the children in order to establish brand awareness. The Czech Republic stresses the importance of trust as follows: “Its creed is faithfulness to democratic values, the Constitution and the laws of the Czech Republic. It attaches extraordinary importance to communicating with the public, as it could hardly fulfill its mission without its support, and highly appreciates any help with which it is provided in protecting democracy, freedom and national security”. Many of the intelligence services such as Mossad of Israel, DGSE of France, EYP of Greece, BND of Germany and AISE of Italy provided language options in their web sites in order to reach the target market more easily. Austrian secret service, ASIO, established a Business Liaison Unit (BLU) which provides a public interface between the ASIO and Austrian business.

## **2.2. Product**

The products supplied in the field of intelligence are organizational power, reliability, protection and persuasion. In contrast to the products in commercial marketing, the product marketed here is opinion. It serves to create of awareness and behavioral changes in the people. For instance, normal people are expected to report any dubious activities to the authorities while some special people are expected to provide continuous information to secret services. At this point, the services provide direction, encouragement and reliability. The website of Jordan describes the product as follows : “The task of preserving national security is a shared responsibility, especially since terrorist threats are indiscriminate by nature. Therefore, if you happen to have information about a potential threat to our national security, we would like to hear from you as the information you have may help us ward off the threat and ensure continued personal safety” ([www.gid.gov.jo](http://www.gid.gov.jo)). Today the secret services have to act as ambitious marketing managers who market their products in this competitive medium rather than giving people passive roles (L’etang, 1998). This gives important clues how they would like to show themselves to the public. For instance, CIA provides a computer tour of CIA.

The attribution theory which says that the motivations of organizations are shaped by the reactions of consumers gives important guidance related to this concept. Ellen et al. (2006) classified attribution types as value driven and strategic motives. Strategic motives stress that there are no undeserved gains while value driven motives emphasize the organizational stability (Samu and Wymer, 2009). CIA emphasizes this point. The CIA’s website states: “We must take responsibility for our actions and decisions” (Bean, 2009). Similarly, the Kenyan secret service expresses their vision as follows in its web site: “To create, manage and sustain an organization that is both professional and accountable; founded on firm ethics...”. According to Fombrun (1996), corporate credibility is one dimension of corporate reputation and represents the degree to which consumers, investors, and other constituents believe in the company’s trustworthiness and expertise. The Austrian intelligence service describes itself by four words: excellence, integrity, cooperation, accountability. Lafferty and Goldsmith (1999) found that corporate credibility exerted a very strong effect on attitudes toward a

company's brand. The influence of corporate credibility was found to have a direct effect on attitudes toward the brand and the purchase intentions (Goldsmith, Lafferty and Newell, 2000).

Similarly in Schultz's three dimensional theory of interpersonal behavior states that FIRO (Fundamental Interpersonal Relations Orientation) is motivated by three basic needs namely inclusion, affection and control. The need to belong to a certain group is frequently stressed in the web pages of secret services (Schultz, 1966). The Kenyan secret service described itself by three adjectives: available, reliable, and capable. The CIA defines its organizational culture in terms of 'integrity', 'teamwork', 'total participation', 'innovation', 'adaptation', 'accountability', and 'continuous improvement'. Also in conjunction with this theory are statements of its employees with their own words in the CIA web pages. The statement at the top of the page is in full accord with the need of inclusion. "We invite you to get to know the men and women of the CIA. They are all Americans who have taken on the important mission of protecting their nation. But they are also your neighbors, youth league coaches and the person in front of you in the shopping line. They went to the same schools you did, and come from a background as diverse as the nation they serve." This stresses both the need of inclusion of the people and carrying out positive introduction of CIA.

The American Marketing Association defines a brand as "a name, term, sign, symbol or design, or a combination of them, intended to define the goods or services of one seller or a group of sellers and to differentiate them from those of competitors (Teo and Yu, 2005). When we look at the web pages of the secret services, they all have logos and some of them explain what they mean (e.g. Turkish Intelligence Service (MIT), CIA, and Lebanon intelligence service). CIA which wants to establish brand awareness at early ages makes the following explanation the children: "You may have heard about the Central Intelligence Agency. But, do you know what we really do and how we do it? The people of the CIA do very important work. They help keep our country safe. They give our leaders the necessary information so they can make good decisions. And they take pride in their important jobs. We have a lot of different jobs here. We have analysts, doctors, lawyers, scientists, geographers, and librarians, to name just a few." There are various issues shown at the back pages which may appeal to the children (the introduction of K9 dogs and various games). There are various supporting services for the teachers to prepare their educational plans by the use of CIA web page.

The compatibility of the organizational vision with brand and the belief of the customers in the brand is very important. Brand image plays an important role in shaping the attitudes and behaviors of customers (Tapp, 1996). The establishment of the reliability and the identity of the brand on solid basis (Tapp, 1996) are necessary for the introduction of the organizational values to the stakeholders the change of the opinions of the society, construction of the confidence and attaining the targets. In this intensive competitive medium (Noble et al., 2002), intelligence services are to be in compatible with the brand oriented organizations regarding their attitudes and actions (Hankinson, 2001). It has been suggested that, when there is congruence between the brand and the cause, consumers are more likely to respond favorably (Hamlin and Wilson, 2004). Therefore, it is likely that congruence will allow the brand to generate positive returns, whereas a non-congruent relationship may even be detrimental to the brand (Gray, 2000; Hamlin & Wilson, 2004). An endorsement will be more reliable and enhance the image of the brand when relevant characteristics in the image or function of the cause match the perceived image or functions of the brand (Gwinner & Eaton, 1999).

### **2.3. Price**

The ultimate goal of an intelligence service is to maintain the informants providing information and the provision of information to aid decision-makers. There are people who possess the information at one side of the intelligence market and the intelligence service which would like to obtain such information on the other. The informants buy the product provided by the intelligence services by giving the information to the intelligence services. The motto of the Italian intelligence service is "Arcana intellego" (understanding hidden

things). The verb "intellego", which literally means "I comprehend" evokes the noble root of intelligence, a discipline aimed at unraveling mysteries and holds in itself a constant tension directed to its final goal: knowledge. The second goal of the intelligence services is to make such effect on the people as to change their attitudes and opinions and opt for the product they provide. Giving information is one part of the change. The other part is the satisfaction derived from it. The fact that the person becomes intimate with the service he or she gives information is an important sign of change. Here, the question is not an economic value but the relation with the economically based transaction cost theory. The costs involved in such transaction-related activities are called transaction costs (Teo and Yu, 2005). The basic principle of TCE is that people like to conduct transactions in the most economic way. The success or the failure of the service to which the information is given affects the future of the informant. The price paid includes these as well, and this can be regarded as cost paid by the society. In other words the cost of the intelligence includes the cost of the information plus the opportunity costs.

## **2.4. Place**

Since intelligence marketing is not based on physical products, buyers cannot claim any possession on them. The rational use of communication tools is very important for the rational transportation of the product to the target market. In other words, the communication tools are not only necessary for the maintenance but also for the distribution of the products. The application through a web page creates locational convenience. For instance FBI gives the following information in its web page. "The FBI has 56 field offices centrally located in major metropolitan areas across the U.S. and Puerto Rico. We also maintain about 400 resident agencies in smaller cities and towns across the nation. Each field office is overseen by a Special Agent in Charge, except our offices in Los Angeles, New York City, and Washington, D.C., which are managed by an Assistant Director in Charge due to their large size." They give the locations of their field offices on the map indicating the zip codes.

## **2.5. Promotion**

Effective promotion means effective communication. Intelligence services try to influence the behaviors and attitudes of people by giving information to them. The media constitutes the backbone of the intelligence marketing. At this point, the Internet has an undisputable role in marketing (Grunig, 1992). The Internet enables the services to reach diversified environments without big costs (Poddar et al, 2009). The compatibility of the messages is very important in this process. The effectiveness or the use of the message is related to the degree of behavioral or attitude changes achieved (Elliott, 1993). The effectiveness of the message indicates its acceptability (Witte, 1992). The acceptability of the message is measured by the intention of the people to comply with its proposals (Witte, 1992, 1994). A compatible, clear and consistent communication is the very foundation of the intelligence discipline (Hughes, 2008).

### **2.5.1. Personal Selling**

In spite of the great advances in humanless systems, Human Intelligence is still one of the most important tools in gathering information (Dupont, 2003). The basis of espionage operations is using human resources for spying purposes. The people who find, train and assign the duty to these people are the case officers. The case officers direct these people for intelligence operations rather than carrying the action themselves (Whittaker, 2008). The strategic role of case officers who are in constant contact with the target market cannot be disputed (Hartline et al., 2000). They form the tie between the target market and the organization. They represent the organization and carry out communication (Bettencourt and Brown, 2003). This was the case (Marcus and House, 1973) in the efforts of Hoover to promote the image of the FBI agents (Hughes, 2008). According to Blau (1964) the social exchange theory is based upon the comparison of the

utility-cost analysis and the alternatives between the parties. The case officers give the necessary information to the target market, make comments and bargain for the information at one side and tell the customer to the service at the other (Floyd and Wooldridge, 1992).

### **2.5.2. Public Relations**

The popular culture has been playing an important role on the attitude of the society and the government towards intelligence activities since the Franco–German War of 1871. At that time, the French had a spy mania with the spying stories of the German agents led by Wilhelm Stieber. Introduction and social relation activities are of great importance for the promotion of the image of the intelligence services in the eyes of the target market. In 1935 alone, there were 65 movies on FBI. All of them depicted FBI agents as heroes with gun in their hands fighting to solve the cases. Weiner explains the success of CIA in social relations as follows: “In spite of all the terrible mistakes CIA made throughout the years, its biggest success was its capacity to conceal all these perpetual mistakes”. We can therefore talk about mythmakers for CIA since all the books and Hollywood films are full of the stories depicting CIA agents as the courageous and refined men and women who carry out unbelievable operations.

Starting from 1930s, movies about the British and American secret agents also books started to come into our lives. The adventures of James Bond, American secret agents Matt Helm and Sam Durrell, British agent John Craig, Jonas Wilde, Harry Palmer, Quiller, the book and film 39 steps, novels of of Le Queue filled our screens and books. The American TVs started to show the adventures of John Drake, Kelly Robinson and Alexander Scott and John Steed and Emma Peel on a weekly basis. From 1970s to date, the Israeli secret service Mossad has been the subject of many books and articles (e.g. Stewart Steven’s *The Spymasters of Israel*, Wolf Blitzer’s *Territory of Lies*, and Ian Black and Benny Morris’s *Israel’s Secret Wars: A History of Israel’s Intelligence Services...*). The Israeli agents were the main guys in most of the movies (Richelson, 2007). Mossad maintains in its presence in this competition with movies like *Munich* and Gabriel Allon’s books. The memoirs of the secret agents after retirement can also be regarded as introduction and public relations activities. Authors like Graham Greene, John Le Carre’, Ian Fleming and Tom Clancy intensively used intelligence and secret services in their books. A more perplexing if intriguing relationship between reality and fiction is illustrated by the occasion recounted by Jeremy Black when the Soviet Polit-bureau issued instructions to the KGB to acquire the gadgetry displayed in the latest Bond film.

Fiction also illustrates specific ethical problems and dilemmas. How far an intelligence organization is prepared to risk or sacrifice its own ‘side’ in pursuit of a ‘higher’ objective is a popular theme, well illustrated in Le Carré’s “*The Spy Who Came in From the Cold*”. There are public relations offices in the intelligence services that carry out important activities. The Ukrainian secret service SZRU has a sub-unit called Veterans Fund serving the purpose “to contribute to foreign intelligence prestige”. There is a part in the web page of British secret service MI5 entitled “myths and misunderstandings”. The suggestion, for example, that the British state undertakes the murder of its citizens for political purposes is a familiar trope in popular representations of intelligence activity. The suggestion that Hilda Murrell, an elderly anti-nuclear protester, was killed by the security service in an operation against nuclear protesters gained surprising currency. MI5’s website currently proclaims that “We do not kill people or arrange their assassination”.

Similarly the Jordan secret service explains the purpose of the internet page as “there are a limited number of official intelligence web sites. GID has taken this step in compliance with its democratic process and we hope that we can contribute in changing the common stereotypical impression many people have about intelligence organizations, which is in most cases very far from the truth”. (<http://www.gid.gov.jo/en/help.html>). FBI and CIA tell the past operations as stories in their web pages. MI5 explains the necessity of a website as follows: “This website is an important element of the Service’s “openness policy”. This policy,

agreed by the Prime Minister and Home Secretary back in 1992, aims to improve public understanding of our role. The policy is, however, carefully controlled - we do not release any information which might compromise our sources and methods, as well as the security of our staff and agents.” Some of the secret services publish the annual reports in the framework of introductory activities (Czech Republic). There is a corner at the web page of the Kazakhstan secret service where you can write your comments about the organization.

### **2.5.3. Advertisement**

There are advertisements in the web pages of secret services in connection with the marketing of intelligence. The British secret service is using advertisement that mimicks real world billboards within Tom Clancy’s Splinter Cell Double Agent on x-Box Live and across a number of other games including Rainbow Six: Vegas, Need for Speed Carbon & Enemy Territory: Quake Wars. The campaign has been masterminded by digital recruitment strategists MI6, the British Secret Intelligence Service, have been using Facebook as a recruitment tool and also as an advertising tool (Newman, 2007). The spokesperson for the Government Communications HQ said that ads may help “plant the idea in the heads of younger players.” This is a very effective way to choose the qualified personnel and reach the targeted media (Spiess, 2007). The NCS-sponsored Facebook group was launched on Dec. 19, 2006 and will stay active for two months. The group currently has over 2,100 members, up from around 200 one week after its debut (Bruce, 2007).

While Silverstein (2008) emphasizes that the paid commercials will not be enough to change the attitudes of people towards CIA, one should never underestimate the power of media. SVR takes videos and films to be shown on TV channels. FSB promises money, protection and confidentiality to the people who are prepared to be double agent in its web pages. Shabak shows the videos revealing its technological and operational skills coupled with the scenes from real operations. Similar videos can be found in the websites of FBI and CIA. The Canadian secret service explained the reasons why it was chosen as one of the most successful organizations in the country. The Ukrainian secret service put the pictures of the operations in its website and shares the news related to its operation with other people. The Romanian secret service put “a terrorist threat level scale” in its web page. Similarly there is a part called “**Current UK threat level” in the web pages of the British secret service MI5**. The Austrian intelligence service put a National Counter-Terrorism Alert System in its web page. SRI distributes brochures introducing the service. The Italian secret service publishes a journal called AISI Gnosis four times a year.

### **2.5.4. Sales Promotion**

The sales promotion activities frequently appear in the intelligence marketing efforts. SVR organizes a contest with a prize of 120,000 rubles for authors, artists and journalists who help promote the social cooperation between the service and the citizens. FBI puts the pictures and the information related to the most wanted criminals in its web page and promises substantial prizes for the people who give information about them (up to 5 million dollars).

## **3. Conclusion and Discussion**

It is an undeniable fact that the intelligence has gained a paramount importance today. As Wesley Wark says “Learning to live with an open-ended “war on terrorism” will mean learning to live with intelligence”. Rathmell states that intelligence services have got to make radical conceptual and organizational changes and take radical steps in order to comply with the social, cultural and technological conditions of the 21<sup>st</sup> century. These are the parts of marketing the intelligence activities. Intelligence services use intelligence marketing in order to reach the target market. Intelligence services which effectively use the marketing techniques are steadily moving to become a brand.

The main idea of the article is that the current efforts made by intelligence agencies to market themselves to various groups with a view to improve their effectiveness. Looking roughly the target market of intelligence services are seen as governments, but also we can analyse from given examples that the real target market of intelligence services incline to community. Creating positive corporate image is underlying the marketing activities of intelligence services. This is reality because many different marketing tools are in use for this purpose. Making films with the story of intelligence services, moreover Turkish National Intelligence Organization's advertisement for assistant specialist position are good examples for explaining target market about marketing activities. By this means corporations try to integrate organizational activities with community.

In this article, the intelligence services' marketing efforts of very different countries were compared. So when comparing the intelligence services of the long-standing democracies (Anglo-Saxon for example) with those of a former Soviet-Bloc state (Czech Republic), those of a post-colonial state (Kenya), a Arab monarchy (Jordan), it is important to keep in mind that the kinds of reasons each state intelligence service is marketing for could be different. ■

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**Study of economical social factors on women perspectives  
relating to the role of advertisement on decreasing family  
consumption in Esfahan**

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## Abstract

The aim of present search is Study of economical social factors on women perspectives in Esfahan relating to the role of advertisement on decreasing family consumption. Research method is survey one and statistical population are including all households in Esfahan. Sampling has been done by random method among women of above centers and their numbers are 284 women as a sample device of gathering info is questionnaire whose validity has been reported by professor study and omission vague questions ( content validity) for estimating its reliability by Cronbach coefficient and it is 86%. For analyzing data we use descriptive or deductive statistics (Ki- Cho test) and variance analysis. Research results show that there is a relation among the type of skill and women employment their perspectives.

### Discussion:

Advertisement is effective to change women population and creasing family consumption.

### Keywords:

Advertisement, family consumption, consumption patterns, women point view

## 1. Introduction

The term of attitude has different Persian synonyms like deduction, point view, feedback, and theory. Theory is one type of relatively stable and continuous mental readiness for reacting to objects, individual and special subjects. On the other hand, theory is to share positive or negative reaction against individuals, institution or events. (Mohseni2000, 19)

As Easer shows we feel ambiguous against individual, group or event, even if he can neither say why we feel nor convey its perception. We can told it by correct words , we assured that we think wrong common meaning of theory is attributed to is very close to meaning mentioned by social psychologists in the early researches. Theory means the general direction and valuation against given subject. (Taipei, 2000, 33)

Whereas theory is accompanying wit valuation, social evaluation of people from individuals and events is in positive or negative views. People are indifferent what they don't know, but they know the person, object or event. Theory has been informed against the environment. Among them, every one finds his or her view about individual, object or event and put in the range of kindness or enmity.

Therefore, desirable or undesirable evaluation invokes people to react logically by people evaluation. So we can claim that theory is acquirable like so many reaction and human habits put inside like their specific aim (acquiring and eliminating it)

According to definition of theory and some features we conveyed, theory is embedded in the persons' behavior with his or her theory. Generally human behavior is a sign of his vies that we can consider it as readiness to act. Unless uncertainty in relation theory and behavior. It is assumed that there is one kind of conformity, as otherwise, regarding to cognitive dissonance every one imposes psychological conflict due to conformity between his or her view that results in anxiety and mental pressure. For example, if one religious person commits movements that are against his religious beliefs , he feel din resulting from conflict against those factors.( theory and behavior ) whereas relation between theory and behavior is one reciprocal ( it means theory affects behavior and behavior affects on theory, by changing one other will be changed. For this reason, we can say that this point is based on advertisement. As millions dollars have been paid in the world. Because commercial organizations concluded based on scientific experiences and advertisement we make changing in perspectives and behaviors of people and their habits and behavior. By changing the costs that governments pay scientific advertisement and make changing in perspectives and behaviors of people. Therefore, high cost those governments pay scientific advertisement are resulting from cognition. Broadcasting programs that provided by eliminating costs deliver to consumer freely, their aim is change and conduct people's view. Magazines, books and discourses of all people are qualified in making disorders in the view. Disregarding motivations of advertisement, they apply intellectualism and brainwash. All of them show the fact that human view is basic

case, because if theory is strong enough in mind and conscience of point view should be completely internalized and finally it would be effective to form their behavior. West politics try to show development as wish of governments by wide abroad advertisement and it is due to west development, it results in changing to west colony and native cultures of nations. Level and shape of consumption of people and society make their consumption. On the other hand, pattern of consumption is including quantity or quality of consumptive goods and social family. Increasing foreign commercial advertisement affect on level of consumption, but the level of its effect is variable on form of consumption.

On the other hand, if foreign commercial advertisement is exceeding, consumption of all considered goods is not increasing. For example in urban society increasing consumption of goods decrease the percent of costs relating to the foods and as a result, further part of increased income will be allocated to stable goods like car, radio, TV and other electrical apparatus. It is different in various societies. Basically one of basic discussion in all economical systems is certain and principle of all global evolutions is unfair distribution of income in the social classes. In fact, quality of income distribution causes that there is an unequal level of income in the social classes. In the society where incomes are distributed equally luxury oriented and unfair goods consume lower and there are few rich families and so many poor ones. In selecting goods, advertisement puts special place. Advertisement causes in the one has increasing people's awareness and on the other hand, changing interest and attitudes of person and families. In this changing, attitudes have been switched by luxury oriented goods from necessary ones and from deposits to consumption. Moreover, being popular one goods and method of presenting in the market can increase consumption of goods. Sometimes this situation reach to buy goods based on its prices. Consuming goods can be divided into necessary and luxury oriented goods. The definition of necessary is goods that not only naturally are necessary but also based on current rules of society in high or low levels. In other words, positive or negative changes of income in the society make relative low changes in consuming these goods. Unfortunately, Iran has changed to same changeable consuming markets and consumerism in our society has been stereotype and it is one of consuming market. Consumerism in the society means poverty of country and only solution of west for changing countries into consumerism market and finally affected by west countries. Importance and necessity of research: necessity of discussion is due to the relation between advertisement and consumption patterns and more precise cognition of the relation contribute to change economical – social affairs, because society culture or values can be effective on type of consumption, facilities and country abilities. Its opposition is also true. On the other hand, types of society consumptions can be follows by evaluating certain form of commercial advertisement. Briefly, necessity of discussion about consumption pattern is due to consumption and interaction and multidimensionality of consumption patterns with other society components. In the way, changing each one causes to change others. necessity of discussion is due to the relation between serious criticisms and complaints against the manner of consumption in people and different groups of society can be observed and because economical autonomy can be stable, change in consumption pattern is as a step for obtaining economical autonomy and we should consider following: if consumption patterns lead to higher consumption in the society, therefore great part of income in the consumption is as a step to boating economical autonomy. In this way, high consumption in one generation leads to lock of making necessary fields to generate next generations. Needful goods, their right are incurred and justice from one generation to others is eliminated. On the other hand, frequently consumption that is barrier to ext product, it means that consumption instead of growing the country leads to decline the society. It is obvious that there is no implicit frequency and product factors are imposed by limitation and shortage. Consumption can help to allocated resources and manner of applying manufacturing factors, as it is including necessary needs and effective to indexing and recognizing the level of importance of every need and provide necessary filed to use present equipments. Although facilities and empowerment of society are imposed by limitation, the level of continuous need is growing, because population show high rate of growth, shortage of facilities and increment of needs are acquire to increase the production and by existing insufficient product to distribute increasing population, the result will be poverty. Culture and society values can affect on type of consumption, population, and dwelling place and consumption level and facilities of countries on effective consumption. Its opposite is true as well. On the other hand, types of society consumption can affect on culture and values and level of consumption in the form of high or low per capita on determining growth rate of

population organize and obtaining consuming goods and the manner of applying facilities and manufacturing empowerment of country. Usually manufacture is applied by consumption. Consumption is a way to apply goods and services to obtain human needs. If this usage is to provide goods and service it is called intermediately consumption and if using goods or services lead to provide human needs. It is called "final consumption".

If consuming goods are eliminated by first usage for example food that is unstable and conversely if it is eventually increasing .for example clothes, private car, house and so on are stable. Stable goods increase family possessions. The place of women in the society and consumption pattern:

Most important factor that leads to infinite consumption is fashion oriented and luxury oriented attitude. Luxuriate is one of basic factors of high consumption and basic inhibitor in true consumption and one of improper factors of consumption , the sense of deprivation based on jealous. We need strategic planning for eliminating this necessity and this women management can affect preventing national benefits.

Moreover, women have potential and productive role in family more than others that precise planning and development of country can increase development of country. Fashion oriented is one of most important trend in consuming society and show that there is least wealth and also legitimating for consumer and makes valid prestige. Right now, for rival classes to imitate and provide high motivations to develop consuming among social classes. Also strategic fashion shows social prestige for all classes, instead of very rich classes. As they want to distinguish between themselves and others. It is a case that Zimel called "dualism" and theory of "penetrate to down" means social classes from each other. (Zimel, 1975)

Briefly attention to "good fashion" aspects has changed life style, and this style life in different age groups especially among younger people help to define their values and perception. Consumption and lifestyle of younger persons make their identification and separate them from others. One of most important consequences of society is democrat ion of different aspects of life. In the society, degree of selecting people is increasing. The goods that are producing and delivering consider higher degree of selection for consumption. Other case is the growth of individualism that is appeared by increasing consumer right and consuming goods. Either cult or non cult programs increase individualism.

Democracy of luxury oriented is other consequent of consuming society. In this situation, so many groups achieve specific goods. Consuming society is growing by existing great shopping based on urban intermediate class. All of them affect on style life and causes appearing different styles as well as legitimating of ideal society. In consuming society, we cannot percept social constitutions based on subjects like social classes, gender, race and age. It is also based on identification that different styles of life means perception, values, behavioral methods against everything like music, art, clothes.

In the modern consuming, enjoyment of consumption is followed by mental experience; pleasure of wanting objects is more than enjoying them. Consumption is an unlimited cycle, because experience of consumption is always back to consumption imagination. In view of Abu Darya, "consumer is not passive addressee ". He or she is one member of society through consuming and contributing its facilities. Recognition of real needs and observation of balance and providence in exploiting facilities convey true pattern of consuming. Consumption in the society has important role in determining type, level and form of product and distribution. Therefore, it is necessary to claim points about necessity of taking true pattern of consumption. At first, for preventing from improvidence study shows consequences to recognize following factors: first stage in correcting cp is to inform people in all dimensions that require precise and scientific planning and it is including people authority. Because challenging with consumerism in the society is a public task and the aim of officials relating to people role in consuming extremely water, petrol and cosmetics. Also high growth in family and consumption among women has social and historical origins. But conducting important part of providence is on officials. Because officials 'behavior causes to patterning. When they are attracted by luxury, consumption and luxury oriented will be prevalent and historical root is development that west countries have been founder in Iran, while the city is full of advertisements of luxury oriented west goods. First stage of eliminating providence

and modifying consumption patterns is self awareness; it means that people consider it as correct management and control of resources. They are conducted into correct consumption pattern according to providence among Iranian families and by crowding the cities, best way to conduct it is time and spending frequency time to reach desirable result and in short time we can proper result, we should use minimum facilities for maximum profit and don't remove anything and use home devices and even consuming in electricity, water, gas and even telephone. It cannot receive positive response in short time. Moreover, being indifference against financial resources is one problem that society encounter and the role of women to economize. Revenue in the society is like correct paying cost of living as well as preventing massive useless costs, also observing providence and revenue in the house. Women are effective to impress others' behavior at home. As a result, proper upbringing conducts family to fair economic and for providing this importance, younger persons can study economy ways before gathering married and even parents can train economy ways to their children. Civilization is one of preliminary effective constitution and families and children can be habited to correct consumption and remind them basic points as well as claim sacred books' trainings of Islam. By reaching to youth and the age of adolescence it is extended to other sections of social. Lack of the correct culture of consumption causes to eliminate resources and half of families consume more than standard while loss of feeling it women with basic roles in the family try to optimize the costs and as an active member of social life they can be encourager of younger generation and paying high costs of ceremonies, parties and weddings and it is indicator of extending consumerism, national wealthy spends for inattention, egotism, luxury oriented and lack of attention to the future and obvious the important of making cult and the role of women and mothers in determine economical.

Precise planning of officials causes to inform and empower women, controlling family economics in the best ways to prohibit them in all institutions and systems. Also the discussion of making culture can be started by second institution on that children impose for example Ministry of Education and ministry of sciences, researches and technology. Most beneficent factor of modifying consumption patterns is undertaken broadcasting mass media, newspapers, mosques, institutions, unions can remove luxury oriented and consumption by precise planning and effective advertisement. Also women go to the margins due to be vulnerable and one of luxury oriented reasons and more consumption among women is to be far way and deprived from social privilege and it is the role of media that invite women in all areas and whatever is considerable. Lack of self trust of women, particularly in management posts and media should try to show women in beneficial management post due to family responsibilities and involvements and make correct culture in the society and identification that is compatible with religion and human center view.

In contrast, women who have no informed awareness of quality of providence and distribution of energies are more careful than men. They have enough knowledge and ability for training and extending correct culture by using all resources and equipments among family members and try to solve problem. Strong women are persons who have innovation and knowledge. For eliminating false habits, its study causes to save energy, cost, time and human force.

## **2. Research purposes:**

- Determining demographic characteristics of studied women
- Determining situation of advertisement's programs in the view of women
- Presenting guidelines and suggestion for enforcing positive dimension of advertisement in presenting proper pattern of consumption.

## **3. Research questions:**

- Is there a relation between impression off propagandistic programs of women and their demographic characteristics?
- Is there a relation between impression off propagandistic programs of women and level of their usage?
- Is there a relation between level of women usage and social institutions?

#### 4. Research method, society and statistical samples:

In the research, survey research has been used. Statistical part s is all household women in Esfahan.

Sampling is randomly conducted and among people who are receives propagandistic programs and also likes to participate in the research and their number is 284 persons.

#### 5. Device of gathering info and statistical methods

In the research, questions are used for gathering information by questionnaire and orally they are asked and questions are completed. For analyzing information, methods of descriptive statistics have been used for describing tables and plotting tables and calculating central inductive indexes. (Test of variance analysis, test Ki Cho, Parson correlation coefficient)

#### Research findings:

**Table (1)** sample distribution based on age and usage level

Level of consumption /age	High consumption		Low consumption		Otal	
	percent	frequency	percent	frequency	percent	frequency
20-25	15.2	40	20.6	68	34.7	108
25-30	7.4	24	16.4	46	49.2	70
30-35	10.6	34	11.4	34	22	68
40-45	2.7	18	3.6	20	6.3	38
total	4.08	102	59.2	148	100	284

Results of above table show that all sample persons are among marriage women in the age range of 20-25 years old and single ones in the same age is 15.2.

**Table (2)** sample distribution based on occupational status and consumption level

Level of consumption /occupational status	Unemployed person		Employed person		Total	
	percent	frequency	percent	Frequency	percent	frequency
Very low	7.8	22	4.6	12	11	34
Low	20.4	60	12.7	34	33.1	34
Moderate	16.9	48	14.1	40	31	94
High	8.5	24	14	20	15.5	44
Very high	5.6	20	2.8	4	8.4	24

Table data show that 33.3% women have low consumption and 31% moderate consumption. Just 8.4% of sample persons have high consumption and direct relation has been studied between employment and level of women consumption.

**Table (3)** distribution of sample people based on social institution and level of effect of advertisement programs in consumption

Level of effect of advertisement on consumption/social constitution	effect of advertisement high		effect of advertisement low		Total	
	Frequency	percent	Frequency	percent	Frequency	percent
High	12	8.5	14	8.9	26	18.3
Moderate	31	21.8	27	19	58	40.8
Low	41	28.9	17	12	58	40.8
Total	41	28.9	17	12	58	40.8

Results show that there is direct relation between social institution and level of effect of propagandistic programs on consumption

**Table (4)** analysis of variance if age on level of respondents' consumption

Source of Variation	DF	Sum of Squares	Mean Squares	F ratio	FProb
Intra group	8	3.81	1.34	2.55	26%
Inter group	276	72.14			
Total	284	75.95			

Calculated value F (2.55) has 2% over probability and is a sign of relation of age consumption level. Present difference in age group 20-25 is similar to group of 25-30 years old. In this way, assumption H1 will be confirmed based on relation of age and consumption level.

**Table (5)** relation between levels of impression of advertisement on consumption and dwelling place

Level of effect of advertisement on consumption/dwelling place	City		Village		Total	
	Frequency	percent	Frequency	percent	Frequency	percent

High	94	33.1	58	20.4	152	53.5
Moderate	48	16.9	38	14.1	86	31
Low	26	9.2	20	6.3	46	15.5
Total	168	59.2	116	40.8	284	100

 $\chi^2 = 0.234$  sig = 2

df = 2/56

 $\chi^2$ 

**Suggestions and consequences:** unfortunately nowadays there are no propagandistic programs for decreasing consumption regularly not only for all people in the society, but also for women or sometimes it is very low. It is suggested that officials and providers of propagandistic programs should implement enterprises. Based on results of research, propagandistic programs have more influence on younger persons. Therefore, it is suggested that executive planning can provide the bed for younger persons to know economize. ■

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**Characteristics of Strategic Business of Business & Industrial  
Organizations**

Dr. Nasser Fegh-hi Farahmand

## Abstract

There are no distinct business management systems in use at organizations, and nor should there be anything of the sort, as the aim is that Strategic Business (SB) is an Integrated part of business. Indeed, business management system is also in general e.g. in the recognized business standards understood as a concept for systematic approach or mental system but not as a distinct, physical system. An exploration of the ways in which the characteristics of the Business & Industrial Organizations (BIO) influence whether or not those organizations engage in Strategic Business Planning (SBP). This paper explore the ways in which certain characteristics In case of Business & Industrial Organizations (BIO) generates a tendency to prepare a Formal written business plan and focus is primarily on what describe as the Environmental characteristics. Business excellence for SB includes also tools for Financial, human resource, and risk management, as well as technology management, acquisitions and marketing.

**Key words:** Business & Industrial Organizations, Strategic business planning, business Strategy;

## 1. Introduction

This paper explore the ways in which certain characteristics of actors that in this case of Business & Industrial Organizations (BIO) generates a tendency to prepare a formal Written business plan and focus is primarily on what describe as the environmental Characteristics (Bolton and Thompson, 2000, 12). Environmental characteristics such as Education, scientific and prior experience rather than those characteristics (Chell, 1985, 124; Chell, Haworth and Brearley, 1991, 271) derived from personality traits. Anyhow, the paper is in these parts:

- a) The nature of Strategic Business Planning (SBP) in the Business & Industrial Organizations (BIO) and factors which might influence the presence or absence of SBP Activities and brief outline of the sampled organization and the research methodology.
- b) Describes the extent of SBP and the characteristics and the influence their business development strategies.

## 2. Strategic Business (SB)

It is generally arguing that effective SBP is one of the important factors in business success (Rue and Ibrahim, 1998, 151; Burns, 2001, 412; Kuratko and Hodgetts, 2004, 25). The most extensive review, although now some years old, is the analysis that there seemed to be a Consensus that planning was linked positively to growth undertaken (Schwenk, Shrader, 1993, 251).

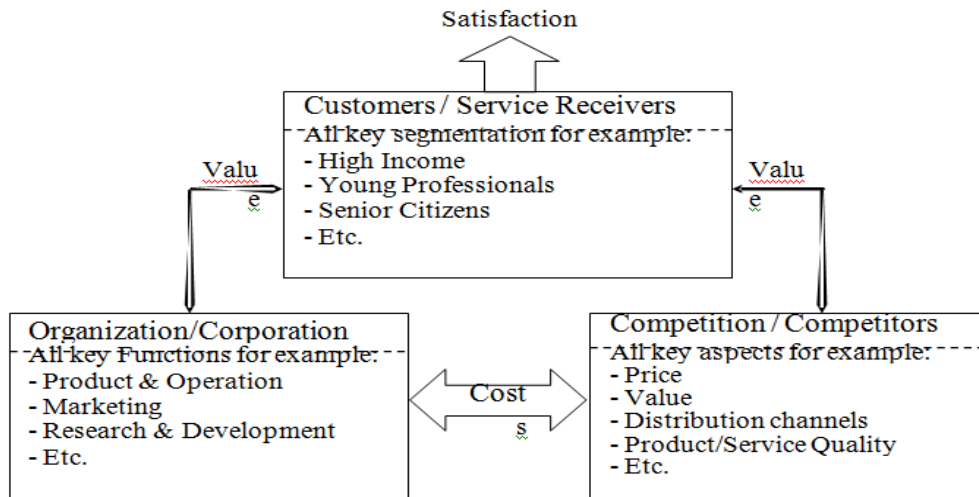
There are some argues that formal written planning may be inappropriate for the BIO but this seems a minority view (Bridge, O'Neill, Cromie, 1998, 32). It can be argued that SBP is as important to BIO as to larger organizations and standard textbooks (Burns,2001,20;Kuratko, Hodgetts, 2004, 32;Kirby 2003, 242) on entrepreneurship offer chapters on Business Plan (BP) whilst a range of specialist publications outline the best ways of writing BP (Sahlman, 1997, 467)

In BIO, where a BP exists, the preparation of the SBP may driven by external forces. The most obvious of these are the requirements of external agencies providing funding For either start up or expansion.

The form of the plan (Mason and Stark, 2004, 374) may vary between the agencies but the SBP is the minimum document required by any financial source (Kuratko, Hodgetts2004, 296). In addition to its role in business funding, the BP may serve as a strategic planning document for the entrepreneurs, a plan to guide the business and serve as a basis for taking strategic decisions and it may serve as a subsequent monitoring device (Deakins, 2003, 329).

In view of its perceived ongoing value to the small business, it might expect that SBP would be a feature of many, if not most, BIO (Feghhi farahmand, 2005, 458). On the other hand, by coupling quality with customer service recovering satisfaction is as (Figure 1).

Figure 1: Satisfaction by SBP model



### ***Characteristics of Strategic Business***

A few tactical actions for implementation (Mason and Stark, 2004, 205) can make the challenge simpler and provide leadership that is as follows (Feghhi farahmand, 2004, 358):

1) Supporting: Obtain support from the board of directors, because an organization's total quality efforts must begin at the very top and begin with the board of directors. One method of obtaining their support is to conduct a quality survey among them that Such questions could include:

- a) Has an estimate been made of the cost of poor quality?
- b) What measures using to judge quality?
- c) What are current performance levels?
- d) How does your quality of customer satisfaction compare with your competitors?

2) Preparing: Prepare an action plan and answers to these and other questions will Provide valuable insights into the existing corporate culture and indicate the organization's readiness for adopting quality. An action plan based on the survey feedback should formulate by the top management and communicated at every board meeting.

3) Visionary: Vision and mission statement and develop a vision or mission statement if the organization does not have one already. The key to the initial adoption of quality is continuous communication of the vision within a comprehensive communication plan.

4) Training: Train senior management in quality, because organization with successful Quality cultures start by training and educating senior management, followed by all employees that the establishment of quality teams is a top priority.

5) Participating: Establish a top-level quality committee, because an essential Ingredient for success is a senior quality committee, which provides leadership in Quality and stimulates cultural change. This should be chaired by the CEO and comprise The entire senior management team and the individual responsible for quality. Depending on the size and structure of the organization, these committees can establish Within operating divisions, functional group or by geography. The responsibilities of a senior quality committee can include (Feghhi farahmand, 2004, 398):

- a) Establishing strategic quality goals,
- b) Allocating resources,
- c) Sanctioning quality improvement teams,
- d) Reviewing key indicators of quality,
- e) Estimating the cost of poor quality,
- f) Ensuring adequate training of employees,
- g) Recognizing and rewarding individual and team efforts;

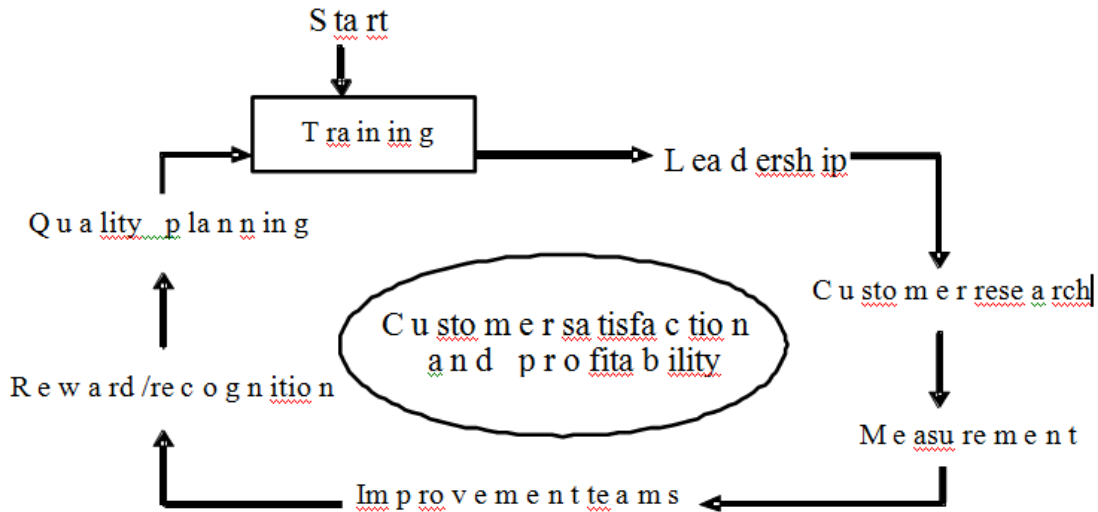
6) Conducting: Conduct a customer satisfaction survey that it sponsored by the top management to send a clear message throughout the organization that quality linked to Customer satisfaction. The senior executives should then present the results to all Employees that detailed strategies for improving customer satisfaction can devised and Communicated.

7) Goal setting: Set goals for quality and customer satisfaction. The results of the Customer satisfaction survey leads the senior management to establishing a set of quality Goals. Although the whole organization can provide input to this task, the setting of goals is part of management's leadership responsibility. They should be set out along The following examples: a) Reduce the cost of quality by 20 percent within two years;

b) Improve employee satisfaction by 25 percent within one year. These goals must manage and communicate via the senior quality committee.

8) Performance: Incorporation performance in management business system with Financial performance rewards quality improvement goals incorporate into executive Management compensation models to help achieve the desired quality results. For example, a large holding company uses a number of key quality indicator goals, Employee satisfaction goals and customer satisfaction goals to determine 5 percent of executive manager's bonuses. However, it is important not to hold senior management Very responsible until the foundations of quality i.e. key indicators, training mission Statement, goals and culture are firmly established. Initially, top management must Prove its capacity to deliver quality before it used as an assessment criterion for a reward package.

9) Obsession: The quality obsession that top management should be obsessed with quality. Strong corporate cultures established through leadership by strategy and adopt Obsession with quality (Figure 2):

**Figure 2: Customer satisfaction and profitability process**


### 3. Strategic Business Planning

Sample business plans and business plan templates can help to develop a professional Document that will serve as a tool to convince others of organization venture's potential For success. Business and Industrial information are able to provide organization with access to materials that can tailored to organizational needs; all it takes is a visit in person, a Phone call or an email. Organization may even choose to use web-based business plan applications or purchase software to help organization prepare plans and forecasts.

The mainly qualitative evidence available to date suggests that SBP within BIO is an activity of a minority, as highlighted that few small businesses use strategic planning (Woods and Joyce, 2003, 183). There may be a number of reasons for the lack of SBP. Historically the typical SOM has tended not to pursue higher levels of education or to take formal business training. When beginning the research phase of organization plan, keep in mind that there is a lot Of information out there, especially online, but not all of it is accurate. It is always Important to consider the source of any information organization gather; research is only Valuable to you if it is factual. Avoid letting unreliable sources tell you what Organization wants to hear. If organization comes across information that organization, Find useful. There are various, excellent organization market research tools that are available online. Business and Industry Canada both offer market research and statistics resources.

If organization has trouble piecing research together to paint an accurate picture of Organizational business, try brainstorming with a skilled professional is necessary. Hence, there are two possible reasons why SOM tends not to plan (Chell, 2001, 67) that they are emotionally unsuited to it. They think and act intuitively and they are simply Unaware of the various tools, which would enable them to plan systematically. Indeed, the limited awareness amongst SBP of the tools associated with the practice of strategic management has been organized (Woods and Joyce, 2003, 284). A further constraint, likely to restrict SBP, is that they may not have sufficient financial information to prepare a formal plan. For example, at the lower end of the size range of Organization with less than 10 employees, only 33 percent regularly calculate profits to monitor their organization's performance (Nayak and Greenfield, 1994, 227). A lack of formal planning may also relate to the fact that small organizations are just too busy surviving to take time out to plan ahead whilst others might argue the environment in which operate is so turbulent there is little point in planning ahead (Westhead and Storey,

1996, 197). A lack of formal SBP among BIO does not necessarily mean that organization badly managed. It does, suggest that many SOM miss the opportunity to consider the Overall direction of the business and management decisions may made based on poor Information.

Further, if SBP is an important component for business success, advice agencies might find it useful to identify the characteristics of those managers who are most receptive to the SBP idea. The characteristics of the organization and business development strategies hereafter Termed Business Strategy (BS), influencing business behavior, which might used to Inform analysis of the determinants in BIO. Organization characteristics controlled out Of analysis in order to focus our attention on BS variables. Only the environmental characteristics, describe the backgrounds of the managers rather than their personality traits. Of course, the two components on which attention focused

Related to one another and the individual variables grouped within each category do themselves show a high degree of interdependence (Storey, 1994, 65). Nevertheless, the Two components and the individual variables provide a useful conceptual framework. Within which to interpret the determinants of SBP within the BIO.

## 4. Business excellence tools

Clear guiding ideas and principles concerning quality and Business Strategy (BS) as Well as a comprehensive, company-wide realization model for organizing the ideas are not enough for getting quality happen. Practical means, tools, methods, etc., especially relevant management methodology, are available to get the approach concrete in practice. For this purpose, a collection of management tools has created at organizations. Some of these tools have created and maintained by business experts.

### SBP Development Steps

The basic steps of SBP development (Storey, 1994, 365) that they are suitable for all of organizations are as follows (Feghhi farahmand, 2004, 428):

- 1) Purpose: For develop SBP to strengthen the organization's customer related, Operational and financial performance.
- 2) Scope: The SBP should include both short-term and long-term goals and plans and a method to ensure that the plan deployed and adhered to should be part of the management review procedure throughout the organization. These activities could be a separate procedure or included as part of this procedure (Storey, 1994, 27).
- 3) Responsibilities: The chief executive usually has control of these developments, deployment, improvement processes and all executive management should be personally involved in these processes (Storey, 1994, 39).
- 4) Procedure: The procedure should include the description of the timetable for strategy and SBP development including of how the development considers (Feghhi farahmand, 2004, 298):
  - a) Customer requirements, expectation, expected changes, the competitive Environment, financial, market, technological, societal risks, company capabilities, Human resource, technology, research, development and supplier and/or partner Capabilities.

b) A description of how information and company level data related to quality, Customers, operational performance, and relevant financial data are collected, analyzed, And integrated into the strategy development should be included in this procedure. These should compare with similar measures of competitors and or appropriate benchmarks (Storey, 1994, 81).

c) A description of how the strategies and plans are translated into actionable key Business drivers i.e. those things the company must do well for the strategy to succeed, Should be included.

d) A description of how the business plans, together with the key business drivers, Deployed throughout the organization should be included. Describe how they translated Into actions. This includes reviews to ensure that the business processes support the Business plan.

5) Continuous Improvement: Continuous Improvement by:

a) Describe the main types of data and information needed to support operations and Decision-making, and to drive improvement of this business process.

b) The management and use of these key performance measures should include periodic Review for continued validity and need, as well as the analysis and use in process Improvement. Factors in the evaluation might include completeness, timeliness, Effectiveness and reliability.

c) Whenever possible, opportunities for improvement should be implemented by the Business process or cross functional team. If this is not feasible, the identified Opportunities should forward to the management review process or Quality Operating System (QOS) process where applicable for review, prioritization, and/or integration Into the system and cross-functional improvement activities (Storey, 1994, 198).

6) Related Procedures and Job Instructions: Within an organization, there must be a Constancy of purpose, an alignment or unification of goals, and consistency of Processes, actions, information and decisions among organization units in support of These goals. Since the SBP is one of the primary documents describing these goals, it Influences all business processes in the organization. It directly has relation with Management review, customer satisfaction measurement and lists all job instruction related to this procedure (Kayak and Greenfield, 1994, 168).

7) Documentation: List of all documentation of SBP programs procedure.

8) Records: Records including:

a) The method and location of storage must defined so that quality records are readily retrievable and protected from damage, deterioration, and loss. This may covered by a separate procedure.

b) The SBP is a controlled document and should retain at least for the length of the long-term strategy focus.

c) Minutes of development meeting, including the documentation of customer Expectations, financial, and marketing assumptions in filed and retained for the length Of the long-term strategy focus (Kayak and Greenfield, 1994, 37).

9) Flowchart: Since the procedure describes the steps and requirements of a business process, it recommended that the flowchart of the process be included (Nayak and Greenfield, 1994, 321).

10) Quality System: Management responsibility, document and data control, corrective And preventive action, handling, storage, packaging, preservation and delivery, control Of quality records, internal quality audits,

training, statistical techniques, continuous Improvement, manufacturing capabilities (Feghhi farahmand, 2004, 371).

## 5. Conclusion

The goal of SB, i.e. business excellence reached through innovative management and Leadership practices. In order to realize SB objectives in all parts of the company and at All levels of business and business management, an organization-wide management Structure, a leadership infrastructure framework has defined. The framework originally Created covers all organization functions in a natural and flexible manner and covers the Following four levels of the organization:

1) The normative and cultural level: Where the general principles the common Insight, goals, shared tools, and practices concerning quality are created, including how These principles are to be applied in practice on the basis of the organizational business Requirements. At this level, the organization superior insight of business standards and Their application with other beneficial tools is established and articulated. Responsible Person is always the CEO. This responsibility cannot delegate.

2) The strategic level: Where decisions made by the general manager of the business Unit and the other top business leaders, and measures undertaken concerning the entire Particular business and especially the future competitiveness of the business and Management of the whole business system is addressed. The business system is Composed of the interrelated operational business processes. Very often in corporations, There are different business areas that may be at different development stages. All these Need different strategic SB approaches but they may operate within one corporate Culture.

3) The operational level: Where decisions and measures daily management made and Undertake products and services realized in real time for customer needs, just now and Here. Responsible person is the process owner.

4) The human level: Where the personal contribution of each member of the company's personnel including, the top management provided in natural working Environments. Responsibility is on the person him/herself. Over the years, the model has also been able to accommodate efficiently various Organizational changes as well as various new emphases in the business and in quality Thinking. This has made it possible to develop Business Strategy (BS) in a more Sustained manner than based on the formal organizational structure and continually Depending on numerous organizational changes. This framework utilizes the most exemplary international ideals and is based on what Has been learnt over decades e.g. with business partners. There is no distinct business Management systems in use at organizations, and nor should there be anything of the sort, as the aim is that BS is an integrated part of business. Indeed, business Management system is also in general e.g. in the recognized business standards Understood as a concept for systematic approach or mental system but not as a distinct, Physical system. Business excellence for SB includes also tools for financial, human resource, and risk Management, as well as technology management, acquisitions and marketing. The most essential quality-originated tools of SB are:

- a) The process management model,
- b) The self-assessment procedure,
- c) The process auditing and assessment procedure of business process performance,
- e) The strategic business procedure,
- f) The project management model,
- g) The problem solving and improvement procedures,
- h) The benchmarking procedure; ■

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**Market Research On Factors Affecting Customer Adoption Of  
Internet Banking**

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## Abstract

Pikkarainen, Karjaluoto, and Pahlila, (2004)<sup>1</sup> define Internet banking (IB) as an “Internet portal, through which customers can use different kinds of banking services ranging from bill payment to making investments”. It is the most innovative service offered by banks over the last decade. This transformation from traditional banking to e-banking has been a 'quantum leap' change.

The aim of this research study is to investigate the factors influencing the adoption of IB in Vadodara, Gujarat, Western India. The Paper provides a detailed understanding of how and why specific factors affect the consumer decision. Survey/Interview data from 300 local respondents was used to accomplish this objective. The empirical findings revealed that adoption of IB is dependent on five key factors. This research study would also help to suggest that how banks would be better able to manage consumer experiences by adopting IB services.

**Keywords:** Internet Banking, Banking Needs, Cost Saved, Risk and Privacy Concerns, Feature Availability, Convenience

## 1. Introduction

The banking system in India is significantly different from that of other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities of income.

In the 21<sup>st</sup> century, Internet banking (IB) has experienced exponential growth in many countries around the globe and drastically changed traditional banking practice. According to Parisa (2006)<sup>2</sup>, “By offering IB services, traditional banks seek to lower operating costs, improve customer experience, retain/expand customer base, reduce their branch networks, and downsize the number of their service staff”. Customers also benefit from the convenience, speed and round-the-clock availability of Internet banking services. However, as noted by Kuisma *et al.*, (2007)<sup>3</sup>; Littler and Melanthiou, (2006)<sup>4</sup>, “Though IB provides many advantages, there are still a significant number of customers who refuse or reluctant to adopt IB services. Therefore, understanding various reasons for this resistance (reluctance) would be useful for bank management in formulating strategies aimed at increasing the overall usage of Internet banking.”.

According to Srivastava (2008)<sup>5</sup>, “Some of the major psychological and behavioural factors which affect the adoption of any innovation such as Internet banking include consumer awareness, ease of use, security, accessibility, and technology phobia, in addition to reluctance to change, preference for personalized services and cost of adopting the innovation.” This study aims to investigate the factors influencing the adoption of Internet banking services in Vadodara – a rapidly growing city in Gujarat, Western India.

## 2. Purpose Of Study

This study has two major objectives:

1. Investigating the factors that influence the adoption of Internet banking (IB) and
2. Assessment of relative importance and effect of these factors on the overall IB adoption among consumers.

Plz. Refer Fig. 1. in Appendix Section of this paper.

## 3. Literature Review

**Malhotra, Pooja & Singh, B. (2010)<sup>6</sup>** : In “An analysis of Internet banking offerings and its determinants in India”, Malhotra, Pooja, & Singh noted: “This study was an effort to represent the current status of IB in India and the extent of Internet banking services offered by Internet banks. The data for this study are based on a survey of bank websites explored during July 2008. The sample consists of 82 banks operating in India on

March 31, 2007. Multiple regression technique is employed to explore the determinants of the extent of Internet banking services.”

**Polaris Software Lab (2010)<sup>7</sup>** : In this study, Polaris Software Lab Limited, a leading Financial Technology Company, launched Intellect PRIVACY based on state-of-the-art technology and 4 patents filed by the Indian Institute of Technology, Madras. Commenting on the innovation, Professor L. S. Ganesh<sup>8</sup>, the lead coordinator of the programme said, “IndusInd Bank has become the first bank in India to implement Intellect PRIVACY, an online and Internet banking security card, for its Internet banking customers. The technology will protect customers and banks from practically all kinds of phishing attacks, viz. deceptive e-mail, key/screen logger, brute force/dictionary attacks and Trojans, etc. Intellect PRIVACY uses multi factor, dynamic authentication technology providing for authorizing online banking transactions, in a completely secure platform. At IIT Madras, the Department of Computer Science and Engineering and the Department of Management Studies got particularly interested in designing an Internet security technology that is cost efficient and easy to use in a rapidly growing e-commerce scenario, and transferring it commercially. We chose the Cost-Usability-Security (CUS) approach to arrive at a solution and Polaris Software created an eminently usable application for the banking industry. IndusInd Bank, which was looking for providing greater security for web based transactions, became the first organization to adopt it.”

According to Polaris Software Lab (2010)<sup>7</sup>, “Intellect PRIVACY is a simple plastic card that customers can use to generate a one-time password (OTP) for carrying out any kind of online banking transaction including the sign on. Banks can issue booklets containing a desired number of cards that would last many transactions. The card has no pilferage value by itself and customers can easily manage its life cycle, including making a request for a new booklet and reporting loss of cards through online banking”.

**B. Dizon, J.A. (2009)<sup>9</sup>** : According to Dizon (2009)<sup>9</sup>, “while big banks still conduct the bulk of their business in brick and mortar bank branches, the finance sector has been increasingly investing on e-banking facilities to offer 24-hour, queue-free services to their regular clients, whether through ATM machines, mobile phones or the Internet”. “E- Banking's appeal is primarily its convenience. Clients nowadays want instant results; they don't want to wait anymore. It's also turned out to be a more efficient way to process transactions, as Internet banking does away with most of the paperwork those clients have to accomplish.” said Francisco M. Caparros, Jr.<sup>10</sup>, senior Vice President of Asia United Bank and president of Banc Net.

**Uppal, R.K. & Chawla, R. (2009)<sup>11</sup>** : According to Uppal & Chawla (2009)<sup>11</sup>, “This study highlights customer perceptions regarding Internet banking services. A survey of 1,200 respondents was conducted in October 2008 in Ludhiana district, Punjab. The respondents were equally divided among three bank groups namely, public sector, private sector and foreign banks. The present study investigates the perceptions of the bank customers regarding necessity of e-banking services, quality of e-banking services, bank frauds, future of e-banking, preference of bank customers regarding banks, comparative study of banking services in various bank groups, preferences regarding use of Internet channels and problems faced by e-bank customers”.

**Hsun, K.S. (2008)<sup>12</sup>** : As per the author, “This study considers the coherence of the financial service sector and adopts different observational variables to identify innovation capital (training and R&D density) and process capital (IT system sufficiency). The results show that human capital has a direct impact on both innovation capital and process capital, which in turn affect customer capital; while finally, customer capital affects business performance. In addition, there is a negative relationship between process capital and customer capital in the financial service sector”.

**Shah & Braganza (2007)<sup>13</sup>** : This survey indicates the critical success factors in Internet banking adoption. Shah and Braganza opined that “different pieces of literature report different factors as key to success and generally based on subjective, perceptual data. A synthesis of existing literature is a basis for survey questions. The data was collected from UK-based financial sector organizations that are offering their services on electronic channels, using postal questionnaires. The top factors found to be most critical for the success in e-banking are: quick responsive products/services, organizational flexibility, services expansion, systems

integration and enhanced customer service. An important lesson from this research is that organizations need to view the e-banking initiative as a business critical area rather than just a technical issue. They need to give attention to internal integration, which may include channels, technology and business process integration, and improving the overall services to their customers”.

## 5. Research Methodology

*Population of Study* : Vadodara (Baroda) city

Vadodara, which is famous for its culture & education, is considered as the second capital of Gujarat and already achieved the status of an upcoming Metro. A total of 300 consumers were surveyed for this research study.

### *Primary Data*

Tools Used : Questionnaire & Interview

Sample frame : All customers who are using or are willing to use or adopt Internet banking in Vadodara.

Sample size : 300

Questionnaire : This is divided into several parts:

Part 1 is the demographic study and it consist questions pertaining to the respondents' demographic profiles, such as age, gender, marital status, educational qualification, occupation, employment sector, designation and monthly income were asked. Part 2 involved questions pertaining to the general information for adopting IB services. This portion consisted of 7 questions and was to be answered by only those respondents who were already using Internet banking. Part 3A (Consumer Opinion) had questions related to major drivers of Internet banking adoption. This part also needed to be answered by only respondents already using Internet banking.

All the 10 questions of the questionnaire from part 3A used a Likert scale ranging from 1 = Strongly Agree to 5 = Strongly Disagree. Part 3B (Consumer opinion) contained questions related to major inhibitors of Internet banking adoption. This part needed to be answered by only those respondents who were NOT using Internet banking. All the 12 questions of the questionnaire from part 3B were also used on a Likert scale ranging from 1 = Not Important to 5 = Extremely Important.

Secondary data was collected through research papers, journals, websites, books, project reports and so on.

## 6. Factor Analysis Results

A total of 300 respondents (out of which 200 are already using Internet banking and 100 are not using Internet banking) were surveyed using the questionnaire. The raw data was analysed using SPSS 17.0 (Green et al., 2000)<sup>14</sup> and factor analysis in order to summarize the 22 variables (as each question in Part - 3 (Consumer opinion) of survey questionnaire represent one variable) into smaller sets. Then data was subjected to principal component analysis. Hence, these 22 variables were reduced to five principal components through varimax rotation (Table 1). Items with factor loadings of 0.40 or higher were clustered together to form separate constructs, as recommended by Hair et al. (2006)<sup>15</sup>. Here, the researcher had considered only those factors whose eigen-values is more than one, as significant.

The derived factors represent different elements of Internet banking which form the underlying factors from the original 22 scale response items given. Referring to Table 1, the first factor affecting Internet banking adoption refers to the Banking Needs and is, labelled as BankingNeeds. The most prominent and vital characteristic for any adoption of new service or product, is generating awareness among the customers about

that specific service or product. Hence, if the consumers of Vadodara are not adopting Internet banking, it may be because they are not aware about such a service being available and the added value that it offers.

Risk and Privacy Concern is another important factor and is abbreviated as RiskPrivacy. The element of trust in this context would relate to the security of transacting for consumers and determine the acceptability rate of this alternative delivery channel in the long run. According to Rayport and Jaworski (2004)<sup>16</sup>, "Security is the ability of a system to prevent illegal or inappropriate use of its data and to deter cyber-criminals and hackers. Using the Internet as medium for transaction always entails some risks". As per Featherman and Pavlou (2002)<sup>17</sup>, Perceived risk in the field of e-banking can be defined as: "the potential for loss in the pursuit of a desired outcome of using e-banking services". As Kamel and Hassan (2003)<sup>18</sup> put it, "Perception of high risk associated with performing financial transactions over the Internet may actually hinder Internet banking adoption."

According to Rothwell and Gardiner (1984)<sup>19</sup>, "Price is one of the single most important factors that influenced the consumer adoption of innovation. If consumers are to use new technologies, the technologies must be reasonably priced relative to the alternatives. Otherwise, the acceptance of the new technology may not be viable from the consumers' standpoint". Therefore, we have included Cost Saved, abbreviated as CostSaved, as a variable of interest for this project.

The Fourth factor is Feature Availability, labelled as FeatureAvailability. According to Sathye (1999)<sup>20</sup>, "Access to computers and Internet is a prerequisite for adoption of Internet banking. The higher the access to computer and Internet, wider is the probability of Internet banking adoption". Separate studies by Doll, et al (1995)<sup>21</sup> and Muylle (1998)<sup>22</sup> indicated that "the easier it is to navigate the website, the better will be the overall user experience. Attributes such as information content about the product, structure, language(s) offered, layout features etc. would also affect consumers' perception of the user friendliness of the Internet banking site and overall customer satisfaction".

Finally, Convenience is the last factor considered for this research study. According to Cooper (1997)<sup>23</sup>, "In order to successfully implement the Internet banking, banks must ensure that the services are easy, simple, rapid and of sufficiently high quality to ensure consumer satisfaction in order to maintain e-customers". A user-friendly website with a good graphical user interface and easy to use navigation tools will certainly help in this regard.

### ***Reliability analysis for Independent and Dependent Variables***

The researcher has obtained Cronbach  $\alpha$ <sup>24</sup> reliability coefficient for all variables by using SPSS 17.0. Table 2 shows that, Cronbach  $\alpha$  for both i.e. the dependent variable and independent variables is 0.749 (greater than 0.6). Therefore, the Cronbach  $\alpha$  for the present research study is acceptable.

Table 2 implies that the independent variables have a significant influence on the dependent variable. Colinearity diagnostic also confirmed that there are no concerns of multicollinearity. The Variance Inflation Factor (VIF) was less than 2 for the above model. Moreover, as shown in the Table 3 above, the highest mean has been observed for Convenience, followed by RiskPrivacy, CostSaved, and BankingNeeds. The lowest mean is observed for FeatureAvailability. The maximum of five and minimum of one indicates that there are few participants who strongly disagreed whereas another few participants strongly agreed with the statement. Moreover, most of responses are very close to the mean as the variance for all variables is not high and it varies within a small range.

## **Discussion**

As far as age is concerned, almost 30% of the respondents were between 31-40 years old (29.67%) followed by the age group of 21-30 years (28%) and above 50 years (24%). On the other hand, 35 respondents (11.67%) were 41-50 years of age and 20 respondents (6.67%) were in the 18- 20 years age group.

Gender-wise, 62.33% of the respondents were male and only 37.67% were female. Also, majority the respondents were married (61.67%) while 35.67% were unmarried. The remaining 2.67% include a few widows and widowers.

Table – 4 shows the Pearson Correlation coefficient for all the independent variables. Internet banking adoption by the respondents of Vadodara was found to be positively correlated to the BankingNeeds ( $r=0.69$ ), RiskPrivacy ( $r=0.65$ ), CostSaved ( $r=0.57$ ) FeatureAvailability ( $r=0.49$ ) and Convenience ( $r=0.43$ ) for  $p < 0.01$ .

Based on the above-mentioned information, it can be concluded that Banking Needs is the most significant factor towards adoption of Internet banking followed by Risk and Privacy Concerns, Cost Saved, Feature Availability and Convenience.

The present study has drawn its basis from the research findings of the earlier studies (Ndubisi (2006)<sup>25</sup>, Ho and Ko (2007)<sup>26</sup>, Fink (2005)<sup>27</sup> and Poon (2008)<sup>28</sup>) and has successfully identified the factors that affect the overall adoption of Internet banking. It is important to note that these factors are in agreement with the findings of the prior studies conducted in the field of Internet banking. Finally, based on the present findings, the researcher has also summarized the important facts and corresponding recommendations / Managerial implications for banks and/or financial institutions in Vadodara as shown below.

## 7. Recommendations:

### *Internet Banking – Key Recommendations for Banks*

Factor	Consumer Issue	Recommendations / Managerial Implications
1. Banking Needs	Un-awareness of Internet banking and its benefits	<ul style="list-style-type: none"> <li>• Employment of Innovative / New marketing techniques to attract consumer attention to Internet banking</li> <li>• Inform customers about advantages, features and benefits of Internet banking, especially its convenience</li> <li>• Allay consumer concerns about technology and support</li> </ul>
	Lack of dedicated unchallenged consumer Internet access	<ul style="list-style-type: none"> <li>• Deploy kiosks equipped with high speed Internet connection and utilise latest technology in banks and public places</li> <li>• Focus on developing low cost internet based mobile banking applications as alternative technologies.</li> </ul>
	Restrictive workplace access	<ul style="list-style-type: none"> <li>• Do promotion by offering incentives, gifts, coupons etc. to businesses to facilitate Internet banking</li> </ul>

	Lack of Internet confidence	<ul style="list-style-type: none"> <li>• Impart proper education and basic know how for using Internet</li> </ul>
2. Cost Saved	Competition with phone banking	<ul style="list-style-type: none"> <li>• Impart coaching and fundamental principles for using Internet banking</li> <li>• Inform customers about relative benefits of IB,</li> </ul>
	Difficult initial set up procedure	<ul style="list-style-type: none"> <li>• Simplify the initial setup process and also provide troubleshooting</li> </ul>
3. Convenience	Difficult to use	<ul style="list-style-type: none"> <li>• Provide simple and easily understandable web-design</li> <li>• Consolidate major functions of banking under one roof (e.g. Single Window System)</li> </ul>
4. Risk and Privacy Concerns	Lack of trust; Security and privacy risks	<ul style="list-style-type: none"> <li>• Provide consumer reassurance and information</li> <li>• Improve application as well as bank information security and privacy</li> <li>• Train &amp; advise e-customers for following secure IB practices and other risk related factors</li> </ul>
5. Feature Availability	Inadequate knowledge and support	<ul style="list-style-type: none"> <li>• Develop easy &amp; user friendly customer support applications</li> <li>• Impart training to bank employees in Internet banking</li> <li>• Deploy innovative knowledge management applications, tools and strategies</li> </ul>
	Women's concerns	<ul style="list-style-type: none"> <li>• Deploy women attractive schemes and incentives to increase their presence and Internet self-efficacy, as well as provide efficient solution for their issues related to Internet banking</li> </ul>

## 8. Conclusion :

This research study revealed that Banking Needs, followed by Risk and Privacy Concerns, and Cost Saved were the major factors that promote the adoption of Internet banking. Convenience and Feature Availability were found to moderately affect Internet banking adoption. In order to promote this technological innovation, it is inevitable for banks to give due emphasis to all the above-mentioned factors.

In closing, the researcher would like to add that a proactive and creative approach by banks, for example, providing consumer education re: Internet banking and friendly customer service, will help improve the consumer confidence, and eventually overall adoption of Internet banking in Vadodara as well as India. ■

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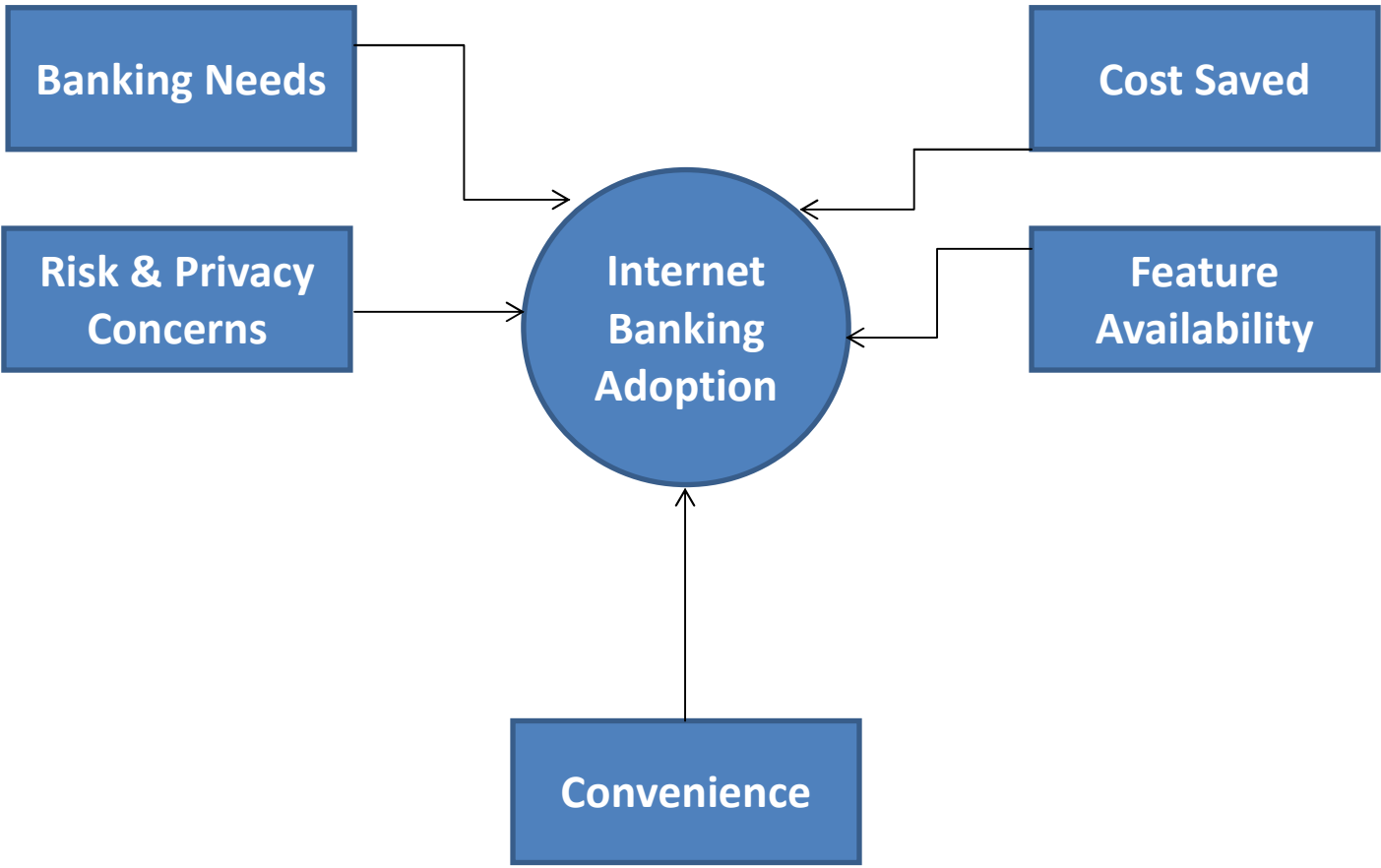
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**APPENDIX - 1**

**KEY FACTORS AFFECTING INTERNET BANKING ADOPTION**



**Fig. 1: Model for Key Factors Affecting Internet Banking Adoption**

Sr. No.	Factor / Items	Eigen value	Factor Loadings	Variance (%)	Cumulative Variance (%)
<b>1.</b>	<b><i>BankingNeeds</i></b>	(Cronbach $\alpha = 0.720$ )	3.286	18.353	18.353
	IB is compatible with my banking needs			0.718	
	IB is easy to use			0.706	
	IB is compatible with my lifestyle			0.700	
	Using IB is a sign of modernity			0.692	
	My friends are using IB			0.691	
<b>2.</b>	<b><i>RiskPrivacy</i></b>	Cronbach $\alpha = 0.789$	3.102	17.325	35.678
	I am concerned about the security of IB services			0.621	
	I don't trust IB services			0.601	
	I am concerned about the privacy of IB services			0.565	
	I prefer personal and face to face banking			0.563	
<b>3</b>	<b><i>CostSaved</i></b>	Cronbach $\alpha = 0.791$	2.642	13.011	48.689
	IB is a cheaper way to conduct banking			0.758	
	My bank offer additional benefits for IB users			0.674	
	My bank does not offer incentive to use its IB services				
	My bank encourages me to use IB			0.653	
<b>4.</b>	<b><i>FeatureAvailability</i></b>	Cronbach $\alpha = 0.726$	1.798	8.230	56.919
	IB makes conducting banking transaction easier			0.822	

	My bank does not offer training to use its IB services			0.780	
	I do not know how to use IB			0.735	
	My bank does not offer IB			0.679	
	IB does not resonate with me			0.610	
<b>5.</b>	<b>Convenience</b>	Cronbach $\alpha$ = 0.758	1.772	8.215	65.134
	Usually, one has to stand in a long queue in the bank for any transaction			0.869	
	My bank is conveniently located			0.692	
	My bank has convenient timings				
	As a customer, when you have a problem, you get a better/proper response from the concerned employees in the branch			0.608	

**Table 1 : Results of Factor Analysis of the 22 items and their Five factors**

Variables	Cronbach $\alpha$
Independent and Dependent Variables	0.749
Internet Banking Adoption	0.797
Banking Needs	0.720
Costs Saved	0.791
Risk and Privacy	0.789
Feature Availability	0.726
Convenience	0.758

**Table 2 : Reliability analysis**

Variable	Sample size	Central Tendency(Mean)	Minimum	Maximum	Standard Deviation
Banking Needs	200	3.96	1.00	4.72	0.48
Costs Saved	200	4.14	1.00	4.89	0.50
Risk and Privacy Concerns	100	4.19	1.23	4.93	0.53
Feature Availability	200	3.92	1.00	4.61	0.58
Convenience	200	4.20	1.00	4.63	0.52
Internet Banking Adoption	300	4.00	1.08	4.78	0.29

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**Table 3: Calculation of Central Tendency(Mean) and Dispersion(Standard Deviation)**

Ranking	Independent Variable	Pearson Correlation (r)	Percentage
1	Banking Needs	0.69	69
2	Risk and Privacy	0.65	65
3	Cost saved	0.57	57
4	Feature Availability	0.49	49
5	Convenience	0.43	43

**Table 4 : Pearson Correlation(r) and Ranking of Independent Variable towards Adoption of IB**



## **International Journal of Business & Management Tomorrow**



# **Innovation in Social Networking Media and their impact on the Buying Behavior of Gennext Consumers in India: A new face of Viral Marketing**

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## Abstract

Innovation in social networking media has revolutionized the world in 21<sup>st</sup> Century; it has been found that social networking sites such as Myspace, Orkut & Facebook are being widely used to influence Gennext consumers in India apparently increasing their susceptibility to viral marketing. Indian youths have realized changes in their brand choices, shopping behavior and lifestyle pattern resulting from their virtual socialization through social media. The main purpose of this study was to examine the pervasiveness of Buzz marketing Practices through social networking sites. The research uses the descriptive research design technique and data are collected primarily from secondary sources. This paper highlights the need for marketers' presence in social media, the value that can be yielded from a well-designed viral marketing campaign & strategies for penetrating into the new media segment, and an evaluation of why marketing through social media is imperative for company's success and brand management.

## Keywords

Social victimization, gennext consumers, social networking, Buzz- Marketing, socialization, Web2.0, micro blogging

## 1.0 Introduction

“Social Media is about sociology and psychology more than technology.” – **Brain Solis Principal of Future Works**

Emergence of the information & communication technology has transformed the way the marketers do the businesses as well as they manage customer relationships. Emerging trends in technology helps them to make the relationship more interactive to create and sustain long-term relationship with the customer. So, in today's extremely competitive environment it has become a challenge to the marketer to retain customers while and at the same time the number of products and services have multiplied significantly. Revolution in Mass Media and communication network compels marketers to find out innovative ways to capture customers' attention because customers become tech savvy and have no interest in companies' brand messages delivered through traditional media. Now Consumers are equipped with digital technologies like iPods, Blackberries, search engines, etc. to attain full control over the media and content to which they are exposed. Social Media consisting mostly Social Networks-Orkut, Facebook, Myspace, Wikipedia the online encyclopedia, Podcasts, Content Communities like Flickr & Youtube, Microblogging with help of Twitter etc.

Today Social media becomes an integral part of modern society & plays a vital role in the daily lives of Gennext Users. They start their day with a click on social networking sites like Orkut, Facebook, Twitter, Linkdin, Ibibo, bigadda, hi5, rapidshare and many more. These Websites facilitates virtual friendship network where anyone can share pictures, music, videos, events, activities, and also chatting. The internet's viral and social capabilities have created a whole new forum of consumers Internet communities, blogs and social networks have become a part of life for the Gennext in India. The proliferation and increasing usage of social media websites provides a platform for nurturing brands and impacting decision related to purchasing. Due to this marketers consider these are the best platform to promote their brand among customers at any part of the globe.

## 2. The Evolution of Viral Marketing and Social Media

Since prehistoric period communication has always been a social phenomenon. Each type of communicable media has its own criteria for success that are mostly determined by the evolutionary pressures applied on it. Previously information used to spread verbally. For example in ancient age epics and sacred poems, kept them alive and traveling from person to person only through “word of mouth”. Even after written language was developed, social communication used to occur mostly by speech. Oral communication has

propagated in form of rumors, gossip, urban legends, slangs, and proverbs. Oral texting has been widely used now days by the viral marketers instead of only using written texts in the advertisements published in social networking sites. Chain letters are new way of one form of widesperading, written, one-to-one media. The postal service has a major drawback of being slow in information transmission. The progress of the internet gave average users the new ways to quickly and easily send messages to not only those individuals familiar to them, but also to re-transmit them in multiple ways. This revolution allowed personal communication takes an innovative path. The internet allows users to spread exact duplicates of messages. Users can cut-and-paste the URL of a story and pass it on, in its original form to as many people as they like. This drastically changes the selection pressures on messages by removing the need for the messages to be extremely efficient in storing itself in its host's memory and also reached to a large mass of people.

So web based mail system were most effective in grabbing the attention of people and exploiting the huge reach bestowed upon users by the Internet. Email chain letters evolved with the powerful feature forward button with which sender not only send a copy to his/her friends but also consisting of the names of other persons who have received or forwarded the letter.

Instant messaging is another form of communication media that has changed the face of social networking by allowing for two-way, real-time, written dialog. Social news sites like Digg and Reddit have developed for the highly sophisticated tech savvy web users. These sites are the media that has best evolved to influence the imitative nature of social interaction and also facilitate rating and commenting. Micro blogging is one of the newest forms of contagious media and we don't yet totally understand the selection pressures present for memes on sites like Twitter. The low-level of engagement required for a user to spread an idea combined with the high-speed of new content updates means that those memes which ask most directly and strongly for users to spread them tend to do very well without much motivation required.

The first social networking website was invented in 1997 known as SixDegrees with an interactive, web application technique *Web 2.0*. In 2002-3 another social networking website Friendster around came in to picture followed by MySpace, Orkut and Facebook, Flickr, Twitter & Google Plus.

### **3. Emerging trends in social media in India**

Today Internet is widely spreading as a communication media in India. Emergence of the information super highway has revolutionized the way media is created and consumed. Previously media used to be created by media firms who are the content generators as well as the content owners. And the content used to broadcast to the consumers by the media. This concept has undergone an elementary change, now anyone can create content best known as User Generated content and share it with others using platforms like Blogging, Social Networks, YouTube etc. Now the consumers of the media have converted into media creators and the content also distributed on the internet through social networking and people connect with this content through comments. Social networking has become more popular among everyone. Customers are getting more connected & communicative with their networks & technology allows them to voice their opinions rapidly.

Today customers can make use of facilities like E-banking-retailing-shopping etc. with more confidence and trust as never before. Internet has proved to be more than just emails and Google search. With the advent of networking media, broadband & Web 2.0 now many people are joining the social networks like Orkut and Facebook, Myspace, Twitter and thus it is easier for the marketers to spread the word about them over the network. To bridge the gap between the customers, organization, marketing and media planning people there is the need of uniformity and trust in the social media. Pyra labs invented the first blog engine service known as Blogger and coined the word Blog in the year 1999. At that time many users of internet were unaware of the utility of Weblogs. Social media, community networking, blogging, twitting, etc. were beyond anticipation for large mass of people. In fact Weblogs transmits more information than a website. E- Shopping and E- bookings, E-learning & online dating have achieved good heights and became popular among Indian Gennext.

### 3.1 *Social Networking Media Trends in India*

Socialization has taken a major turn since social networking sites rise to popularity since 2007. Now we use blogging pages and status update instead of writing in pages. Even blogging appears to be matter of past, rather status updation and tweeting is rapidly. Most of gennext youths in India spend much of their time online and becoming more, connected, continuous and mobile; a new form of social infrastructure is created through these social networking sites which has become an integral part of our life.

The progress of social techniques is always in unrest, and subject to changes and newness on the technology and social ends of the field. Technology enable usage, but with limitations. Social practices reap out of usage with the technology. Innovation occurs at variation points, when innovators make disruptive intervention, Industrial infrastructure facilitate rapid development and adoption of innovation, or when the netigen community initiates adopting something new. So let's focus on some innovative social and technical trend-lines in context to social media and viral marketing.

Trend setting Companies:

**Google** maintains to rule information-search know-how, but is not as contented with typical experiences and social utilities as Facebook. It Google's social endeavor will strive to take second place to its search and innovative commitments.

**Facebook** continues to dictate many social networking practices. In spite of slow innovative steps, the company gets social acceptance very well. Any radical shiftment in the social media spectrum will be identified and incorporated by Facebook at the earliest.

**Twitter** has realized its deficiency as a podium and plans to instill innovation centric approach in their marketing system. It keeps on serving needs of youngsters that neither Google nor facebook can gratify, and has enough opportunity to grow and adopt newness in their strategies.

### 4.0 *Major Players in Social Networking in India*

As per the research conducted by Alexa and Vizisense, the following figures illustrates the surfing habits of 50 million internet users who log in to social networking sites

- Orkut & Facebook: Occupy 4<sup>th</sup> and 5<sup>th</sup> position. Facebook claims to have 5.7 Million users in India.
- Twitter: stood 12<sup>th</sup> position
- LinkedIn: secured 14<sup>th</sup> rank
- Blogger.com – 6th visited site
- You Tube: - in the 7<sup>th</sup> position
- Wordpress: 15<sup>th</sup> most visited site

These indices reveal that 7 out of top 20 sites Indian netigens are logging in the ground of social media. 4 out of top 20 most visited sites in India are social networking sites. It has been predicted that more than around 70% of net users are engaging with social media on some or the other way round. Perhaps it is imperative to also picturise what kind of users form a part of the social media society. After examining the demographic profile Facebook users (source: Vizisense) it was found Almost 50% of Facebook users have income over 2 lacs / annum and more than half of the users are above 24 years of age. 63% users are graduates &

Audience demographics of LinkedIn.com - a business networking website is even better. Close to 60% users have an annual income of more than 2 lacs and close to 80% users are graduates and above

The usage of Social networking sites is increasing day by day by Indian youths. Major surfing of internet was for sharing information (email / chat). A large amount of internet users they visit social networking

sites on a daily basis. This appears as the important reason for using the internet. Amongst the social networking sites, Facebook became the most renowned website with almost majority of Indian users surfing it, followed by Orkut, LinkedIn, and Twitter and so on.

The fact that gets clearly established is that the Indian youths in metros use Internet more than any other media of communication. Marketers are concerned about this issue. Because to see these users on any media other than internet will become more and more difficult as they increase their internet consumption. It's going to develop a trend in India as it's happening in western world.

Users visiting social media site generally discuss about fashion brands and products and their benefit which ultimately benefits the companies to enhance their brand values by motivation and targeting opinion leaders in the social media fraternity. The role of Facebook and other social networking sites have played a drastic role in marketing and promoting the campaign of anti-corruption by Anna Hazare Team. After Bollywood and Cricket, one thing that inspires Indian youth and binds them together is these social networking sites.

## **5.0 Social Media influencing Indian Gennext consumers: Recent cases of online buying behavior of Gennext consumers**

Social networking sites are really penetrating in India with frenetic pace. Today many smart companies are innovating big ways for Social Media Optimization for their Product or brands. The main purpose for this modern companies enhancing mass awareness, motivate potential customers, boost Sales Customer Base. Social media was widely used by various political teams in the election 2009 for their political campaigns.

Figure 2.0 illustrates Social Media penetration in 2008 and 2009. It has been noticed that Facebook has superseded Orkut in its coverage and mass appealing. Users joining social networking sites are generally driven towards finding likeminded people popularly termed as friends or fans. Social media is also greatly used by gennext from photo sharing or video sharing capabilities to blogging, from instant messaging to chatting.

Smart marketers have found social networking sites helping them to find talent, build brand awareness, searching new customers conducting brand intelligence and market research. Major concerns for Indian youths using social media are identity, privacy, community formation and sophistication in their style. The figure 2.0 clearly demonstrates major usage and varied activities undertaken through social media.

## **6.0 Social victimization through social networking sites**

As communication technology has revolutionized the world in 21<sup>st</sup> Century as it has been found that most of the youngsters are much more tech savvy than adults. They are becoming more and more fascinated towards high tech gadgets like iPod, iPhone, laptop, palmtop as well as social networking sites like Facebook, MySpace, and Twitter etc. Though social networking media transformed the way of communication it also has some adverse effect on youth generation in form of Internet victimization. Social networking websites such as MySpace and Facebook are being widely used to sexually solicit gennext youth, apparently increasing their susceptibility to social persecution. According to the National Crime Prevention Council over a million teenage girls are victimized both physically and psychologically by online socializing. Social networking also generates disasters like cyber-harassment, cyber-bullying, cyber-stalking. Social frauds seem to be wide spreading their arms with rapid pace.

In India, internet victimization had remained a subject of great apprehension, due to lack of awareness. It is also very essential for the marketers to manage their image cautiously in the digital space. Many Indian Gennext who are online may not be receiving sexual solicitations and the majority of youngsters who receives

such sexual messages do not disclose it in a social networking site. In spite of strict cyber laws, Indian youths are very prone to sexual solicitations and sexual victimization.

## **7.0 Innovative strategies adopted by modern marketers to make Viral marketing effective**

Modern marketers have framed several innovative strategies to make the viral marketing effective and popular among youngsters. To initiate effective viral marketing campaign it requires strategic as well as creative thinking, technology, and appropriate content. In the dynamic cyber world formulating a vision online is useless. Due to continuous changes in the buying habits & preferences of the customers. There was a craze for Orkut before Facebook came in to picture simultaneously users in India shifted to Facebook having more appealing features. Facebook framed the strategy from the beginning in such a way to attract youth as well as adult generation, developers, application makers and marketing firms brands to get benefited out of it. Orkut has recently lost its sheen among the internet users in India. Smart viral Marketers need to be sensible enough to the changing preferences of next consumers if they have to encash the power play of not only social media but internet usability.

### **7.1 Innovative Marketing Strategies to go viral:**

Viral marketing is the way of promoting the brands through the “word of mouth”. Implementing an effective viral marketing strategy is a good way to get people talking about your business. The holy grail of marketing firm is to prepare a viral marketing campaign that brings exponential exposure to them. A successful viral marketing campaign can be developed through social networking sites like Twitter, Facebook, LinkedIn, Flickr, or dig etc. With the information available on online network the marketers have the knowledge of the needs and wants of different level of customers. For the marketing firms only online presence is not sufficient but getting a community to actually do something for them is quite tough. That’s why it is crucial for the modern marketers to frame strategies which can help in increasing communities, making marketing methods more effective and encouraging buying.

To develop an effective strategy for the business the following viral marketing campaign tools and techniques can also be used.

- **Provide Value addition:**

Indians love freely and discounted goods. The purpose is that you attract Indian consumer’s attention with discounted and free products in order to sell the complete package... Even though when sometimes marketers can’t crack a sale, they are still serving the customer by giving them free services which will in turn reap positive returns in future...

- **Provide convenience and ease:**

Make the goods available to customers at ease and at their convenience. This technique would be of great help to viral marketers to reach their target customers... Make their products easily accessible and only permit minimal constraints. Viral marketers can register the email Id of those users who sign up for free Newsletters and can be used for future Business contacts.

- **Don’t forget to Reward:**

After making products easily accessible, Marketers should reward netizens for transmitting the information to others. If a firm obtains a new customer from a referral, recompense the referral so that they will continue to advocate informally for their brands. Many smart firms give discounts to customers for their referrals. This can create implausible word of mouth.

- **Beautify offers:**

Marketers tend to offer those products and ads that what customers want to see and experience... Companies can take help of marketing research agencies to know what their customers desire and expect from them. Firms need to evaluate what all questions customers have and understand their insights. Make an effective use of this information to develop a Buzz marketing strategy that targets the needs of Gennext customers.

- **Create Controversies:**

People love to gossip and controversies generate gossips. So if a firm can unearth a way to propel some decent gossip among net users than, the marketing goes itself and brand awareness are created among the Gennext consumers. Hollywood expends a huge amount of money on finding about celebrity's personal details. In turn they create a great deal of scoops and buzz. This is one of the most effective viral marketing strategies in modern era.

- **Blog about one's products**

A firm should develop their own blog where they can chat about all the new and exciting things that are happening in their business. This can also be good way of generating controversies among users. Blogging is an innovative way to appeal to interested users when users begin to involve in firm's blogging site, it builds a community. Encourage involvement of people in the firms' blog through their comments and remarks to maintain the impetus of their viral marketing campaign.

## 8.0 Conclusion

Social Networking are now a days the fashion statement for Gennext consumers. Many firms hire social media researchers for collecting the insights about netigens what they failed to do. Market situations are changing rapidly with the interventions of IT and viral marketing techniques. But there is still needs to be a systematized method of marketing the products through social networking sites. Every business house wants to enhance their brand value and gain competitive advantage through innovations in their viral marketing strategies. The major challenge for modern marketers to penetrate in to urban and semi urban regions of India where Information Technology is still in its infancy stage. Gennext consumers in India are susceptible to social victimization and internet frauds due to lack of awareness. With the advent of Internet Technology and social media revolution it's a must for the Indian firms to take help of social networking websites for the sales generation as well as brand promotion to achieve global competitiveness. ■

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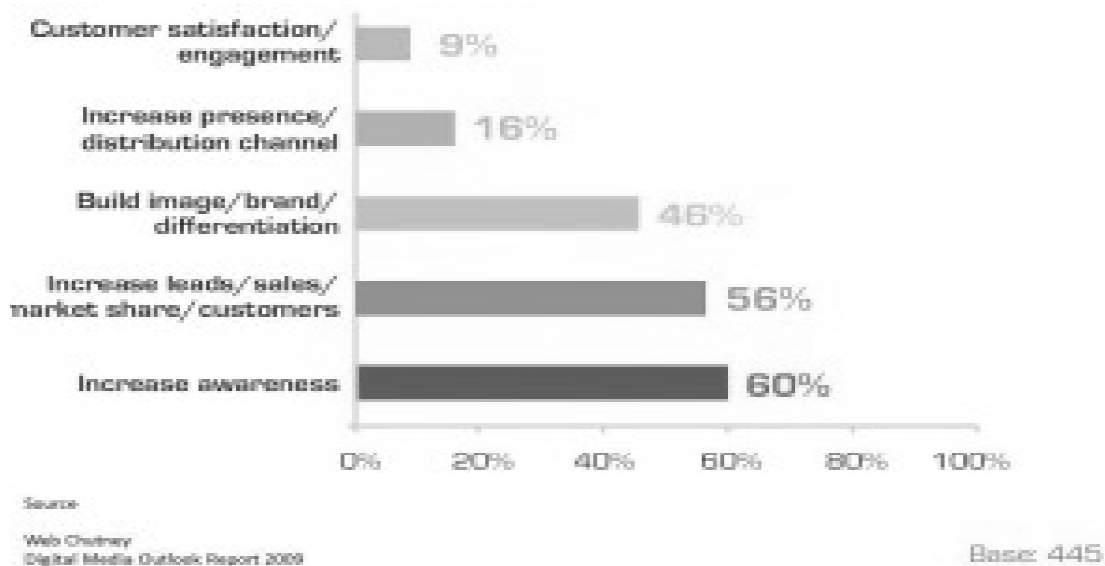
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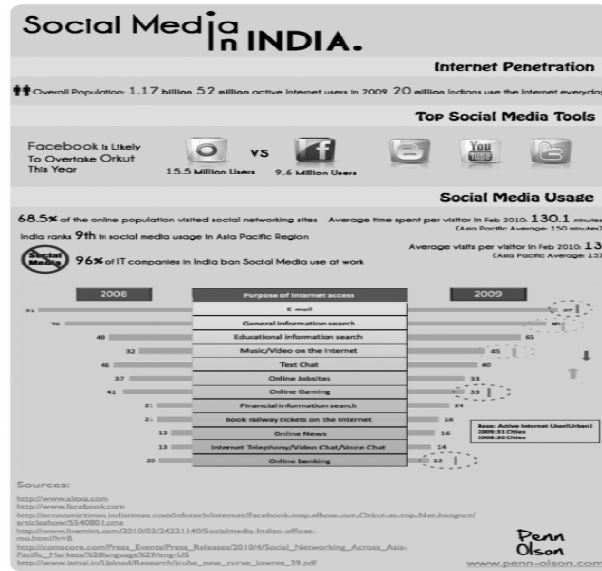
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**Figure 1.0**



Source: Web Chutney Digital Media Outlook Report 2009/ [www.internetmarketingjournal.org](http://www.internetmarketingjournal.org)

Figure 2.0



Source:<http://economictimes.indiatimes.com/infotech/internet/facebook-may-elbow-out-Orkut-as-top-net-hangout/articleshow/5540801.cms>



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**Rural Marketing Support to the Self Help Group in Orissa**

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## Abstract

The output of SGSY (to create micro level entrepreneur, after forming a SHG) have slowed down and then it was changed into NRLM. Is it solving the problem of putting people above the BPL? Is the Govt. machinery doing enough to market the product of the SHGs? Is the failure of this is the key reason of the failure of a scheme. In this article it is examined that how good the organization (ORMAS along with DSMS) is serving the BPL population of Orissa. Khurda district, home to the capital city of Orissa is taken as an example. ORMAS the marketing and DSMS should make their presence felt all over Orissa, either having their own outlets, making arrangement of uninterrupted supply of the commodities like pulses, turmeric etc. The ORMAS, being the torch bearer of all the rural marketing activities in the state, should apply strategic management process more scientifically. Incentivizing the line organization and the people with “output linked benefit” should motivate them to explore further, as a result more and more rural poor will be inside the bracket of SHG and take the help of ORMAS to market their produce. The implementation machineries should make sure, absolutely sure that the products are available in all the outlets, starting from Supermarkets, Retail Mall to weekly village markets.

## Introduction

Rural Market in India is no more a “blue Ocean”, because of the presence of corporate like ITC, HUL, LIC etc. yet it is not the focus area of many. Dominated by agro based economy, where a good monsoon improves the living condition of the rural masses more than the productivity or efficiency of a farmer. With the mammoth size of population, 21.8 percent people in the rural area still live below the poverty line in India. The MoRD (Ministry of Rural Development) along with other departments of Govt. of India have been trying desperately to bring the BPL percentage inside the single digit bracket. The present development programmes like SGSY, GGY (in Orissa) and NREGS etc are implemented to accelerate the living conditions of the rural poor. Hosts of other intervention to the targeted rural poor are also done for the same. These programmes not only help in raising the per capita income, but increase in the PPP (Purchasing Power Parity) as well. Resulting in the increase of dispensable income. Rural markets which act as a feeder to the need of the rural masses are having its own supply chain. Not very different from the one for their urban counterparts, yet it is unique in its own way.

Some of the points given below, substantiate the size of the rural market of India –

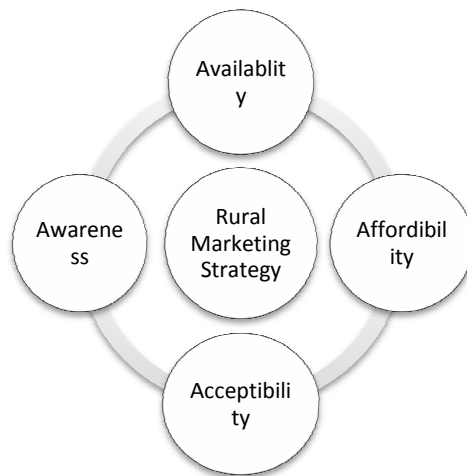
- More than 800 million people estimated annual size of the rural market.
- FMCG Rs 65,000 Crore
- Durables Rs 5,000 Crore
- Agri-inputs (incl. tractors) Rs 45,000 Crore
- 2 / 4 wheeler vehicles Rs 8,000 Crore
- In 2007-08, LIC sold 55 % of its policies in rural India.
- Out of two million BSNL mobile connections, 50% are in small towns/villages.
- Of the six lakh villages, 5.22 lakh have a Village Public Telephone (VPT)
- 41 million Kisan Credit Cards issued (against 22 million credit-plus-debit cards in urban) with cumulative credit of Rs.977 billion resulting in tremendous liquidity.
- 42 million rural households are availing banking services in comparison to 27 million urban households.
- Investment in formal savings instruments: 6.6 million households in rural and 6.7 million in urban India.
- Nano-Marketing or sachets worked well in rural India and there is ample scope for the products to be accepted by consumers if the price is competitive.”<sup>1</sup>

Rural Orissa, home to over two crores people, have its proportionate share of the market, as discussed above. A holistic view is require to analyze the problems faced by the cash starved farmers and also the vast opportunity of disproportionate surplus. Rural masses in Orissa are often caught between the devil (the middle men) and the deep sea (Instructional support). The bottlenecks created by the devils are in the form of price

discovery, handling of loss and fell to quality on the other hand the deep sea situation created in the form of information of farming best practices, information on weather and quality and information on inputs.

Strategically Intervention are required in :- Price discovery before deciding to sell, Freedom of choice for transaction, Payment – cash on spot, Knowledge on farming best practices, Information on weather, High quality products and solutions – usage, It provided power of scale to farmers which led to overall improvement in productivity. The same weakness turned into opportunities / strength by some of the corporate like ITC, successfully operates in the rural market segment. The strategy adopted by ITC “e-choupal” in the rural market, are given bellow, which seems fit for a state like Orissa.

**“Availability:** It emphasizes on the availability of the goods and services to the end consumers.  
**Affordability:** It focuses on product pricing. Creating a win-win situation, both for farmers and the company.  
**Acceptability:** It focuses on convincing the customer to buy the product. It is providing them customized knowledge in the form of farm management and risk management. It is also providing them lower transaction cost. It is also providing them financial services in the form of life, general, health and crop insurance.  
**Awareness:** It focuses on making people aware of the product. It is providing active servicing up to rural outlets. It is providing them with wide range of product categories. Moreover it has made entrepreneurs out of farmers as they are managing most of the work; it instills in them the sense of ownership.”<sup>2</sup>



### Four A’s of ITC

Keeping this as a backdrop, to optimize the utilization of inputs like man, machine. money materials and management, “MoRD (Ministry of Rural Development) Govt. of India have initiated a Program called Swarnajayanti Gram Swarozgar Yojana (SGSY) w.e.f April 1999, by merging programmes like, Integrated Rural Development Programme (IRDP), Development of Women and Children in Rural Areas (DWCRA), Training of Rural Youth for Self-Employment (TRYSEM), Supply of Improved Toolkits to Rural Artisans (SITRA), Ganga Kalyan Yojana (GKY), etc. In the state level the program is implemented by Panchyatiraj Department. In the district level by the respective DRDAs, where in one Chief Executive Officer of ORMAS is stationed”<sup>3</sup>

“The basic objective of the SGSY is to bring the assisted poor families (Swarozgaris) above the poverty line by providing them income generating assets through a mix of bank credit and governmental subsidy. The programme aims at establishing a large number of micro enterprise developments, both farm and non-farm based in rural areas based on the ability of the poor and the potential of each area. In doing so effective linkages have been established between various components such as capacity building of the poor, selection of key activities, planning of activity clusters, infrastructure buildup, technology and market support”<sup>4</sup>

“ORMAS (Orissa Rural Development and Marketing Society) is an autonomous body. ORMAS was constituted under the Societies Registration Act of 1860, in the year 1991, dedicated to moving rural producers and artisans from the poverty line, to the realms of plenty. Ever since its inception, ORMAS (Orissa Rural

Development and Marketing Society) is the first and only organization of its type, under the Panchayati Raj Department, Government of Orissa, facilitating sustainable livelihoods for rural producers, under different poverty alleviation programmes. In the process, providing training, capacity building, value addition, adopting key activity approach and adopting clusters bringing economic hope and promise to rural Orissa.

“ORMAS facilitating the marketing of rural products with the following intervention areas in Orissa:

- Market Research
- Activity selection/Trade identification
- Assessing Feasibility of Key activities
- Technology Up-gradation
- Skill Development
- Standardization and Quality Assurance
- Design Diversification and Product
- Scientific and Attractive Packaging Development
- Participation and Organization of
- Product Promotion Exhibition
- Facilitate Sales through different channels”<sup>5</sup>

The intervention strategy of ORMAS has been on capacity building of the rural producers for role evolution of the community and gradual withdrawal of ORMAS for self management of enterprises and empowerment of the rural producers. At the micro level, the strategy is to create successful models of enterprises and at the macro level to influence the policy decision in favor of the community.

“To facilitate for a sustainable livelihood of the rural poor, ORMAS has the following broad Strategies:

- Promotion of Self Help Groups (SHGs).
- Developing Swarnajayanti Gram Swarozgar Yojana (SGSY) groups on feasible key activities on a cluster basis.
- Facilitate Product Promotion and Marketing Linkages Activities
- Facilitate Capacity Building of the Groups.
- To create Infrastructure linkages.
- Transfer of Appropriate Technology.

In order to achieve the objectives, ORMAS involve in the activities like:

- Collaboration
- Promoting SHGs
- Identify & develop Feasible Project Proposal
- Capacity Building of the stake holders
- Technology Dissemination
- Product Promotion
- Market Linkages
- Organization of Exhibitions”<sup>6</sup>

“Successful SHGs are the essential components for sustainable livelihood. Based on this fundamental truth, ORMAS /DSMSs have been forming and promoting SHGs. Having graded these SHGs and found to be vibrant, the groups are taken under SGSY and thereby the bank linkages and other inputs are facilitated with feasible activities

ORMAS/DSMSs facilitates the capacity building of the groups through training on basic orientation, skill development, exposure visits, work shops etc. as per the need of the activities. For the skill development on the leaf plate making activity, training on machine stitching are being imparted to the members for one month time in collaboration with one Annapoorna Cottage Industries (ACI), Hyderabad, who has also made the marketing tie-up for the products thus produced by these swarozgaris. For hill broom also similar type of training has been provided for making the brooms, whereas, for rock bee honey collection and processing "DHARAMITRA" of Wardha is imparting the training to the swarozgaris in Mayurbhanj district. Besides these the DSMSs have facilitated skill development training on other products/activities as per the need. The costs of these training to the swarozgaris are, met out of the SGSY training fund of the DRDAs”<sup>7</sup>.

“ORMAS/DSMSs facilitate the rural producers groups in developing their products through newer design, product diversification, standardization and certification, packaging etc. in order to strengthen the sales value and acceptability of the products. This has been done for the Spices, Kewda Products and Honey etc. ORMAS is in the process of establishing its own AGMARK & FPO laboratory to accelerate the certification process of the products which at present are suffering to a great extent in absence of such alternative facility. ORMAS, along with its minimal intervention in Handloom, Handicraft and other Utility items, has prioritized its interventions in Minor Forest and Agro-based products which have large raw material and skill base. The activity thus identified has been linked to market and are being covered under SGSY in different districts. Few of these products/activities are like, Siali & Sal leaf plate making, Hill Broom, Honey processing, Pulses processing etc. Marketing linkages for Tamarind, Amla, Harida, Kalmegh and medicinal plants are also initiated to strengthen the groups involved in these activities.”<sup>8</sup>

District Supply & Marketing Society (DSMS) offices are operating in all 30 districts of Orissa divided into 5 numbers of zones for its field level intervention to supervise the distribution process. Although there are more nos. of product developed with ORMAS’s interventions, ORMAS can facilitate bulk supply of products which can achieve brand leader status instead of being sold as commodities. Pulses, Turmeric, Hill Broom, Ginger, Rock bee Honey (with Agmark label), Hand roll raw incense sticks, Ground Nuts etc needed to be in the market place with right kind of branding, packaging, leveling and promotion.

“Some of the commodities/products can be marketed with “cost leadership strategy” as traditionally there is a huge production base and economics of scale is a possibility. Some of these produce can be positioned by “differentiation strategy” because of the purity and other qualitative superiority and to start the strategic marketing initiative Orissa can be taken as a “focus market. With the aim to provide an opportunity to the rural producers to sell their products in urban markets & to interact amongst themselves to learn from each other and to sensitized urban buyers about rural products ORMAS regularly implementing State & National level exhibitions through out the state during important events / gathering. Basically ORMAS organizes three types of exhibitions such as SARAS, Gramshree Mela & Pallishree Mela. Besides these its district offices i.e., DSMSs support district administration in organizing different Block, District & State level events. ORMAS organized these events as per the Calendar of Exhibitions finalized by the Committee formed at State level for Mass Marketing Mission.”<sup>9</sup>

ORMAS facilitate the SHGs engaged in the secondary sector activities like: (1) small village industries, (2) handicrafts, (3) handlooms and other activities, supplementing the first three to sell their products to the end users by organizing trade fair. By selling the products through exhibition cum sale to the end users, the SHGs get some advantages. In addition to get the first hand exposure of the exchange process, they get the valuable feedback in connection to the qualitative aspects of the products / materials, the pricing trend etc. New ideas/suggestions, which can increase the usage of the products, accelerate the marketing process etc. Otherwise

they are cut off from the rest of the world in the term of “customers’ feedback”. Silver lining to this type of sales are the intermediaries’ issues are avoided.

Year wise information on the exhibitions organized by ORMAS is shown in the table-1.

Sl. No	Year	Nos. Exhibition	Nos. of Beneficiaries Participated	Institutions Participated	Total Amount of Sales Rs. In Lakhs
1	2	3	4	5	6
1	2002-03	7	811	1871	139.7
2	2003-04	6	1060	2642	150.39
3	2004-05	10	1144	2765	252.45
4	2005-06	9	2051	2267	332.72
5	2006-07	20	3310	6078	1206.34
6	2007-08	20	3120	5820	1006.34
7	2008-09	22	3348	7365	1468.51
Total		102	15431	30424	4664.56

Source: DRDA –Orissa

In table-1, the performances of ORMAS are analyzed. The number exhibitions are exhibited in Col: 3. Data are given for the years starting from the financial year 2002-03 to 2008-09. Col.4 represents the number of SHGs and other beneficiaries (swarozogaries) year wise. Col; 6 speaks about the sales value (Rs. in Lakhs). Over the period of eight years 102 numbers of exhibitions cum sales are organized by ORMAS, with the participation of 15431 beneficiaries only. The sales made over a period of eight years are Rs.4664.56 lakhs. Taking the mean value, Rs.583.07 lakhs worth of products are sold annually by the help of ORMAS.

Moving average analysis is made to examine the trend of the efforts done by ORMAS to facilitate the process of completing the primary activities of the supply chain. “Three years duration are taken as average, since that many years are required as a maturity period for one SHG”. (Source: Objective of SGSY, MoRD manual)

Year	Nos. of SHG	Moving Total	Moving Average
1	2	3	4
2002-03	811		
2003-04	1060	3015	1005
2004-05	1144	4255	1418.333
2005-06	2051	6505	2168.333
2006-07	3310	8481	2827
2007-08	3120	9778	3259.333
2008-09	3348		

In the Col.-3 of the above table three years total are made. i.e. to get the moving average for the year 2003-2004, the value of the year 2002-2003 is added to the value of the year 2003-2004 and 2004-2005 (the value of the current year is added to the corresponding value of the previous year and the next year, value (given in Col.2) are added up. Then each of these values are divided in three (shown in Col: 4) to get the three yearly moving average.

Moving Average of the following are:

$$MA_5 > MA_4 > MA_3 > MA_2 > MA_1$$

The ascending order establishes the growth pattern. Although, the number of SHGs as well as the sales are growing as seen from the analysis, it can be extended further, to foresee the future pattern. Yet it is very low in comparison to the number of SHGs in Orissa, taking up the activities under SGSY.

1	2	3	4
Year	Target	SHGs	%
2002-03	99094	86171	87
2003-04	53755	59233	110
2004-05	45293	48925	108
2005-06	54348	59289	109
2006-07	58229	65712	113
2007-08	58229	63904	110
2008-09	66250	68687	104
<b>Mean</b>	66847.63	65819.25	

Source: Dept. of P.R. Govt. of Orissa.

Table: 3, exhibit the physical performance of SGSY scheme in Orissa. Col: 3 is the number of SHG and other beneficiaries shown over the years from 2002-03 to 2008-09. Six times out of seven, the achievement recorded above cent per cent mark, though only 4.5% of BPL people become SHG member every year. 39.9 percent of BPL people living in rural Orissa, with a population of 3.61 Crores. (As per 2001 census). One SHG should have 5 to 20 numbers of members, taking 10 numbers as an average per SHG and multiplying it with the mean of Col: 3.)

Same moving average method is applied to study the trend of SHG, taking up activities under SGSY, taking three years time as average. In the table-4 data of 2002-03 to 2008-09 are exhibited.

Year	Beneficiaries	Moving Total	Moving Average
1	2	3	4
2002-03	86171		
2003-04	59233	194329	64776.33
2004-05	48925	167447	55815.66
2005-06	59289	173926	57975.33

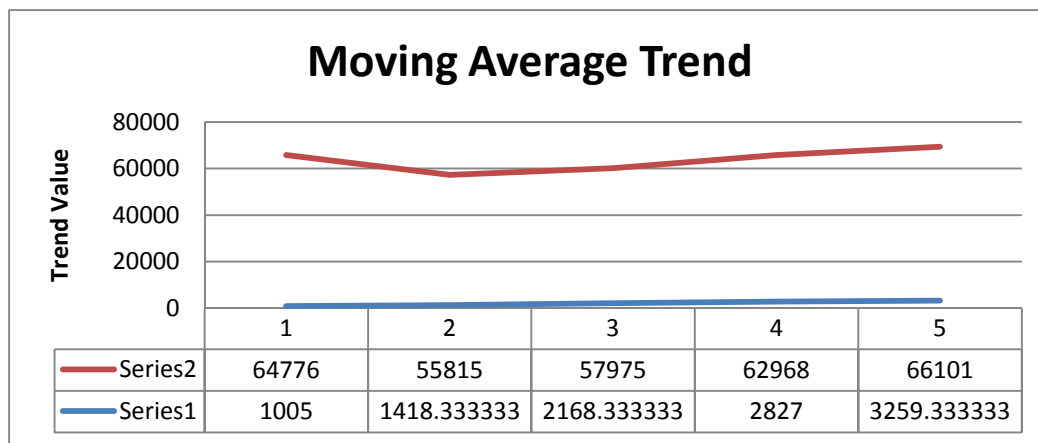
2006-07	65712	188905	62968.33
2007-08	63904	198303	66101
2008-09	68687		

In the Col.-3 of the above table three years total are made. i.e. to get the moving average for the year 2003-2004, the value of the year 2002-2003 is added to the value of the year 2003-2004 and 2004-2005 (the value of the current year is added to the corresponding value of the previous year and the next year, value (given in Col.2) are added up. Then each of these values are divided in three (shown in Col: 4) to get the three yearly moving average.

Moving Average of the following are:

$$MA_5 > MA_4 > MA_3 > MA_2 > MA_1$$

Growth trend is established here.



In the graph the X-axis represent the moving average units, and the Y-axis represent the moving average value. Series-2 is the moving average value of SHG under SGSY of Orissa and series -1 represent the SHG availed the facilities of selling their products through exhibition cum sale organized by ORMAS. The important thing observed in the graph is that, although ORMAS is going through the right track (growth trend), but at a wrong speed. Since what ever is the contribution of ORMAS in this respect, appears as too little or negligible. Even if both the trend value are showing growth, but going at this speed ORMAS is catering to only 3.48 percent of SHG in a year, through the exhibition cum sale. By the time the products of all the SHGs currently engaged are be sold in a trade fair, it will take decades to sell what has been produced so far till 2008-09. Considering the current SHGs continue to produce added by more number of new SHGs joining them every year, it will take much longer time to complete the exchange process. In order to touch all the produce of the SHG under SGSY, ORMAS along with all the DSMS need to scale up the efforts or in the other wards should multiply the present efforts by hundred. Otherwise the disproportionate growth of the SHGs and their products compared by very little sales done by the ORMAS, may put the entire programme out of gear. Most of the SHG by that time may run out of steam and slip into the bracket of BPL again, burdened with the failure and struggle to repay the loan.

## Conclusion

ORMAS and DSMS should make their presence felt all over Orissa, either having their own outlets, making arrangement of uninterrupted supply of the commodities like pulses, turmeric etc. They should try to take the advantage of the support of Govt. machineries, and work towards creating a brand image, like “OMFED”. The ORMAS, being the torch bearer of all the rural marketing activities in the state, should apply

strategic management process more scientifically. Incentivizing the line organization people with “out put linked benefit” should motivate them more to achieve, as a result more and more rural poor will be inside the bracket of SHG and take the help of ORMAS to market their produce. The implementation machineries should make sure, absolutely sure that the products are available in all the outlets, starting from Supermarkets, Retail Mall to weekly village markets.

ORMAS along with all the DSMS and other line organizations should be coordinating with the ground level to accelerate the bellow the line activities, with the right kind of functional strategy to implement the plans done by the central Govt. and the state Govt. Right from the farmers producing the pulses, turmeric etc, to the processing units, from the people collecting honey in the forest to the SHG packaging it, from the craftsmen involve in the secondary activities like handicraft and handlooms like silk saris and silver filigree etc. to the shopkeepers and jewelers selling it, everybody involved in the process, irrespective of their rank and file should work as a part of a large team, operating within a very big supply chain, working in a proper harmony to fulfill the mission of “Prosperous Orissa”. ■

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**A Study On The Strategies Of Unorganized Retailers With  
Reference To Consumer Durables**

## **Abstract:**

The study has been designed to analyze the strategies that are responsible for influencing the perceptions of unorganized retailers with respect to consumer durables. A sample of 100 retailers at different locations has been selected and studied with reference to various strategies. Factor analysis technique has been applied for the analysis of perceptions of the sample retailers. The results of factor analysis show that product strategies is the most important factor followed by price, distribution and promotion strategies. The study also focused on whether the importance given to different factors vary across location of retailers. The t- test has been employed to analyze the data. The study reveals that there is no difference between the strategies of the retailers and location but found a slight difference with distribution strategies.

**KEYWORDS:** consumer durable, distribution strategies, location of retailers, product strategies, unorganized retailers, promotion strategies, factor analysis, different locations..

## **1. Introduction:**

The Indian markets have been affected to a large extent in the recent past due to the liberalization and privatization policies of the governments. As a result of these policies both national and international players entered into the Indian retail markets and divided the retailers into organized retailers and unorganized retailers. This situation encouraged the organized retailers in addition to the changes in the buying behavior of consumers and consequent disturbance in the Indian retailers' segment. Though, both national and international players entered in to the retail industry, the Indian retail markets are dominated by unorganized retailers with a share of 96 percent as compared with organized retailers with a share of only 4 percent. The organized retail markets in India are growing at a faster rate creating a major problem to the unorganized retailers. Though the Indian retail markets are dominated by unorganized small retailers, the situation has been changed in recent past. Organized retail stores rose from 3125 covering an area of 3.3 million square feet in 2001 to 27076 with an area of 31 million square feet in 2006, satisfying the estimates that the retail sector will grow at 13 percent annually from 322 billion dollars in 2006-07 to 590 billion dollars in 2011-2012 (Shilpa Kokatnur, 2009).

The problems of unorganized retailers are mainly in terms of absence of many factors, such as proper supply chain management, superior vendor relationships, infrastructural facilities, quality customer services and timely promotional campaigns etc. The attitude of customers is also gradually changing towards organized market segments mainly due to increased income levels, strong economy, changing life styles and shopping habits of customers. As the unorganized retailers are the small retailers, having no capacity to face the competition offered by the high capacity organized retailers, the gap between the two is widening and forcing the former under financial crisis and threat to the existence. Hence, the unorganized retailers are finding new marketing strategies and other ways to overcome the threat from the organized retailers and to maintain greater sustainability and profitability.

## **2. Review Of Literature:**

Retailer accessibility to the customer is the set of options available to satisfy the product requirements. Product requirements refer to buying motives and their associated purchase criteria. The model proposed by Seth (1981), explained the competitive structure of the retail markets, the corporate image of the retailers, and the marketing activities influence the retailers' accessibility. Shaw et al (1992) in their opinion on the retailers and customer purchases stated that buyers use only a subset of product requirements to decide among many retailers when making an actual purchasing decision. Retailing is the one of the most dynamic and rapidly changing sectors of Indian industry. Multiple retail companies now dominate the unorganized retail sector and threatening their existence. The similar views proposed by Arnold et al (1998) with reference to Wal-Mart discount departmental stores in United States of America, that the impact on the other retail stores is high and many of which have at the disappearing stage. The unorganized retail sector face increased pressure from the organized retailers, super stores. Further as the economy and society has changed, so have retailers and shopping habits of consumers also altered enormously. (Dawson, 1988). Another study conducted by Morganosky (1997), on the structural changes in the retail markets and their implications on consumers

revealed that due to the emergence of new retail formats, competition between retailers of organized and unorganized is tightening with pervasiveness and complexity of consumer cross shopping patterns across various retail channels. Brennan & Lundsten (2000), in their study on the consumer shopping habits identified that consumers shop at discounts for low prices and large variety and stores for the unique items they cannot find elsewhere. The closure of a small shop with a super store nearby would affect the residents of a local neighborhood differently compared to the closure of only shop in a small locality without a super store nearby and the decline in the number of small shops has different implications to the existing customers depending upon the locations and alternative options to shop (Smith & Sparks, 1997). If conventional unorganized retailers are to survive, it will be vitally important to understand what the residents in a particular community want from their retailers. Only those stores with a clear understanding of their customer wants and changes that are occurring within the market place can hope to survive by identifying and then satisfying some of those needs more effectively than their competitors. Independent, unorganized retailers have increasingly been under threat with the growth of major multiple retailers in the organized retail scene, but independent small shops operating in local community locations do serve a function whether it be a social or community one and provide a vital service to certain groups of consumers (Mridula Mishra & Umakanth Dash 2008).

Another study conducted by Radha Krishnan (2003), found that with the entry of superstores, the most affected stores are precisely the smaller stores, whose sales are associated with small areas, few number of employees, low sales volumes and the isolated stores (Stores that do not have partnership with other retailers). Brennan (1991), in his view on strategies adopted by the retailers opined that providing specialized services, offering better quality products and improved customer services were the most successful strategies, on the other hand increasing sales and promotions, lowering prices and increasing advertising were least successful. Mc Gee (1996), is also of the opinion that retailers facing threat from new discounters respond with lower prices and increased promotions. Watkin (1986), proposed that the strategies adopted should avoid low price and differentiation domain of the large retailer and emphasize a focused offer. Covin & Covin (1990), also stated that small business strategies propose customer service and product specialization or customization as appropriate strategic moves.

From the above literature review, it is clear that most of the research were carried out outside India giving a least scope to its application in the Indian context. Further there are very few studies on threat faced by the unorganized retailers and the strategies adopted to overcome the same. Hence a study of this kind has been undertaken with a view to know the various strategies adopted by the Indian unorganized retailers to sustain themselves in the markets.

### **3. Significance Of The Study**

Formulation and execution of strategy is important in a competitive environment. Competitive environment is the feeling with which retailers as individuals and as groups respond to their sustainability and growth. It is a state of healthy balance in the retail market segment in which retailers make their respective contributions to overcome the competition. With the government policy of privatization and liberalization, a large number of organized retailers were entered in the Indian market. As a result the unhealthy competition also developed between organized and unorganized retailers. These retailers try to snatch each other's piece of share in a cut throat competition. The trend in the establishment of organized retailing has been showing uptrend. In a competitive environment every retailer is interested to improve his position to create a strong base for survival. The competition was developed in terms of attracting large number of customers and to retain them. In recent days the unorganized retailers' views also changed. To attract the customers, they adopted various strategies and implemented them in the market. Hence a study has been made to know the strategies adopted by the retailers to overcome the competition. The present study will help to develop more appropriate strategies to develop the satisfaction of the unorganized retailers and these could be incorporated into a well designed set of marketing policies for better performance of unorganized retailers.

## 4. Objectives Of The Study:

The purpose of the study is to investigate the strategies adopted by the unorganized retailers to overcome the competition offered from the organized retailers. The following research objectives have been formulated to guide the study.

1. To analyze the various strategies adopted by the unorganized retailers to overcome competition.
2. To suggest suitable measures to overcome competition.

## 5. Methodology Adopted:

### 5.1 Instrument Development:

To satisfy and to meet the objectives of the study both qualitative methodology and quantitative techniques have been used. The study has been conducted at various retail outlets located at Nellore and Chittoor districts in Andhra Pradesh state. With reference to the sample, a total of 100 sample retailers dealing with consumer durables were selected and approached them with a structured questionnaire. The content and validity of the various statements in the questionnaire were verified with the help of experts in the marketing field. The instrument used in this study consists of two parts. The first part deals with the demographic profile of the respondents such as gender, age, location, nature of retailing etc. Part two deals with opinions of the sample retailers prepared on the basis of various strategies. It consists of 14 statements, each of which is measured on four point Likert's scale, in which, 1 indicated "strongly disagree", 2 indicated "disagree", 3 indicated "agree" and 4 indicated "strongly agree".

### 5.2 Data sources:

Both primary and secondary data were collected for the study. The primary data were collected by conducting a sample survey of retailers. With the help of a well prepared and structured questionnaire the primary data were collected from the respondents. The secondary data were collected from Journals, magazines, reports, and other books and also from Internet websites on retailing.

### 5.3 Analysis of data:

The primary data collected have been sorted, classified and tabulated in a format and analyzed by using statistical package for social sciences (SPSS16.0). An appropriate statistical procedure like t-test and factor analysis has been used for inference. The factor analysis allows for defining the factors affecting the perceptions of retailers to overcome the competition.

## 6. Hypothesis:

Null Hypothesis ( $H_{01}$ ): There is no significant relationship between strategies adopted and location of retailers.

## 7. Results And Discussion:

Table .1 Demographic profile of the respondents		
1.Gender	No of Respondents	Percentage
a) Male	85	85.0
b) Female	15	15.0
Total	100	100.0
2.Age		

(a) Less than 35 Years	12	12.0
(b) 35-45 Years	31	31.0
(c) 45-55 Years	35	35.0
(d) Above 55 Years.	22	22.0
Total	100	100.0
<b>3.Location</b>		
(a) Place 1( Nellore)	69	69.0
(c) Place 2( Chittor)	31	31.0
Total	100	100.0

The above table reveals that 85 percent of respondents were male and the rest 15 percent were female. 12 percent of respondents come under age group of less than 35 years, 31 percent of respondents were between 35 – 45 years, 35 percent of respondents were between 45- 55 years and 22 percent of respondents are above 55 years. It shows that the retailers are male dominated further majority of respondents fall under the age group of 45-55 years, followed by the age group of 35-45 years.

### 7.1 Factor analysis:

The basic reason for applying factor analysis is to group the variables that are highly correlated. The factor analysis involves extraction of factors from a correlation matrix, deciding how many factors to be interrupted and finally rotating the retained factors. (Alias Radam et al, 2010). The adequacy of data for applying factor analysis has been verified by Kaiser-Meyer-Oklin (KMO) test. Generally, a value greater than 0.5, indicates that the factor analysis is appropriate. (Naresh Malhotra, 2009). In the present study the KMO test value is 0.691 shows that sample selected for the study is adequate and is statistically significant for factor analysis. Data were subjected to factor analysis and the factors were generated using principle component analysis and varimax rotation. The principal component analysis in data extraction extracted four factors with Eigen values above 1.0. The Table 2 shows the factor analysis of results.

TABLE 2: FACTOR ANALYSIS RESULTS				
Factor 1(Product Strategies)		Loadings	Mean scores	Eigen value & Percentage of variance
S1	Small product and low priced packaging	0.816	2.85	Eigen value =3.402. Percentage of variance =24.904
S5	New product designs	0.521	3.23	
S12	Sturdy products	0.426	2.56	
S13	Brand name	0.635	2.25	
Factor 2 (Price Strategies)				
S2	Low cost and cheap products	0.661	3.73	Eigen value =2.746 Percentage of variance =20.453
S10	Refill packs / Reusable packaging	0.785	3.57	
S11	Discount offers	0.596	3.86	
Factor 3 (Distribution Strategies)				

S3	Home delivery of products	0.835	2.07	Eigen value =1.939 Percentage of variance =17.731
S4	Convenient timings of operation	0.838	2.04	
S9	Extension of credit facility	0.663	2.65	
Factor 4 (Promotion Strategies)				
S6	After sales service	0.816	2.85	Eigen value =1.119 Percentage of variance =14.523
S7	Availability of varieties of products	0.521	3.21	
S8	More advertisements	0.426	2.56	
S14	Attractive appearance of retail shops	0.635	2.25	
Total Percentage of Variance = 77.611				

The four factors are namely, product strategies, price strategies, distribution strategies, and promotion strategies of the retailers, and the total variance explained is 77.611 percent. According to Hair et al (1998), the sum of square of the factor loadings of each variable on a factor represents the total variance explained by the factor. And, so Eigen values greater than 1.0 are considered significant and a total variance greater than 60 percent is also considered satisfactory. Further, the percentage of variance explained is a summary measure indicating how much of the total variance of all variables of the factor represents and the percentage of variance explained statistically useful in evaluating and interpreting the factor (Aaker et al., 2001). As per the analysis, the most important factor accounting for 24.904 percent of variance is product strategy. The statements of this factor are related to the important attributes of product. This factor consists of four variables namely; small product and low priced packaging, new product designs, sturdy products, and brand name. The item loadings for the statements are ranging between 0.426 to and 0.816 and the mean values are ranging between 2.25 to and 3.23 respectively. The mean scores of the factors indicated that customers are more inclined towards 'agree'. The second factor named, 'price strategies' explained a total variance of 20.453 percent. It consists of three statements and the items are loaded from 0.596 to 0.785. The mean values of the variables showed that customers are somehow strongly agreed with the statements Low cost and cheap products (3.73), Refill packs / Reusable packaging (3.57), and Discount offers (3.86). The third factor is the 'distribution strategies' recorded 17.731 percent of total variance and it consists of three statements. These items are loaded from 0.663 to 0.838. The mean values of the statements are Home delivery of products (2.07), Convenient timings of operation (2.04), Extension of credit facility (2.65). The analysis of the overall mean value of the factor shows that the respondents are more inclined towards 'disagree'. Promotion Strategies being the fourth factor recorded 14.523 percent of total variance. This factor consists of four statements and their factor loadings are ranging from 0.406 to 0.826. The mean values of the statements are after sales service (2.82), Availability of varieties of products (3.21), more advertisements (2.51), and Attractive appearance of retail shops (2.35). The analysis of the overall mean value of this factor shows that the respondents are more inclined towards 'agree'.

The overall mean score of the factors shows that low cost and cheap products ranked the first response. Similarly, Refill packs / Reusable packaging, new product designs are the other factors occupied second and third best responses.

## 7.2 Testing Of Hypothesis:

Null Hypothesis ( $H_{01}$ ): There is no significant relationship between retailer strategies and location of retailers.

Table 3 Results of t- test					
<b>Product Strategies</b>	Place 1 Average	Place 1 SD	Place 2 Average	Place 2 SD	Decision at 5% level of significance
Small product and low priced packaging	3.07	1.23	2.63	1.12	Accept
New product designs	3.26	1.10	3.30	1.08	Accept
Sturdy products	3.15	1.56	1.97	1.62	Accept
Brand name	2.97	1.59	1.53	1.21	Accept
<b>Price Strategies</b>					
Low cost and cheap products	3.91	1.26	3.55	1.37	Accept
Refill packs / Reusable packaging	3.65	1.29	3.49	1.18	Accept
Discount offers	3.89	1.37	3.83	1.50	Accept
<b>Distribution Strategies</b>					
Home delivery of products	2.70	1.12	1.44	1.31	Accept
Convenient timings of operation	2.56	0.98	1.52	1.00	Reject
Extension of credit facility	3.65	1.66	1.65	1.22	Accept
<b>Promotion Strategies</b>					
After sales service	2.92	1.19	2.78	1.22	Accept
Availability of varieties of products	3.24	1.10	3.18	1.08	Accept
More advertisements	2.76	1.56	2.36	1.62	Accept
Attractive appearance of retail shops	2.69	1.23	1.81	1.12	Accept

It is observed from the table 3 that there is no significant relationship among the various strategies adopted by the retailers and the location. Only in case of convenient timings of the operations of stores, a difference of opinion exists among respondents for distribution strategies. The corresponding t- value of the variable is not significant at 5%.

## 8. Conclusion:

The retailers' perceptions towards various strategies have been studied to determine a solution to overcome the threat from the organized retailers. The results of factor analysis technique shows that product strategies is the most important factor followed by price strategies, distribution strategies and promotion strategies. Therefore the unorganized small retailers must give utmost importance to these factors to overcome the competition faced by them as all these strategies contribute to the positive perceptions of retailers towards effective sustainability in the market. t- test has been used to study the relation of perception of retailers and the location of the respondents. The results of t- test show that, there is no significant relationship between retailer strategies and location of retailers. Factors mean score values indicate that convenient timings of operation of retail stores recorded the lowest response amongst other factors followed by home delivery of products. The

reason for the poorest response may be due to non possibility to maintain the stores as per the convenient timings of customers and absence of proper delivery system as the small retailers cannot afford to maintain them due to the involvement of high capital requirements. The analysis of this research paper and the results obtained will provide a strong base to the marketing authorities on various factors to be taken into consideration, to minimize the impact of organized retailers and to focus attention on the strategies for the effective management of the same.

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**The evolution of the regional investment climate in Romania**

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## Abstract

The paper aims at identifying the development regions in Romania (corresponding to NUTS III classification), which have similar patterns regarding the investment environment and how these similarities evolved from 2006 to 2008, one year before and one year after becoming a member of the European Union, respectively. Using a cluster analysis technique, we found that the regional disparities increased. In 2008, the areas that contained agglomerations of foreign direct investments attracted even more foreign capital than in 2006 (the capital region and the Western regions) and the areas that lacked investments before are now even more behind the leading regions (the Eastern and Southern regions).

### Key words

Investments, regional disparities, agglomerations

## 1. Introduction

While companies cannot survive in isolation, multiple connexions with other companies enhance competitiveness. The more a company can use the externalities created by the other actors, the more it can improve its efficiency and become more competitive. The geographic proximity to the entities that the company has connections with, brings a large variety of advantages, starting with the possibility to communicate more easily, (establishing long term and close relationships, creating spillovers) and reducing the costs and the time of transportation, etc (McCann 1998). There are also important synergies created, like workforce attraction, professional training, enhancing labour competitiveness and stimulating innovation. These are advantages that are expanded when there are more companies in the area and when these companies are more efficient and competitive. Pelinescu, Rădulescu (2009) certify the role of other transnational companies (TNCs) in attracting foreign direct investments in Romania, sustaining the fact that a good level of foreign direct investment is an essential condition for the countries (especially the less developed) to become more competitive by producing more efficiently and by getting well integrated in the global economy.

Therefore, an important factor for developing agglomeration economies is leading foreign direct investments to certain geographical areas where is more need for capital inflows, suppliers, work places, technology spillovers, etc. Revising a spatial distribution of the transnational companies established in Romania, in the general investment context, offers a first view over the investment agglomerations, location opportunities and regional disparities.

According to Bălan (2010), Romania began the transition process with a relatively low level of regional disparities, compared to the other member states. Nevertheless, the gap expanded on a high rhythm (in terms of the index of regional disparity calculated by the National Institute of Statistics), especially between the Bucharest-Ilfov region and the rest. The focus is on the emigration of the Romanians in Western European countries and the internal migration after the revolution in December 1989. This process increased the regional differences, created many labour shortages and changed the general local conditions and patterns for foreign investments. However, the earnings that were brought by the Romanians who worked abroad increased the internal consumption and created new market opportunities for foreign investors. Constantine and Diminian (2007) believe that the economic policy should be centred on the sectors that can add more value to the labour force, which is more qualified, obtaining a competitive advantage, as a solution to diminish migration and regional disparities. Implicitly, he advises the attraction of the foreign direct investment in these sectors. Părean & Oșil (2009), on the other hand, consider that the need for foreign investments is stronger in areas where the technological lag is larger. Regardless the causes and the effects of regional disparities, the purpose of this article is to describe the regional investment environment.

In this paper, by applying a cluster analysis technique, we intend to detect the development regions that show similar, homogenous patterns according to a number of indicators that describe the investment environment. Our intention is to identify the similarities between the eight development regions as investment destinations in two different time periods. Firstly, the year 2006 was an extremely growing period, with high

investments, both domestic and foreign, obtaining an important growth in the GDP. Secondly, 2008 stood at the beginning of the economic decline in the context of the global financial crisis. The analysis also contains an assessment of how the regions cluster together according to common characteristics and the cluster composition is modified over the two periods concerned.

Data analysis methods have the advantage that, comparing to the econometric methods, the variables are not separated into explanatory and explained, which permits all the influences to be represented in the same vector space (Gabor, Ștefănescu, Conțiu, 2010). Lefter and Constantine (2009) also use a descriptive method in order to show the economic disparities in Romania among the eight development regions, the principal components analysis. Along with other descriptive methods, cluster analysis can be used to identify the basic dimensions or factors that explain correlations among multiple variables. Therefore, it can be introductory to the classical explanatory analysis. Nevertheless, this is not among the purposes of this paper.

The paper is structured as follows: the first part consists in a specification of the used methodology and data, the second part is a description of the regional clusters that were obtained in 2006 and 2008, making a brief comparison and the last part contains the conclusions of the analysis.

## 2. Methodology

Cluster analysis identifies similarities among a set of objects, according to a set of characteristics that are equally important. Through this method we cannot establish how certain variables determine the evolution of others. The purpose is to obtain a number of groups, named clusters, which have the most common features from the set of given variables.

Due to the fact the variables are expressed in different measure units, we have applied a standardization procedure. Therefore the variables must be comparable. Standardization also has the advantage of eliminating extreme values, which uniforms the variables' influence. This is important because, if extreme values were kept, some variables would have a more significant influence than others and the results would be improper. The standardization method that we used consisted in the following formula:

$$\frac{\text{the current value of the variable} - \text{average value}}{\text{standard deviation}}$$

In order to determine the regional clusters, we have used the Ward method, first of all because it is a hierarchical clustering method and the only method in which the distance between clusters is evaluated by maximizing the degree of the clusters' homogeneity or by minimizing the variability inside the clusters. The degree of homogeneity of a cluster is considered to be the highest as the total sum of the within cluster square standard deviation is the smallest.

In Ward's method ("of minimum-variance"), the distance between two clusters is calculated as the sum of squares between the two clusters added up over all the variables. At each generation that it determines, the within-cluster sum of squares is minimized over all partitions obtainable by merging two clusters from the previous generation. The sums of squares are then divided by the total sum of squares to give proportions of variance (squared semi partial correlations), in order to be easier to interpret.

The hierarchical clustering methods group the observations two by two until all of them are compound into a single cluster. It has been decided, in this study, to focus on a certain number of clusters to obtain a clearer comparison between the two years. It keeps only four clusters, which group the eight development regions; because it was considered that half would be the optimum number of clusters. If they grouped two by two, there would be a very equal distribution and if, oppositely, we obtained a cluster containing three regions or more and other cluster(s) with one region, clearly the disparities would be larger.

The output from the hierarchical cluster analysis is graphically represented into a 'dendrogram', which is a diagram that shows each step of the final cluster composition using a tree shape.

Due to the fact that the groups of development regions should be based on a better similarity across all the variables, the Euclidean type of measurement of the distance between clusters was used. The Euclidean

distance emphasizes the outliers, which describes extreme values. The same method was used in some studies from the same reason (Wolfson 2004, Gutierrez & Sorensen 2006).

Through the variables that we used, we intended to obtain a good description of the foreign direct investments that were made at regional level in Romania, in the general investment climate. In this regard, we chose to run the cluster analysis of the development regions according to four indicators: the share of FDI (foreign direct investment) in the total investments, the share of FDI in the gross domestic product, the FDI per capita, and the share of TNCs in the total number of companies. The amount of FDI that is already present in Romania is an important factor for the future attractiveness because it offers multiple advantages: scale economies, available business networks, a developed market, available inputs, qualified work force, connected services, possible spillovers, etc. The analysis offers conclusions regarding the regions where the most important FDI agglomerations exist and what are the differences between each other's scale. Several authors have proved the existence of the agglomeration as a precondition for the location of FDI: Pusterla and Resmini (2007), Roberto (2002), Hilber și Voicu (2007), Trăistaru (2001), etc.

### **3. Results**

Bucharest-Ifov is clearly the leading destination of foreign direct investments in Romania. The gap between this region and all the others is very significant in both periods. The capital area is the most developed, hosting the largest amount of qualified labour, the best universities and research centres and all the advantages searched by investors. A very important asset, which is still lagging in the whole Romanian territory, is a well developed infrastructure. Even if the cost of land and decongestion represent a motivation to locate a business away from the capital region, the issue of difficult transport operations keeps the investors as close as possible to the most developed area of the country. The underdevelopment of the other regions is derived from the past nonindustrial areas that were caught unprepared by the liberalisation process. These companies' failures left entire areas with too little economic activity, which does not bring sufficient added value. Being the most different region comparing to the others, the Bucharest-Ifov consists in the last cluster and is added last to hierarchical grouping in both years.

In 2006, the first cluster that was formed contained three regions: Nord-Vest, Centru and Sud. The second cluster, also having small inner distances between its components, contains the Sud-Est and Sud-Vest regions. The first cluster that is formed is the one that has the smallest Euclidean distance among its components so it is not necessarily the most developed or undeveloped one. The components of each cluster are listed in Table 1.

The Sud-Est and the Sud-Vest are the two most unattractive areas for investments in 2006. In 2008 the stock of FDI increased considerably in Romania, due to the entrance in the European Union, offering new interesting opportunities for green-field investments. A series of large privatisations that were made in this interval also had an important influence. The composition of the most unattractive cluster changed, including the Sud region instead of the Sud-Vest, while the Sud-Est remained. The fact that the Sud-Est has such a low amount of FDI represents an unexpected result, because it contains large sea ports such as Constanta, Mangalia and Danube ports like Galați and Brăila. Nonetheless, the Sud and the Sud-Est are areas with less and newer industries. Improvements are expected to take place in the Sud-Est because of its harbours' activities reflect the success of the whole country, but also due to its touristic potential in sea resorts and in the Danube Delta. The region's specificity is represented by the largest development gap between the industrialized counties (Constanța, Galați, and Brăila) and the counties that use mainly the local resources (Buzău, Focșani, Tulcea) as well as the development gap between the rural and the urban areas.

In 2008 the Sud attracted less foreign direct investments, comparing to other regions, than it did before, despite of its good position that surrounds the capital region. Looking at the percentage of FDI from the GDP and the amount of FDI per capita, the Sud is on a better position, but the share of FDI in the total investments is very low. The Sud is still very much relying on agriculture and it is characterized by significant natural resources and geological complexity, being known worldwide for the oil in Valea Prahovei. During the years, the industries developed in the region were quarrying, manufacturing and their derivative industries. The same

region has a good commercial activity, bringing a high contribution to the country's external trade. The leading county is Argeş with the highest inward FDI, attracted especially in the car industry.

The Sud-Vest region improved its position, moving in the second less developed cluster, together with the Nord-Est. These are most isolated areas with little traditional industry and little assets to privatise. The work force was concentrated on very narrow array of professional activities, being hard to obtain a reconversion after the collapse of the local industries. The Sud-Vest region offers an important part of the country's energy production through its numerous hydropower plants. A special resource that can attract tourism is represented by the thermal waters. The development of the river transportation system is also an interesting perspective.

Due to the poor infrastructure, the Nord-Est is also difficult to be reached from the most developed areas in Romania. The infrastructure has seen a certain improvement in the past years but it is still not proper for an intense economic activity. The isolation is a principal cause for the lack of interest in this area in what the investments are concerned. The problem of the infrastructure is present in almost all the Romanian regions, but the Nord-Est region stayed behind the others mainly because the others grew faster. In this precarious situation many of this region's inhabitants have emigrated into other countries, fact that left the area with a progressive shortage of skilled labour force. The potential of the Nord-Est region consists mostly in the development of the construction and the additional service sector as there is a high level of population with growing incomes. The touristic potential, both rural and urban, is very significant and beginning to be exploited more and more in the Bucovina, Piatra-Neamţ and Iaşi regions. The most developed pole in the region is Iaşi, an important university centre and one of the country's most important cultural and economic centres. The human capital is the most abundant resource of this region and it primarily needs to be exploited.

The development of the western regions has its origin in its traditional urban university and research centres and their proximity to the oldest European Union members. From the indicators that were used in the analysis, the share of TNC in the total number of companies has reached the highest level for this region, after Bucharest-Llfov. The Vest improved its investment environment and formed a cluster with two more developed regions. Instead of Nord-Est, which was the most appropriate region in 2006, the Vest was more similar, in 2008, from the point of view of investments, to the Centru and Nord-Vest forming a more compact geographic area. Nevertheless, the attractiveness of the Vest region remained on the same position being included in the second most attractive cluster after Bucharest-Llfov. The Centru region has a high percentage of heavy metal industry and mining, which have decreased in production facing the external competition. Nonetheless, an improvement has been made in this area in regard in the last period of time bringing the Centru in more attractive cluster in 2008. The region has also begun to concentrate more on the food industry and tourism where it is gaining more competencies. The leader county in this region is Braşov, which has traditionally been a leader in many economic, cultural and touristic activities within Romania. Sibiu has also begun to obtain its well deserved international renown for its touristic attractions and traditional products in food industry and crafts. The area's remarkable hydropower energetic resources still leaves place for further investments.

The Nord-Vest has met a similar evolution during the analyzed years, growing in a superior cluster, although it remained behind the Centru region. Its geographical position brings the advantage that the region stands at the entrance from both Hungary and Ukraine into the regions of Romania. The transport corridor continues with Bulgaria, Serbia, Moldova and the Black Sea ports. It is an area with immense natural resources: wood, argyle, ore but with few energetic resources. A major part of the attracted investment was determined by the facilities offered by the government in the programme referring to disadvantaged areas.

Analysing the evolution of the Romanian regions under the influence of inflow of foreign direct investments, Voicilaş (2007) also found enormous disparities among the capital region and all the other regions. The less developed regions that he identified were the North-East and the South-West and the most developed and attractive regions were the South and South-East. The most important foreign direct investments were done in the Bucharest-Llfov region and the second most important amount was drawn to the South. The least interesting regions, from the investors' point of view, were the East and the West.

In Romania, the stock of foreign direct investments increased by 41.57%, from 2006 to 2008. The fast growth of this indicator was due to the expanded integration of the Romanian economy in the international economic environment simultaneously with attaining the European Union membership. Nevertheless, the increase in the stock of FDI reached only the level of 21731.50 million Euros in 2008. In the same time, the net inflows improved only with 4.82% in the two years period, which is not a satisfactory effect of the foreign direct investments policy. So the increase in the stock of FDI is the result of a rather constant foreign capital accumulation.

Designed as regional development measures, the European pre-accession funds (PHARE, ISPA, SAPARD) were lead more to the public administration and institutions rather than to regional development measures (Lefter, 2009). According to the agglomeration effect, the foreign direct investments were attracted mainly in the most developed areas, widening the development gap. This process was sustained and accompanied by the need of proper and sufficient regional development programmes.

Our results indicate an increase in the disparities among the development regions' indicators regarding the investment environment. The gap that expanded mostly is the one between the Bucharest-Llfov region and the others. The polarization of the economic activity around this area determined migratory phenomena, fact that creates long term distortions. The other regions are left without sufficient qualified work force, which acts against the FDI attractions. On the other hand, the regions grouped into more compact clusters, with lower inner discrepancies than before. Also, the new cluster map shows a better regional grouping along the national borders. Instead of having in one cluster two or three regions from different corners of the country, in 2008 only neighboring regions cluster together. This shows a more mature setting of the investment environment with a more clear characterization of the specificities of each development region and geographic area, perhaps a deeper specialization of each region, as well. Botezatu (2007) also recognizes the influence of the proximity to the other EU members at the Western border.

According to Părean & Oțil (2009), the regional disparities are the cause of the technology gap, the small and medium enterprises limited access to financing, the common conceptions of the people regarding business and the area accessibility and potential. Nevertheless, our analysis cannot indicate the causes of this process; it just shows the enlargement of the regional gap in what investments are concerned. Several empirical studies (Marelli 2004, Overmans & Puga 2002) sustain the expanding importance of the regional differences as well as economic and policy relevance at regional level.

Botezatu (2007) considers the capital city a catalyst for the development of surrounding rural communities, taking the predominant agricultural activity as the cause of the underdevelopment in regions like the North-East. The small level of services and industrial activity also determine the lack of interest of the investors for these areas.

## **4. Conclusions**

The cluster analysis of the foreign direct investments in the eight development regions in Romania in 2006 and 2008 has shown the similarities of these regions in terms of investment patterns, bringing out the evolution of regional disparities.

In the interval 2006-2008 a further concentration of the investment activity took place around the capital region, leaving the Nord-Est and Sud-Vest regions even less attractive for foreign investors. The analysis does not provide the possibility to see what is standing behind this process but it is obvious that the efforts of the regional policy, which was applied so far, have proved to be inefficient. Even though there wasn't any data available at industry level for each region, we tried to explain the current development of the investments through the historical specialization and the specific assets and resources.

After becoming a member of the European Union, the regions from the Western border obtained a better integration in the investment environment among the older members. These regions have shown more similarities in 2008 comparing to 2006 proving that the common advantage of being close to the Western border indeed determines a growth in the investments.

In the context of the regional policy led by the European Union, which were meant to reduce regional disparities by improving the development of each region, Romania has obtained an increase of the foreign direct investment gap. The rather small attraction of new FDI shows that the conditions for developing new businesses has not sufficiently improved in the unattractive areas of the country, while the fact that most of the investments were drawn by the areas that have always hosted the highest percentage of investments shows that clusters are more attractive due to the advantages provided by the existent business connections. Nevertheless, the macroeconomic climate is the first cause of the weak investment evolution at the whole country level. ■

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**Table 1: The clusters formed in 2006 and 2008 by the regional development regions**

<b>Cluster Number</b>	<b>Included Development Regions (2006)</b>	<b>Included Development Regions (2008)</b>
1	Nord-Vest, Centru, Sud	Nord-Vest, Centru, Vest
2	Sud-Est, Sud-Vest	Sud-Est, Sud
3	Nord-Est, Vest	Nord-Est, Sud-Vest
4	Bucharest-life	Bucharest- Llfov

Source: own calculations



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**The Undergraduate Common Professional Component (CPC):  
Origins and Process**

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## Abstract

Since 1988 US international program accreditors have added a CPC (Common Professional Component) requirement to ensure that business programs recognize the interdisciplinary nature of business when “the process of answering a question, solving a problem, or addressing a topic is too broad or complex to be dealt with adequately by a single (academic) discipline.” CPC, for accreditation purposes, recognizes the weakness of academic business research and embraces the interdisciplinary nature of business by requiring accredited programs to document their multi-dimensional approach to CPC. CPC seeks to promote innovation in the business curriculum and to challenge the outdated separation of the business disciplines.

To date there has been no literature describing the CPC process. This paper, based on the experience of accreditor evaluation teams, provides a non-prescriptive process for international business programs seeking accreditation. The paper provides the background and one procedure that may take place to satisfy the CPC accreditation requirement.

The explanation of the CPC process incorporates the need to integrate functional areas of business with the business environment, the technical skills of the business employees and compliance with local laws. The need for CPC is discussed with detailed background and supporting information from businesses operating in the 21<sup>st</sup> century. CPC presents a challenge to traditional academic credentialing. The challenge is to deal with the present and to prepare for the future rather than confining academic research to what has past.

Familiarity with CPC is critically important for business majors in the 21<sup>st</sup> century and provides a curricular response to the challenges and innovations for which 21<sup>st</sup> century business students must prepare.

With average annual college costs in the United States ranging between \$14,000 (4-year public) and \$32,500<sup>i</sup> (4 year private) legitimate questions are being asked as to why “American students increasingly lag behind students of other developed countries, especially in math and science.”<sup>ii</sup> This is particularly true for students, and the parents of students, who are searching for a “business school with bang for the buck.”<sup>iii</sup>

Aside from other important considerations such as tuition, graduates’ success, career focus, schedule flexibility, accommodation and facilities,<sup>iv</sup> the focus of the curriculum and determination of whether it includes the Common Professional Components (CPC) will be essential.

The implementation of the CPC by many business schools is a relatively new phenomenon. Beginning in the late 1980s the major US international program accreditors added a CPC accreditation requirement.

<b><u>Addition of CPC to Accreditation Standards</u></b>	
ACBSP <sup>v</sup> in	1988
IACBE <sup>vi</sup>	1997 (since inception)
AACSB <sup>vii</sup>	2011 (planned) <sup>viii</sup>

*Accreditation Agencies for Business Programs recognized by CHEA (Council of Higher Education Accreditation, USA)<sup>ix</sup>*

**Figure 1: Adoption of CPC by Accrediting Agencies**

Before discussing the background and process for CPC, the brief outline of CPC is presented in Figure 2. Explanation of each of the purpose, process, and detail components of CPC will become clear as the reader understands the background to the introduction of CPC.

Nevertheless, at the outset the definition of CPC may be taken from the detailed component summary list described in Standard 6 of the ACBSP Standards and shown here in Figure 2.

## UNDERGRADUATE COMMON PROFESSIONAL COMPONENT

- 1) Functional Areas
  - a) Marketing
  - b) Business Finance
  - c) Accounting
  - d) Management, including Production and Operations Management, Organizational Behavior, and Human Resource Management
  
- 2) The Business Environment
  - a) Legal Environment of Business
  - b) Economics
  - c) Business Ethics
  - d) Global Dimensions of Business
  
- 3) Technical Skills
  - a) Information Systems
  - b) Quantitative Techniques/Statistics
  
- 4) Integrative Areas
  - a) Business Policies OR
  - b) A comprehensive or integrating experience that enables a student to demonstrate the capacity to synthesize and apply knowledge from an organizational perspective.

**Figure 2: ACBSP definition of the undergraduate CPC**

### Background to the institution of CPC:

The background to the institution of CPC may be seen to derive from the Post World War 2 to the “Ho Shi Kanri”<sup>x</sup> policy of devising control processes in industry to assist in the rebuilding of manufacturing industries in Japan, which would focus employee attention on both product quality and corporate strategy. Deming identified the 14 points plan using statistical methods to integrate activities at the workplace, Juran focused on quality control across the disciplines and Drucker defined management as the “liberal art.” Drucker is widely credited with the teaching and training that has led to the development of so many forms of continuous improvement and first noted that post-capitalist society needed “a universally educated person,”

This process of “Getting your Ducks in a Row” is seen in industry in the 21<sup>st</sup> century in many forms such as Six sigma,<sup>xi</sup> the Balanced Scorecard, and the host of ISO<sup>xii</sup> programs.

One particular program, the Baldrige Performance Excellence Program<sup>xiii</sup> has been sponsored by the US National Institute of Standards and Technology (NIST)<sup>xiv</sup>. The Baldrige Program's mission is “to improve the competitiveness and performance of U.S. organizations,” and for this reason the implementation of CPC, particularly for ACBSP, has followed the Baldrige program conceptually with their approach to a set of standards which are focused not on prescription but on a continuous process of self evaluation which leads to measureable improvement.

CPC is focused on student learning outcomes with the intention of assuring recognition by students of the interdisciplinary nature of business. The interdisciplinary nature of business refers to the majority of real world business situations when the “process of answering a question, solving a problem or addressing a topic is too broad or complex to be dealt with adequately by a single (academic) discipline.”<sup>xv</sup> The attention of the student is therefore drawn to the need to integrate their insights into 21<sup>st</sup> century business through critical thinking and the construction of a comprehensive global, rather than a narrow academic perspective. The problem with faculty credentialing and academic business research is that it is necessarily historical, therefore out-of date and far from the cutting edge of business initiatives. Like activity based costing,<sup>xvi</sup> 21<sup>st</sup> century initiatives are not reported in the academic world until many years after they have in fact been put in place.

This is a serious problem for business, far too much business education is being taught in the 21<sup>st</sup> century by researchers of business past, while the challenge for business is finding competent new entrants who are concerned with business present and in the future. Yet outdated academic scholarship is still preferred to practical experience at a time when “experience is by industry achieved, and perfected by the swift course of time.”<sup>xvii</sup>

CPC recognizes the weakness of academic business research and embraces the interdisciplinary nature of business; the CPC approach is now being recognized by organizations like the Society of International Business Research.<sup>xviii</sup> To date the measurement of value added by academic business research has generally not been on the basis of the utility of the research to industry or the professions, but on economic value in terms of post graduate salaries.<sup>xix</sup> The time has come for a modern multi-dimensional approach.<sup>xx</sup>

The implementation of CPC provides not only a multi-dimensional approach, but an opportunity for measuring learning outcomes and continuously improving on the interdisciplinary perspective of international business.

The adoption of CPC and the continuous improvement approach to tertiary education in the United States is also linked to an increasing awareness of how higher education and particularly the segregation of academic (including the business) disciplines was “impoverishing the souls” of future business leaders and “closing the American mind.”<sup>xxi</sup> Recognition of the need fully to integrate the business disciplines across the undergraduate business curriculum came to a great extent from industry. Jack Welch of GE described the need as “integrated diversity”<sup>xxii</sup> and noted the need to eliminate the boundaries between the business disciplines in academia.

The Case study has been used by sociologist since at least 1829<sup>xxiii</sup> and is often associated with the Chicago School<sup>xxiv</sup> and provides examples of situations where the studies in business disciplines may be integrated. However the case study overly depends on the textual presentation of the edited version of a single case. By its nature of hindsight, the case study itself is out-of-date. Further the case study fails to provide the full range of uncertainties surrounding a real case scenario and is thus not helpful when seeking a more generalizeable conclusion from the study of a business situation. Further the “answers” to the case depend on the case construction, the teaching objective(s) of the instructor and, certainly at the graduate level, the real world experience of the students.

The Capstone course is another academic approach to integration so that “learning from the courses in the major” can be integrated with “courses from the rest of the academic experience”<sup>xxv</sup> However the Capstone

attempt “to marry theory and practice” often proves to be “a difficult task” even as a business program tries to prepare students “for the challenges they will encounter in their professional careers.”<sup>xxxvi</sup>

Therefore, a more comprehensive approach is the CPC across the curriculum approach. This provides for the recognition by instructional faculty of the need for integration of a common set of professional components across the business curriculum. As noted this approach is now required by the major business program accrediting agencies. The CPC approach may also be linked to Learning Outcomes and thus provide a metric for establishing continuous improvement in the teaching of CPC. Further the successful implementation of CPC can be established by independent agencies such as Peregrine Academic Services<sup>xxvii</sup> who provide not only independent assessment of CPC knowledge, but can also supply comparative analysis of CPC scores across the 800 ACBSP member institutions<sup>xxviii</sup> who have chosen to be in the program. This is an important process which enables ACBSP (and other) universities to measure the CPC knowledge that has been assimilated by their students from their business programs.

## CPC Literature search

Research into the origins of CPC using online library databases<sup>xxix</sup> confirms that during the last ten years only one single article has been written specifically mentioning CPC.<sup>xxx</sup> The paucity of literature on CPC may be seen in the context of academic credentialing where the past takes priority over the present or future. “There is a crisis of legitimacy.”<sup>xxxi</sup> Many in the business academy turn deaf ears to this crisis. That a search of the records of the Chronicle of Higher Education indicates no articles on CPC, appears to confirm the crisis.

A number of articles note the importance of incorporating ethics, as a core business component, across the business curriculum.<sup>xxxii</sup> However, the number of articles on the business curriculum indicates little commentary or research in this area. This confirms the failure of business programs “to grasp this pluralism of values and contexts” in the global marketplace, this certainly is “a weak link in the current organization of undergraduate business programs.”<sup>xxxiii</sup> Others also echo increasing skepticism concerning the content of the undergraduate business curriculum,<sup>xxxiv</sup> without specifically identifying the common professional components.

So CPC becomes somewhat of a mystery for Faculty at Colleges seeking ACBSP accreditation. Those who are preparing to respond to Standard 6.1.3, begin their Internet search and discover that it is Peregrine Academic Services who tell the worldwide web that

“Business schools obtaining and/or sustaining AACSB, ACBSP, and IACBE accreditation must demonstrate student competency associated with either 11 or 12 CPC topical areas depending upon the specific accreditation program with at least two direct measures and two indirect measures.”<sup>xxxv</sup>

Seeking knowledge, elaboration, even the etymology of “CPC” a researcher finds that<sup>xxxvi</sup>

**All definitions for COMMON PROFESSIONAL  
COMPONENT acronym or abbreviation have been  
removed or haven't been published yet.**

That is, except for the definitions provided by the accreditation councils such as the one provided by the Accreditation Council for Business Schools and Programs (ACBSP) which is set out in Figure 1.

Thus, there is significant difficulty to be encountered by academicians who are new to the CPC concept. The available literature provides a definition of CPC but this refers only to the elements which make-up CPC. No guidance is available to provide a practical process which a business program can adopt to come up with a satisfactory assessment of the CPC content of their particular courses.

## Purpose of this Paper

The purpose of this paper is therefore, to provide business program faculty members with some guidance and a process, to assist in their determination of the CPC in a particular undergraduate business program course.

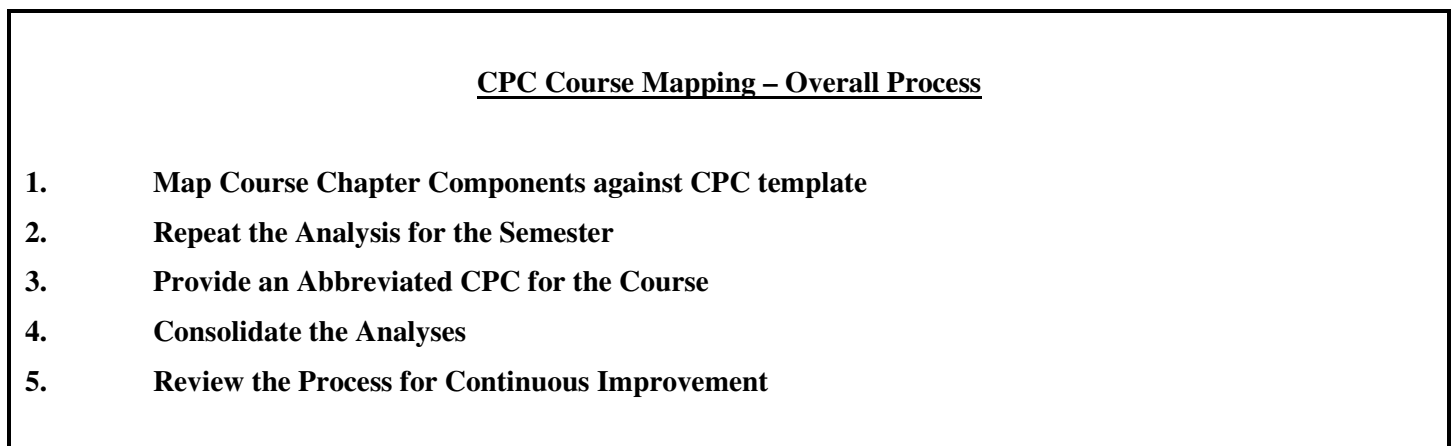
The guide is particularly aimed to satisfy the curiosity of universities with business programs which follow the American curriculum but are located outside the continental United States and who are not familiar with CPC. Many non-continental US universities with American curriculum business programs seek the competitive edge that they will gain if they are to be accredited by one of the American Accreditation Agencies identified in Figure 1. Accordingly they seek information on CPC and the CPC process.

In the absence of a body of literature on CPC, this paper proceeds directly to the analysis of a 5 step process for deriving the CPC elements in the business program. Two examples of courses going through the process will be provided, one for accounting and another for marketing. The processes described provide answers to many of the questions which ACBSP evaluators frequently come across when mentoring ACBSP candidate schools or when taking part, in an ACBSP site evaluation team. Note that the process described is not prescriptive, but rather one approach to satisfying the CPC requirement but the process is not prescriptive.

The paper will also provide a discussion of the assessment of CPC content so that instructors who are not familiar with the integration of business curriculum material gain an understanding of the direction of the process and the emphasis on continuous improvement in the dispersion of CPC across the business program curriculum.

## CPC Course Mapping

The guideline process which is set out in this paper may be considered to be a 5 part system, shown in Figure 2. A description of each of the stages follows.



**Figure 3: Mapping Course Chapter Components against the CPC template.**

## Mapping Course Components against the CPC Template:

Once an instructor prepares a course s/he will derive a map which will be based on the content of the course which is going to be discussed in class and which will be the focus of homework by the students.

The basis for allocation for ACBSP accreditation purposes is the American College Credit hour. In the United States the college credit hour is the “dominant measure of student attainment.”<sup>xxxvii</sup> Originating from the high school Carnegie Unit<sup>xxxviii</sup>, the American college credit hour emerged coincidentally “with Charles W.Elliott’s introduction of electives at Harvard College in 1869.”<sup>xxxix</sup>

The American college credit hour measures a required minimum 120 credit hours of class time to reach the level of the Bachelor’s Degree. The 120 hours are typically spread over 4 years, that is two semesters each year, and therefore 15 hours each term. Each of these semester/terms is typically broken down further into 5 undergraduate courses of 3 credit hours each as shown in the diagram that follows.

<u>The American College Credit (Cr) Hour</u>			
Year 1	Fall semester	5 courses x 3 Cr hours	15 Cr hours
	Spring Semester	5 courses x 3 Cr hours	15 Cr hours
			-----
Year 1 Total			30 Cr hours
Year 2 Total			30 Cr hours
Year 3 Total			30 Cr hours
Year 4 Total			30 Cr hours
			-----
Graduation Total		40 courses x 3 Cr hours	120 Cr hours
			=====

**Figure 4: The American College Credit Hour**

Each of the 3 credit hour courses, in turn, represents 15 weeks of 3 hours class tuition time each week or 45 hours<sup>x1</sup> of total class instruction for the course. Thus, in US universities, the instructor mapping a course for CPC will be typically mapping a 15 week course with 3 hours class time each week providing a total of 45 class hours which will be used to cover one or more of the common professional components.

For measurement purposes by non-American curriculum colleges an equivalent set of measures for the course will need to be constructed to attain the CPC process. The determination of equivalency will naturally depend on the educational system and culture of the country involved but, for ACBSP accreditation purposes should first be agreed in advance with the Director of ACBSP Accreditation.

In addition and in practice students taking an undergraduate course will spend time completing homework assignments which may cover significant additional hours of focus on one or more, CPC. Accordingly an allowance may be made by an instructor for the additional hours and, when mapping this may be noted in an additional column as shown in Figure 5.

How much additional time students are expected to spend over and above the 45 class room hours will depend on the instructor's assignments. Guidelines suggest that up to an additional 50% of the class time is likely to be spent on homework and other assignments associated with the classroom work. This is a guideline within which an instructor may wish to map her/his course. The instructor will need to be able to justify such additional hours of CPC especially if the total CPC hours exceed the 50% guideline recommended.

Taking for example an Introduction to Accounting Principles Course, an instructor might develop the following analysis shown in Figure 5.

		CPC Common Professional Components												
Text Chapter Titles		1	2	3	4	5	6	7	8	9	10	11		
1	Role of Accounting	1		1					1					
2	Establishing a Business	2		1					1					
3	Operating a Business	3		2		1	1							
4	Completing the Accounting Cycle	3	1	2			1							
5	Accounting Systems	3		2		1	1		2					
6	Merchandizing Operations	3	1	2			1					1		
7	Inventories	3		2								1		
8	Internal Control & Cash	3		2								1		
9	Receivables	3		2								1		
10	Tangible and Intangible Assets	3		2										
11	Current Liabilities	3		2										
12	Partnerships	3		2		1								
13	Corporations	3	1	2	2									
14	Long-Term Liabilities	3		2										
15	Investments	3		4	2	2					1	1		
16	Statement of Cash Flows	3	1	2			1							
<b>3 Credit Hour Course x 15 weeks =</b>		<b>45</b>	<b>4</b>	<b>4</b>	<b>30</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>4</b>	<b>2</b>	<b>60</b>
		<i>Hrs</i>												
			Marketing											
			Business Finance											
			Accounting Information Systems											
			Management											
			Legal environment of Business											
			Economics											
			Business Ethics											
			Global Dimensions of Business											
			Information Systems											
			Quantitative techniques											
			Business Policies											

**Figure 5: CPC Course Analysis for an Accounting Principles Course**

In this example the Instructor has related the textual material found in the Chapters which have been covered during the semester. For each of the 15 weeks of material the instructor has then assessed the CPC content of the week and provided an analysis to the CPC columns accordingly. A discussion of the assessment of CPC content follows the description of the process.

**Figure 6:**  
**CPC + Learning Outcomes - Course Analysis for Accounting Principles**

Text Chapter Titles	TOPICS											CPC Common Professional Components											
	1	2	3	4	5	6	7	8	9			1	2	3	4	5	6	7	8	9	10	11	
1 Role of Accounting															1								
2 Establishing a Business															1								
3 Operating a Business															2	1	1						
4 Completing the Accounting Cycle															2								
5 Accounting Systems															2	1	1	1				2	
6 Merchandizing Operations															2							1	
7 Inventories															2							1	
8 Internal Control & Cash															2							1	
9 Receivables															2							1	
10 Tangible and Intangible Assets															2							1	
11 Current Liabilities															2							1	
12 Partnerships															2	1							
13 Corporations															1	2	2						
14 Long-Term Liabilities															2								
15 Investments															4	2	2					1	
16 Statement of Cash Flows															1	2	1						
Major Themes in classroom Hours	5	5	5	5	5	5	5	5	5	5	5	4	4	30	4	2	2	4	2	2	4	2	60
1 Introduction to Business	5																						
2 Double-Entry Book-keeping		5																					
3 Assets, Revenue and Expenses Recognition			5																				
4 Inventory Systems and Shrinkage				5																			
5 Cost of Goods Sold					5																		
6 Adjustments, Accruals and Prepayments						5																	
7 cash Flow							5																
8 Internal Controls and Cash								5															
9 Financial Analysis									5														
	5	5	5	5	5	5	5	5	5	5	5	4	4	30	4	2	2	4	2	2	4	2	60

A more developed approach to assessment of CPC may be found in the example in Figure 2 where the instructor has related the Chapter topics to 9 learning outcomes which are being measured to determine student performance. The Instructor has identified the Learning Outcome Topics and at the same time evaluated,

for the purposes of evaluating the CPC content, the class and homework time spent related to each text chapter of content.

**Repeat the Analysis for the other Program courses:** Similar analysis then needs to be completed for other courses in the business program. By way of an example Figure 7 shows a CPC map for a Marketing Course. This assessment is by chapter and CPC content, but another version might link the text material with the learning outcomes and the CPC content. In this connection we might recollect one of the earliest examples of marketing by King Hammurabi<sup>xlii</sup> when he decided, for the first time in history, to market his code of laws<sup>xliii</sup> by having them recorded on steles, stone billboards, one of which survives to this day in the Louvre in Paris.

Principles of Marketing			CPC Common Professional Components											
Perreault et Al: Text Chapter Titles			1	2	3	4	5	6	7	8	9	10	11	
1	Marketing's Role in the Organization	3	3											
2	Understanding the Changing Environment	3	3											
3	Understanding the Consumer Environment	3	3											
4	Business/Organizations-Buying Behaviour	3	3		1									
5	Information for Marketing Decisions	3	3											
6	Marketing Segmentation: Targets & Positions	3	3		1									
7	Product Planning for Goods and Services	3	3											
8	New-product Development & Branding	3	3					1						
9	Place & Development of Distribution Channels	3	3						1					
10	Tangible and Intangible Assets	3	3											
11	Logistics and Distribution	3	3			1						1		
12	Promotion - Integrated Marketing Text	3	3											
13	Advertising and Public Relations	3	3				1		1					
17	Price Setting in the Business World	3	3									1		
19	Controlling Market Plans	3	3			1		1						1
<b>3 Credit Hour Course x 15 weeks =</b>			<b>45</b>	<b>45</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>1</b>	<b>56</b>
			<div style="display: flex; flex-direction: column; align-items: center;"> <div style="margin-bottom: 5px;">Marketing</div> <div style="margin-bottom: 5px;">Business Finance</div> <div style="margin-bottom: 5px;">Accounting Information Systems</div> <div style="margin-bottom: 5px;">Management</div> <div style="margin-bottom: 5px;">Legal Environment of Business</div> <div style="margin-bottom: 5px;">Economics</div> <div style="margin-bottom: 5px;">Business Ethics</div> <div style="margin-bottom: 5px;">Global Dimensions of Business</div> <div style="margin-bottom: 5px;">Information Systems</div> <div style="margin-bottom: 5px;">Quantitative techniques</div> <div style="margin-bottom: 5px;">Business Policies</div> </div>											

**Figure 7: CPC Course Analysis for a Marketing Course**

**Provide an Abbreviated Course Syllabus for the Program:**

As part of the analysis process, instructors will be expected to provide an abbreviated course syllabus for each of the courses for which they have submitted a CPC analysis.

Copies of the abbreviated CPCs for the examples described in Figures 4, 5, & 6 are shown in Figures 8, 9, & 10 respectively which follow here:

American University Sample – Abbreviated Course Syllabus <i>(AUK Mission Statement is an integral part of Business Program Course Syllabi)</i>		
Course No: ACCT 201		Course Title: <u>Principles of Financial Accounting</u>
Instructors: J Cripps and J Russell		
Required Text: Libby, Libby, Phillips, Whitecotton, <b>Principles of Accounting</b> , McGraw-Hill International, ISBN 978 007 1284721		
Brief Course Description: (4 Credit Hours including I Credit Hour Lab) An introduction to the essential life skill of accounting. Students study the application, description and analysis of business transactions to ensure a reliable accounting information system.		
Topic Outlines:	Coverage Hours	
1. Role of Accounting		3
2. Establishing a Business		3
3. Operating a Business		3
4. Completing the Accounting Cycle		3
5. Accounting Systems		3
6. Merchandizing Operations		3
7. Inventories		3
8. Internal Control and Cash		3
9. Receivables		3
10. Tangible and Intangible Assets		3
11. Current Liabilities		3
12. Partnerships		3
13. Corporations		3
14. Investments		3
15. Statement of Cash Flows		3
Total Sessions (Coverage Hours)		45
Summary of CPC Topics covered in this course: Coverage Hours		
Functional area: Marketing		4
Business Finance		4
Accounting (information Systems)		30
Management (particularly decision-making)		4
Business Environment: Legal Environment of Business		2
Economics		2
Business Ethics		4
Global Dimensions of Business		2
Technical Skills: Information systems (Non-Accounting)		2
Quantitative techniques		4
Integrative Areas: Business Policies / Integrating Experience		2
Total (estimate of coverage hours)		60
<i>Note: Accounting integrates any business information system so that Managers are provided with the information essential to making strategic and tactical decisions. CPC subjects covered in this course are not mutually exclusive due to the multi-dimensional attributes of accounting.</i>		

**Figure 8: Abbreviated Syllabus Text Material to CPC - Accounting**

<b>American University Sample – Abbreviated Course Syllabus</b> (AUK Mission Statement is an integral part of Business Program Course Syllabi)	
<b>Course No:</b> ACCT 201 Instructors: A.N. Other	<b>Course Title:</b> Principles of Financial Accounting
<b>Required Text:</b> Libby, Libby, Phillips, Whitecotton, <b>Principles of Accounting</b> , McGraw-Hill International, ISBN 978 007 1284721	
<b>Brief Course Description: (4 Credit Hours including 1 Credit Hour Lab)</b>	
An introduction to the essential life skill of accounting. Students study the application, description and analysis of business transactions to ensure a reliable accounting information system. Topics include the need for transparency and accountability to provide a reliable fulcrum for decisions made regarding business process and policy.	
<b>Topic Outlines:</b>	<b>Coverage Hours</b>
Introduction to Business:	5
Double-entry Accounting:	5
Assets, Revenues and Expenses Recognition:	5
Inventory systems and shrinkage	5
Cost of Goods sold:	5
Adjustments, Accruals and Prepayments:	5
Cash Flow:	5
Internal Controls and Cash Management:	5
Financial Analysis:	5
	----
Total Sessions (Coverage Hours)	45
	===
<b>Summary of CPC Topics covered in this course:</b>	<b>Coverage Hours</b>
Functional area:	
Marketing	4
Business Finance	4
Accounting (information Systems)	30
Management (particularly decision-making)	4
Business Environment:	
Legal Environment of Business	2
Economics	2
Business Ethics	4
Global Dimensions of Business	2
Technical Skills:	
Information systems (Non-Accounting)	2
Quantitative techniques	4
Integrative Areas:	
Business Policies / Integrating Experience	2
	-----
Total (estimate of coverage hours)	60
	===
<i>Note: Accounting integrates any business information system so that Managers are provided with the information essential to making strategic and tactical decisions. CPC subjects covered in this course are not mutually exclusive due to the multi-dimensional attributes of accounting.</i>	

**Figure 9: Text to Learning Outcomes to CPC - Accounting**

**American University Sample – Abbreviated Course Syllabus**

*(AUK Mission Statement is an integral part of Business Program Course Syllabi)*

**Course No: MRKT 200**                      **Course Title: Principles of Marketing**

Instructors: Geoffrey Webster & Anot T Herman

**Required Text:** Perreault et Al, **Basic Marketing**  
 McGraw-Hill International, ISBN 978 007 1284721

**Brief Course Description: (4 Credit Hours including I Credit Hour Lab)** An introduction to Public Relations and Advertising and the Marketing of goods and services across the Globe.

Topic Outlines:	Coverage Hours
1. Marketing’s Role in the Organization	3
2. Understanding the Changing Environment	3
3. Understanding the Consumer Environment	3
4. Business/Organizations – Buying Behaviour	3
5. Information for Marketing Decisions	3
6. Marketing Segmentation: Targets & Positions	3
7. Product Planning for Goods and Services	3
8. New Product Development and Branding	3
9. Place and Development of Channels of Distribution	3
10. Logistics and Distribution	3
11. Retailers Wholesalers and their Strategy Planning	3
12. Partnerships	3
13. Advertising and Public Relations	3
17. Price Setting in the Business World	3
19. Controlling Market Plans	<u>3</u>
<b>Total Sessions (Coverage Hours)</b>	<b>45</b>
	==

Summary of CPC Topics covered in this course:	Coverage Hours
<b>Functional area:</b> <b>Marketing</b>	<b>45</b>
<b>Business Finance</b>	
<b>Accounting (information Systems)</b>	
<b>Management (particularly decision-making)</b>	<b>4</b>
<b>Business Environment:</b> <b>Legal Environment of Business</b>	<b>1</b>
<b>Economics</b>	<b>2</b>
<b>Business Ethics</b>	<b>1</b>
<b>Global Dimensions of Business</b>	

<b>Technical Skills:</b>	<b>Information systems (Non-Accounting)</b>	
	<b>Quantitative techniques</b>	<b>2</b>
<b>Integrative Areas:</b>	<b>Business Policies / Integrating Experience</b>	<b>1</b>
	<b>Total (estimate of coverage hours)</b>	<b>56</b>
		<b>==</b>

*Note: Accounting integrates any business information system so that Managers are provided with the information essential to making strategic and tactical decisions. CPC subjects covered in this course are not mutually exclusive due to the multi-dimensional attributes of accounting.*

**Figure 10: Abbreviated Syllabus Text Material to CPC - Marketing**

### Consolidate the Course CPC Analyses:

Once the abbreviated course analyses have been completed individually, they will then be consolidated on the Standard 6.5 Table - an example of which is shown here in Figure 11.

**Table of Common Professional Component (CPC) Compliance in BED core courses**

BED Core COURSES	Hour Class Sessions by CPC Topic											Total
	MRKT	BUS FINC	ACCT	MGMT	LeoB	ECON	BUS ETHS	GDoB	InSy	QT STAT	Integ Areas	
MATH 103*		1					2			27	5	35
STAT 201*		1		1			1	1	1	28	5	38
ECON 200	2		5	3	1	38	2	4		2		57
ECON 201		5				38	3	5				51
ACCT 201	3	4	38	4						1	1	51
ACCT 205	3	5	38	4			3			1		54
ENGL 305	2			4				2	10			18
FINC 332	2	35	8	2	2	2	6	4	2	5	2	70
MGMT 201*				10	5	5	5	5	5	5	5	45
MGMT 210	2	4	2	4		5		5	10	5	5	42
MGMT 321	3	2	2	35	3	2	3		3	2	5	60
MGMT 345		5		10	2		4	10		25	5	61
MRKT 200	45			4	1	2	1			2	1	56
BEAL 401/2	3	3	5	5	15	2	23	5	2	1	5	69
<b>TOTALS</b>	<b>65</b>	<b>65</b>	<b>98</b>	<b>86</b>	<b>29</b>	<b>94</b>	<b>53</b>	<b>41</b>	<b>33</b>	<b>104</b>	<b>39</b>	

**Figure 11:  
Table 6.5  
ACBSP**

**Accreditation Self-Study**

## Review the Process for Continuous Improvement

The 5<sup>th</sup> stage of the CPC process is the setting up of a procedure for continuous improvement in the establishment of CPC across the business curriculum.

The initial exercise is to derive an initial outline of how the academic course discipline may be diversified to recognize the integration of common professional components into the class subject.

The continuous exercise is the review process whereby the instructor may want to

- Review the course curriculum in accordance with the metrics on Learning Objectives derived during the semester and adjust the attainment of CPC objectives accordingly
- Link the metrics for the learning outcomes to the CPC objectives to provide both learning objectives and a CPC metric of knowledge transfer.
- Derive additional course materials which integrate both the discipline material and the CPC in a manner that improves the quality of the course. For example, a field trip to an international manufacturing company if carefully designed can not only demonstrate the nature of inventory for managerial, accounting, but, combined with meetings with manufacturing personnel, can extend business understanding to business policies and the global dimensions of business.

In addition the Business program will also want to

- Review the CPC process as a whole at a Faculty Meeting to identify if there is a need for any change,
- Identify possible additions to the program, particularly the Capstones, and perhaps in the courses that build to the Capstone so that certain curricular elements might be shared across courses or even at a Program meeting for students.
- Ensure that CPC analysis is being maintained and updated and, when practicable, measured so that the quality of the CPC constituent of the business program is not only maintained but continuously improved.
- As a faculty, develop a coherent set of continuously updated integrated abbreviated syllabi. This could lead to a standardized syllabus per course and prove especially advantageous to faculties relying on a high percentage of adjunct instructors, having multiple instructors delivering the same course, and or having a high percentage of new faculty members. The development of this program package of standardized abbreviated syllabi can offer multiple advantages:
  - Faculty development for those involved with the updating of syllabi
  - A forum for multi-disciplinary input
  - Integration across business disciplines
  - A traing tool for integrated teaching and learning.

This approach would provide each faculty member with a “skeleton” syllabus upon which the extended syllabus might be “fleshed out.” This process also conforming with total quality management (TQM) practices of evaluating and improving the program rather than focusing on individual courses.

## The Common Professional Components:

We have noted that, at least since the late 1980s, accredited business programs have focused on CPC input as one basis for demonstrating quality. The CPC focus, the recognition of management as the liberal art, **liberal** because, as Drucker noted “it deals with the fundamentals of knowledge, self-knowledge, wisdom, and

leadership; and 'art' because it is practice and application of that knowledge<sup>xliii</sup> becomes a metric for integration and rational coverage of all the business disciplines.

Managers of the Future, undergraduate students in today's business programs need an inventory of knowledge and skills which they have absorbed from their courses in the humanities, the sciences, and the social sciences as well as the knowledge they have acquired while taking business courses. After all psychology, politics, economics, and philosophy, as well as history, the physical sciences and ethics are all part of the rich world of business. These skills are sometimes referred to as "people skills," the "soft skills," the ability to interact with all the members of a successful business team.

The Instructor needs to see the inevitable blending, the overlap, of professional components so that, for example, the earliest records of writing, the moment when pre-history ends and history begins with accounting is thought to be from the Uruk period in Mesopotamia dating from 3,500 BC<sup>xliiv</sup> when "the first written records were accounts of trading and tallies of farm produce."<sup>xlv</sup> Thus, from the start of history, business, and particular accounting, has been inevitably endemic to the integrated diversity of everyday life.

How then to demonstrate answers to the accreditation requirement questions:

- a. How does your curriculum design address the Common Professional Component (CPC) outlined below?
- b. How do you determine the appropriate coverage of the Common Professional Component (CPC)?
- c. If topical areas of the CPC are not covered through required courses in the business core, explain how this standard will be met.

The process described so far in this paper addresses how the individual courses in the curriculum address the CPC component.

The appropriate coverage is determined by a review of the overall business program CPC and a determination that each of the components is covered. "Each CPC area must receive a minimum of two thirds of a three (3) semester credit-hour course (or equivalent), or approximately 30 coverage hours."<sup>xlvi</sup> This is the advised standard for Bachelor's degree level programs. An institution can however choose fewer hours, but would be expected to justify why fewer hours are designed into the program. This is often acceptable because of specializations or concentrations or other means of integrating CPC topics.

### **Some CPC examples:**

Within the Undergraduate curriculum the CPC standard may be met by taking opportunities to link the CPC components using:

- Mini-case Studies
- Major Case Studies
- Field Trips (especially tour abroad)
- Invited guest speakers
- Students Attending Conferences
- Students entering competitions

- Business simulations

## **Within the Functional Areas,**

*Marketing: (usually a separate course)*

Marketing can be linked to business finance by examining the costs and results of global companies such as Young and Rubican and Saatchi and Saatchi and even their global impact and the global impact of their clients. Students are usually captivated by the translation blunders like the Coors copywriter who tried to translate the marketing slogan “Drink Coors: Turn it loose” into Spanish, but used words that mean “Drink Coors and get Diarrhea.”<sup>xlvi</sup>

*Business Finance: (usually one or more courses)*

Daily curricular attention to appropriate stories in the Wall St Journal, the Economist, or other business financial journals, like Bloomberg’s Businessweek and Forbes reports of International Corporations can readily extend the nature of the subject within the business program to include business finance. This also brings the student into the real world of Finance and can make the course more interesting.

*Accounting: (usually two courses)*

The long history of the impact of accounting even prior to Plato’s introduction of the academia in Athens in 387 BC, and then after that, offers an extraordinary wealth of how the double-entry system became the data base from which the information for business decision-makers is generated.

*Management, including Production and Operations Management, Organizational Behavior, and Human Resource Management: (usually several courses)*

The Middle English “stigweard,”<sup>xlvi</sup> (now steward) and its links with the Greek word “oikonomos” or housekeeper are still employed to describe the managers of great households, whose activity evolves with growth to need specialist managers in the business world. Yet the tasks and entrepreneurial activity required by the big corporation reflect the broad range of skills needed by the modern stewards of both large and small business enterprise.

## **Within the Business Environment**

*Legal Environment of Business: (usually a course on Business Ethics)*

Which links with each of the academic areas of business, as national agencies like the Environmental Protection Agency and the Internal Revenue Service in the United States prescribe activities which must take place and many which must not. Similar Agencies in Europe and elsewhere in the world mean that the legal environment places legal boundaries within all areas of business study.

*Economics: (usually separate courses on Micro and Macro Economics)*

The study of economics provides theoretical analysis of business activity based on the specialization described in the market by Ghazali with the needle factory<sup>xlix</sup> and later by Smith with his pin factory<sup>l</sup>. The derivation of the financial instruments from the Arab traders after they brought paper from China to Europe and moved from oral to written contracts adds to a professional understanding of the economics of commerce.

*Business Ethics: (usually a course on Business Ethics)*

Financial statements and other business information that is made public “should be accurate and usable” in a 21<sup>st</sup> century market place where buyers and sellers are supposed to be able to rely on “accurate information to make rational decision.”<sup>li</sup> Yet the Parmalat<sup>lii</sup>, Enron, and Satayam<sup>liii</sup> debacles illustrate the ethical problems managers and others encounter when they wish to “meet the targets,” or “smooth out earnings.” The complexity of the accounting process and the growth in the size of companies means that the traditional Audit Report is increasingly seen to lack the “transparency and accountability” targeted by the World Bank.

*Global Dimensions of Business (many programs have an International Business course)*

We live in a “global agora” where millions and millions of buyers and sellers trade in goods and services and where “the global competitive playing field is being leveled.” Our students need to be aware of the changes that are taking place in the market place every day.

## **Technical Skills**

*Information Systems (many programs have a course on Management Information Systems)*

How Target markets are established, how customers are targeted, how make and buy decisions are made. The increased usage of IT based tools, cookies, social networks, dedicated satellite systems, to carry on diversified business activities.

*Quantitative Techniques/Statistics (usually courses on maths, econometrics, and statistics)*

How the quantitative techniques are being used to generate sales forecast, how statistics are being used, with particular reference to Deming’s 14 points and other statistical applications like J.D. Power surveys used for measuring customer satisfaction.

*Integrative Areas (usually a course in strategy or Strategic Planning)*

Business Policies or a comprehensive or integrating experience that enables a student to demonstrate the capacity to synthesize and apply knowledge from an organizational perspective.

Intrapreneurship and Entrepreneurship are a featured course in 21<sup>st</sup> century business programs. The new generation of students needs to learn about customer and product development and review “the four steps to Epiphany.” The mistakes and the failures of the dot.com era need to be understood.

## **Conclusion:**

Moves to recognize the need for continuous improvement in the teaching of business and, in particular, to include references to current business practices came after the establishment of the earliest business schools in the USA (1881, collegiate at Wharton School, and 1898, graduate school of business, Chicago) recognized the propriety of teaching business theory at academic institutions.

On the job business training, supported by apprenticeship training, dates back to before the 1780 BC Code of King Hammurabi The idea of a Master educating an apprentice in trade to provide the minimum level of experience before a student was accepted as educated in his trade or profession. In the 19<sup>th</sup> and into the mid – 20th century, business training was acquired through experience, by learning business culture and routine at the workplace. The apprentice system, still in place in Germany, was replaced in particular by the post-World War II US led adoption of academic training to prepare students for the increasingly technology and multicultural perspectives of the global marketplace.

The academic process, built on the tradition of German universities, identified special discipline areas of business which, although they might be isolated in theory and in the classroom, were endemically integrated in the real world of global commerce.

Hence the many efforts here described, first in industry and later in the universities to provide methods to demonstrate the integration of the business academic disciplines outside the seminar room. Of these efforts the CPC provides business programs with a metric to determine that they are providing insight into the integration of the business world across the curriculum.

And the initial mapping and setting up CPC across the curriculum is but the first stage in a process of continuing improvement. Already the CPC analysis has developed from a simple analysis of text material and related CPC perspectives. From text material progress is being made to learning outcomes. Learning Outcomes are there to be measured and improved upon and external validation of the CPC are also available through Peregrine and other providers of independent evaluations of graduating seniors’ CPC knowledge. These metrics are available also so that universities can measure their CPC knowledge transfer against the CPC knowledge transfer of the many other universities who are seeking external measurement of CPC.

This then is a sure way to provide future students with confirmation that a real world approach is being taken by those universities who have undertaken to be accredited and have a CPC program.

Familiarity with CPC is of critical importance to an undergraduate business major in the 21<sup>st</sup> century. Perhaps more important for key stakeholders is the knowledge that graduates understand the impact of CPC. Parents expect to fund a comprehensive business program that includes CPC and prepares for the real-world requirements of business. Prospective employees expect a university graduate to be aware of CPC and have a multi-disciplinary approach and understanding. Other third parties including government regulators do not expect ignorance of CPC in university graduates. The CPC has become an essential element of business programs which is why global accreditation agencies increasingly expect CPC to be identified and included in a credible business program. ■

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**Endnote**

US Department of Educations figures for 2002-2003 updated for inflation to 2006 by College Directory (allcollege.org) and to 2011 by a further 9% based on Calculator soup's inflation calculator to 2010 see at <http://www.calculatorsoup.com/calculators/financial/inflation.php>. and adding a further 1.02%.

<sup>1</sup> Caroline McDermott, 2007, Sustainable Education in the U.S.: How Private Interests Can Serve the Public Good, CIPE (Center for International Private Enterprise) seen at <http://www.cipe.org/programs/women/EssaysForWeb/McDermott.pdf>

<sup>1</sup> Francesca de Meglio, 2010, ROI: Business Schools with Bang for the Buck, Bloomberg Businessweek, March 2010.

<sup>1</sup> All Business Schools, 2011, Choosing a Business School, see at <http://www.allbusinessschools.com/business-careers/business-school-101/choosing-a-business-school>

<sup>1</sup> ACBSP, Accreditation Council for Business Schools and Colleges, website at <http://www.acbsp.org/>

<sup>1</sup> IACBE, International assembly for Collegiate Business Education, website at <http://iacbe.org/>

<sup>1</sup> AACSB, Association to Advance Collegiate Schools of Business website at <http://www.aacsb.edu/>

<sup>1</sup> AACSB has not included a specific CPC requirement pre-2011. The main focus of AACSB has been on research institutions and they are therefore concerned with faculty credentials rather than student learning outcomes assessment

<sup>1</sup> CHEA website may be seen at <http://www.chea.org/>

Ho Shin Kanri contemporary interpretation process for managing direction

<sup>1</sup> The Six Sigma support foundation may be seen at <http://www.6sigma.us/>

- <sup>1</sup> ISO = International Standards Organization. “ISO has developed over 18,500 International Standards on a variety of subjects and some 1100 new ISO standards are published every year”. Programs may be found at [http://www.iso.org/iso/iso\\_catalogue.htm](http://www.iso.org/iso/iso_catalogue.htm)
- <sup>1</sup> Baldrige Performance Excellence Program homepage may be found at <http://www.nist.gov/baldrige/>
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- <sup>1</sup> For latest list of ACBSP member institutions see <http://www.acbsp.org/p/cm/ld/fid=14>
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- <sup>1</sup> For example, Richard Arum, Josipa Roksa, *Academically Adrift: Learning on College Campuses*, and Anne Colby, Thomas Ehrlich, William M. Sullivan, Jonathan R. Dolle, 2011, *Rethinking Undergraduate Business Education*, Jossey Bass, an Imprint of Wiley.
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## **International Journal of Business & Management Tomorrow**



### **Investigation The Leadership Style Of Sport Managers**

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## Abstract

The purpose of this study was to investigate the types of leadership of sport managers. Totally 49 managers who work in different sport organization in Çanakkale participated in to the study voluntary. Leadership Opinion Questionnaire which was developed by Edwin A. Fleishman (1960) and which was adapted to Turkish Balci A. (1997) used to collect data. The data were analyzed using SPSS statistics program, leadership types shown in the form of mean  $\pm$  standard deviation, Pearson Correlation analysis was used to investigate te relation with age, working year, and monthly income. Results at  $p < 0.05$  was considered significant. As a result of the analysis, types of leadership scores of managers were functional ( $13.2 \pm 3.7$ ), related ( $9.9 \pm 2.3$ ) and the status quo ( $10.8 \pm 2.3$ ). There was not any significant correlation between leadership types and age, work year and monthly income ( $p > 0.05$ ). As a result, sports managers who were in the Çanakkale city centre, concentrated in the functional type of leadership.

**Key words:** Sport, management, leadership style

## 1.0 Introduction

Leadership defines as a relationship through which one person influences the behavior of other people (Peter and Liz 2000). Leaders must not only be able to define departmental, unit or organizational missions, but they must also be able to coordinate the activities of others and motivate them to meet mission requirements. Additionally, they must circumvent or resolve issues impeding progress towards accomplishing organizational goals. Selection and implementation of actions to bring about goal attainment represents a form of problem solving which makes the generation, evaluation, and implementation of proactive and reactive solutions key to leader effectiveness (Mumford MD. et al 2000).

Since the existence of human being, they have been trying work not only as individuals but also as groups in order to remain alive and struggle with nature. Human beings need to establish organization to live together. The individual who does this task is ruler. In order to sustain a common life, there must be a ruler and naturally people who ruled by ruler in every community. Desired purposes can be achieved if the ruler and the ruled work together. From this point of view, it is obvious that along with the presence of human being, the concept of management emerged (Gökçe 2005).

Within the framework of main objective of this study, the variables that we addressed which may have effect on leadership types of managers were as followed; age, level of education, monthly income, prior senior management experience, work experience, occupations other than club management, and work experience of managers who work in Provincial Directorate of Youth and Sports. Since the present study determine the leadership types of managers in Canakkale Province. It will lead the way to the researchers who will do further studies in the area of sports management.

## 2.0 Methods

Forty nine managers who work in miscellaneous areas of sports organizations (school of sports, city sports organization and the guilds that organize sportive activity) participated in this study voluntarily. Subjects were asked to fill “The Leadership Opinion Questionnaire” which was developed by Edwin A. Fleishman (1960) and translated into Turkish by Balci A. (1997).

*The Leadership Opinion Questionnaire:* Composed of total 14 items and it measures the 3 dimensions of leadership with 5-likert scale. Following items; 1, 5, 8, 9, 12, 13, 14, measures the leadership of functional dimension, the items; 2, 3, 4, 6, measures leadership of related dimension and the rest; 7, 10, 11 measures the leadership of status quo dimension. The highest mean and the standard deviation of the answers indicate the leadership types of the participants.

*Statistical Analysis:* Data were analyzed by SPSS statistical program, and the leadership types were shown as mean  $\pm$  standard deviation. Pearson Correlation Analysis was used to see the relationship between the types of leadership, age, work experience and monthly income. Alpha level was set as  $p < 0.05$ .

### 3.0 Findings

Variables	Mean	Standart Deviation
Age (Year)	37,1	6,8
Work experience	6,6	5,4
Monthly income (TL)	2156,1	427,7
Level of education	N	%
Primary school	1	2,0
High school	41	83,7
University	2	4,1
Graduate	5	10,7
<b>Total</b>	<b>49</b>	<b>100,0</b>
Leadership types	X	SS
Functional	26	13,2
Related	16	9,9
Status quo	15	10,8

**Table 1: Descriptive Characteristics of Participants**

Descriptive characteristics and the results of the analysis related to leadership type of the participants were shown in Table.1. Accordingly, their mean age was 37, 1 $\pm$ 6, 8 years, and work experience was 6, 8 $\pm$ 5, 4 years. Besides, their monthly income was 2156, 7 $\pm$ 427, 7 TL. Furthermore, most of the participants' education level was high school (83, 7 %) and their mean scores of leadership type was higher in functional when it's compared with other leadership types. There were no statistically significant differences, according to Pearson Correlation Analysis of the relationship between the types of leadership, age, work experience and monthly income ( $p < 0, 05$ ).

### 4.0 Discussion and Results

The present study investigates the relationship of leadership types of sports managers who work in miscellaneous areas of sports and their work experience, age, and monthly income.

At the end of the study, it was determined that sports managers' who work in Canakkale Province, mean age was 37,1  $\pm$  6,8 years, work experience was 6,6  $\pm$  5,4 years, and monthly income was 2156,1  $\pm$  427,7 TL respectively. Nevertheless, most of the sports managers' education level was high school 83 %. Their mean scores of leadership type was higher in functional when it's compared with other leadership types (See Table.1). There was no statistically significant relationship between functional leadership and work experience, age, monthly income. In similar research, conducted by Imamoglu and Yerlisu (2003), they investigated the managers' who work in higher sports education institutions, management capabilities. Findings revealed that there were no statistically significant differences between them. This supports the present study.

Parallel to present study, Gökçe (2005) found that the employees who work in Provincial Directorate of Youth and Sports had mostly functional leadership type. Furthermore, there were no statistically significant differences between managers who work in Provincial Directorate of Youth and Sports and sport clubs in terms of leadership type. Gökçe (2005) also found that there was a statistically significant difference between sports managers' age and functional leadership dimension. According to Gökçe, when the age increases, the functional dimension is also increase. There were no statistically significant differences between leadership type and age. Regarding previously conducted studies, there was no relationship found between education level and leadership types (Gökçe 2005, Kattat etal 2004). In this study, they could not conduct an analysis because of lacking of data in education level and leadership dimension. Likewise to our study, there were no statistically significant differences between monthly income and leadership type of the sports managers (Gökçe 2005). On the other hand Gökçe (2005) found a negative correlation between work experience and functional leadership. According to Gökçe (2005), when the work experience increases, the functional leadership type also increase. There were no such findings in this study. Similar findings also found in another study conducted by Kattat D. etal, 2004. In another study, there was a positive statistically significant relationship between sports managers' age and functional leadership. Arici (2002) determined that age had an effect on leadership behaviour, and the age group that had differences was 35 years and over. When the Individuals' age increases, they gain experience and fulfil their jobs better. For this reason, functional leadership dimensions increase related by age.

In present study, leadership was mostly scattered in functional leadership type and there were no statistically significant differences between work experience, age, monthly income and leadership type. In our study, functional, related, status quo dimensions of leadership were investigated. For further studies, other leadership dimensions can be studied. Moreover, sports managers' who work in Provincial Directorate of Youth and Sports and sport clubs, leadership characteristics can be researched. There were no woman sports mangers involved in this study. Woman sports managers can be also studied in the future. ■

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**International Journal of Business  
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**Challenges Facing Management Of Free Primary Education In  
Kenya: A Case Of Nyamira County - Kenya**

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## **Abstract**

Educations for All and the Millennium Development Goals have given many countries an incentive to attain Universal Primary Education through accelerated and selected strategies. A few countries in Africa have implemented it before Kenya with mixed cases of success, problems and challenges. Since its introduction in Kenya in 2003, it has been faced with different challenges especially on the management of funds and the general management problems arising from the increased enrolment in schools. The purpose of this study was to establish the challenges facing the management of Free Primary Education in primary schools in Nyamira County of Nyanza Province. The population for the study was public primary schools and it targeted Head-teachers, School Management Committee members, Area Education Officers and Teachers. The study concluded that pupil-teacher ratio is high in primary schools in the county. The study recommended that a study be done to establish the impacts of FPE on the performance of Pupils at KCSE.

### **1.1 Background of the Study**

In the last two centuries, there has been a spectacular expansion in enrollments in basic education. In 1830, near-universal primary education was limited to a few states in the United States, and the great majority of the World's children received no formal education at all. By 1870, somewhere between 12 and 23 percent of the World's children aged 5-14 were enrolled in school and by 1950 this figure had increased to 47 percent (Benavot and Riddle, 1988). By 2002, global net primary enrollment was around 87 percent, with a gross enrollment ratio of around 100 percent (World Bank, 2007). For countries in Western Europe and Western offshoots including the US and Canada, the period of rapid growth began as early as the 1800s, while for much of the rest of the World, it would take at least another 100-150 years to see the take off towards universal primary education (World Bank, 2007).

Universal Primary Education (UPE) policy in the form of fee abolition has become popular in many countries in Sub-Saharan Africa (SSA) for achieving Education for All (EFA) since the mid-1990s (Avenstrup et. al, 2004; UNESCO, 2008). Despite its recent rapid expansion, UPE policy has a long history in sub-Saharan Africa. The initial conception of the idea of Free Primary Education (FPE) in Africa can be traced from a conference in Addis Ababa Ethiopia in 1961. African education ministers held the first conference under the auspices of UNESCO to chart out plans for development of education for the countries, which were just coming out of years of colonial rule. The key resolution of this auspicious gathering where Kenya was represented by Mr. Daniel Arap Moi was that all African countries should strive to promote Universal Primary Education (UPE) by 1980.

However, it was only after President Moi came to power in 1978 that the Kenya African National Union (KANU) government established free primary education to standard seven to cover primary education. Following the abolition of fees, access to primary education increased and gross enrolment soared to over 100% in 1989. There was a progressive increase to primary school enrolment from 891,533 in 1963 to 4,624,278 in 1986. Since then, Kenya has been experiencing increasing pupil enrolment in all schools.

### **1.2 Objectives of the study**

The study was guided by the following objectives:

1. To establish the management and administrative skills held by primary school head-teachers and school management committee members in Nyamira county.
2. To determine the pupil teacher ratio in primary schools in Nyamira county.

3. To determine the extent to which Free Primary Education is affected by financial management in Nyamira county.
4. To determine the Government's preparedness in the implementation of Free Primary Education in Nyamira county.

### **1.3 Management and Administration in primary schools**

The primary education department of the Ministry of Education caters for the largest number of pupils in Kenya's education system. To manage this massive number requires management skills, appropriate organization and adequate human and material resources Otembo, Waga and Karagu (1992). The Ministry of Education Science and Technology (MOEST) is responsible for the provision of administrative and professional services in education at the National Provincial and District level. The management of primary schools at the local level is organized in such a way that the authority from the headquarters in Nairobi is delegated to Provincial, District and Divisional Education's office. Head-teachers, school committee and parents association have organizational functions in the management of primary education at individual school levels.

The Kamunge report (Republic of Kenya 1988) recommended that the school committee should establish sub-committees (to guide and support heads of schools in the management of such schools). Therefore, head-teachers must be persons with appropriate academic professional qualifications, experience, ability, competence, integrity and initiative if the country is to realize millennium development goals especially in the education sector. They must also have undergone courses in institutional and financial management. In view of these observations the committee recommended that; the appointment of head-teacher and other management be based on institutional management training, and on proven competence and possession of appropriate qualifications and relevant experience.

### **1.4 Financial challenges facing the Management of primary schools**

To ensure smooth implementation of FPE programme, the government supported by development partners had to avail huge amounts of money. Free Primary Education idea was indeed a welcome relief to the parents and no wonder that is why the idea also went down very well with the donors. It was encouraging that the World Bank had to avail a grant of Kshs. 3.9 billion towards FPE, British government gave Kshs 1.6 billion for the project with the treasury on its part pumping Kshs. 2.8 billion to kick start it (Kenya times 6<sup>th</sup> April 2003 p. 6 Col 1). United Nations Children Education Fund (UNICEF) gave 192.5 million to benefit 450,000 girls and boys in standard 1-3. It also provided learning and teaching materials in 8 districts including Nairobi (East Africa standard 16 Jan 2003). In April 2003, the Ministry of Education disbursed 3 billion. Each pupil was allocated Kshs. 633, Kshs 498 to be spent on instructional material while Kshs.135 to be spent on other operational costs in school. The task force on implementation of FPE (Feb 2003) came up with a figure showing financial implication for implementation of FPE.

Free Primary Education is in serious trouble following cases of massive fraud at the Ministry of Education. Some donors have now stopped funding FPE until those who have stolen the free education money are arrested and prosecuted. The British government stopped funding FPE saying, it would not resume unless the over Kshs. 100 million stolen from the Kitty in June was recovered and the thieves prosecuted. Clearly this is a serious hindrance to the provision of universal free primary education and if the trend continues, then it will be difficult for the government to achieve millennium development goals.

## **1.5 Policy Institutionalization and Sustainability of Free Primary Education**

King (2005) discusses the importance of inter-sectored factors in the success of educational investment programmes such as KESSP. Issues of state, good governance and corruption are important determinants of the results of educational investment while being outside the control of the sector. Issues of educational access, equity, quality, efficiency, financial sustainability, governance and management are thus inter-sectored issues. King (2005) suggests that recent policy thinking by the commission for Africa, the World Bank and United Nations Millennium Project recognizes the strategies between inter-sectoral factors and the MDCos. He concludes that FPE requires a holistic approach not only a focus on primary education. He emphasizes the importance of other sectors including agriculture, energy, transport and trade along with the need for strong national vision, good governance and government capacity building.

## **1.6 Research Methodology**

This study used descriptive quantitative design. The design enabled the researcher to assess the situation within the study area at that time. According to Cooper (1996), and (Kothari, 2003) a descriptive study is concerned with finding out who, what, where and how of a phenomenon which was the concern of this study. The study was designed further to provide insight into the research problem by describing the variables of interest. The success of management of FPE was the dependent variable while challenges such as financial challenges, lack of management and administrative skills by school managers, motivation of teaching and management staff, adequacy of teaching and management staff in relation to the number of pupils and availability and management of resources e.g. finances were the independent variables for the study. This study was carried out in 150 primary schools of Nyamira County in Nyanza Province and it targeted Head-teachers, School Management Committee members and Education Officers in the county.

## **1.7 Research Instruments**

The researcher, by considering the literacy level of the targeted respondents and their availability, chose to use questionnaires, interview schedules and observation schedules as instruments to collect primary data for the study from teachers, head-teachers and the school management committee members where three sets of questionnaires were used. The questionnaires were divided into different sections where each section was aimed at addressing a particular objective of the study. They contained both open ended and closed ended questions. Interview schedules were used to collect data from the Education Officers. Observation schedules were also used for the study.

## **1.8 Validity and Reliability of the Instruments**

In this study, a pilot study was carried out in four schools in the county which were not included in the actual data collection. The researcher administered the instruments personally to the respondents. The feedback was used to validate the instruments in readiness for the study. After administering the instruments to the selected respondents, the data obtained was a true reflection of the variables under study. To test the reliability of the instruments, the researcher used split-half technique. The instruments were split into two sub sets (the sets had odd numbers and even numbers). All even numbered items and odd numbered responses in the pilot study were computed separately.

By using this method, the investigator aimed at determining the co-efficient of internal consistency and the reliability co-efficient whose value varied between 0.00 (indicating no reliability) and +1.00 (indicating

perfect reliability). The odd numbered scores for all items were correlated with the even numbered scores using Pearson Product Moment Correlation Co-efficient of the entire test.

The researcher used Spearman Brown Prophecy formula:

$$\frac{2 \times \text{Corr. between the Halves}}{1 + \text{Corr. between the Halves}}$$

OR

$$Re = \frac{2r}{r + 1}$$

Where Re = reliability of the original test

r = reliability of the coefficient resulting from correlating the scores of the odd items with the scores of the even items.

A coefficient of 0.70 was considered adequate but a coefficient of 0.80 is good according to Gay (2003). The study achieved a coefficient of 0.713 for teachers' questionnaires and a coefficient of 0.700 for the head teachers' questionnaires. The findings fall between the required range of between 0.70 - 0.80, hence the instruments were considered reliable.

## 1.9 Data analysis techniques

Both qualitative and quantitative approaches of data analysis were used for the study. The coded items were analyzed using a Statistical Package for Social Sciences (SPSS). Descriptive statistics such as frequencies and percentages, means and standard deviations were used to describe the data. The analyzed data was presented in form of frequency tables.

## 2.1 The findings of the study

The researcher tested on the respondents' training in management and administrative skills held by those in the management of schools, whether they had attended any training on the management of schools, areas of training, duration of training and the year of training. The study found that 49% of the respondents indicated that they were qualified while 51% indicated that they were not qualified.

On attendance of Short Training in the management of schools, the study found that 93% of the head teachers who responded had attended training on the management of schools.

Only 7% had not attended any training on the management of schools. Regarding the areas of management where they trained, they mentioned the following areas: Financial management, Book keeping, Curriculum management, general supervision, prism, health issues and primary school management. In establishing the duration for the training, the study found that most of the trainings were held for 2 weeks. Others mentioned duration of 1 week, 4 weeks and 3 years.

The researcher sought to establish the number of teachers per school, pupil teacher ratio, effect of the introduction of FPE on the management of pupil's population, adequacy of teachers, and the effect of the introduction of free primary education on the population of primary schools and the results were as shown in table 2.1 below;

Number of teachers per school	Frequency	Percentage (%)
7	2	15.5
8	3	21
9	2	14.5
10	1	7
11	2	14
12	2	14
20	1	7
27	1	7
<b>Totals</b>	<b>104</b>	<b>100</b>

Table 2.1: Number of teachers per school

Table 2.1 shows that 21% of the sampled schools had 8 teachers. The study also found that 14.5% of the sampled schools represented three categories of schools which had 7 teachers, 9 teachers, 11 teachers and 12 teachers. The table also shows that 7% represented schools which had 10 teachers, 20 teachers and 27 teachers.

From the findings of the study, it can be concluded that the schools which had less than 10 teachers were understaffed. This shows that half of the sampled schools were understaffed.

To establish the pupil teacher ratio, the teacher respondents were asked to indicate the ratios as per the classes they teach. The findings of the study were as presented in table 2.2

Teachers		
Pupil teacher ratio	Frequency	Percentage (%)
61:1,70:1	10	16
51:1-60:1	18	25
41:1-50:1	21	36
31:1, 40:1.	8	9
20:1, 30:1	20	14
<b>Total</b>	<b>77</b>	<b>100</b>

Table 2.2 Pupil-teacher Ratio

Table 2.2 shows that 36 percent of the respondents indicated that the pupil-teacher ratio ranged from 41:1-50:1. The study also found that 25% of the respondents indicated that the ratio was between 51:1-60:1,

16% indicated 61:1,70:1, 14% indicated 20:1, 30:1, and 9% indicated 31:1, 40:1. The study clearly showed that most of the sampled schools had a high pupil teacher ratio which resulted into; poor syllabus coverage, pupils with special needs are not taken care of, indiscipline among pupils due to the large numbers affecting their management, inadequate attention to individual pupils, poor academic performance in national examinations, limited facilities and resource to cater for the increased number of pupils, mass exodus of pupils from public to private schools, increased teaching workload for teachers, inadequate curriculum delivery, among others.

To establish the effect of the introduction of FPE on the population of students; teacher respondents were asked to indicate the percentage increase in the number of pupils since the introduction of free primary education. The findings of the study were as presented in table 2.3 given below;

<b>Teachers</b>		
<b>% increase in No. of pupils</b>	<b>Frequency</b>	<b>Percentage (%)</b>
91-100	8	14
71-90	29	15
51-70	3	13
21-50	25	36
10-20	12	22
<b>Total</b>	<b>77</b>	<b>100</b>

**Table 2.3: Percentage Increase in the Number of Pupils**

Table 2.3 shows that 26% of the respondents indicated that the increase was between 21-50%. The study also found that 15% of the respondents indicated that the number increased with a percentage of between 71-90%, 14% indicated that it increased by a percentage between 91-100%, 12% indicated that it increased by a percentage between 10-20 and 10% indicated that it increased by a percentage between 51-70%. From the findings of the study, it was concluded that the introduction of FPE increased the number of pupils' enrolment in primary schools. This is viewed as one of the challenges facing the management of primary schools.

### **2.1.1 Financial Challenges**

To establish the financial challenges affecting the management of free primary schools, the study sought to find out whether the schools receive FPE funds in time, management of FPE funds, auditing of books of accounts, challenges facing the management of FPE funds, general challenges facing the management of FPE education and establishing the most challenging areas of school administration and management.

### **2.1.2 Management of Free Primary Education Funds**

The study sought to get the respondents' opinion on whether the FPE funds were well managed by the officials who were in charge at the ministry of Education. The study found that 86% of the respondents indicated that the funds were being mismanaged by the officials at the Ministry of Education. Only 14% of the respondents indicated that funds were well managed by the officials. The findings of the study seemed to reveal the recent scandal in the Ministry of Education over the FPE where the minister for education was required by some government officials to step down for investigations. The findings were as presented in table 2.4;

<b>Teachers</b>		
<b>Management of Funds</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Mismanagement of funds	57	86
Good management of funds	20	14
<b>Totals</b>	<b>77</b>	<b>100</b>

**Table 2.4: Management of Free Primary Education Funds**

The respondents were further asked to give reasons for their answers. The following were their responses: there were corrupt officials at the Ministry of Education, some schools fail to get money for no good reason, some of the funds are diverted to other institutions apart from primary schools, lack of transparency in the management of the funds, lack of accountability on the use of the funds and delays in the disbursement of funds.

### **2.1.3 General challenges facing the management of Free Primary Education**

In testing this, the researcher tested on different aspects of management and the pupil population. This was tested on a five point likert scale where respondents were required to indicate the level of their agreement with the statements in relation to the nature of the services outsourced. On the likert scale 1 was used to represent “Most challenging”, 2 represented “Challenging”, 3 represented “Moderately challenging”, 4 represented “Less challenging” and 5 represented “Not challenging at all”.

The score “Most challenging” was taken to be equivalent to mean score ranging from 0.0 to 1.0, “Challenging” represented mean score ranging from 1.1 to 2.0, “Moderately challenging” represented mean score ranging from 2.1 to 3.0, “Less challenging” represented mean score of 3.1 to 4.0 and “Not challenging at all” represented mean score of between 4.1 to 5.0. A standard deviation of > 1 represents a significant difference in the responses given. The findings of the study were as presented in Table 2.6;

	<b>Number</b>	<b>Mean</b>	<b>Std. Deviation</b>
High pupil-teacher ratio	77	2.14	1.325
Inadequate finances	77	1.68	.768
Delays in the disbursement of FPE funds by the Government	77	1.62	.859
Increased work load for teachers	77	1.88	1.214
Inadequate physical facilities	77	1.88	1.158

**Table 2.5 Challenges facing the management of Free Primary Education**

Table 2.5 shows that inadequate finance, delays in the disbursement of FPE funds by the government, increased workload for teachers and inadequate physical facilities were challenging in the management of FPE (mean score between 1.1 to 2.0). Pupil-teacher ratio was found to be moderately challenging (mean score of

2.14). There was significant difference in the responses given by the respondents on high pupil-teacher ratio, increased workload for teachers and inadequate physical facilities.

The respondents were further asked to mention other challenges facing the management of FPE. The following were the challenges mentioned: disappearance of text books creating shortages in books, frequent transfers by pupils from one school to another, lack of contribution from parents, indiscipline due to large enrolment affecting the performance, high rate of school dropout, poor budgeting and lack of proper accountability.

### 2.1.4 Government Preparedness for Free Primary Education

To establish the government preparedness for the implementation of FPE, the head-teachers were asked to indicate whether the government was prepared. The findings of the study showed that 57% of the respondents indicated that the government was prepared while 43% indicated that the government was not prepared. The findings of the study were as presented in table 2.8

<b>Teachers</b>		
<b>Government preparedness</b>	<b>Frequency</b>	<b>Percentage (%)</b>
Government preparedness	120	57
Government not prepared	20	43
<b>Total</b>	<b>140</b>	<b>100</b>

**Table 2.6: Government Preparedness for FPE**

To give reasons for their responses, those who indicated that the government was prepared for the implementation of FPE mentioned that: The government gave out the fund for the FPE, that the government auditors are sent to audit the books of accounts on the use of the funds, training of head-teachers on management skills and employment of more teachers. The reasons for non-preparedness included: Inadequacy of teachers in schools, delays in the disbursement of funds and lack of transparency in the management of FPE to eliminate corruption.

## 3. Conclusion

The government's policy of free and compulsory primary education will substantially contribute to meeting the MDGs goal of universal access to primary education by the year 2015. However the education sector is faced with many challenges including finance, lack of adequate teachers, insufficient learning facilities among others that may hinder the government from achieving this goal. Inadequate provision of education to children owing to the weak identification and assessment mechanisms also pose a great challenge to the government that need to be addressed if universal education is to benefit all Kenyans. ■

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## **International Journal of Business & Management Tomorrow**



### **Service Loyalty Measuring Index For Banking Services: A Comperative Study Of Private And Public Banks**

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## 1. Introduction

The concept of service loyalty has received much attention from both academics and practitioners in different areas of business. In the competitive market, service loyalty is the key factor of success and developing a sustainable competitive advantage.

The service sector is dominating the world economy. Almost all the developed as well as developing countries are emerging as Service Economies. Service has become critical source of wealth of nation. Indian economy is also enjoying honeymoon with the increase in income and employment. As economy is increasing rapidly and it reflects by their deeds as they get their clothes dry cleaned, eat more than earlier, working couples drop their kids at day care/crash school etc. With the span of time transportation, education, communication, health care, hospitality, entertainment, information technology and banking services have made enormous growth. These services have become, now a day, blood of our life. We have become parasite of these services. We can not imagine our life without of these services.

Banking service is intangible and it plays crucial role not only in the economic development but also in the development of human life. It has high interaction with the customers, so managers understand the factors which influence the loyalty of the customers. Loyalty to a bank lies with the services offered to the customers and patronizing over the period of time. According to Meydan (1996) the degree of loyalty can be measured by tracking customer accounts over defined period of time/ and noting the degree of continuity in patronage. Since economic reform banking sector has undergone drastic changes, facing intense competition in the market (Chaudhari and Halbrook, 2002). The economic reform has given opportunity to public, private and foreign banks for sailing their boats in the same market. Fittest will survive. The choice and preference of the customers for selecting a bank depends on not only on the offered services by the banks but also the quality the way services offered to customers. The profitability of bank lies on long run relationship with customers and services offered to them. In order to increase customers' service loyalty, banks have introduced number of innovative products and services (Alam and Khokhar, 2006). Success requires understanding and frequently monitoring the product and service attributes which increase customer service loyalty and share of wallet.

## 2. Review Of Literature

Customer service loyalty can lower costs and increase profitability. The cost of retention of a customer is cheaper than to recruit a new customer (Barsky, 1994). Service loyalty is a behavioural aspect. Behaviour of a customer depends on the availability of the services and their quality. The demand for the purchase of product/ service depends on the quality of the service available to the customers (Bass, 1974; Tranberg and Hansen, 1986). Jacoby and Chesnut (1978) have interpreted loyalty as patterns of repeat purchase of product or service.

Loyalty to a bank can be explained as continuing patronage over time. According to Meydan(1996), the magnitude of loyalty can be measured by tracking customer accounts over defined time periods and noting the magnitude of continuity in patronage.

Under new horizon of the banking sphere relation between customer and bank has got new definition (Lee et al., 2001). Numbers of strategies have been introduced to retain customers. In order to attract and retain existing customers and increase loyalty, many banks have introduced innovative product and services ( Alam and Khokhar, 2006). Service quality influences the customer's intentions to buy a specific brand provided by a bank. Evidence suggests that service quality influences consumer behavior and intention (Veloutsou et al.,2004; Ruyter et al., 1998). According to Gremler and Brown, ( 1996) It is interpersonal bonds which is defined as the degree to which customers perceive having a personal, sociable relationship with service provider employees / organization, including customer friendship, feelings of familiarity, trust and comfort. According to Ostrom Lacobucci (1999), willingness to rely on an exchange partner in whom one has confidence. Morgan and Hunt (1994) have added reliability and integrity are also important elements for trust on partner. According to social psychology trust is considered to consist of two elements: trust in the partner's honesty and trust in the partner's benevolence (Wetzels et al., 1998). According to Bilal et al. 2010 and Morgan and Hunt,1994. Commitment is

defined as a desire to maintain a relationship. Dwyer et al.(1987) and Pritchard, Havitz and Howard ( 1999) have observed in their studies that customers resist to change the organisation.

### 3. Objectives Of The Study

The main objective of research is to prepare indices for comparing the service loyalty between private and public sector banks.

The paper is organized as follows: Section 1 deals with introduction section 2 presents review of literature section 3 methodology and database. Section 4 provides Emperics of the study, followed by the conclusion and policy implications to section 5.

### 4. Methodology

Service Loyalty Measuring Index has been developed to work out the Customer Loyalty of Banking Services.

For calculating of individual dimension of service loyalty, the following formula has been evolved and used.

$$SLI = \frac{\Sigma ( D_1/P_1 + D_2/P_2 + D_3/P_3 + \dots + D_n/P_n)}{N} * 100$$

Where

$\Sigma$  = Summation of all the values on numerator

$D_1, D_2, D_3, \dots, D_n$  refer to the total score made by all the respondents on a particular dimension of the service.

$P_1, P_2, P_3, \dots, P_n$  refer to potential score obtainable on each dimension of the service.

For making study six dimensions of the banking services i.e. Behaviourial, Attitudinal. Cognitive, Affective, Trust and Commitment have been undertaken to calculate Overall service Loyalty Index (OSLI) on the basis of review of aforesaid literature. The questionnaire of Sudhahar et al (2006) has been used to collect the opinion of the respondents who are the customers of HDFC and Syndicate Bank, Greater Noida. From each bank 100 customers were selected by convenient and incidental sampling method.

The quantification procedures of each of the dimension have been done on 5 point continuum based Likert scaling method as 5, 4,3,2,1 for all individual service for each dimension. Hence, banking service had the option for getting maximum score 5 and minimum 0.

For calculating the overall Service Loyalty Index (OSLI), the following formula has been processed.

$$OSLI = \frac{\Sigma (SLI_1 + SLI_2 + SLI_3 + \dots + SLI_n)}{Z}$$

Where

$SLI_1, SLI_2, SLI_3, \dots, SLI_n$  refer to the individual dimension of banking service.

Z refers total number of dimension.

## 5. Empirics

The demographic background of the sample customers has been presented in five parameters i.e. age, education, gender, profession and income. The following table describes the profile of the customers and the type of the banks they have selected for patronizing and making transactions. The table depicts that majority of the customers (59.5%) are young and out of them 52.10% customers make transaction with the public sector bank i.e. Syndicate Bank while rest of them with private bank i.e. HDFC. Important fact is to note that senior citizens also prefer private bank in comparison to public sector bank. Majority of the customers are highly qualified. Only 12.5 percent are up to higher secondary. It has been also observed that majority of the less educated persons (84%) have trust on public sector banks rather than private bank. It is evident from table that graduate and postgraduate scholars have more inclination towards private bank. The availability of good net work of public bank has attracted good number of customers with wide ranges of products for lower income group. It is well known that private bank believes in mass banking vs. class banking. It can be noted that majority of the customers are student who are pursuing professional courses either engineering or management. Greater Noida is educational hub of N.C.R. and is known as Knowledge Park. The retired person / house wife and students have shown more preference for private bank to other segments like salaried and self - employed/business persons. It is also remarkable to note that the majority of the business people (62.50%) are making transaction with public sector bank. Amongst sampled customers 39.5 percent are women and out of them 53.16 percent women customers have shown their interest in making transaction with private bank while with male majority of them prefer to transact with public sector bank. In nutshell, it can be concluded that majority of the customers have more faith in private sector bank because they provide special treatment to their customers. Private sector bank works on the principle of class banking approach than mass banking.

**Table 1: Customers' Profile Bank wise**

Parameters		Private Bank		Public Bank		Total	
		HDFC		Syndicate Bank			
		No	%age	No	%age	No	%age
Age	Below 30 years	57	47.90	62	52.10	119	100.00
	30-40 Years	22	44.90	27	55.10	49	100.00
	40-60 Years	11	52.39	10	47.61	21	100.00
	60years and above	10	90.91	01	0.09	11	100.00
Education	Upto HSC	04	16.00	21	84.00	25	100.00
	Graduate	46	52.28	42	47.72	88	100.00
	Post Graduate	30	65.22	16	34.78	46	100.00
	Professional	20	48.78	21	51.22	41	100.00
Gender	Female	42	53.16	37	46.84	79	100.00
	Male	58	47.93	63	52.07	121	100.00
Profession	Service	25	45.45	30	54.55	55	100.00
	Self employed/business	06	37.50	10	62.50	16	100.00
	Student	46	53.49	40	46.51	86	100.00
	Retired/ House wife	23	53.49	20	46.51	43	100.00

<b>Income</b>	<b>Less than Rs. 1 Lakh</b>	56	<b>48.70</b>	59	<b>51.30</b>	115	<b>100.00</b>
		21	<b>46.67</b>	24	<b>53.33</b>	45	<b>100.00</b>
	<b>Rs. 1-3 Lakh</b>	12	<b>46.15</b>	14	<b>53.85</b>	26	<b>100.00</b>
	<b>Rs. 3-6 lakh</b>	11	<b>78.57</b>	03	<b>21.43</b>	14	<b>100.00</b>
	<b>Rs. 6 Lakh and above</b>						
<b>All Samples</b>		100		100		200	

### Individual Service Loyalty Index

Banking is such a profession where working was very traditional and stable for a long period of time but it is facing aggressive competition in new deregulated environment where banking horizon has been opened for not only private players but alien players also along with public. The cut throat competition has forced these players to evolve new products and services along with strategies to retain and recruit new customers for their banks. On the basis of the review of literature, the following six dimensions have been considered for comparing the customers' approach for selecting private and public sector bank and patronizing them. The Dimensions are

- a) Behavioural dimension
- b) Attitudinal dimension
- c) Cognitive dimension
- d) Affective dimension
- e) Commitment dimension
- f) Trust dimension

**Table2. Individual Service Loyalty Index**

<b>Sl. No.</b>	<b>Dimensions</b>	<b>Private Bank (HDFC Bank)</b>	<b>Public Bank (Syndicate Bank)</b>
1	<b>Behavioural (SLI<sub>1</sub>)</b>	<b>76.25</b>	<b>63.75</b>
	a) I will transact with this bank again for future needs	0.72	0.62
		0.75	0.61
	b) I will try new services that are provided by this bank	0.74	0.72
		0.84	0.60
	c) I will recommend other people to patronize this bank		
	d) I will say positive things to other people about the services provided at this bank		
2	<b>Attitudinal (SLI<sub>2</sub>)</b>	<b>75.33</b>	<b>80.33</b>
	a) I will continue to patronize this bank	0.72	0.83

	b) I have strong preference to this bank	0.78	0.80
	c) I am likely to pay a little bit more for using the services of this bank	0.76	0.78
3	<b>Cognitive (SLI<sub>3</sub>)</b>	<b>77.00</b>	<b>85.00</b>
	a) I have found this bank better than others	0.74	0.80
	b) Repeatedly, the performance of this bank is superior to that of competitor's one	0.80	0.90
4	<b>Affective (SLI<sub>4</sub>)</b>	<b>38.33</b>	<b>42.33</b>
	a) I dislike the bank terms	0.25	0.25
	b) I like the performance and services of the bank	0.85	0.92
	c) I have negative attitude towards this bank	0.05	0.10
5	<b>Commitment (SLI<sub>5</sub>)</b>	<b>78.00</b>	<b>83.00</b>
	a) I am very committed to this bank	0.78	0.79
	b) Even when I hear negative information about this bank, I still stick with this bank	0.80	0.90
	c) My committed association with this bank is important to me.	0.76	0.80
6	<b>Trust (SLI<sub>6</sub>)</b>	<b>86.33</b>	<b>59.33</b>
	a) This bank is like a friend to me	0.79	0.72
	b) This bank employees go out of way for me	0.82	0.45
	c) The bank personnel are filled with professionalism and dedication	0.98	0.61

From the above table the following inferences can be derived-

- Private Banks i.e. Axis Bank is performing better than public sector bank i.e. Syndicate Bank behavior wise.
- Attitude wise public sector banks are holding good command over private bank i.e. Axis Bank. Reason is very obvious. Customers have strong feeling regarding security and guarantee of their money. They feel that government is taking care of their money.
- So far as concerned with cognitive aspect, customers have strong base for public sector bank. The reason can be attributed that customers believe that the public sector banks are governed by the government as well as Reserve Bank of India. The publicity of the private banks do not get much more publicity in the public.
- The customers have shown their commitment to maintain their relationship with the public sector bank. Reason can be explained that the private banks are newer in comparisons to the public sector bank.
- Trust means willingness to rely on an ability of partner in whom one has confidence. The majority of the customers have favoured the private bank because they treat their customers in benevolence manner, offer their services in out of way and their staffs are more professionally skilled and dedicated to the customers.

## Overall Service Loyalty Index

For computing the Overall Service Loyalty Index (OSLI) for public sector and private sector banks the following formula has been used-

$$OSLI = \frac{\sum (SLI_1 + SLI_2 + SLI_3 + \dots + SLI_n)}{Z}$$

OSLI (Pvt. Bank) = 71.87

OSLI (Pub. Bank) = 68.96

## 6. Conclusion and Policy Implication

The Overall Service Loyalty Index (OSLI) has been observed higher (71.87 %) for private bank i.e. HDFC Bank in comparison to public sector bank i.e. Syndicate Bank (68.96 %). The important fact is to note that public sector banks are performing better than private bank. It is evident from the table 2 that the indices for Attitudinal (SLI<sub>2</sub>), Cognitive (SLI<sub>3</sub>), Affective (SLI<sub>4</sub>) and Commitment (SLI<sub>5</sub>) dimension have been found better than private sector bank. Private sector bank has proved its worthiness to compete public sector bank with its behavioural and trust dimensions. It is the strength of the private bank and threat for the public sector bank. With the time public sector bank has to change the behavioural aspect as well as make effort to win the heart of the customers not only by providing innovative products but also services. The offered quality services may boost profitability and lower the cost of the banking. Customers' loyalty is possible only when they are well satisfied by the offered services and the perceived quality of banking services force them to make repeat transaction in future. ■

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## **International Journal of Business & Management Tomorrow**



### **India's New Tourism Potentiality: Management & Technical Education for the Developing World (A Developmental Perspective Study)**

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## Abstract

The concept of “Global Village” doesn’t look like a clarion call of the time, rather turning as the reality of the global economy. Export and import are no more the closed economy control. International trade has replaced the traditional industry and has improved the national per-capita income. Tourism has emerged as one of the major foreign exchange earner for India; still India has to go miles away to catch-up with the neighbor China. Measuring the difference it seems somewhat impossible but two major avenues can provide the pace, one is religion tourism of “Buddhism” and the second is the simple- “Education Tourism”. In the last one decade India has reached to cater the needs of the country in education. It’s the right time to look forward for the education tourism for the foreign students. Education hub cities have the potentiality to cater such a global need with some improvements through efficient management. Imparting teaching and training of business management and technical education has to go in the similar drive of the business firms in formulating strategy, implementing plans of action, defining the future role, preparedness for the future troubles and crisis as the industry in reality practices. Crisis management has to be beyond the books in the management institutions. Dynamism and the trend to change and the continuity of it is the vital in the decision process of the management education in India. Management and technical education is at the early bird stage in India, it has miles to go, and compete with the world in class and need to contribute a system like other Asian nations “Japan” in particular. Strategy, planning, dynamism, action and pragmatic approach as the benchmarks are required to be incorporated in the management & technical education of India to stand apart and to stand exclusive in the global scenario. Recession is like an unwarned storm, economic storms are obvious, every industry needs to stay prepared with disaster management strategy so is the education industry too. Management & technical education which is the steering captain of the economic sea has least expertise in managing the disaster of the recession. Many such activities are examined in this article for the purpose to understand the changing scenario of management & technical education in the context of the augmentation of the education tourism as one of the major revenue generating model for the nation.

Industry oriented and society oriented approaches of management & technical education in building the nation is as vital as the imparting of the quality education to the young professionals. Influx of expertise is required from all the walks of life and profession along with the non bureaucratic interference in the content development. Formalities of the government norms needs to be well measured and validation of the training programmes and certifications to be recognized through a proper technical evaluation board. Education export to be priority as the developed world has set models. Barriers of the regulating agencies in content development to be relaxed and flexible, practical orientations to be prioritized in management & technical education for achieving the GATS modes as approved. Quality only sales, B’ Schools & technical institutes should deliver the same to survive and win in the era of international competitions. With the passing of the two decades of liberalization in the economic system, India needs to develop dynamic education tourism to cater the developing as well as the developed world. Knowledge resources and the intellectual capital of the country are sufficient enough to bring greater growths in the education tourism. India’s intellectual capital needs to be back to the motherland for the purpose of the proliferation of the quality education system of India.

**Key Words:** *GATS, WTO, Education Export, Intellectual Capital, Industry Boom*

## 1. Management & Technical Education in India

The drive of India from closed economy to open economy was not a shift rather a compulsion in 1991. Majority of the pressure was from the changing economy in the neighborhoods China which was simply twelve years ahead of the India in liberalizing the economy in the year 1978. Asian tigers were also a threat to this closed economy. Super 303 and other trade embargos were by the US and allies disturbing the national industries, high import duties, monopolistic market trends were destabilizing the consumers.

The country realized the significance of the open market as benefit for the consumers and the industry to think as global player in the future. MNC’s ventured with swift pace & strategy to this second biggest market of the world, with offerings of the global quality and competitive prices. Fierce competition in the market place

forced many leading Indian companies to wind up their business. From 1990 to 1995 India experienced the scarcity of the technical and managerial manpower. Realising the trend government turned liberal in opening up of the technical and management institutes under the surveillance of the statutory bodies. The trend continued and today India has more than 1700 Business Schools with legal validations by AICTE (All India Council for Technical Education). Similarly technical education has also mushroomed through institutions across this country. In this process government curtailed the education budget and also successfully made this department a profitable one. (*Annual Report, 2010*) From the point of the international education business of USA, UK, Canada, Australia etc., India needs to double its number of its institutions qualitatively.

Indian Business Schools in the process of inception adopted the American model of education to cater the global companies without the proper research in this field. New B' Schools which came up with the objectives of profitable business added indigenous blend to the management education by adopting couple of Japanese management papers to the curriculum without understanding the relevance of it. Undoubtedly the world is crazy with the Japanese Production management techniques and style. The mad race of management education institution building continues as its customers are more willing for a technical degree rather than any general post graduate qualification. (*Sergiovanni, 2008*) This decade 2000 - 2009 is facing the new challenges of specialized management education and the skills training as the bench mark of any institution. Super specialized management and technical education are need of the time to match to the international standards vis a vis to attract international students community.

## **2. Education Industry Boom in the Decade**

Realising the need for the growth of the society in India, the career plan of the students with future objectives and as a whole the trend in the country – management education has a big role to play in the nation building. Job oriented education or the profession oriented education is the key theme of the career planning of the youngsters. M.B.A. or PGDM with specialization in any of the available streams makes an easy entry path for the job in the corporate sector. Knowing it very well that the jack of all trades and master of none, the management education – ensures a good job for the sincere students in the business world.

Privatization of the Universities and providing of the Deemed university status to institutions fulfilling the norms have added many new universities to this country. This process has encouraged many such organizations to provide an uplifted standard of education away from the traditional patterns as their unique selling proposition of the organization. At the same time government assisted institutions have also gone up for expansion drive and market matching fee structures resulting in the expensive proposition of the higher education to the masses of the country as well as denying the higher education to the meritorious students of the society. At the same time protagonists of the private education drive do have the logic of stating that high fee structures are the result of a non economical student enrollment permission provided by the government. It's not simple to argue that privatisation of the education is the right thing for the country like India. Every year more than ten universities are added to this country's profile of education. Unfortunately, none of the Indian universities are within the top 250 universities of the world in the Times ranking. Specific efforts are required from the premier universities especially the state government and central government universities to bring out at least twenty such institutions in the list of the top hundred institutes of the world. That can in return justify the augmentation of the education tourism.

Higher education control bodies' role has been minimized and some of them are justifying the stand as the profit making government organizations. Profit is a good word for the industry but, how good is it for the education. Defined control mechanisms do have much illogical standing as norms to control the higher education in this country. Medical education is one the sufferers of this norms. Technical educations such as non degree education are the gainers of these norms. Management education being a post graduate programme is based on a fallacious scale of economy of the operation. Initial operation costs of the institution are non economical but on graduating to the higher enrollment of the students operation economy becomes smooth. (*Andersen, 2003*) Even some of the universities using the commercial loopholes are able to produce more than 12000 MBA graduates per year and have minimized the value of the management education. Those having an

edge over the others being premier in this segment have justified their stand with multiplied fee structure. In the last couple of years top B' Schools fees have gone through the roof and is mind blowing, which have redefined their clientele. More institutional autonomy and support mechanism of other government agencies are required for the education tourism improvements.

### **3. Cross Border Higher Education**

Many things have happened since 1980s which created interest in using cross border higher education (CBHE) to augment the national capacity for contemporary economic activities with well trained and skilled workforce globally. They include rapid growth of knowledge in all disciplines, globalization in the economy, impact of science and technology in shrinking space and time domains, revolution in telecommunication and information technology culminating in internet and the advent of the knowledge driven economy, mostly through service sector superseding the agrarian and industrial ones. Appreciating its potential use in developing countries, UNESCO, World Bank and World Trade Organisation have been promoting CBHE, evolving appropriate safeguards to protect the interests of the recipient countries. Based on its estimation of global trade of \$ 2 trillion, the WTO included 'education' as a tradable service under GATS regime. This had attracted many unorthodox providers with a concomitant worldwide concern over the very idea of commoditization of educational services. (*Gnanam, 2007*) Negotiated 'trade' arrangements, of course, are one of the age-old collaborative measures used for the benefit of participant countries.

### **4. Modes of International Education Trade – WTO & GATS**

International exchanges in education have long been promoted on cultural, political, social and economic grounds. The WTO's inclusion of education as one of the tradable services along with 22 others such as law, transport, tourism, health care, consultancy and construction has brought the commercial connotation as trade in services. (*Gnanam, 2007*) In line with the practice of classifying other tradable 'services', GATS listed four modes of educational services for negotiated agreements. Mode 1: covers distance education, online learning, video-conferencing, virtual education, education software and corporate training through ICT delivery, Mode 2: covers international student mobility to other countries, Mode 3: covers commercial presence of provider investing, establishing or using facilities in another country, and Mode 4: covers person traveling to another country on a temporary basis to provide the services of a teacher, a scientist or a professional. The GATS' inclusion of education as one of the tradable services has triggered the interest of some developed countries such as the US, Canada, U.K., Australia, New Zealand as yet another profitable avenue for them to initiate efforts to get into the market. (*Husted, 2010*) As of now, these countries have become providers of CBHE, as they have always been, while other member countries of WTO including India are at the receiving end.

### **5. India in Education Tourism**

Higher education system of India is the third largest network in the world, after those of China and the U.S. with about 350 universities and 17, 000 colleges and half a million academics catering 10 million students. In spite of these impressive numbers, it provides access to just 7 percent of the eligible age group (17 to 23 years of age); as compared to 50-70 percent in high income group countries, and the world average of 30 percent. This puts a premium on quantitative expansion. Much remains to be done to improve educational quality. Thus both quantity and quality of higher education has become the main concern. Quantity is not a function of content alone; it is determined by curricular transactions, attitude, infrastructure and ambience.

Over centralized regulation and control has been the bane of Indian higher education. The ownership of higher education is still not clear with all the interventions of the Central and State governments and their plethora of regulatory agencies. The institutional autonomy enshrined in the Acts and statutes has been lost and there is no concern for accountability. No one makes enduring decisions even in matters like liberalization and internationalization of education. The bulk of the 17,000 and odd institutions of higher learning are in the public domain and resist any change in the status quo. (*Gnanam, 2007*)

**Degree & Diploma Level Professional Institutions of India (As on 2009)**

S. No	Programmes	Degree NOI	Intake	Diploma NOI	Intake
1	Engineering & Technology	2872	1071896	1659	471006
2	Architecture	106	4133	....	....
3	M.C.A.	1169	78293	....	....
4	Pharmacy	1080	68537	575	32181
5	Applied Arts & Crafts	12	935	4	480
6	MBA	1565	135893	....	....
7	PGDM	375	43668	....	....
8	Hotel Management	93	6387	86	4490
	<b>TOTAL</b>	<b>7272</b>	<b>1409742</b>	<b>2324</b>	<b>508157</b>
	INSTITUTIONS				<b>9596</b>
	INTAKE				<b>1917899</b>

- NOI : Number of Institutions

Source : Ministry of Education, Government of India, 2010

## 6. Need of the Paradigm Shift in the Management Education & Training

World economy has taken a new turn with its shift. Driving forces of the market is shifting from the hands of the developed world. Developing world is adding with higher rates to the world economy. Financial Crisis, Economy Slow down, Recession etc. are going to be more frequent in the world market. Happenings of such situations are more frequent in the last two decades. Preparedness of the society and the industry in particular is required with defined strategy. Last year's situation of this financial crisis is a lesson for the US and European society to learn a great deal from the post colonial effects.

Majority of the B' Schools of India were following the American pattern of teaching to prepare the business graduates for the corporate houses as professionals. Industry too has the fashion of following the western management styles. Such syndromes of the industry turned fatal with this financial crisis and the recession. Presumably, scholars of the technical education patterns do argue for such events to happen again and again in the near future. Can India afford such a borrowing style and techniques of the western world to fit to its system? Many may disagree to the concept of Indianisation of the technical education. Same can be learned from the Japanese who championed from the Asian region in managing the sound economy of the nation. Indian industry in return needs to participate in the education industry actively for which government needs to grant the industry status to the educational institutions. Active participation of the Indian industry in promoting institutions and universities at the same time widening of the employment of the graduates are required by creating more job opportunities.

Management education in its history is very new in this country. Professionalism has not been poured to in full swing. Copying the masters of this trade is our motto. Changes which are required in this system are not yet fully realized. B' Schools are trying to cater to the needs of the industry to place its graduates at different positions in the industry. Missing links in the education pattern is least care for the entrepreneurial education in the B' Schools. We are teaching management and forgetting training for the future utility. Basic skills trainings are missing in the top B' Schools MBA programmes in India. To list few training programmes like Medical First Aid, Basic Fire Fighting is not incorporated in to the management curriculum. Skills trainings are missing

to a great extent in the curriculums. Regional trade and industry learning methods are missing in the management teaching. Nothing is called as “Indian Management system” to learn in the B’ Schools of India, but we have enough literature to learn about Japanese Management System and our teachers are sincere in imparting Japanese system to the students as high funda and powerful punch lines of learning skills. Practical orientation of managing small business, mixed farming business, livestock management, agribusiness, co-operative operation management, applied rural marketing, managing small business within limited resources, managing small service outlets like such many streams are missing in our B’ School curriculums. Graduates produced from the management institutions are fit for the jobs at large rather than to be entrepreneurs.

When the job market collapses with the recession in the market unemployment of the management graduates are very high. Neither the graduate nor the management institutes are prepared to cope with the situations. Number of enterprisers produced from the management institutes are at the lowest in India in comparison to the western world. Recession does severely affects the B’ Schools & technical education economy in India. Students intakes depend on the placement track of the institute. Quality institutes are able to sale their graduates at the same time average institutes struggle hard to achieve some campus placement success. Hiring organizations look for a defined standard in the graduates and expertise of the candidate in different industry skills. Miss matching to their need is an expensive matter for the industry. Management education should have the curriculum of imparting specialized learning of managing organizations in the crisis. Improvised curriculum, international training orientation, recent global skills training for the students along with the teachers training curriculum are the need of the time to fine tune the Indian management and technical academicians to deliver to the expectations of the international students. Such initiatives are missing with the leading universities of India, who are competent to deliver the same.

## **7. More Specialized learning**

As this is always accepted that management education is more dynamic as a stream, changes are obvious in its curriculum. Specialised learning like profession specific skills and training are call of the day. Retail management, Agribusiness, Cooperative business management, Small business management, Live stock business management, Commodity trade and business management, Supply chain and logistics management, Port and infrastructure management, etc, needs due clearances from the education control bodies to be the fulltime programmes with appropriate legal validation. Many such specialized learning like media management, events management, campaign and promotions management, Social services management, nonprofit organizations management, public affairs management, environment and forest management do have some presence in this country but insufficient to the need as the country and the world .

## **8. Mid Size Management Programmes**

Some of the B’ Schools are offering one year specialized programmes of specialized companies as a strategic tie up with the hiring organizations. Such programmes are Insurance and banking services management, events managements etc. which are of more sales skills programmes and where the manpower turnover is very high. In fact such programmes have no statutory validity and recognition. These programmes do needs attention of the authority for legal validation and recognition. Many such new programmes needs to be introduced based on the corporate needs and the society requirements. (*Razik, 2010*) Many additional management programmes are required for the professionals for the skills enhancement of the qualified MBAs which should be incorporated in the management institutes as additional training modules.

## **9. Certificate Programmes**

Significance of certificate programmes are very well realized in the last couple of years in Indian management education. Durations of such programmes are one week to six or eight weeks. Certification programmes with the MBA degrees are treated extra and advantage in seeking a corporate recruitment. Numbers of skills trainings are meant only for couple of weeks. To name few as prime requirements of the management graduates are Six Sigma, JIT in Services, Stress Management, Effective Communication, Team Work Skills, Leadership Skills, Crisis Management, Kaizen, Disaster Management, Negotiation Skills, TPM,

TQM, Medical First Aid, Industrial Fire Fighting, Disaster Rescue Operation, etc. Some of the B' Schools have already adapted to their curriculum such time need programmes. Similarly corporate houses do train their executives, which they can avail based on the institutes corporate interface and the PR. B' Schools do need to augment their expertise in the skills training and to bank on the certificate programmes as a quick revenue generating scheme. Certification programmes recognition should come from the statutory education bodies to encourage the participation. (Rath, 2007) Certificate programmes in management and technical education can be of more attraction for the international student community as additional feathers to their core degree of bachelor or master programme.

## 10. In the Trouble Times

Recession and economic slowdown has many things to offer to the organizations to experience and learn. Core industries, Service sector, Life style products, and the industry in total experienced the power of the trouble and market buying behaviour in this recession. Management institutes being associated with the industry and a part of the education industry should move more cautiously in a calculated way. Post recession situation is going to prove that only quality survives in the management education and many B' Schools are going to be "sick for sale" like the industry experienced in the previous recession situation. Quality education doesn't come from the quality infrastructure (Building), it comes from the quality manpower and dynamic teachers. Quality manpower hiring cannot be sufficed by the pay scales provided by the AICTE or UGC. Remuneration packages for the technical and management academicians needs to be industry alike and similar to attract the competent talents to the academic profession. Which in return can create the international standard education system in India to bring education tourism successful. Management education very well needs industry professionals infusion in the teaching methodology and fraternity. Industry interface shouldn't be a fashionable event in the B' Schools rather a real interaction between the students and the professionals. (Arya, 2007) Industry standard pay packages will attract more industry professionals to pick up the teaching assignments. Some B' Schools have already adopted the patterns, rest needs follow this. Students intake also requires proper filtering because a common statement stands valid "Garbage in is garbage out". Many B' Schools are at the premier positions because of their students intake not the faculty they have. Taking the advantage of the same many of them have hiked the course fee so high that meritorious students will think ten time before for these. Post recession phase is going to be a tough time for them. Mediocre B' Schools have strategies to gain advantages out of these situations. Current recession has a short life span to continue, but the next will not have the similar duration. Recession kills the industry as well as the management institutes. Survival strategies are very much important to meet the situation. Management education teaches the business strategy but has fewer strategies for the self.

## 11. Need and Continuity – "Change"

To survive change is a must. Either you change or you perish. Management & technical institutes should opt for dynamism in the management and its strengths, the faculty should go for knowledge enhancement and industry oriented trainings to adopt innovative teaching and training methods and modules. Barriers of the entry of the professionals should be minimized and statutory authority should redefine the norms qualitatively and liberally. Research works of the institutes needs overhauling. Quality should take place instead of tagging of the higher degrees. Proper mechanism of research work should come in to force in the varsities. Research & remarkable contributions are required as the hallmark to justify the institutional excellence to attract international students and the quality faculty.

Management education has no option, change as per the need of the time stands as a must. Strategy to meet the future challenges can only come from the think tank of the faculty for which ownership feeling has to be injected by strong retention policies of the management. Job security, right environment only motivates the good faculty to continue for long. Good faculty and some star performing faculty do attract the students to opt for the institute.

The course fees of the business education are going through the roof. To avail the best intake affordable course fees to be offered by the institutes. To offer competitive fee structure seat limitations by the AICTE to be

relaxed, and more qualitative monitoring methods to be implemented rather than the structural mechanism. To avail the justified and proper mechanism the B, Schools and technical institutes should stand on a proper platform with constructive think tank ideas and techniques. Monitoring mechanism of the B' Schools should be sizably free from the red-tapism and irrelevant formalities as prescribed by the statutory authorities. (Rath, 2007) Indian institutions have realized the need of international students for the proper functioning of the institutes with sizable profitability to accommodate infrastructure and research facilities for their brand enhancements.

## 12. Needs and Strategies for the Education Tourism

India has been emerging as an active player in many commercial services including education. Historically, its imports of commercial services had exceeded its exports. Since 2005 exports of commercial services were more than imports. All the service sectors for which pluri-lateral requests have been made to the WTO are dependent on the quality of education and skills. This will mean a focus on qualification and licensing requirements which now acts as a barrier to exports of professional services. There are many cases of Indian professionals stranded abroad with their qualifications not recognized in many countries. India has not been major exporter of education services so far but it has great potential, with English used as a medium of instruction and a large pool of academic, scientific and technical manpower, a worldwide diasporas as a potential captive market and of course, a relatively low cost. Many Indian institutions, mostly the private unaided ones, besides attracting students from abroad, have a commercial presence in many countries such as U.A.E., Oman, Malaysia, Nepal, Mauritius and Fiji islands largely on their own initiatives. Substantive expansion of bi- or multi lateral trade/ collaboration, to increase people-to-people contacts with liberalized educational policy stands at the top priority. Agreeing to the normative conditions envisaged in the "General Agreement on Trade in Services" GATS will pave the way for a sustainable international collaboration. India stands to gain by this collaborative arrangement. Till 2009, only 131 out of 17,000 and odd institutions in India have some collaboration arrangements with their overseas counterparts as compared to 1,400 in China. Majority of them provide professional and vocational courses through twining arrangements, franchising and programme level collaborations that include joint course design and credit transfers. (Gnanam, 2007) At macro level, the gain from such international collaborations would be in matters like making the society knowledge oriented, in generating high standards of quality education , in ensuring equity without compromise on the standards, in establishing state-of-the-art facilities for occupational for professional and vocational training and research within the overall national policy frame work. (Kotler, 1995) As it has been observed recession is a continuous cycle in the world economy disrupting 20-25 percent of the time business of the industry, similarly of the management education system of India. Provided with macro policy level support with no quality compromise can only allow the management and technical education industry profitable and sustainable at the trouble times. Education tourism as one of the major foreign currency revenue earning system needs to compete closely with USA, UK, Australia, Canada, etc., countries in quality delivery, technical expertise, dynamism in curriculum development, which are possible by attracting the talented intellectual capital of India to come back to the homeland with similar attractive assignments. Like other tourism potentiality, as projected by experts, education tourism should be prioritized with the cooperation of the ministry of human resource development and the ministry of external affairs. No matter India is going to be one of the emerging education tourism countries of the world by 2025 as the experts view. ■

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