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Website: www.jimsd.org

Available Online at www.indianjournals.com

Online ISSN No: 0973-9343

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**Editor's Desk**

The minds of our country people are abuzz with the forthcoming Lok Sabha elections to be held in 2014 with the expectations of development and better standard of living from the new Government coming in power. A better economy not only depends on the policies and reforms of the government but also on the influence of international markets and socio-political changes in the country. The year 2013 was an eventful year for the Indian economy. The Indian Rupee's fall against the Dollar touched an all time low of Rs.68.85 on August 28, 2013. Besides, the retail and wholesale inflation had dropped mid-year but broke the opening mark to finish higher in December, 2013. The Government also received a lot of flaks from the general public for its inability to control inflation and other economic problems. The new Government's role will be a challenging one to track the demons of corruption, inflation and bring stringent laws to counter those trying to derail the system and keep a vigil on unscrupulous elements. At the time of elections we must question ourselves and our fellow citizens whether the party or the candidate we are voting for is really concerned about the economy for using public funds efficiently, the ability to control the fiscal deficit, the evils of hoarding and black money and the party's take on FII's. We must seriously start thinking and acting for the good growth of our economy and support a government which is free from its political or religious credentials. The new Government should be willing to debate, plan and execute strict measures to stop the practices and elements which try to sabotage our economy. The growth of the economy should be based by putting more emphasis on exports, boosting the manufacturing sector, bringing self sufficiency in food, carrying on economic reforms and thus leading to overall economy growth.

A study by ASSOCHAM, has found that the forthcoming Lok Sabha elections and its results are causing concern among investors & industry leaders. The likelihood of an unstable Government, which may follow populist measures leading to increase in Government expenditure is a major worry. Coalition of parties may not be able to maintain a tight control over Government finances, and strong measures which are required for a turn around. Added to these problems is that of the zeal to clean up the system which could lead to the policy paralysis, while the new Government should carry on with reforms required for a robust growth of our economy.

**(Ravi K. Dhar)**

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# ENTREPRENEURS' BIOGRAPHIC CHARACTERISTICS AND SMALL ENTERPRISE GROWTH IN BANGLADESH: AN EMPIRICAL ANALYSIS

Serazul Islam★

*The growth of any business enterprise depends on different factors including its entrepreneur's biographic characteristics. The present paper aims at exploring these characteristics and analyzing their effects on the growth of small enterprises in Bangladesh. The entrepreneurs (400) were selected randomly for the study using multi-stage sampling technique constitute and have been interviewed personally. Findings of the study reveal that relatively higher educated and married male entrepreneurs, having business experience of less than ten years, were significant group to enter the business. The majority of the sample entrepreneurs hailed from non-business family and had started their business at young and middle age. Results also claim that entrepreneurs' biographic characteristics except family background and marital status play a significant role in the growth of small enterprises' equity capital, production, employment, sales, and profit.*

The word 'entrepreneur' is derived from the French word 'Entreprendre' which means 'to undertake' or 'enterpriser' (Kent et al., 1982). At that time, this word was applied to those who were engaged in military services. In the 16th century, the modern use of the word 'entrepreneur' and 'entrepreneurship' began. In 1755, French economist Cantillon defined entrepreneur as a person involved in purchasing goods at certain prices and selling it at uncertain prices (Cantillon, 1755). This statement expresses basic characteristics of an entrepreneur like risk taking, desire for making profits, taking initiative which may be expressed as innovation of new venture or initiative. According to him, the farmers, craftsmen, wholesalers, retailers, and the like are entrepreneurs. Schumpeter defined entrepreneur as an innovator who introduces something new into the economic development, methods of production not yet tested by experience in the branch of manufacture, a product with which consumers are not familiar, a new source of raw materials or new markets hitherto unexplored and other similar innovations (Schumpeter, 1959). McClelland, a psychologist, defined entrepreneur as a person who is psychologically motivated by a high need for achievement. Such need encourages him to take risky ventures and makes him hard working to achieve the goal (McClelland, 1961: 44).

In ordinary sense, an entrepreneur is a person who initiates the creation of commercial or industrial enterprise on profit or loss basis. S/he mainly aims at earning profit by getting involved in business activities, maintaining his or her livelihood from the earnings and making the organization

more profitable and prosperous. But scholars have explained entrepreneur much more above this general definition. In a developing or underdeveloped countries, the entrepreneurs are mostly imitators or adapters of ideas developed elsewhere than pure innovators.

## I. Review of Literature

The entrepreneurs, selected for the study, fall in the definitions given by Cantillon, Schumpeter and others as they started new enterprises or restarted the existing enterprises in different ways and are still running the same assuming risk of loss (for keen competition, high operating expenses, etc.). In the present study, the term 'entrepreneur' broadly refers to a person who initiates, organizes, manages, and controls the affairs of a business unit that combines the factors of production to supply goods and services whether the business pertains to industry, trade or services. In the sample units under study, majority of the entrepreneurs were founder-entrepreneurs and were still found to be managing their units, barring a few, in which there was a change of ownership either by inheritance or by acquisition. Therefore, the person holding a unit by acquiring or inheriting it, was considered here as an entrepreneur as s/he bore risk of loss. The definition of small enterprise varied over time and now in Bangladesh, there is no unique definition of small enterprise. Meanwhile, the government in mid 2008 changed the definitions of

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SMEs to cope with the present situation. The definition was changed as per the suggestion of Bangladesh Better Business Forum, formed by the 2007-2008 interim government amid a drastic erosion of business confidence. On 26 May 2008, the Agricultural Credit and Special Programs Department (ACSPD) of Bangladesh Bank in a circular (No.8) defined small enterprise as shown in Table 1. Later on, the SME division of Ministry of Industry, the Government of the Peoples' Republic of Bangladesh with discussion with Bangladesh Bank, Statistical Bureau, Board of Investment, and other agencies, corroborating the definition of SMEs given by Bangladesh Bank, issued a circular on 12 June 2008. All banks and financial institutions are asked to follow this definition. In the present study, the researcher also followed the same.

The small enterprises selected for the present study were of three types, viz. trading (e.g. grocery, cloth store, medicine store, etc.), manufacturing (knitting factory, sewing factory, furniture making factory, bakeries, saw mills, rice mills, ice cream factory, silk factory, brick field, food processing, poultry firms, etc.), and service (engineering workshop, tailoring house, diagnostic center, etc.).

Biographical characteristics of an entrepreneur that affect on the success or failure of entrepreneurial process consisting of: age, gender, marital status, social status, studies, experience and race (Wagner & Sternberg, 2004). In the present study, entrepreneurs' biographic characteristics were analyzed in terms of their age, gender, family background, educational qualification, marital status, number of children, occupational background, and previous business experience. To assess the growth and development of small enterprises in Philippines, Tecson et al. (1990) used some quantitative measures as growth in sales, employment, capital productivity, and profitability of the enterprises. Sarder (2000) adopted growth in sales, growth in job, sales per job, and value added per job as measures in assessing the growth performance of small enterprises. In the present study, the quantitative criteria used in measuring the small enterprise growth were: (i) growth in equity capital employed; (ii) growth in production; (iii) growth in size of employment; (iv) growth in sales turnover; and (v) growth in profit.

### **Objectives**

The present study covered the following specific objectives:

- (i) To explore biographic characteristics of the selected entrepreneurs; and
- (ii) To assess the impact of entrepreneurs' biographic characteristics on small enterprise growth.

### **Research Hypotheses**

Based on the literature and objectives of the study, the following two research hypotheses were formulated and tested:

H1: Entrepreneurs' biographic characteristics (age, sex, family background, education, marital status, and previous experience) have a significant positive impact on small enterprise growth.

H2: Entrepreneurs' biographic characteristics (age, number of children, and previous experience) are positively correlated with small enterprise growth.

## **II. Research Design & Methods**

In Bangladesh, there is no systematic, up-to-date, and reliable statistics on the number and categories of small enterprises. Consequently the present study was carried out on 400 small enterprises selected from 6 districts of two divisions-Dhaka and Rajshahi by adopting multi-stage random sampling technique. The small enterprises engaged either in trading, manufacturing or service rendering activities were studied mainly with a view to evaluating the impact of their entrepreneurs' biographic characteristics on their growth. To the end, both the independent variables (entrepreneurs' biographic characteristics) and dependent variables (small enterprise growth measures) were taken into account. To glean the required data and information, both the primary and secondary sources were used. The primary sources were the owners, partners, managing directors or their representatives, whereas the books, journals, research reports, newspapers, annual reports, websites, and other publications were the secondary sources. An interview schedule was prepared to collect primary data from the sample entrepreneurs. Prior to starting main field survey, the questions in the interview schedule and the data collection techniques were moderated with the experience of pilot study on 20 entrepreneurs, not included in the sample. The primary data were collected by conducting face-to-face and telephone interview with the sample entrepreneurs. The secondary data were amassed by desk research using different libraries and websites. The data collected for the present study were processed through computer using SPSS 11.5 version. With a view to analyzing the collected data, the statistical tools-chi-square test, matrix correlation, linear regression model, and simple percentage were applied.

## **III. Results & Discussions**

The major findings and the corresponding analyses are

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discussed below:

#### Biographic Characteristics of the Selected Entrepreneurs

##### (i) Age of the Entrepreneurs at the Time of Commencement

The age at which an entrepreneur enters into business is very important because it plays a significant role in business growth. For innovative spirit, foresight, determination to succeed, positive thinking, ability to take risks, and the like, so very necessary for an entrepreneur are intimately associated with his or her age (Kumar, 1995). But Staw (1991) found age as a less important factor for starting any business. Table 2 reveals that more than one-half of the total 400 entrepreneurs were not more than 30 years old. The studies of Rahman et al. (1979); Khan (1987); Nabi & Salahuddin (1989); Zimmer & Scarborough (1994); Kumar (1995); Anjum (1996); Mohiuddin et al. (1998); Islam & Mamun (2000); Mia (2000); Karim (2001); and Ashraf & Alam (2004) displayed the similar age group dominating entrepreneurs' start-up age profile. Only 20.2 percent of the selected entrepreneurs belonged to the old age group of 41 years and above.

The average age of the entrepreneurs was found as 32.2 years. This sort of distribution indicates that relatively young and middle-aged were significant group to enter the business. This was because at this age, they have vigor, courage, and maturity to undertake risky ventures face unfavorable situations with perseverance. Also unemployment and responsibilities towards the family were other reasons for entering self-earning activities at this age.

##### (ii) Gender of the Sample Entrepreneurs

Table 2 exhibits that out of 400 sample entrepreneurs, 362 (90.5 percent) were men and the remaining 38 were women. This finding is relatively consistent with the business environment of Bangladesh. The studies of Rahman et al. (1979); Khan (1987); Kumar (1995); Islam & Mamun (2000); Mia (2000); Carter et al. (2000); and Hashim et al. (2007) were also carried out on male dominated sample respondents. In the present study, the reasons for this obvious imbalance in the gender issue of the entrepreneurs might be conservative traditional attitude, risk adverse tendency of women, non-cooperation of family members and supporting institutions, etc.

##### (iii) Family Background of the Sample Entrepreneurs

In a patriarchal society like Bangladesh, father is the head of a family. In the present study, father's occupation implies family background. The findings of the survey in this regard showed that the highest 46.3 percent entrepreneurs came

from families engaged in trade or business. 30.1 percent of the total entrepreneurs came from families of employees in private and/or government organizations, entrepreneur, whose parental occupation was agriculture formed the lowest 23 percent. In Bangladesh, the studies of Rahman et al. (1979); Khan (1987); Islam & Mamun (2000); Rahman (2002); Kabir (2004); and Shamim (2008) found trade or business as the parental occupation of the major entrepreneurs. Mia (2000); and Ashraf & Alam (2004), however, observed farming as the dominating occupations of the entrepreneurs' fathers. Thus, it is clear from the present study that the majority of the sample entrepreneurs came from non-business families, which accounted for about 54 percent. This reflects occupational mobility from service or agriculture to business.

##### (iv) Educational Qualifications of the Sample Entrepreneurs

Formal education has always been considered as an important capital of an individual in building his occupational career (Lipset & Bandix, 1989). A certain level of education is a must for any entrepreneur. Further, education and training can contribute towards innovations, risk-taking, and acquisition of managerial and conceptual skills and in marshalling resources for non-traditional activities (Lim, 1940). With regard to the educational level of the sample entrepreneurs as shown in Table 2, the present study found majority of the sample entrepreneurs (38 percent) belonging to the educational level of graduation and above. In their studies, Rahman et al. (1979); Nabi & Salahuddin (1989); Mohiuddin et al. (1998); Islam & Mamun (2000); Mia (2000); Karim (2001); Rahman (2002); Ashraf & Alam (2004); and Shamim (2008) observed maximum entrepreneurs had at most secondary school level education. Around 29 percent entrepreneurs, in the present study, had academic qualifications up to class ten. 17 percent small entrepreneurs crossed the secondary level, followed by 16.2 percent who had an educational attainment up to higher secondary level (Table 2). Out of the sample 400 small entrepreneurs, 63 had master's degree in different disciplines. This group dominates in the manufacturing sectors. The study, thus, witnessed that the higher educated youths of Bangladesh were gradually undertaking risky ventures instead of running after the traditional job market for employment.

##### (v) Marital Status of the Sample Entrepreneurs

Marital status is an important social characteristic of an entrepreneur. The marital status of sample entrepreneurs as presented in Table 2 evidenced that overwhelming majority of the supported entrepreneurs (92.5 percent) were married while a small portion (7.5 percent) of small

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entrepreneurs was unmarried. Rahman (1999); Mia (2000); Karim (2001); and Shamim (2008) carried out their studies mostly on the married entrepreneurs. The Table also shows that more than 90 percent of the married entrepreneurs had children. Thus, it can be said that the responsibilities towards spouses and children influenced the maximum entrepreneurs under study to start and run their enterprises.

(vi) Number of Children of the Sample Entrepreneurs

The number of children of the entrepreneurs has also impact on the rapid growth of small enterprise performance. The entrepreneurs particularly the women entrepreneurs having large number of children are always busy with nursing their children. Table 2 portrays that about one half of the sample entrepreneurs had 2 children, followed by around 20 percent entrepreneurs with 3 children. The distribution also shows that more than three-fifth of the entrepreneurs had not more than two children. Mahiuddin et al. (1979); and Shamim (2008) in their studies also observed that most of the entrepreneurs had happy family with one or two children. Entrepreneurs constituting 18.2 percent of the sample entrepreneurs had only one child. 12.8 of the entrepreneurs had children ranging from 4 to 7. From the findings of the present study, it can be said that the maximum sample entrepreneurs had ample time to spend in their business.

(vii) Occupational Background of the Sample Entrepreneurs

Previous occupation is an important factor to be successful in the business. The entrepreneurs coming from the same line of business usually have ideas of risk–return characteristics of the products and their markets. Nowadays, there is increased participation of the traditionally non-trading communities in trading, manufacturing, and service rendering enterprises. In the study, the occupation of the entrepreneurs immediately before entering present business had been taken into consideration. As evident in Table 2, the maximum 116 entrepreneurs (29 percent) of the total sample 400 entrepreneurs were earlier unemployed or housewives. In his study, Shamim (2008) also found the similar occupational background of entrepreneurs. One-fourth of the selected entrepreneurs were engaged in different lines of business prior to entering into the present enterprises. While 24.3 percent entrepreneurs occupied themselves in the similar line of business, 17.5 percent were employed in different private and government organizations. Only 2.2 percent entrepreneurs with agricultural background made their entry into current business. It may be noticed that entrepreneurs with business background constituted a greater percent (51.3

percent).

(viii) Previous Business Experience of the Sample Entrepreneurs

Entrepreneurs with vast experiences in managing business are more capable of finding ways to open new business compared to employees with different career pathways (Staw, 1991). Previous experience in the respective line of business enables the entrepreneurs to acquire practical knowledge in the decision making process. Table 2 depicts that 9.5 percent entrepreneurs established their running enterprises without previous business experience. The highest percent of entrepreneurs interviewed had less than 10 years experience of homogeneous or different lines of business which accounted for 47.5 percent. The second highest percent entrepreneurs (43.0 percent), when started present business, had prior business experience of 10 years or above. The entrepreneurs under study had average business experience of 10.06 years. From the distribution of experience, it can be said that entrepreneurs with previous business experience of less than 10 years were in the best position to establish another new business unit. Noted that some of the entrepreneurs gained business experience from others' business either by working as employees or by observations and asking questions about business operations before starting their present enterprises.

Impact of Entrepreneurs' Biographic Characteristics on Small Enterprise Growth

Hypothesis Testing

H1: Entrepreneurs' biographic characteristics (age, sex, family background, education, marital status and previous experience) have a significant positive impact on small enterprise growth.

Table 3 reveals the association between entrepreneurs' biographic characteristics (age, sex, family background, educational qualification, marital status, and previous business experience) and small enterprise growth measures (growth in equity capital, production, employment, sales, and profit) by using chi-square statistic. The value of chi-square statistic and p value provide support for the hypothesis that entrepreneurs' age had a significant positive impact on all growth measures.

The findings provide support for the hypothesis that the sexual status of entrepreneurs had a significant positive impact on growth in equity capital, production, sales, and profit. The results indicate that there was statistically no significant impact of entrepreneurs' gender on growth in employment, as demonstrated by p value. It is thus evident

that the male dominated enterprises had more equity growth than their female counterparts driven enterprises. The reasons behind this variation in the study might be attributed to the female entrepreneurs' lack of start-up capital, risk-taking ability, and leadership quality, family pressure, patriarchal society, etc. Entrepreneurs' family background, however, did not affect small enterprise growth significantly, as evidenced by p value.

Findings of the study confirm that entrepreneurs' educational qualifications had a significant positive impact on growth in equity capital, production, employment, sales, and profit. The selected low educated entrepreneurs usually had trading business and long business experience. The results of chi-square value and p value also indicate that the entrepreneurs' marital status had statistically no significant effect on growth in equity capital, production, sales, and profit but had a significant positive impact on employment growth at the 1 percent level of significance.

The analysis indicates that entrepreneurs' previous experience had statistically a significant positive impact on almost all growth measures except growth in equity. Thus, it is clear that inexperienced or highly experienced entrepreneurs could not achieve as much growth as the moderately experienced entrepreneurs could do. The reasons for low growth of the highly experienced entrepreneurs might be diversion of their financial supports to other projects, arrival of higher educated and affluent entrepreneurs, low demand for their products or services, outdated machineries and equipments, etc. From the preceding discussion, the hypothesis that entrepreneurs' biographic characteristics have a significant positive impact on small enterprise growth is partially accepted.

H2: Entrepreneurs' biographic characteristics (age, number of children and previous experience) are positively correlated with small enterprise growth.

The estimated results of the correlation between entrepreneurs' biographic characteristics and small enterprise growth are presented in Table 4.

Table 4 exhibits that average growth in equity capital and production is highly positively correlated with entrepreneurs' start-up age. This implies that the higher the start-up age, the higher the growth in equity capital and production. This is due to the fact that the aged person could start their enterprises usually with higher amount of start-up capital. But due to keen competition, this characteristic had no significant relationship with other growth measures. The results also reveal that enterprise growth is negatively correlated with entrepreneurs' number

of children. This indicates that entrepreneurs having more the number of children could not make enterprise growth in better way. Another characteristic of the entrepreneurs which has a positive relationship with small enterprise growth is their previous business experience. Thus, the hypothesis that entrepreneurs' biographic characteristics (age, number of children and previous experience) are positively correlated with small enterprise growth is partially accepted.

#### Linear Regression Model Analysis

Based on the theory and assumptions, the fitted regression model has taken the general form as below:

$$\hat{Y}_i = \hat{\beta}_0 + \hat{\beta}_1 X_{1i} + \hat{\beta}_2 X_{2i} + \hat{\beta}_3 X_{3i}$$

#### Regression Model for Average Enterprise Growth Performance for Some Selected Biographic Variables

(i)  $AGEC_i = -130721 + 11918.722 AEC - 29614.2 NC + 6073.478 PBE$

$i = 1, 2, 3, \dots 400. \quad (R^2 = 0.48)$

(ii)  $AGP = -1622626 + 53664.960 AEC - 221040 NC + 46567.306 PBE$

$i = 1, 2, 3, \dots 162. \quad (R^2 = 0.12)$

(iii)  $AGE = 0.531 + .004AEC - .031 NC + .010 PBE$

$i = 1, 2, 3, \dots 400. \quad (R^2 = 0.002)$

(iv)  $AGS = 1156471 + 12607.892 AEC - 273942 NC + 10799.871 PBE$

$i = 1, 2, 3, \dots 400. \quad (R^2 = 0.002)$

(v)  $AGPt = -122219 + 6007.821 AEC - 53271.1 NC + 16792.842 PBE$

$i = 1, 2, 3, \dots 400. \quad (R^2 = 0.032)$

Where,

AGEC = Average Growth in Equity Capital

AGP = Average Growth in Production

AGE = Average Growth in Employment

AGS = Average Growth in Sales

AGPt = Average Growth in Profit

AEC = Age of Entrepreneurs at Commencement

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NC = Number of Children

PBE = Previous Business Experience

Estimate of the intercept term found to be negative (e.g. -130721 in equation one), means that if the effects of all the regressors were eliminated from the above models then the equity capital, production, and profit, on an average, were decreased by the same amount. It was found that for one year change in the entrepreneurs' start-up age, the average growth in equity capital, production, employment, sales, and profit would increase by Tk.11,918.722, 53,664.960 units, 0.004 units, Tk.12,607.892 and Tk.6,007.821 respectively. If the number of children increased by 1 then the average growth in equity capital, production, employment, sales, and profit would decline by Tk.29,614.2, 2,21,040 units, 0.031 units, Tk.2,73,942 and Tk.53,271.1 respectively. Again, if the previous business experience of entrepreneurs increased by 1 year, the average growth in equity capital would increase by Tk.6,073.478, 46567.306 units, 0.010 units, Tk.10,799.871 and Tk.16,792.842 respectively. The value of model R2 indicates that all the explanatory variables included in a model might explain only the percent of the total variation that present in the respective average growth measure.

#### IV. Conclusion

The growth of small enterprises is affected by different factors including entrepreneurs' psychological and biographic characteristics, start-up capital, age of the enterprise, type of business, extent and type of support services, business environment, government policy, etc. Based on the biographic characteristics revealed in the present study, it appears that majority of the sample entrepreneurs are young and middle aged, male, higher educated, and married who have business experience of less than ten years. Most of the entrepreneurs have hailed from non-business families reflecting occupational mobility from service or agriculture to business. Entrepreneurs' biographic characteristics except family background and marital status have an overall significant positive impact on small enterprise growth. Among the independent variables, entrepreneurs' start-up age and previous experience have positive relationships with small enterprise growth. The negative but not significant relationship between entrepreneurs' number of children and small enterprise growth implies that entrepreneurs having large number of children are busy with their children and can not make satisfactory growth. However, the overall findings of the present study help conclude that entrepreneurs' biographic characteristics except family background and

marital status play a significant role in small enterprise growth in Bangladesh.

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**Table 1: Definition of Small Enterprise Given by Bangladesh Bank and Ministry of Industry**

Type of	Criteria	
	Fixed Assets (excluding land and building)	No. of Employees (full time)
Trading	Tk. .05 million to 5 million	Maximum 25
Manufacturing	Tk. .05 million to 15 million	Maximum 50
Service	Tk. .05 million to 5 million	Maximum 25

**Tk. is short for Bangladeshi currency, the Taka. The current exchange rate (31 December 2009) is US\$1= Tk. 69.59735.**

**Source: Bangladesh Bank Circular No.8, May 26, 2008**

**Table 2: Biographic Characteristics of Sample Entrepreneurs**

<i>Profiles of the Sample Entrepreneurs</i>	<i>No. of Entrepreneurs</i>	<i>Percentage</i>
<i>Age of Entrepreneurs</i>		
Up to 30	202	50.5
31 to 40	117	29.3
41 and above	81	20.2
Total	400	100.0
Average age	32.2 Years	
<i>Sex of Entrepreneurs</i>		
Male	362	90.5
Female	38	9.5
Total	400	100.0
<i>Fathers' Occupations of Entrepreneurs</i>		
Business	185	46.3
Service	123	30.8
Agriculture	92	23.0
Total	400	100.0
<i>Educational Qualifications of Entrepreneurs</i>		
Below secondary	115	28.8
Secondary	68	17.0
Higher secondary	65	16.2
Graduation and above	152	38.0
Total	400	100.0
<i>Marital Status of Entrepreneurs</i>		
Single	30	7.5
Married with children	336	84.0
Married without children	34	8.5
Total	400	100.0
<i>Number of Children of Entrepreneurs</i>		
1	61	18.2
2	166	49.4
3	66	19.6
4 and above	43	12.8
Total	336	100.0
<i>Occupational Background of Entrepreneurs</i>		
Unemployed	116	29.0
Homogeneous business	97	24.3
Another business	108	27.0
Service	70	17.5
Agriculture	9	2.2
Total	400	100.0
<i>Previous Business Experience of Entrepreneurs</i>		
No experience	38	9.5
Below 10 years	190	47.5
10 years and above	172	43.0
Total	400	100.0
Average business experience	10.06 Years	

Source: Field Survey

**Table 3: Biographic Characteristics of Entrepreneurs and Small Enterprise Growth**

<i>Entrepreneurs' Biographic Characteristics</i>	<i>Small Growth</i>									
	<i>Growth in Equity</i>		<i>Growth in Production</i>		<i>Growth in Employment</i>		<i>Growth in Sales</i>		<i>Growth in Profit</i>	
	$\chi^2$ value	p value	$\chi^2$ value	p value	$\chi^2$ value	p value	$\chi^2$ value	p value	$\chi^2$ value	p value
Age of entrepreneurs	5.211	<.10	3.893	<.10	5.063	<.10	7.216	<.05	4.662	<.10
Sex of entrepreneurs	9.800	<.01	2.877	<.10	1.026	N.S	6.874	<.01	3.138	<.10
Family background of entrepreneurs	1.169	N.S	1.730	N.S	0.082	N.S	1.277	N.S	0.089	N.S
Educational qualifications of entrepreneurs	13.498	<.01	8.105	<.05	6.274	<.10	6.875	<.10	7.312	<.07
Marital status of entrepreneurs	0.459	N.S	2.075	N.S	26.719	<.01	2.022	N.S	0.833	N.S
Previous experience of entrepreneurs	0.451	N.S	3.860	<.10	6.084	<.05	6.084	<.05	9.674	<.01

**Table 4: Correlation Matrix for Entrepreneurs' Biographic Characteristics and Small Enterprise Growth**

	1	2	3	4	5	6	7	8
1. Start-up Age of the entrepreneurs	1							
2. Number of children	0.259***	1						
3. Previous experience	-0.457***	0.202***	1					
4. Average growth in equity capital	0.201***	-0.030	0.058	1				
5. Average growth in production	0.229***	-0.021	0.038	0.043	1			
6. Average growth in employment	0.002	-0.001	0.067	0.198***	0.056	1		
7. Average growth in sale	0.003	-0.043	0.000	0.172***	0.096	0.268***	1	
8. Average growth in profit	0.078	-0.011	0.041	0.035	0.136*	0.055	0.121**	1

\*\*\* Significant at the 0.01 level

\*\* Significant at the 0.05 level

\* Significant at the 0.10 level

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# IMPACT OF INCOME ON THE INSURANCE POTENTIAL A CASE STUDY OF RURAL SECTOR OF JAMMU AND KASHMIR STATE

Altaf Ahmad Dar★

*The Indian Insurance industry is flourishing with several national and international players competing and growing at a rapid rate. Globalisation has allowed the Indian insurance sector to flourish as there is huge market potential for insurance in India and this potential will definitely increase further in future. The survey was conducted in the state of Jammu and Kashmir using primary and secondary sources of data. This study has explored and assessed insurance potential in rural areas of Jammu and Kashmir State by analysing relationship between disposable income and Insurance potential. Looking at the source of information for households, it was found that television is the primary source for both insured and uninsured households. Other sources of information are friends, relatives and neighbours, news papers, radios, and transistors.*

The insurance industry affects money, capital markets and the real sectors in an economy, making insurance facility necessary to ensure the completeness of a market. It is an industry with strategic importance for any country as it contributes to the financial sector (and hence the GDP) as well as confers social benefits on the society. Insurance is defined as a cooperative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to insure themselves against that risk. (Mishra, 2005). Risk is uncertainty of a financial loss. Insurance is also defined as a social device to accumulate funds to meet the uncertain losses arising through a certain risk to a person injured against the risk. According to the U.S. Life Office Management Inc. (LOMC), "Life Insurance provides a sum of money if the person who is insured dies whilst the policy is in effect."

A potential customer is any entity or person who has ability to purchase insurance on the basis of his income. More ever potential customer is one who has desire for insurance, could be convinced to buy, advertised to, read your ad, hear your radio ads, or your story about a product. Anyone has a need for insurance which you may be able to fulfill and accordingly buys an insurance policy to safe guard his life and property. (Dubey, 2001, Shinde, 2011). Every person has unlimited insurable interest on his own life. From this viewpoint every individual is a prospect for life insurance. In reality, financial status effectually limits this potential, not only because of the practical consideration of insurable worth of a person to the insurer in financial terms but more so owing to the prospect's capacity to pay insurance premium after meeting other pressing needs. Then again, there are many practical factors affecting

'insurability', such as old age, past and present illness, various physical and mental impairments (including defective genes), etc. Apart from these very basic aspects, at the time of assessing the real potential for life insurance business it is important to consider the feasibility of reaching all these prospects with available resources and also the profitability of providing life insurance to them - in other terms, the cost and profitability of exploiting the insurance potential otherwise calculated. (O P Dubey 2001, Roy and Vishal, 2007, Tone, K. et al 2005).

A potential customer is a complex term to ascribe, however for the purpose of this study a potential customer has been defined as any individual whose annual income exceeds Rs.1, 20,000 and who can afford to subscribe his premium to sustain his policy till maturity or death. On an average the house hold whose income exceeds Rs. 1,20, 000 has capacity to save in insurance. It does not include the customers who surrender their policy before maturity. Further the study describes potential customer as any person whose economic strength and viability permits to safeguard life and property against the natural and manmade perils. The whole world can be a potential customer for insurance if an insurance company has a product or service and it can get the word to them about it. India is a vast country and with its huge population more than 100 crore, is the second largest in the world. As such, in terms of population, India has immense potential for extending insurance cover. But to make a realistic assessment of this

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potential, apart from the very important factors like age group, income level, sex-wise distribution, literacy level, etc., this study has necessarily considered factors and other relevant factors like social structure, composition of population, etc. in various parts of the areas as also many 'invisible' factors like religious faiths and social values. Real assessment of the insurance potential of our country is also a very complex exercise due to wide 'variance' in all aspects of Indian circumstances, and any crude estimate for the Indian market without a carefully refined analysis can only be misleading.

## I. Review of Literature

Bhat, (2005) writes that the penetration of insurance critically depends on the availability of insurance products and services. He further explains that huge untapped market, proliferation of schemes, new product innovations, perception of insurable risks of Indian consumers, competitive pressures arising from integration of bank and insurance, impact of information technology, and the role of insurance industry in financial services industry are some of the forces which shape the competitive structure of the insurance industry. Based on empirical studies, Krishnamurthy (2005) confirms that awareness of insurance in India has improved substantially. A recent nationwide survey of over 60,000 households (Shukla, 2007) by National Council of Applied Economic Research (NCAER), New Delhi and Max New York Life has revealed awareness about insurance is quite high in India. The study clearly indicates that there is a definite scope for increasing the volume of savings in life insurance even at the existing levels of income, given its distribution and the employment structure. The world insurance report (2008) reveals that in India, reforms have helped to foster growth, but the insurance sector still remains mostly under-penetrated. It further finds that the average number of policies (life and non-life) held by an Indian consumer is just 1.33, compared with the average of 5.2 policies per client for mature markets. Thus the penetration of insurance is very low in India. Kannan and Thangavel (2008) state that life insurance has today become a mainstay of any market economy since it offers plenty of scope for garnering large sums of money for long periods of time. A well-regulated life insurance industry which moves with the times by offering its customers tailor-made products to satisfy their financial needs is, therefore, essential if we desire to progress towards a worry-free future. Sastry (2010) says that India is among the important emerging insurance markets in the world and that life insurance will grow very rapidly over the next decades in India. He reveals that the major drivers

of this growth include sound economic fundamentals, a rising middle class, an improving regulatory framework, and rising risk awareness. Presently, life insurance is seen as a mechanism through which investors can receive a tax break only. Often, these considerations act as incentives to buy life insurance policies but people need to look at insurance as a long term saving instrument. There is a great need to study the awareness of the society on insurance to improve this situation. Though there are studies from other parts of India on this topic, there is hardly a study in J & K which focuses on the awareness of insurance among the public.

### Objectives of the Study

The present study pursues the following objectives.

- To assess the potential of Insurance according to household income groups in rural areas of J and K state.
- To determine the source of information for Insurance available to rural population.
- To suggest measures for expansion and exploration of insurance in rural areas.

## II. Research Design & Methods

The present study is analytical and exploratory in nature. Accordingly, the use has been made of primary as well as secondary data. The secondary data have been collected mainly from IRDA, Journals, Financial Express, political weekly, various newspapers and other literature available in the field.

### Hypothesis

H1 There is a significant relationship between disposable income and market potential of insurance among the rural households in Jammu And Kashmir State.

### Geographical coverage of study area.

A primary survey of households was undertaken in major districts and covering only rural areas, in Budgam, Baramulla, Anantnag in Kashmir division, Dodha, Udhampore and Kuthua in Jammu division. The remaining districts of the state's population, were left out due to certain difficulties.

### Sample Design

A three-stage stratified sample design has been adopted for the survey to generate representative samples. Sample districts, villages and households formed the first, second and third stage sample units respectively for selection of the rural sample. Sampling was done independently within

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each district and estimates were generated at the district level.

#### Selection of the Sample

Stage 1. Selection of districts: From two divisions of state, a quarter of 6 districts were selected. The sample was drawn after consultation with research scholars, experts and insurers.

Stage 2. Selection of villages: Five sample villages were selected randomly from each district by the Simple Random Sampling.

Stage 3. Selection of households: In each selected village, households were chosen by the equal probability sampling approach for the purposes of listing and preliminary survey. During the preliminary survey, the listed households were stratified by:

- (i) Insured and non-insured categories;
- (ii) Principal source of income.

The households to be stratified were divided into two categories, namely: (a) insured, where at least one member of the household possesses a life insurance policy; and (b) uninsured, where no member of the household possesses a life insurance policy.

On the basis of this sampling design in rural areas, the realized sample was of 1200 households. The sample consists of Insured and uninsured population. Out of total sample 950 were uninsured and 250 were insured. The primary data collection was mainly carried out through a one visit sample survey with pre-structured questionnaires. The questionnaire was administered as schedule to the respondents as most of the respondents were unable to understand the questionnaire. The schedule was explained to them in their native languages.

#### Questionnaire Design.

A structured Questionnaire was designed to collect the primary data. The interview schedule was kept respondent friendly. The questionnaire was developed by identifying the variables based on literature review and the objective of the study.

### III. Results & Discussion

Occupation and Education and age profile of sample Respondents.

The distribution of households by occupation, level of education and age is shown in Table 1.1. The occupation which forms the major source of income for the family

has been taken as the occupation of the household. (Dubey, 2001) Similarly, the highest level of education of any member in the household has been taken as its level of education. This was done because, even where the head of the family is not literate, the younger members might be well educated and, being aware of insurance, become responsible for the household becoming insured. It can be seen from Table 5.2 that a high percentage of the insured households are: (i) self-employed to the extent of approximately 52 per cent, comprising 9.67 per cent in agriculture and 32.28 per cent in Non-agricultural work; (ii) salaried, comprising 34 per cent; and (iii) engaged as labour, comprising less than 13 per cent. As regards uninsured households, the position is: (i) approximately 38 per cent belong to the labour force, comprising five per cent in agricultural labour and 33 per cent in casual labour; (ii) approximately 41 per cent are self-employed, comprising 16.2 per cent in agriculture and 24.81 per cent in non-agricultural work; and (iii) only one-fifth are salaried or earn regular wages. The irregularity in the earnings of uninsured households could be a major impediment in their opting for insurance, as it involves regular payment.

As regards the highest level of education of households, nearly two-third of those insured are educated at least up to higher secondary school, but much lower for the uninsured at approximately 45 per cent. On the other hand, illiterate households account for approximately one per cent of the insured group, but three per cent of the uninsured group. Potential Customers (Perception of Uninsured Households based on their income and the amount they could contribute for insurance)

The uninsured households were asked if they would contribute some amount of their income for insurance. In the case of those who answered in the affirmative, the amount they could contribute per year was noted. Table 1.2 provides the distribution of such households based on income categories. On the whole, 38.23 per cent households answered in affirmative. The average contribution per year increased with increase in the income category and ranged between Rs 1,706 and Rs 11,641 all households; this gives the exact market potential of insurance which is the main objective of this study.

#### Source of Information for Insurance

For both insured and uninsured households in all areas, the insurance agents are the most important source of information on insurance shown in Table 1.3. Thus, as high as 70 per cent of insured and 45 per cent of uninsured households have mentioned agents being major source of

information on insurance. In majority of cases more than 90 per cent of the households are dependent on agents for information. Hence, for both insured and uninsured households, the next two important sources of information are friends and relatives, and the visual media. As far as insured households are concerned, while 38 per cent are dependent on friends and relatives, for 39 per cent of the households, visual media is also the major source of information. As far as uninsured households are concerned, the percentages are 42 and 32 respectively. For 19 per cent of both insured and uninsured households, radios and transistors are important sources of information. The households' dependence on both visual and print media for information is marginally higher in the some areas. The print media has been mentioned as 18.8 percent in uninsured people and 19 percent in insured people by a high percentage of households in some areas of the state.

#### Testing of Hypothesis

The hypothesis raised by the study was that "There is significant relationship between income and market potential of insurance among the rural households in Jammu and Kashmir state" To verify the hypothesis Chi Square-test was utilized. The data was all nonparametric. With the help of Chi-square test we were in a position to know whether a given difference between actual and expected frequencies has been caused by a chance or it has resulted because of inadequacy of the theory to fit the observed facts (Gupta, 1994). The values of  $\chi^2$  obtained were thus compared with the table value at 3 degree of freedom at 5% level of significance. The hypothesis to be tested is given as follows:

The overall frequencies obtained from the respondents were tabulated in the below given table as observed frequencies. The respondents were asked 'how much amount they could contribute for insurance investment 324 out of 865 told Rs.1706, 316 told 2,197, 194 told 3,938 and 31 told 11,641. Since the number of choices given to respondents was four, therefore the degree of freedom was lessened by 1. The level of significance was fixed at 5%. The test static 103.675 obtained was compared with the table value at 3 degrees of freedom which is 7.815.

The sample distribution was divided by 4 in all cases to obtain the expected frequencies, i.e.;  $865/4=216.2$ . Thus the calculated value of  $\chi^2$  is 103.675. Degree of freedom= $(n-1) =4-1=3$ . For 3 degrees of freedom at 5% level of significance the table value of  $\chi^2$  is 7.815, which is lesser than the calculated value of  $\chi^2$ . Therefore hypothesis stands rejected and alternate hypothesis stands accepted. It is therefore concluded that there is a significant relationship between disposable income and Insurance potential.

#### Correlation and Insurance Potential

To verify this hypothesis, Karl Pearson's correlation Method has been utilised. Data obtained from uninsured respondents in respect of their income figures and the amount they could contribute towards insurance as premium was used. Income class(x) and contribution amount(y) are shown in Table 1.5. The uninsured households were asked if they would contribute some money for insurance. In the case of those who answered in the affirmative, the amount they could contribute per year was noted. The results have been shown above. The average contribution per year increased with increase in the income category and ranged between Rs 1,706 and Rs 11,641 all households; this gives the exact market potential of insurance which is the main objective of this study.

Our main objective is to test whether or not there is a relationship between these two. The statistical tool used here is Pearson's product moment coefficient of correlation denoted by r. This coefficient gives an indication of the strength of the linear relationship between two variables.

In our case, the two variables are:

1. Income Class(x)
2. Potential(y) (The amount one could contribute towards insurance)

"dx=-9000, "dy=4330, " $x^2=659000000$ , " $y^2=179164000$ , " $xy=179164000$

r= ?, n=4

$$r = \frac{\sum xy - (\sum x \times \sum y) / n}{\sqrt{n \sum x^2 - (\sum x)^2} \cdot \sqrt{n \sum y^2 - (\sum y)^2}}$$

Substitute the values, we get

$$r = \frac{(179164000 - (-9000 \times 4330)) / 4}{\sqrt{4(659000000) - (179164000)^2} \cdot \sqrt{4(242552360) - (179164000)^2}}$$

r=0.99

According to Lucey (2002), r can range from 1, i.e. perfect positive correlation where the variables change value in the same direction as each other, to -1, i.e. perfect negative correlation where y decreases linearly as x increases. Lucey states further that a strong correlation between two

variables would produce an r value in excess of 0.9 or 0.9. If the value were less than, say 0.5 there would only be a very weak relationship between the variables. The value of our computed coefficient of correlation (r) is 0.99. This indicates a very strong positive correlation between the two variables, i.e. Income and insurance potential. The decision is that our hypothesis is accepted which states that there is a strong positive relationship between Income and potential.

#### IV. Conclusion

The empirical findings were presented in tabulated form with description of fact in comparative as well as theoretical manner. Then conclusion of the research was arrived at after the data collected was subjected to various appropriate statistical tools, procedures and tests. On the basis of the findings an attempt has been made to provide result oriented suggestions as perceived from the statistical facts. Undoubtedly India has a vast insurance potential and this potential will definitely increase further in future. However, the future of the insurance market in India will largely depend on how the increasing potential is exploited by the future insurance operating system in the country which will depend on the marketing strategies adopted, improved information technology used, and effective regulation of the insurance market by the authorities, keeping in view the insurance needs of the entire Indian population and security for the insuring masses. The market potential for insurance companies is found to be greater in the long run as most of the Indians are of the opinion that insurance companies would be able to perform well in the future. The insurance companies have to take immediate steps in appointing more number of agents and/or advisors in addition to the employees as it has been found out that agents are the best channel to reach the general public regarding selling of insurance products. Hence, the market has potential. The insurance companies that are taking immediate steps can tap it.

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**Table 1.1: Occupation, Education and age profile of sample Respondents**

<b>Occupation</b>					
	Un-Insured		Insured		
Occupation	Percent	Frequency	Percent	Frequency	Total
Self-employed in agriculture	36.28	313	34.98	77	390
Agricultural labour	3.56	30	11.09	25	55
Casual labour	9.52	82	28.34	62	144
Self-employed in non-agriculture	24.64	312	13.13	28	341
Regular wages and salaried	25.63	221	11.59	25	247
Others	0.36	3	0.87	2	5
Total	100	865	100	220	1085
<b>Education</b>					
Illiterate	1.41	12	4.20	9	21.19
Up to primary school	7.87	68	16.10	35	103
Up to secondary school	33.66	291	41.21	91	124
Higher secondary school and above	57.06	493	38.49	85	578
Total Number of Households	100	865	100	220	1085
<b>Age</b>					
Below 30 years	21	182	40	88	270
31-40 years	32	277	32	64	342
41-50 years	40	346	21	46	392
51-60 years	4	34	4	9	43
Above 60	3	26	3	6	32
Total	100	865	100	220	1085

Source: Field Survey

**Table 1.2: Uninsured Households based on their income and the amount they could contribute for insurance**

Households Income Class	No. of Households that can Contribute		Average Amount Per Year (Rs) they could contribute.
	Percentage	Frequency	
Less than Rs 10,000	22.39	194	1706.35
Rs 10,000 to Rs 16,000	27.70	240	2197.22
Rs 16,001 to Rs 27,000	26.51	229	3938.65
Above 27	23.40	202	11641.07
Number of households	100	865	--

Source: Field Survey

**Table 1.3: Source of Information on Insurance**

Major source of information on insurance	Uninsured Households		Insured Households	
	Frequency	Percentage	Frequency	Percentage
Print media	163	18.8	42	19.0
Visual media	294	34.0	59	27.1
Radio	178	20.6	45	20.5
Internet	96	11.1	2	4.4
Banks	50	5.8	13	5.8
Friends/relatives	341	39.4	91	41.3
Agents	598	69.1	92	42.0
Number of households	865	Can't be equal to 100	220	Can't be equal to 100

Source: Field Survey

**Table 1.4: Chi-Square Distribution of income and Insurance potential**

Potential of Insurance						
Income Class	The amount one could contribute for insurance	O	E	O-E	(O-E) <sup>2</sup>	(O-E) <sup>2</sup> /E
Less than 10000	1706	324	216.2	107.8	1162.84	53.75
10000-16000	2197	316	216.2	99.8	9960.04	46.06
17000-27000						2.279
	3938	194	216.2	-22.2	492.84	
27000 and above	11641	31	216.2	185.2	34299.04	1.586
Total		865				
						$\Sigma(O-E)^2/E$ =103.675

Source: Computed on the basis of table 4.23

**Table.1.5: Correlation Distribution of income and Insurance potential**

Income Class	Potential (y)	Mid Point(x)	dx=(x-a)	dy=(y-a)	dx <sup>2</sup>	dy <sup>2</sup>	dx.dy
Less than 10000	1706	5000	-17000	-2232	289000000	37944000	37944000
10000-16000	2197	13000	-9000	-1141	81000000	10269000	10269000
17000-27000	3938	22000	0	0	0	0	0
27000 and above	11641	39000	17000	7703	289000000	130951000	130951000
			$\Sigma dx = -9000$	$\Sigma dy = 4330$	$\Sigma dx^2 = 659000000$	$\Sigma dy^2 = 179164000$	$\Sigma dx.dy = 179164000$

Source: Source: Computed on the basis of table 1.5

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# THE INFLUENCE OF WORKING CAPITAL COMPONENTS MANAGEMENT ON CORPORATE PROFITABILITY: A CASE OF BHARAT PETROLEUM CORPORATION LIMITED

Aparna Mishra★ Sulekha Munshi★★

*Efficient working capital management is an integral component of the overall corporate strategy to create shareholder value. The global oil and gas industry is experiencing rapid and dramatic change in its business environment. The recent global downturn, a primary challenge for many other industries, is in this case only one of many issues exerting significant pressure on cash flow, financing and operations. Few industries are experiencing the degree of change affecting the oil and gas industry. Issues such as pricing volatility, regulatory activism and an increasing need to rely on the most advanced exploration and extraction technologies command the lion's share of industry attention. But when the gaze is elsewhere, it often becomes all too easy to overlook a wide array of risks, costs and opportunities. This research work analyzes the effect of working capital management on firm profitability. In accordance with this aim, to consider statistically significant relationships between firm profitability and the components of cash conversion cycle at length, a sample consisting of the company's working capital analysis has been included. Empirical findings showed that accounts receivables period, inventory period and leverage affect firm profitability negatively; while growth (in sales) affects firm profitability positively.*

Working capital management is a key issue for any business's survival and sustainability. Efficient working capital management is an integral component of the overall corporate strategy to create shareholder value. The way in which working capital is managed can have a significant impact on both the liquidity and profitability of the company. Smith (1980) first signalled the importance of the trade-offs between the dual goals of working capital management, i.e., liquidity and profitability. In other words, decisions that tend to maximize profitability tend not to maximize the chances of adequate liquidity. Conversely, focusing almost entirely on liquidity will tend to reduce the potential profitability of the company.

This paper empirically investigates the relationship between the firm's efficiency of working capital management and its profitability. Working Capital management is the management of assets that are current in nature. Current assets, by accounting definition are the assets normally converted in to cash in a period of one year. Hence working capital management can be considered as the management of cash, market securities receivable, inventories and current liabilities i.e. management of Cash conversion cycle.

It is an empirical question whether a short cash conversion cycle is beneficial for the company's profitability; A firm can have larger sales with a generous credit policy, which extends the cash cycle. In this case, the longer cash conversion cycle may result in higher profitability.

However, the traditional view of the relationship between the cash conversion cycle and corporate profitability is that, ceteris paribus, a longer cash conversion cycle hurts the profitability of a firm. For example, America's leading retailing giants, Wal-Mart and Kmart, reported very different returns over 1994, notwithstanding a similar capital structure, i.e., about 31% debt financing. The return on sales, assets, and equity were respectively 0.87%, 1,74%, and 4,91 % for Kmart while they were 3.25%, 10,1% and 24,9% for Wal-Mart. The difference in profitability can be partly explained by the different cash conversion cycle, i.e., 61 days for Kmart and only 40 days for Wal-Mart,' A 21 -day shorter cash cycle applied to Kmart's 1994 sales of \$34 billion, assuming a 10% cost of capital results in savings of \$198.3 million a year.

Managers can increase the profitability of their firms by shortening the cash conversion cycle, the receivable collection period and the inventory conversion period. The results suggest that managers can also increase the profitability of their firms by lengthening the payable deferral period. However, managers should be careful when lengthening the payable deferral period because this could damage the firm's credit reputation and harm its profitability

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in the long run.

Dilemma in working capital management is to achieve desired trade off between liquidity and profitability. Referring to theory of risk and return, investment with more risk will result to more return. Thus, firms with high liquidity of working capital may have low risk then low profitability. Conversely, firm that has low liquidity of working capital, facing high risk results to high profitability. The issue here is in managing working capital, firm must take into consideration all the items in both accounts and try to balance the risk and return.

The company

With the expected entry of the major private players following the decontrol of pricing of petrol and diesel, public sector oil marketing companies will face serious competition. At the same time, the global economic scene continues to remain an area of concern. Any crisis that may erupt on account of past excesses would have a major impact on commodity prices and demand. The coming days therefore, are likely to be challenging while offering immense opportunities for growth. Bharat Petroleum Corporation Limited (BPCL), a public sector enterprise, is one of the largest state-owned oil and gas companies in India, and ranked 307 in the Fortune Global 500 (2009). Its primary interests are in downstream petroleum activities, including refining and retailing of petroleum products. It is one of the only three petroleum companies in India that have integrated facilities for refining and marketing. BPCL was formed by the Government of India in 1977, as a part of nationalization of oil companies. BPCL took over refining operations of Burmah Shell Refining Limited and marketing/distribution operations of Burmah Shell Oil and storage Distribution Company. BPCL is one of India's three dominant refining and marketing companies.

## I. Review of Literature

The crucial part in managing working capital is maintaining its liquidity in day-to-day operation to ensure its smooth running and meeting its obligation. Yet, this is not a simple task since managers must make sure that business operation is running in efficient and profitable manner. There are the possibilities of mismatch of current asset and current liability during this process. If this happens and firm's manager cannot manage it properly then it will affect firm's growth and profitability. This will further lead to financial distress and finally firms can go bankrupt.

An efficient working capital management primarily aims to ensure an optimum balance between profitability and

risk (Ricci and Di Vito, 2000). This objective can be achieved by continuous monitoring of working capital components such as accounts receivable, inventory and accounts payable. The success of a firm heavily depends on the effective skills of financial managers (Filbeck and Krueger, 2005; Nazir and Afza, 2009).

This study used Net Trade Cycle (NTC) as a measure of working capital management in order to investigate the relationship between working capital management and corporate profitability. The NTC is calculated as  $(\text{inventory} + \text{accounts receivable} - \text{accounts payable}) \times 365 / \text{Sales}$  and represents the number of "days sales" that the company has to finance its working capital under ceteris paribus conditions. Additionally it can provide an easy estimate for additional financing needs with regard to working capital as a function of the sales growth. For these reasons they use the NTC as a measure of working capital management and found a negative relation between the length of the firm's trade cycle and its profitability (Shin and Soenen, 1998).

This study used a sample of 1009 large Belgian nonfinancial firms for the period of 1992-1996. In this study trade credit policy and inventory policy are measured by number of days accounts receivable, accounts payable and inventories, and the cash conversion cycle as a comprehensive measure of working capital management. He finds a significant negative relation between gross operating income and the number of day's accounts receivable, inventories and accounts payable. Thus, he suggests that managers can create value for their shareholders by reducing the number of days accounts receivable and inventories to a reasonable minimum. He also suggests that less profitable firms wait longer to pay their bills. (Deloof, 2003)

This study discussed that most firms had a large amount of cash invested in working capital. It can therefore be expected that the way in which working capital is managed will have a significant impact on profitability of those firms. Using correlation and regression tests he found a significant negative relationship between gross operating income and the number of days accounts receivable, inventories and accounts payable of Belgian firms. On basis of these results he suggested that managers could create value for their shareholders by reducing the number of days' accounts receivable and inventories to a reasonable minimum. The negative relationship between accounts payable and profitability is consistent with the view that less profitable firms wait longer to pay their bills. (Deloof, 2003)

This study argues that a short cash conversion cycle is

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indirectly related to firm's value. Short cash conversion cycle indicates that the firm is collecting the receivables as quickly as possible and delaying the payments to suppliers as slowly as possible. This leads to high net present value of cash flow and high firm value. (Vaidyanathan et al., 1990)

In this study, they used a large sample of listed American firms covering the period 1975-1994. Their results show a strong negative relation between the length of the cash conversion cycle and corporate profitability. (Shin and Soenen 1998)

Thus, on the basis of these studies, this research paper is being carried out to study the impact of Working Capital Management components and profitability.

### Research Objective

The existence of an adequate working capital and its careful management can make substantial difference between the success and failure of an enterprise. While managing the working capital, two characteristics of current assets should be kept in mind viz. (i) short life span, and (ii) swift transformation into other form of current asset. Each constituent of current asset has comparatively very short life span. Investment remains in a particular form of current asset for a short period. The life span of current assets depends upon the time required in the activities of procurement; production, sales and collection and degree of synchronization among them. A very short life span of current assets results into swift transformation into other form of current assets for a running business. These characteristics have certain implications:

- i. Decision regarding management of the working capital has to be taken frequently and on a repeat basis.
- ii. The various components of the working capital are closely related and mismanagement of any one component adversely affects the other components too.
- iii. The difference between the present value and the book value of profit is not significant.

Keeping in view the above said scenario it is imperative to track the movement of working capital component in cash cycle and to observe the relationship of these components with firm's profitability while analyzing the influence of Working capital Management on firm's profitability. In this study the main focus was given on assessing the influence of cash conversion cycle and its components on the profitability of the company.

## II. Research Design & Methods

The research design is descriptive and exploratory in nature. The study attempts to analyze & evaluate the existing data system, through the financial data such as Annual Reports, Cost & Budget Reports, Cash Report, Raw Materials Report, Production Reports, Creditors Reports, Debtors Reports, Inventory Reports, Sales Reports, Books & Websites. For this purpose correlation and regression is used to analyze the influence of working capital management components on the working profitability. The study is based on the secondary data obtained from the audited balance sheets and profit & loss accounts and also the annual reports for the period of 2000-2010 (both years inclusive). Besides, the facts, figures and findings advanced in similar earlier studies and the government publications are also used to supplement the secondary data.

## III. Results & Discussion

The result shows a high negative significant relation between Cash Conversion Cycle (CCC) and profitability (ROI) for the last 10 years which is  $-0.733$ . This implies that an increase in the number of cash conversion cycle days will have an adverse impact on the profitability of the company. The increase in the number on cash conversion cycle by 1 day is associated with a decline in the return on investment by 1%.

The results show that the Receivables Collection Period (RCP) and Profitability (ROI) has a negative significant correlation which is  $-0.368$ . This means that if there is an increase in the time taken to collect the payment from the debtor's then there will be an adverse effect the ROI.

The results show that the Inventory Conversion Period (ICP) and Profitability (ROI) has a negative significant correlation which is  $-0.044$ . This means that if there is an increase in the time taken to convert the raw materials into finished goods then that could affect the profitability of the company.

The result also shows the significant positive relations between Payable Deferral Period (PDP) and Profitability (ROI) for the year 2001-2010 which is  $0.681$ . This implies that firms that wait longer to pay for their bills will have a better cash flow position and a high profitability.

The regression result indicates that managers can increase profitability by shortening the cash conversion cycle, the receivable collection period and the inventory conversion period. The results also suggest that managers can also increase profitability by lengthening the payable deferral

periods. However, managers should lengthen the payable deferral periods without harming the credit reputation of their corporations which could harm the profitability in the long run.

The table exhibiting the relationship between the dependent variable ROI, and all the selected independent variables taken together and the impact of these independent variables on the profitability of the company.

The regression co-efficient of RCP is 0.020, ICP is -0.011, PDP is 0.11. So, the Receivable collection period and Payable Deferral Period is statistically significant and positively affecting the value of ROI and positively affecting to increase the performance of profitability of the company. The Inventory Conversion Period has an insignificant relationship with ROI and their regression coefficients shows negative values, which means that Inventory Conversion Period is negatively affecting the performance of ROI. From this it can be interpreted that, shorter the inventory conversion period, the more, the profitability.

As per table 2, it was also found that, the coefficient of determination R Squared is 0.739 that means there will be 73.9% of variation in ROI through the cash conversion cycle and its components that is, Receivable Collection Period, Inventory Conversion Period and Payable Deferral Period.

In this study, relationship between the dependent variable i.e. ROI and all the selected independent variables i.e. Cash Conversion Cycle, Inventory Conversion Period, Receivables Collection Period and Payable deferral period is taken together and the impact of these independent variables on the profitability of the company is determined.

It was found that these variables are significantly correlated to the ROI and are contributing to the profitability of BPCL.

It was also found that, the coefficient of determination R Squared is 0.739 that means there will be 73.9% of variation in ROI through the cash conversion cycle and its components that is, Receivable Collection Period, Inventory Conversion Period and Payable Deferral Period.

#### **IV. Conclusion**

Working capital management is only a part, but for many firms a very important component of financial management. The NTC offers an easy and useful way to check the efficiency of managing the firm's working capital. It has been shown, using a large Compustat sample of 58,985 firm years covering the period 1975 - 1994, that a strong negative association exists between the firm's NTC

and its profitability. Individual firms' stock returns are also significantly negatively correlated with the length of the firm's net trade cycle. Considering the negative relationship between debt and market value, the true benefits from constricting the NTC come from reduction in assets rather than by increases in payables. Reducing the firm's net trade cycle to a reasonable minimum is one way to create shareholder value and should be a major concern for financial executives

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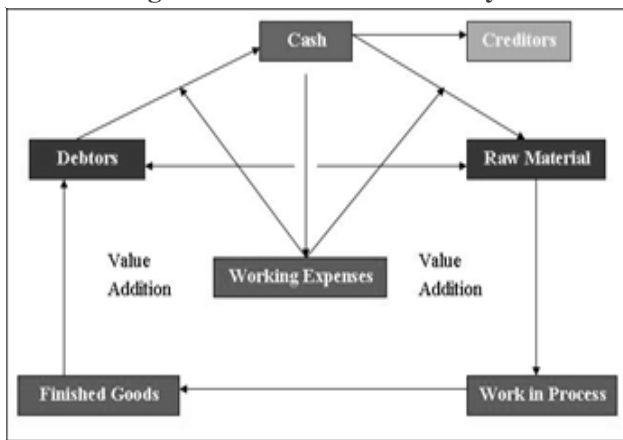
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**Figure 1: Cash Conversion Cycle**



**Table 1: Cash Conversion Cycle V/S Profitability (ROI)**

	CCC	RCP	ICP	PDP	ROI
CCC Pearson Correlation	1	.107	.049	-.763*	-.733*
Sig. (2-tailed)		.768	.893	.010	.016
N	10	10	10	10	10
RCP Pearson Correlation	.107	1	.137	.159	-.368
Sig. (2-tailed)	.768		.707	.661	.295
N	10	10	10	10	10
ICP Pearson Correlation	.049	.137	1	.587	-.044
Sig. (2-tailed)	.893	.707		.074	.904
N	10	10	10	10	10
PDP Pearson Correlation	-.763*	.159	.587	1	.681*
Sig. (2-tailed)	.010	.661	.074		.030
N	10	10	10	10	10
ROI Pearson Correlation	-.733*	.368	.044	.681*	1
Sig. (2-tailed)	.016	.295	.904	.030	
N	10	10	10	10	10

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

**Table 2: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.860 <sup>a</sup>	.739	.609	.08177

a. Predictors: (Constant), PDP, RCP, ICP

**Table 2: Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.116	.167		-.696	.513
	RCP	.020	.015	.292	1.379	.217
	ICP	-.011	.005	-.563	-	.072
	PDP	.011	.003	.965	2.181	.010

a. Dependent Variable: ROI

**Table 3: Excluded Variables<sup>b</sup>**

Model	Beta In	t	Sig.	Partial Correlation	Collinearity Statistics	
					Tolerance	
1	CCC	-564.405 <sup>a</sup>	-1.667	.156	-.598	2.923E-7

a. Predictors in the Model: (Constant), PDP, RCP, ICP

b. Dependent Variable: ROI

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# EMPLOYEES SATISFACTION OF FORD BUSINESS SERVICES CENTER, COIMBATORE

S. Sudalaimuthu★ B. Angamuthu★★

*The aim of this analytical research was to explore the influencing factors on job satisfaction of employees in the FBSC, Coimbatore. A structured questionnaire is the tool of primary data collection from 150 employees regarding their level of agreement about twenty individual attributes based on various personal factors using purposive sampling method. Thereafter, collected primary data was analyzed with the help of percentage analysis, factor analysis, correlation and regression. Finally, this study reveals that employees of FBSC were more satisfied with five different dimensions like pay, promotion, recognition of work, relationship of co-workers, environment of work place, welfare schemes and opportunities for works in advanced technologies.*

Employees Job satisfaction impact job performance and achievement of organizational aims. In addition, when employees of any organization are highly satisfied with their nature of job, it results in high productivity, low absenteeism & reduction of labour turnover. Generally, job satisfaction of employees is positively associated with attractive salary package, friendly co-workers, responsiveness from authorities, stimulating employees' efficiency etc. On the other hand, factors like high stress, poor recognition; lack of communication within the company, limited opportunities for employees' growth, less pay etc is motivation for employees to resign. Employees expect more salary but they are ready to work more hours because of increase in cost of living, changing life style and individual responsibility. Now-a-days, private companies also fulfilling these needs for that reason, this study focus on the employees' satisfaction in private company particularly FBSC, Coimbatore.

In Tamilnadu, the FBSC started their function in State capital of Chennai District. Thereafter, the Coimbatore center opened with 40 employees and started operations in the year of 2009 to provide a business continuity plan for about 250 vital functions. By end of 2011, FBSC office in Coimbatore had more than 500 employees. Since then, it has expanded its role to 650 vital activities, covering 25 departments. Now, FBSC plays a major role to providing employment opportunities to young people associated with various higher educational institutions in the Coimbatore, Erode Districts as well as on campus recruitment of employees frequently.

## I. Review of Literature

Ellickson et.al., (2001) in their study focused on job satisfaction among municipal government employees

through the environmental and demographic factors. This study reported that availability of equipment, resources, and training; workload; promotional opportunities; satisfaction with pay, benefits, and performance appraisals are positively related to overall job satisfaction. Moreover, demographic variables are relatively poor predictors of job satisfaction.

Crossman et. al., (2003) has found that job satisfaction is not independent in all job facets and that satisfaction with one facet might lead to satisfaction with another. Female employees were found to be less satisfied with all facets compare with male employees except pay. Employees with lower educational qualifications were least satisfied compared with those employees have higher level education.

Reza Alavi et.al., (2003) in their study concluded that there is no significant difference in job satisfaction of various dimensions like satisfaction from the kind of the job, satisfaction from manager or supervisor, satisfaction from co-workers, satisfaction from promotion, satisfaction from salary and wages among the various age groups, sex, marital status, record of service, number of family members and amount of salary of the personnel in Government organizations of Kerman province of Iran.

Randhawa, (2007) in his research examine the relationship between job satisfaction and turnover intentions among scientists in Kamal, Haryana and reported a negative relationship between job satisfaction and turnover

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intentions. In addition, comparison was made between scientists from National Dairy Research Institute, Kamal and Agriculture Extension Centres in Haryana towards the job satisfaction and turnover intentions the discussion concluded that there was no significant difference on the measures of job satisfaction and turnover intentions between two.

Mosadeghrad et.al., (2008) in their study focus on the relationships between job satisfaction and organizational commitment of employees, and their impact on turnover intention at Isfahan Hospitals, Isfahan, Iran using stratified random sampling method. Authors indicate that employees are moderately satisfied with their jobs and committed to their organization. Employees' job satisfaction and organizational commitment were closely inter-related and correlated with turnover intention.

Raj Kamal, et.al., (2008-2009) concluded that younger employees have more energy, more expectations and more options, and hence lesser satisfaction with the job.

Musa Shallal investigate the factors that contribute to job satisfaction for employed Emirati females in the United Arab Emirates and reported that age, education, and income are the prominent factors that enhance job satisfaction. There is a positive significant relationship between job satisfaction and age. Moreover, employees with education beyond the secondary level are more satisfied with their jobs than those with less than the secondary level. Finally, the employees with high income groups i.e., Rs.10,000 and Above are more satisfied with their jobs than those who earn Rs.<10,000.

Salman et.al., (2010) in their study examines the job satisfaction level of bank employees of public and private sector banks in Punjab Province. This study reports that private sector employees were more satisfied with pay, recognition, and working hours as compared to public sector employees. Whereas, the public sector employees were satisfied with job security as compared to private sector employees.

Orisatoki, et.al., (2010) found that no significant differences between gender, age groups of the supermarket employees and their job satisfaction. Further, there was no significant correlation of job satisfaction with knowledge about workplace, work stress, relationship with colleagues, but negative correlation of job satisfaction with salary.

### Objectives of the Study

The primary objective of the study is to explore the influencing factors on job satisfaction of the employees in

the FBSC and specific purpose is to analyze the level of relationship among the various factors to the overall job satisfaction.

### Hypotheses

Ho1:  $f_1, f_2, f_3, \dots, f_n$  independently will have a negative effect on overall job satisfaction of the employees in the FBSC.

Ho1: Related factors ( $f_1, f_2, f_3, \dots, f_n$ ) have lesser influence on overall job satisfaction of the employees in the FSBC.

## II. Research Design & Methods

The present analytical research was studied with the help of primary data and secondary information. The Primary data were collected from employees of FBSC, Coimbatore with the help of questionnaire. The questionnaire has measured twenty Job Satisfaction Variable (JSV) and overall satisfaction through 5-Point Likert Scaling Technique like Highly Satisfied, Satisfied, Neither Satisfied nor Dissatisfied, Dissatisfied and Highly dissatisfied with the proper scoring technique among the employees based on their Gender, Age group, Graduation, Monthly income, Marital status, Place of Living and Job Experience. This study used 121 valid samples with the response rate of 81 percent and samples were selected using purposive sampling method. The primary data collected during the period from June to October'2012.

Finally, draw the inference through the application of various statistical tools like, % analysis, factor analysis suggestions given by Kaiser-Meyer-Olkin Measure of Sampling Adequacy (0.731) and Bartlett's Test of Sphericity (Approx.  $\chi^2$  1159.639\*\* with df 190), Croanbach's Reliability test, Pearson Bi-variate Correlation (r) and multiple regression analysis. The final research model of current research is shown in the figure 1.

## III. Results & Discussion

Gender of the Employees - The distribution of the employees based on their gender is given in the figure 2. It shows that 57.02% of the employees are male and remaining 42.98% are female.

Age Group of the Employees - The distribution of the employees based on their age group is given in the figure – 3 and it reveals that out of 121 sample employees taken for the study, 70.25% of the employees belong to the age group above 25 years and remaining 29.75% of the employees belong to the age group upto 25 years.

Graduation of the Employees

The distribution of the sample employees based on their graduation is given in the figure – 4 and it is evident that out of 121 sample employees, 58.68% of the employees completed Post Graduation level and remaining 41.32% of the employees have graduate degree.

#### Monthly Income of the Employees

The classification of the employees based on their income group is given in the figure 5. It reveals that out of 121 sample employees taken for the study, 53.72% of the employees belong to income group is Rs.15,000 – Rs. 25,000, 33.06% of the employees belong to the income group is below Rs.15,000 and remaining 13.22% of the employees belong to income group of above Rs. 25,000.

#### Marital Status of the Employees

The distribution of the employees based on their marital status is given in the figure – 6 and it shows that 61.16% of the employees are unmarried and remaining 38.84% of the employees are married.

#### Place of Living of the Employees

The classification of sample employees based on their place of living are given in the figure - 7 below and it shows that 78.51% of sample employees live in urban areas and the remaining 21.49% of the employees live in rural areas.

#### Job Experience of the Employees

The classification of sample employees based on their job experience is given in the figure 8 and it explains that 71.07% of the sample employees have work experience of between 2-5 years. Then, 21.49% of the employees have their work experience upto 1 year and the remaining 7.44% of the employees have work experience of over 5 years.

#### Determining Factors on Influencing Factors on Job Satisfaction of the Employees in the FBSC

Factor analysis was carried out on all variables influencing job satisfaction using all the variables regarding influencing factors on job satisfaction JSV<sub>1</sub>, JSV<sub>2</sub>, JSV<sub>3</sub>. Factor analysis is performed in order to group the variables on priority basis based on the strength of inter-correlation between these opinions, called 'Factors' and clustering these variables in to the factors extracted and the results are presented in the following tables. Table 1 gives the rotated factor loadings, communalities, eigen values and the percentage of variance explained by the factors. There were five factors each having eigen value exceeding one for determine that influencing factors on job satisfaction. The

Eigen values for five factors were 3.452, 2.651, 2.335, 2.281 and 2.126 respectively. The five factors put together explain the total variance of these influencing factors to the extent of 64.23%. In order to reduce the number of factors and enhance the interpretability, the factors are rotated. The rotation increases the quality of interpretation of the factors. There are several methods of the initial factor matrix to attain simple structure of the data. The varimax rotation is one such method to obtain better result for interpretation is employed & the results are given in Table2.

Table-2 explains that the 7 variables JSV<sub>1</sub>, JSV<sub>12</sub>, JSV<sub>4</sub>, JSV<sub>3</sub>, JSV<sub>9</sub>, JSV<sub>15</sub>, and JSV<sub>14</sub> were grouped together as factor I and accounts 17.261% of the total variance. The 4 variables JSV<sub>16</sub>, JSV<sub>11</sub>, JSV<sub>2</sub> and JSV<sub>5</sub> constituted the factor II and accounts 13.257% of the total variance. The 3 variables JSV<sub>6</sub>, JSV<sub>7</sub> and JSV<sub>10</sub> constituted the factor III and accounts 11.676% of the total variance. The 3 variables JSV<sub>13</sub>, JSV<sub>8</sub> and JSV<sub>18</sub> constituted the factor IV and accounts 11.403% of the total variance. The 3 variables JSV<sub>17</sub>, JSV<sub>20</sub> and JSV<sub>19</sub> constituted the factor V and accounts 10.631% of the total variance. Finally, factor analysis determine that pay, promotion, work recognition, work environment, welfare schemes, and relationship of coworkers and interest of works in new technologies are the influencing factors on job satisfaction. Among these factors pay, promotion and recognition of work as the first dominating factor with the high percent of variance. Finally, reliability among the varioust factors tested with the help of Cronbach's Alpha. It reveals that value of  $\alpha = 0.6$ . The Chronbach's alpha for the various factors is  $\alpha > 0.6$ , which is acceptable.

Relationship of the Influencing Factors of Job Satisfaction to the Overall Job Satisfaction of the employees. The 'r' co-efficient should be applied with the purpose of finding the association level of job satisfaction to the overall job satisfaction of the employees in the FSBC through the testing of hypothesis. The level of correlation considered following

+0.3 to less than +0.7 = Moderate positive relationship and Vice-versa

+0.7 to +1.0 = Strong positive relationship and Vice-versa

Less than +0.3 = Low positive relationship and vice-versa

Ho<sub>1</sub>: Pay, promotion & work recognition, work environment, welfare schemes, relationship of co-workers and interest in work in advanced technologies independently will have a negative effect to the overall job satisfaction.

#### 4.10 Regression Model for Influencing Factors on job

satisfaction and the overall satisfaction of Employees

As per the recommendation of r-path co-efficient, this part developing a model using step-wise multiple regression with the purpose of exploring the influencing factors on job satisfaction of the employees in the FSBC . This analysis is made of Y-overall job satisfaction, with the explanatory factors like  $X_1$ -pay, promotion and recognition of work;  $X_2$ - work environment;  $X_3$ - welfare schemes;  $X_4$ -relationship of co-workers;  $X_5$ - interest in work in advanced technologies

The following regression model is fitted for performance:

$$Y = b_0 + b_1 X_1 + b_2 X_2 + b_3 X_3 + b_4 X_4 + b_5 X_5 + e$$

where,

$b_1, b_2, \dots$  are partial regression coefficients;  $b_0$ -constant

$H_{01}$ : Pay, promotion and work recognition, work environment, welfare schemes, relationship of co-workers and interest on works in advanced technologies have lesser influence on the overall job satisfaction of the employees in the FSBC.

It is observed from the table – 5 that significance of various influencing factors on job satisfaction coefficients is tested by t-statistic. It is reported that the coefficients for welfare schemes, pay, promotion, work recognition, work environment and relationship of co-workers are significant @ 1% level of significant. Further, the coefficient of interest of works in advanced technologies is significant @ 5% level of significant. It means all the factors are significantly related to the overall job satisfaction of the FBSC employees. Moreover, the above table report that every considered factor is positively related with the overall job satisfaction of the employees of FSBC.

The significant value of 'f' in the analysis of variance of multiple regression model for Y indicates the overall significance of the model fitted. The coefficient of determination  $R^2$  value shows that all these variables put together explain the variations of Y to the extent of 82.1%. For that reason, the null hypothesis is rejected. It can be reported that pay, promotion and work recognition, work environment, welfare schemes, relationship of co-workers and interest in work in advanced technologies have high influence on the overall job satisfaction of the employees in the FSBC.

#### IV. Conclusion

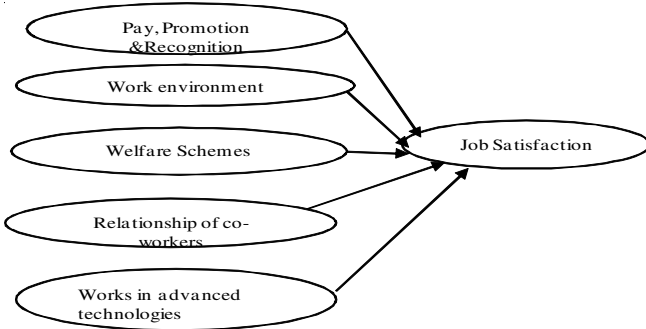
This study found that factors of job satisfaction among the employees of FBSC include pay, promotion, recognition

of work, relationship of co-workers, environment of work place, welfare schemes and opportunities for work in advanced technologies. Among them, welfare schemes like Travel, Canteen, Crèche, insurance facilities etc as well as salary, amount of increment, bonuses, promotion & recognition of work is highly correlated to employees job satisfaction. Finally, above mentioned five difference dimensions are highly influenced (82%) factors on employees overall job satisfaction in the FBSC, Coimbatore.

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**Figure 1: Research Model towards Influencing Factors on Job Satisfaction**



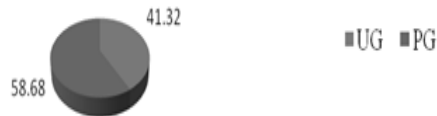
**Figure - 2: Gender of the Employees (In %)**



**Figure - 3: Age Group of the Employees (In %)**



**Figure - 4: Graduation of the Employees (In %)**



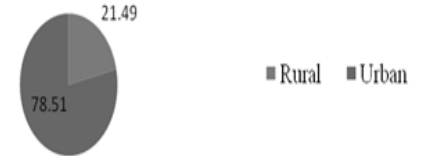
**Figure - 5: Monthly Income of the Employees (In %)**



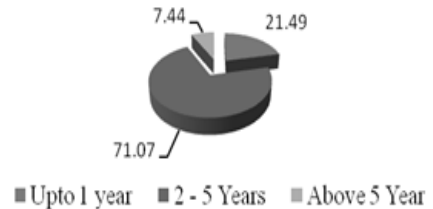
**Figure - 6: Marital Status of the Employees (In %)**



**Figure - 7: Place of Living of the Employees (In %)**



**Figure - 8: Job Experience of the Employees (In %)**



**Table 1: Determination of Influencing Factors on Job Satisfaction of the Employees**

Variables/Factors	I	II	III	IV	V	Communalities
JSV <sub>1</sub>	0.789	0.135	0.053	0.059	0.213	0.693
JSV <sub>2</sub>	0.183	0.708	0.193	0.154	0.223	0.645
JSV <sub>3</sub>	0.626	0.135	0.175	-0.074	0.125	0.462
JSV <sub>4</sub>	0.659	0.023	0.182	0.243	0.285	0.608
JSV <sub>5</sub>	0.257	0.527	-0.236	0.052	-0.350	0.524
JSV <sub>6</sub>	0.358	0.060	0.815	0.029	-0.051	0.799
JSV <sub>7</sub>	0.374	0.207	0.786	0.107	0.088	0.821
JSV <sub>8</sub>	0.052	0.352	0.266	0.755	0.122	0.782
JSV <sub>9</sub>	0.570	0.379	0.301	0.061	0.024	0.563
JSV <sub>10</sub>	0.348	-0.051	0.600	0.450	0.184	0.720
JSV <sub>11</sub>	-0.118	0.752	0.187	0.122	0.228	0.681
JSV <sub>12</sub>	0.729	-0.077	0.223	0.138	0.062	0.610
JSV <sub>13</sub>	0.182	0.061	-0.113	0.896	0.057	0.855
JSV <sub>14</sub>	0.464	0.343	0.369	-0.068	0.154	0.497
JSV <sub>15</sub>	0.505	-0.120	0.261	0.117	-0.290	0.436
JSV <sub>16</sub>	0.081	0.776	-0.053	0.258	0.214	0.724
JSV <sub>17</sub>	0.224	0.089	0.101	0.242	0.704	0.622
JSV <sub>18</sub>	-0.030	0.227	0.150	0.624	0.278	0.542
JSV <sub>19</sub>	0.283	0.123	-0.117	0.144	0.690	0.606
JSV <sub>20</sub>	0.022	0.369	0.146	0.091	0.699	0.656
Eigen Value	3.452	2.651	2.335	2.281	2.126	12.846
% of variance	17.261	13.257	11.676	11.403	10.631	64.228
Cum. % of Variance	17.261	30.518	42.194	53.597	64.228	

Extraction Method: Principal Component Analysis.  
Rotation Method: Varimax with Kaiser Normalization.

**Table 2: Clustering of Parameters into Influencing Factors on Job Satisfaction of the Employees**

Factor	Variables	Rotated Factor Loadings
I - 17.261	Salary	0.789
	Amount of increment	0.729
	Percentage of bonuses	0.659
	Good chance for promotion	0.626
	Leave policy of the company	0.570
	Relationship with colleagues	0.505
	Respect and Recognition from higher authorities	0.464
II - 13.257	Job security	0.776
	Physical working environment	0.752
	Work load	0.708
	Flexibility of work hours	0.527
III - 11.676	Welfare facilities (Travel, Canteen, Crèche etc.)	0.815
	Entertainment programmes	0.786
	Insurance facilities	0.600
IV - 11.403	Communication with team leaders/supervisors	0.896
	Role of decision making	0.755
	Relationship with customers/clients	0.624
V - 10.631	Supervisors/Team leaders involvement in your carrier development	0.704
	Opportunities to work on innovative projects	0.699
	Opportunities to use new technologies	0.690

**Table 3: Consistency of the Influencing Factors on Job Satisfaction**

Factors	Cronbach's Alpha
Pay, promotion and Recognition of work	0.812
Work environment	0.708
Welfare Schemes	0.840
Relationship of Co-workers	0.778
Interest of works in advanced technologies	0.718

**Table 5: Final Model for Influencing Factors on Job Satisfaction of the Employees in the FBSC**

	SS	df	MS	f	Sig.
Regression	164.313	5.000	32.863	105.169**	.000
Residual	35.935	115.000	0.312		
Total	200.248	120.000			

**Table 4: Relationship of the Influencing Factors of Job Satisfaction to the Overall Job Satisfaction of the employees**

Influencing Factors on Job Satisfaction		Association	Discussion
Pay, Promotion, Recognition of work	Overall Job Satisfaction	+0.374**	These factors are significantly correlated with overall job satisfaction of the employees in the FBSC @ 1% level (p <0.000) but Moderate level
Work environment		+0.207*	This factor have significantly correlated with overall job satisfaction of the employees in the FBSC @ 5% level (p <0.023) but Low level
Welfare Schemes		+0.786**	This factor have significantly correlated with overall job satisfaction of the employees in the FBSC @ 1% level (p <0.000) but Strong level
Relationship of Co-workers		+0.107	This factor have significantly not correlated with overall job satisfaction of the employees in the FBSC @ 5% level (p =0.243)
Interest of works in advanced technologies		+0.088	This factor have significantly not correlated with overall job satisfaction of the employees in the FBSC @ 5% level (p=0.337)

**Table 6: Analysis for Variance for Regression**

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# IMPACT OF DETERMINANTS AND SOCIAL MOTIVATORS ON CHOICE OF MOBILE SERVICE OPERATORS IN NEW DELHI

Sangeeta Gupta★

*The technological advancement and reduced tariff have propelled the growth of mobile services in India. In the last ten years, the industry has made rapid growth in terms of subscriber base. Today, cell phones have become indispensable for people and moved beyond their fundamental role of communication. The Indian Mobile Service Provider (MSP) segment is overcrowded, customers have many choices of MSPs. nowadays, customers have become smarter and rational and consider various determinant factors before choosing an MSP. Hence, it is really important and beneficial for the marketers of MSPs to understand and analyze the choice making process of customers. As a result of its importance numerous determinants need to be considered when choosing mobile service provider. This study focused on determining factors and social influencers impacting consumer choice of mobile service provider. This study evaluated the significance of Connectivity/Geographical coverage, Service price, Promotion and customer handling. It, also, investigates the impact of social factors as a motivator pertaining to the choice of mobile service provider. The study was a sample survey of a cross section of mobile phone users. Data was collected with an adapted questionnaire distributed to 150 users using convenience sampling technique. The study found out that consumer decisions were impacted by determinants as Broad network coverage, Call quality, Service price, Brand penetration & offer schemes and Customer relationship. As a way of recommendation, it is important for a company to understand how customers define efficiency. The study recommends that in order to be competitively edged and to increase their market share, there is need to invest heavily in infrastructure and technological advancements that leads to improved coverage, reduce congestion, better call quality and have cheaper rates. Also, they should focus on customer as one important asset and brand image to be a leader.*

Mobile phones have become a must have tool for survival and communication. Its adoption has been exceptionally rapid in many parts of India. In metro cities particularly in New Delhi mobile penetration has reached 88%, and it is a common gadget that almost every teenager and adult has.

The breathtaking growth of the telecommunication companies in India over the last twenty years has made history. With the arrival of private telecommunication companies in India, the industry observed introduction of mobile phones into the Indian market and it became extremely popular amongst the Indian masses. India's telecom sector has shown huge expansion in the recent years in all respects of industrial growth due to liberalization in Government policies after 1991. Removal of restrictions on foreign capital investment and industrial de-licensing has allowed various private players to enter into the Indian telecommunication market. The Indian telecom market is regulated by Telecommunication Regulatory Authority of India (TRAI) which acts as an independent regulator was set up in 1997 by the Indian Government. Today two types of mobile phone service providers operates in the Indian market, they are -

◆ Global System for Mobile Communications (GSM)

- ◆ Code Division Multiple Access (CDMA)
- ◆ Broadly two types of service providers exist in the Indian telecommunication sector, like the following -
- ◆ State owned companies like - Bharat Sanchar Nigam Ltd and Mahanagar Telephone Nigam Ltd.
- ◆ Private Indian owned companies like – Bharti Airtel Limited (Airtel), Vodafone Essar Limited (Vodafone), Reliance Communications (Reliance), Loop Mobile (I) Limited-Formerly BPL (Loop), Mobile, Tata Teleservices Limited (Tata) , Sistema Shyam TeleServices Limited (Sistema), Idea Cellular Limited (IDEA), Aircel Limited (Aircel), Uninor , Videocon Telecommunications Limited , Unitech Wireless Limited (Unitech)

A report by PricewaterhouseCoopers compares the number of players in telecom across India (Figure 1). More than 10 players in each circle and 14 players on a national scale exist in India which is a big number as compared to other countries. Also, with Telecom Regulatory Authority of India (TRAI) being a tough taskmaster, the market is highly regulated and leaves very little scope for differentiation

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amongst players. The result is almost identical pricing plans, dwindling margins and marketing being the only differentiation. With the advent of the recent 2G scams, the industry has also attracted media spotlight on itself (2011).

According to Cellular Operator Association of India (COAI), India ranks between the top ten telecom network in the world and the second largest in Asia. India is also one of the fastest growing markets in mobile communications. The telecommunication sector, especially the mobile phone sector, in India is one of the fastest growing business segments of the country which provide a lot of value addition to the society with its service and creation of employment opportunities. At present there are fourteen mobile phone operators in the country. All of them compete with each other to grab customers and wide market share by providing wide range of services. They not only offer basic services of cell phone but also provide other supplementary and value added services. Along with the normal services all of the operators are now offer internet facilities which enable the subscribers to reach the whole world. Detail of Cellular Mobile subscriber in India is shown in table 1 and figure 2 and figure 3 depicts market share of cellular mobile service providers in India.

Indian Government had flagged off the procedure of Mobile Number Portability (MNP) in the beginning of the year, which allows the customer to retain the same mobile number across the operators. Mobile Number Portability requests increased from 89.70 million subscribers at the end of March 2013 to 91.73 million at the end of April 2013. (Trai.gov) As far as customers are concerned, they benefit from this intense competition in terms of low tariff, good service quality and frequent introduction of plan as per their requirements. But the negative aspect is that customers are in a fix over their choice of an MSP. They search and gather information on these factors weigh these factors to choose the subscription. In this context, it is of growing concern to look at consumer buying decision process that casts light on the factors that finally determine consumer choices towards different service operators.

## I. Review of Literature

A study conducted by Kim et.al. (2004) for Korean mobile communication services, found that the customer satisfaction towards MSP is strongly supported by call quality, value-added services and customer support. It concluded shows that these factors are of importance while choosing a service operator. One of the studies at Kenya, Nairobi stated that social factors plays an important role in

consumer behaviour like reference groups (social networks), families, friends etc. The reference groups consists of all groups that have a direct (face to face) or indirect influence on his or her attitudes and behaviour (Kotler and Keller, 2006). Marketing personnel must determine how to reach and influence opinion leaders where reference group influence is strong. The family is the most important consumer buying organization in a society. Family members constitute the most influential primary reference group. In Kenya the family may have more influence on the choice of mobile service provider because of calling habits and cost (Ofwona, 2007). Also friends' opinion and behaviour influences purchase decision.

In the studies conducted by Howard, Sheth Loudon and Dellabitta, 2002, they analyzed the buyer's decision making by Howard and Sheth model taking six factor (Psychological influencer – Input – Inhabiting factors – Social and Culture influence – Processing determinants - Outputs), which play a vital role in consumer decision making.

In the studies done by Sandhir (2004) who conducted a research in Ludhiana and identified that customers make their choice of an MSP by taking in account five factors: Connectivity, Coverage, Tariff, VAS and Customer Care. It found that industry cannot neglect these factors.

Studies by Karjalnoto et al. (2010) identified that customers is choice with regard to mobile phone in Finland have been affected by seven factors, namely – Innovative services, Multimedia, Design, Brand, and Basic properties, Outside influence, Price and Reliability. Neeraj and Girish (2007) have identified four factors that consumers perceive to be important, namely – Customer Care Services, Call rates, Promotion and availabilities, which are the most important factors considered by customers before utilizing the services of an MSP. According to them all are utmost important while making a decision of selecting amongst various MSPs.

Studies by Mohammed (2009) revealed that in Makkah, Saudi Arabia, financial factor is the most important in the selection of an MSP. Also, he observed that there is no strong tendency among the customers to subscribe to the same service provider among family members and friends.

### Research Objectives

- ◆ To Study the impact of determining factors in making choice of mobile service provider in New Delhi.
- ◆ To identify the social factors that motivate the consumer towards the service provider decision in New Delhi

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## II. Research Methodology

To serve the purpose of the study in terms of understanding the consumers' perceptions in the selection of cellular mobile service provider in New Delhi, India. A structured questionnaire was developed to collect the required primary data from the consumers. The questionnaire consists of three distinct sections, each of which contains relevant questions pertaining different parts of the study.

Questionnaires were systematically distributed utilizing a non-probability convenience sampling from walk in customers at malls, market places and academic institutions. No specific characteristics were defined for the respondents except being a cellular mobile user. It was logically assumed that the sample represented the whole population of mobile services users in New Delhi, India. A total of 163 questionnaires were distributed and 150 out of them have been completed, implying a response rate of 92 percent. First section of the questionnaire was to collect the demographic and personal details of the respondents. The data was collected via one-to-one interaction with the respondents from different occupation, income, and age group. Second section of questionnaire includes study of four main construct i.e. Connectivity/Geographical coverage, Service price, Promotion and customer handling. Each construct had three to four questions with an itemized -likert ranking scale of 1-5 (1=Strongly disagree, 2=Agree, 3=Neutral, 4=Agree, 5=Strongly agree). All constructs are measured using multiple indicators. The data collected from questionnaires were analyzed by reliability Analysis and factor analysis.

In the third section of the questionnaire study, various social motivators were studied and analysed by using percentage analysis. The respondents were asked to name the motivator from the given list which motivates them to make their subscription decision. Percentage Analysis Method: Simple percentage analysis method refers to special kind of ratio. With the help of absolute figures, it will be difficult to interpret any meaning from the collected data, but when percentages are found out, and then it becomes easy to find the relative difference between two or more attributes. 
$$\text{Percentage} = \frac{\text{No. of Respondents}}{\text{Total No. of Respondents}} \times 100$$

## III. Results & Discussion

### Reliability Coefficient

Reliability coefficient is tested using Cronbach's alpha ( $\alpha$ ) analysis. In order to measure the reliability for a set of two or more constructs, Cronbach alpha is a commonly used

method where alpha coefficient values range between 0 and 1 with higher values indicating higher reliability among the indicators (Hair, et al., 1992).

### Factor Analysis

Using the statistical software package SPSS 19.0, factor analysis was carried out on the results obtained from data of 150 respondents. Since, Factor analysis represents an analytical process of transforming statistical data (as measurements) into linear combinations of variables, it is a meaningful statistical method used for combining a large number of data into a considerably smaller number of factors with a minimum loss of information (Hair, et al., 1992) The extraction method the principal component analysis (PCA) and varimax rotation were carried out to explore the underlying factors associated with 14 items. The constructs validity was tested applying Bartlett's Test of Sphericity and The Kaiser-Mayer-Olkin Measure of Sampling adequacy analyzing the strength of association among variables. The Kaiser-Mayer-Olkin measure of sampling adequacy (KMO) was first computed to determine the suitability of using factor analysis. It helps to predict whether data are suitable to perform factor analysis. KMO is used to assess which variables to drop from the model due to multicollinearity problem. It also determined the suitability of performing factor analysis. To determine the minimum loading necessary to include an item in its respective constructs, items with loading of 0.50 or greater were acceptable. If this does not have achieved, then it is necessary to drop the variables with lowest Eigen values until KMO overall rises above 0.60. Result for the Bartlett's Test of Sphericity and the KMO reveal that both were highly significant and concluded that this variable was suitable for the factor analysis.

The total variance explained by Principle Component Analysis (PCA) is shown in Table 4. It shows that there was a significant drop in the eigen values from 5th component onwards. Hence, the first five components were considered, which together explain 68.63% of the total variance. To determine the minimum loading necessary to include an item in its respective constructs, Hair et al. (1992) suggested that variables with loading greater than 0.30 is considered significant, loading greater than 0.40 more important, and loading 0.50 or greater are very significant. For this study, the general criteria were accepted items with loading of 0.40 or greater. The results shown in Table 4.

The factor loading of 14 variables was then observed, and the variables were clubbed into five factors.

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Factor 1 combined the following attributes

Wide Network Coverage

Speedy roaming/ISD Connectivity

Factor 2 combined the following attributes

Voice clarity

Call drop rate

Factor 3 combined the following attributes

Tariff/Minimum Plan

Charges (Call/SMS/MMS)

To other operator, charges

Roaming charges/Hidden Charges

Factor 4 combined the following attributes

Offers on recharge or scratch card

Brand image

Outlets availability and reachability

Factor 5 combined the following attributes

Active redressal

Restoration capability

Responsiveness and empathy

Thus looking at the complexion of the above factors, they can be named as:

Factor 1 : Broad network connectivity

Factor 2 : Call Quality

Factor 3 : Service Price

Factor 4 : Brand penetration & offer schemes

Factor 5 : Customer Relationship

## IV. Findings & Conclusion

A careful scrutiny of the above tables indicates that of the five deduced factors, the first important factor that played a vital role in customer's choice towards MSP is Broad network connectivity and this can be improved by proper investment and multiplication of the infrastructure. The second factor 'Call quality' is emerged as a important factor which is associated with quality of network. Service Price is a third important factor, which indicates that a MSP should focus on innovative value added services at minimum cost, which economically lucrative tariff plans should be planned strategically keeping in mind the competition. The brand penetration and offer schemes if the fourth influencing factor i.e. brand image which depends upon the company's communication and positioning strategies. The perception of the customers should be worked upon as it will give the company a competitive advantage and edge. The customer relationship, the fifth important factor, is determined by the promptness of response to complaints and proactive solution to it. It could be boosted by controlling the internal operation of the firm, increasing manpower and helping them to inculcate qualities like empathy, patience, better listening skills, brilliant

communication skills etc. and proper training of employee and relationship with customers. Looking at the importance of these factors, services providers should concentrate on them as they are indirect components of brand buildings and strongly influence a customer's choice.

In the second part of the study, percentage analysis was used to find the most important social motivator which motivates a customer to choose an MSP. An individual customer not only keeps in mind the above three factors. Table 6 indicates the response of respondents towards social motivators. It clearly shows that a majority (40.6%) of the respondents have preferred the current service provider of the reference group (Family/friends/Relatives) most which motivate respondents to choose Mobile Service Provider. It is because they are already aware about the MSP and its services so that they go with currently used by Family member, friends and colleagues are the motivators. The next category accounts for 30% respondents who have preferred service operators only because it is suggested by family members, relatives, friends or colleagues. Approximately 18 % of the respondents are motivated by retailer's recommendation. Only 11.3 % of respondents approximately make choice on their own as per their logic.

Hence, the service provider companies are characterized by their involvement in competition with each other to attract and acquire the potential consumers. The findings of this study can help mobile phone operators in their operation and strategic planning. It can be conclude that service operators should create an empathical relationship with the customer through innovative redressal plans and enhance their services quality brand image, better connectivity and goodwill with the customer because the customer will always want more from their operators. They should keep on adding new supplementary services and make an offer worth value for money. Also marketeers could work on the areas which are left unattended or has not been given much of the attention like customer grievance etc. In addition, mobile phone operators should train their employees to be sensitive to the special needs and wants of customers. To successfully compete in today's value conscious environment, mobile phone operators in New Delhi must establish the value of their offers as superior to others.

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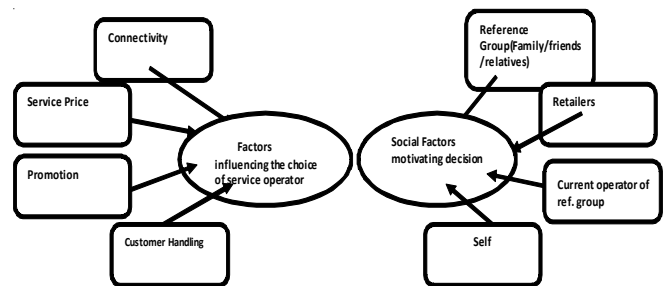
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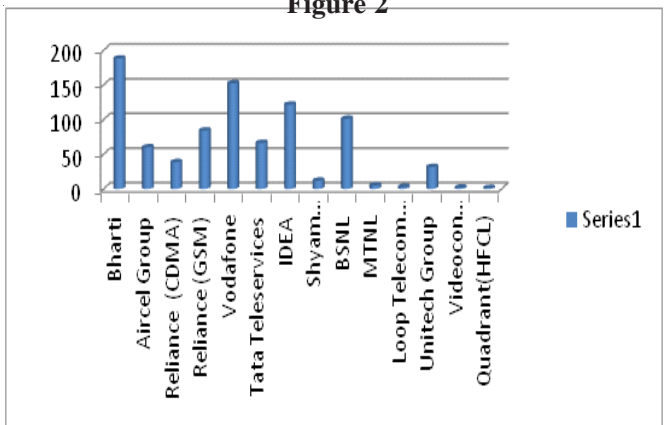
### Conceptual Framework



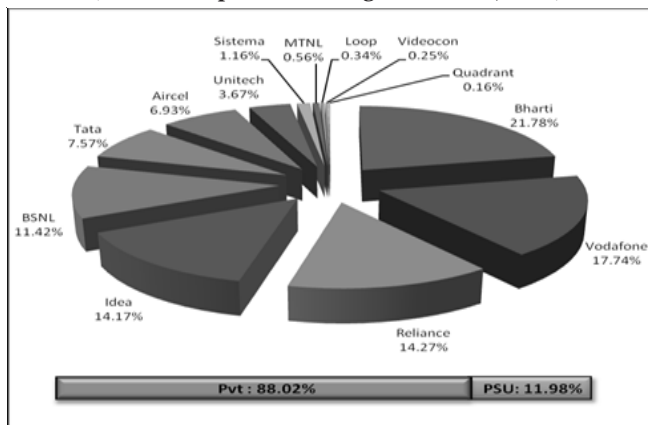
**Table 1 :Service Provider wise Subscriber base (as on 30th April,2013**<http://www.trai.gov.in>)

Licensed Cellular Service Providers and their Subscriber Base	
Bharti	188.2
Aircel Group	60
Reliance (CDMA)	38.68
Reliance (GSM)	84.28
Vodafone	152.3
Tata Teleservices	66.42
IDEA	121.6
Shyam Telelink(Sistema)	11.91
BSNL	101.2
MTNL	5
Loop Telecom Private Ltd	3
Unitech Group	31.6
Videocon	
Telecommunications. Ltd.	2
Quadrant(HFCL)	1.37
	867.56

**Figure 2**



**Figure 3:Market Share of Major Mobile Service provider**  
(Source: <http://www.trai.gov.in> -Mar,2013)



**Table2: KMO and Bartlett's Test**

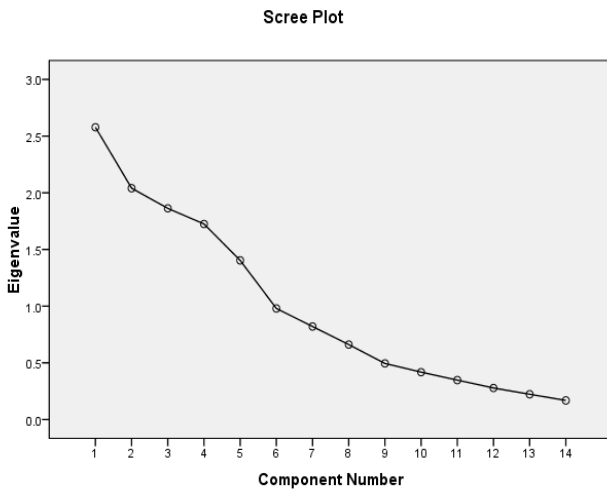
<b>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</b>	<b>0.632</b>	
Bartlett's Test of Sphericity	Approx. Chi-Square	669.05
	df	91
	sig.	0.000

**Table 3: Communalities**

	Initial	Extraction
Wide Network coverage	1	0.777
Speedy Roaming/ISD connectivity	1	0.758
Voice clarity	1	0.877
Call drop rate	1	0.818
Tariff /minimum plan	1	0.511
Charges(Call/SMS/MMS)	1	0.537
To other operator charges	1	0.622
Roaming charges/hidden charges	1	0.788
offers on recharge or scratch card	1	0.676
Brand image	1	0.595
Outlets availability and reachability	1	0.812
Active Redressal system	1	0.721
Restoration capability	1	0.754
Responsiveness and empathy	1	0.364
Extraction Method: Principal Component Analysis.		

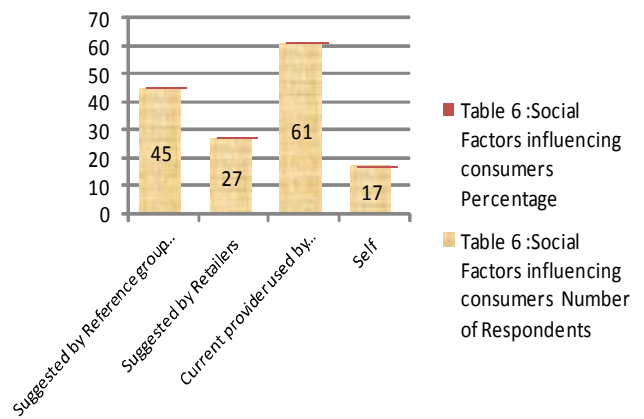
**Table 4: Total Variance Explained**

Component	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	2.578	18.415	18.415	2.578	18.415	18.415	2.322	16.588	16.588
2	2.04	14.574	32.988	2.04	14.574	32.988	2.053	14.667	31.255
3	1.863	13.305	46.293	1.863	13.305	46.293	1.864	13.311	44.566
4	1.725	12.319	58.612	1.725	12.319	58.612	1.846	13.189	57.755
5	1.404	10.027	68.639	1.404	10.027	68.639	1.524	10.884	68.639
6	0.98	6.997	75.636						
7	0.82	5.861	81.496						
8	0.661	4.723	86.219						
9	0.495	3.534	89.753						
10	0.418	2.984	92.738						
11	0.348	2.483	95.221						
12	0.278	1.986	97.207						
13	0.223	1.591	98.798						
14	0.168	1.202	100						
Extraction Method: Principal Component Analysis.									



**Table 6 :Social Factors influencing consumers**

Motivators	Number of Respondents	Percentage
Suggested by Reference group (Family/Friends/Relatives/colleagues)	45	30%
Suggested by Retailers	27	18%
Current provider used by Family/Friends /Relatives/colleagues	61	40.60%
Self	17	11.30%
<b>Total</b>	<b>150</b>	<b>100%</b>



**Table 5 :Rotated Component Matrix<sup>a</sup>**

	Component				
	1	2	3	4	5
Wide Network coverage					0.863
Speedy Roaming/ISD connectivity					0.836
Voice clarity			0.931		
Call drop rate			0.9		
Tariff /minimum plan	0.689				
Charges(Call/SMS/MMS)	0.684				
To other operator charges	0.753				
Roaming charges/hidden charges	0.879				
offers on recharge or scratch card		0.798			
Brand image		0.748			
Outlets availability and reachability		0.9			
Active Redressal system				0.843	
Restoration capability				0.861	
Responsiveness and empathy				0.593	
Extraction Method: Principal Component Analysis.					
Rotation Method: Varimax with Kaiser Normalization.					
a. Rotation converged in 5 iterations.					

## INCLUSIVE LEADERSHIP FOR ENHANCED PROJECT SUCCESS AND ORGANIZATIONAL OUTCOME

R. Murugesan★

The euro zone crisis has fueled fear and uncertainty in the minds of business leaders on the sustenance and growth of their organizations. Commercial organizations employ project management techniques to achieve organization's goals and growth objectives. Project management is a vehicle through which innovation and change come to fruition. There are many infrastructural and industrial projects in various stages of implementation. Organizations employ project management processes and teams to achieve organizational goals and gain operational efficiencies (Kerzner, 2006). Organizations need strong managers to lead their staff toward accomplishing business goals. Managers are more than just leaders; their expected roles are problem solvers, cheerleaders, and planners as well. Managers do not come in one-size-fits-all shapes or forms. Managers need to fulfill many roles and have varied responsibilities at each level of management within an organization. Commercial organizations employ project management techniques to achieve organization's goals and growth objectives. Projects and project management have become integral business processes that support organizational performance and ultimately affect society. Failures are more common than successes, as evidenced in all fields, throughout history and in contemporary society (Wysocki, 2007). Many projects do not succeed to see successful commercial closure in spite of the best analytical tools and techniques employed. The pressure factors from the project stake holders have resulted in demoralized project team steering the project towards sure failure. Each project is unique with the set scope, cost and schedule influenced by external environment factors. Projects and project management have become integral business processes that support organizational performance and ultimately affect the society. Often, a failed project causes greater concern not only to the project sponsor but also to the entire project team, resulting in frustration and fatigue and even loss of image to the organization in addition to other resources sunk in. Great project outcomes are influenced by the leadership skills possessed by the project managers.

### Inclusive Leadership

The hypercompetitive business environment is replete with dynamic and unpredictable economic, social, political,

technological, and organizational changes. In such a challenging time, project and organizational objectives can best be accomplished by transformational leaders who have the desire, courage, and skills to make the needed changes and who understand the fundamentals of transformational leadership. The scarcest resource in today's world is the leadership talent capable of continually transforming organizations to win in tomorrow's world (Tichy, 1997). Diversity is a buzz word in just about every part of the world and every industry sector. Global Organizations are characterized by a high level of diversity particularly on a linguistic, cultural (national, organizational and functional) and experiential basis. What is not given however is the degree to which the organization's culture possesses the quality of inclusiveness (Joerg Schmitz, 2006).

Diversity in the global context can be defined as visible and invisible differences, thinking styles, leadership styles, religious background, age, experience, and culture.

Inclusiveness is the quality of the organizational environment that maximizes and leverages the diverse talents, backgrounds and perspectives of all employees.

Based on the experience of the author in the domain of industrial project management, the following model depicts the relationship between diversity and inclusion with description on factors of concern. Please refer Figure 1.

As is evident, organizations having high diversity and high inclusiveness have the following rich nutrients:

- ◆ High collaboration
- ◆ High morale
- ◆ High engagement
- ◆ High employee retention

All the above contribute to high competitive advantage to the organization.

Inclusive leadership is expected to bring niche benefits to organizations, facilitating innovation, optimally utilizing the pool of diverse talent available and, more importantly adopting to the current organizational environment. Inclusive

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leaders are quite skilled at championing change, and transforming organizations. They provide vision with clear and compelling picture of what needs to be done and why, direction with clear goals, values, and priorities and offer inspiration by example and motivating people to excel, meet the challenge, and persevere in the tough environment. Such leaders champion change from the initiation phase through change facilitating and skillful implementation of planned change processes. Knowing the current ground realities, inclusive leaders skillfully identify future ideas and communicate effectively to the team and enable successfully the transformation process towards not only high performance but also as a self-renewing organization.

### Organization Theory

The concept of modern organization caught up in the middle of the nineteenth century with the rise of the factory system. Culture refers to the customs and rituals that societies develop over the course of their history (Schein, 2004). In the context of organizations, culture conveys the values, beliefs, and behaviors of an organization's employees. It is important to understand the type of structures organizations have. Organizational structure would relate to degree and type of horizontal differentiation, vertical differentiation, mechanisms of coordination and control, formalization, and centralization of power. While contemporary management theories exhibit key aspects found in classical theory, the modern management thought can be termed a product of past developments in four broad areas (Wren, 1994):

- ◆ general management theory and the study of managerial activities,
- ◆ behavioral developments, human relations, and other people-oriented approaches,
- ◆ advances in quantitative and/or scientific problem-solving approaches, and
- ◆ recognition of management functioning as open systems of changing capabilities

Since the concepts of the classical scholars have not provided the right answers to current business situations, there is no one best way to organize. Every project situation is unique not only with project stake holders but also with the internal and external environment in which the project takes shape from concept to commissioning. It is imperative to consider and ensure that there is good a fit between the organization's structure, its size, its technology, and the requirements of the organization environment.

In the approach of contingency theory, the performance

of an individual manager for the given situation is recognized and assigned importance. Under this approach, a contingency plan is developed for a specific situation when things could go wrong or are going wrong. Contingency plans include specific strategies, initiatives and actions designed to deal with identified variances to assumptions. Contingency planning is a management process that recognizes potential impacts that threaten an organization and provide a framework for building resilience and the capability for an effective response and possible recovery if required. After completion of the initial contingency planning session, ownership must decide upon the contingency planning team that will execute the plan. An effective contingency plan must be fully integrated into the organization as an embedded management process. It is commonly recognized that organizations are a key element of multinational society of industrialized nations (Charles Perrow, 1986). We live in a world where large organizations have absorbed the society and vacuumed up most of social reality. In times of economic turbulence like what we face now, contingency planning is often essential and unavoidable. The creation of a sound contingency plan is a complex undertaking, involving a number of stages and discrete activities. According to Warrick (2005), organization development is a planned and collaborative process for understanding, developing, and changing organizations to improve their health, effectiveness, and self-renewing capabilities. The contingency budgeting process is a survival action plan and commands great attention to achieve the stated objectives.

### Technology and Automation in Engineering Projects

The civilized environment is ubiquitous with high tech appliances and systems. Organizations automate the manufacturing environment for several reasons including increased productivity for reasons of competitive advantage. Higher output and increased productivity are two major reasons justifying the use of automation. Despite the claims of high quality from good workmanship by humans, automated systems typically perform the manufacturing process with less variability than human workers, resulting in greater control and consistency of product quality. To handle the conversion processes in an industrial plant, a large number of simple to complex analog control loops are employed. This type of process is often controlled by a distributed control system (DCS), or programmable logic controller (PLC). The choice of a DCS or a PLC is based on the size and complexity of the control application(s).

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A common business objective today is the e-business initiative, which strives to tightly integrate supply chains, reduced inventory, provide build-to-order capabilities and accelerate order-to-delivery processes. More than ever before, the enterprise is changing and faster (Murugesan, 2006). In view of this, there is an increased need to improve communication between the enterprise and the factory floor. With improved communications, some of the applications that benefited include:

- ◆ Computer Integrated Manufacturing (CIM)
- ◆ Enterprise Asset Management (EAM)
- ◆ Computer Integrated Maintenance Management System (CIMMS)
- ◆ Enterprise Resource Planning (ERP), and
- ◆ Business Decision Support System (BDSS)

Automation using robots is highly prevalent in automobile industry. Automation has provided cost effective operational solutions in spite of high capital outlay for situations where the cost of labor is high or labor productivity is low. Virtually every industrial sector has benefited from automation and some have been greatly transformed by it. Physical automation systems are employed in sectors like mining, manufacturing and continuous process industries. Examples of continuous process industries include petrochemical, oil and gas, power, cement, iron and steel and pulp and paper. There can be cases where implementation of automation may seriously reduce or eliminate jobs for humans resulting in serious social and human costs. While statistics suggest that automation does not contribute to unemployment on the macroeconomic level, it can lead to personal dislocation and employee resentment. Informed leadership initiatives are of paramount importance in such situations to ensure the concerns of project stake holders and to preserve employee morale.

### **Principles and Practices of Project Management**

Project management deals with the application of knowledge, skills, tools and techniques to project activities to meet the stated project requirements relevant to a business or industrial sector. Organizations employ project management processes and teams to achieve their corporate goals and to gain operational efficiencies. Projects are efforts that change over time, requiring attention to keep the tasks and their relationships in a state of progress and balance. A project is a sequence of unique, complex, and connected activities having one goal or purpose that must be completed by a specific time, within budget, and according to specification (Wysocki, 2007). Projects do not occur in a vacuum. These activities occur within the

organization, driven by a project manager motivating a team of constituents toward a goal. The project will interact with its environment, necessitating the project team's ability to anticipate and react to changes in the surroundings (Nicholas, 2001). Organizations employ project management processes and teams to achieve their corporate goals and to gain operational efficiencies. Despite the adoption of standard project management methodologies, some organizations still face tough challenges to achieve project success. World-class competition, lower costs and increased demands for scarce resources are pushing companies to operate in the frontier where the fine line between chaos and efficient use of tools, people and materials is very thin. Typically, an engineering project will have the following four phases in its project cycle:

#### **Project Definition Phase**

This is a critical phase commencing with the project kick-off meeting with project stake holders. With the initiation of the project, the identified project manager is introduced to the stake holders, further phases of the project are defined and the formal project charter is developed.

#### **Project Planning Phase**

During this phase, the project organization is finalized and the project team of lead engineers/executives is finalized in consultation with the top management and the heads of functional departments and the formal project plan is developed.

#### **Project Execution Phase**

This phase is of the longest duration in the project cycle. Work Breakdown Structure (WBS) developed in consultation with the project team. WBC breaks the work of the total project into manageable units like subprojects, project milestones, major activities and work packages or project deliverables.

#### **Project Closure Phase**

During this phase, compiling project documentation plays an important role. Exhaustive review is done on different phases of the project and feedback obtained from various stake holders for improvement in future. This phase signals administrative close out and commercial closure for the project. The project completion certificate issued by the client is the most important document for the organization for promoting its business.

When projects get affected with cost overruns, delays, and quality issues, organizations and stakeholders suffer consequential losses and face credibility issues. In view of

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the effects of challenged projects, leaders may seek to identify the factors that influence project performance or reasons for the high rate of failed or challenged projects. It is also imperative that leaders introspect into the events to ascertain the factors that influence and contribute to successful project performance.

### Styles of Leadership

Factors that affect situational decisions include motivation and capability of team members. The relationship between leader and followers may be another factor that affects leader behavior as much as it does follower behavior. Yukl (1989) seeks to combine other approaches and identifies six variables:

- ◆ Subordinate effort: the motivation and actual effort expended.
- ◆ Subordinate ability and role clarity: followers knowing what to do and how to do it.
- ◆ Organization of the work: the structure of the work and utilization of resources.
- ◆ Cooperation and cohesiveness: of the group in working together.
- ◆ Resources and support: the availability of tools, materials, people.
- ◆ External coordination: the need to collaborate with other groups.

Project managers work on such factors as external relationships, acquisition of resources, managing demands on the group and managing the structures and culture of the group. Their leadership behavior can be termed as autocratic, democratic or participative, and free-rein or hands off. Quite often, the leadership style depends on the situation, including where the organization is in its life cycle. The following leadership styles are very common in the Asian context:

**Autocratic:** The manager makes all the decisions and dominates team members. This approach generally results in passive resistance from team members and requires continual pressure and direction from the leader in order to get things done. Generally, this approach is not a good way to get the best performance from a team. However, this style may be appropriate when urgent action is necessary or when subordinates actually prefer this style. It is also very effective in an emergency or crisis situation.

**Democratic or Participative:** The manager involves the subordinates in decision making by consulting team members, while maintaining control. This style encourages employee ownership for the decisions. The participative

leader motivates team members by empowering them to direct themselves; he guides them with a loose rein. The downside to this style is that a participative leader may be seen as unsure, and team members may feel that everything is a matter for the group to discuss and decide.

**Laissez-faire (also called free-rein):** In this hands-off approach, the leader encourages team members to function independently and work out their problems by themselves, although he is available for advice and assistance. In general, this approach leaves the team floundering with little direction or motivation. Laissez-faire is usually appropriate for highly motivated and skilled teams. To gain popularity and self gain, it is not uncommon that some manager resort to this style driving the project to perils.

**Transactional:** This type of leadership describes the transaction that occurs between leaders and followers in getting the job done and achieving goals. In many ways it is another term for management (Burns, 1978). This leadership style starts with the idea that team members agree to obey their leader when they accept a job. The 'transaction' usually involves the organization paying team members in return for their performance and compliance. A downside to this leadership style is that team members can do nothing to improve their job satisfaction and they may feel stifling often leading to high staff turnover.

**Bureaucratic:** In this style, leaders follow rules rigorously, and expect that their teams to follow procedures precisely as well. This is an appropriate leadership style for work involving safety risks (such as working with machinery, with toxic substances, or at dangerous heights) or where large sums of money are involved. Bureaucratic leadership is also useful in organizations where employees do routine tasks (as in manufacturing). A downside to this style of leadership is that it is ineffective or counter-productive with teams and organizations that rely on flexibility, creativity, or innovation.

**Transformational Leadership:** James MacGregor Burns developed the term transformational leader (Burns, 1978). Leaders bearing this style inspire enthusiasm in their teams and are energetic in motivating others to move forward. The excitement and commitment from the team yields enormous benefit. Transformational leadership describes a process by which leaders bring about significant positive changes in individuals, groups, teams, and organizations by using inspiration, vision, and the ability to motivate followers to transcend their self-interests for a collective purpose. A downside to this kind of leadership is that the leader may believe more in self than in his team. When this type of a leader leaves an organization, it can cause a great

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risk to the project or even the entire organization might collapse. This feeling of invincibility can ruin the spirit of the team or the entire organization. Quite often, a project manager with charismatic leadership for repeat success in projects is preferred by project sponsors and success is directly attributed to the charismatic leader.

#### Factors that Influence Project Outcome

Traditionally, project management is primarily concerned with the project's schedule, cost and scope as typified in the project triangle. These three prominent parameters interact with one another, such that a change in one variable will invariably affect the other two variables. This effect is termed 'triple constraint' and is very common among the project fraternity. These factors are the traditional variables measured to determine the project success (Kerzner, 2006).

Project complexity is ever increasing in all fields and domains that include industrial construction, infrastructure, health care and information technology. Though there are several successes in large projects, failures are more common than successes. While project failures were contributed to quantitative concepts three decades ago, qualitative factors are attributed to serious project failures than to successes in the new century. Some times, projects are cancelled way before completion, or they are completed late and well over the sanctioned budget. We also know of projects that do not meet the needs of the project stakeholders and/or do not perform according to specifications. The Project Management Triangle (also called Triple Constraint) is a model (Project Management Institute, 2004) of the constraints that a leader confronts during the execution of project management. It is often used to illustrate that project management success is measured by the ability of a leader to manage the project, so that the expected results are produced while managing time and cost maintaining required quality. The Triple Constraint concept reflects the fact that a project manager can hope to modify the value of one of these parameters, but only at the expense of the other two (Please refer Figure 2). In the face of pressures from project stake holders, using this model, the project manager can emphasize the effects of addressing one factor (mainly the project schedule). There could be several reasons for project failure. The following is a list of potential reasons for failure:

- ◆ Lack of top management support
- ◆ Not the right person for project management role
- ◆ Team members with lack of skills or motivation
- ◆ Lack of measures to evaluate project progress for timely

intervention

- ◆ Lack of skill and will to meet the challenges of changing scope
- ◆ Poor linkage to business strategy of the organization
- ◆ No risk management in place

On analysis of such project outcomes, it is observed that the softer side of project management such as organizational culture and organizational politics emerging as strong influencers. Influential leaders act as conducts in creating culture, channeling and molding behaviors of team members for a more positive outcome. Technically, the project is a system, with its own internal mechanisms, influenced by its sub systems that include the organization and its own culture. There is perennial communication amongst the system components resulting in reasonable equilibrium as a whole. The organization culture accommodates the project and the project recognizes the culture in which it resides thus culminating in project success. Projects that are not appropriate with the culture of the organization will fail. An increasing number of modern projects fall into extreme category. An extreme project is defined as a complex, high-speed, self- correcting venture in which people interact in search of a desirable result under conditions of high uncertainty, high change and high stress (DeCarlo, 2004). These are high speed, complex ventures featuring rapid change with huge uncertainty where the mission criticality is vital. Having adapted to the new economy, most organizations still continue with the traditional management outlook and for these organizations managing extreme category of projects is a big challenge. These projects are surrounded by unpredictability and they need change tolerant model and an agile organization to succeed. Organizational politics is an outcome of the dynamics involved in the allocation of scarce resources among many projects and divisions. These resources are not limited to fiscal ones but also include competent team members. Under such difficult situations, the project manager has to collaborate, compromise and even dominate to achieve success. There is a need to network with others and build coalitions that are willing to listen to the manager and support him all possible ways for him to succeed. Hence, it is the responsibility of the project manager to consider the impact of the culture of the organization and politics influencing the project outcome.

Transformational leaders are relationship oriented leaders who consider human factors, such as trust, when they interact with their team are concerned with the welfare of the team members as well, seeking to develop and grow their skills, which ultimately help the team to perform well.

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In view of the above analysis of contributing factors, the emergent property for project success is a sum of the manager's skill sets, project management methodology, and organization factors. Only organizations that practice sound project management principles would be able to secure competitive advantage over those that run the projects by experience alone. Huge investment at high interest rates demand that products and services reach the market faster with cost advantage. Normally, the project is delivered within the defined cost and schedule, within the scope stated during the project execution. More importantly, the project must be delivered within the constraints of the organization, its culture, its politics and its structure for visible project success.

### **Leadership for Project Success**

In a typical project environment where a higher the degree of uncertainty is confronted with the cost, schedule and scope of a project, a greater leadership component is required for project success. According to Wysocki (2007), the project manager should have five skills: experience, leadership, technical capability, interpersonal competence, and management familiarity. Whereas, Gray and Larson (2008) categorized five factors for a successful project manager: task, position, inspiration, relationship, and personal. The matrix organization structure is more common in project driven organizations offering the combined advantages of a pure functional structure and the product organizational structure (Kerzner, 2006). With this structure, the project manager is able to deal with the continual change of the project with his communication skills, alliance building and empowerment of the project team to make needed decisions quickly. Though the matrix type of structure is more complex to manage and control, it fits well in an environment of change, where adaptation is the rule, rather than the exception (Kerzner, 2006).

Often, an effective project manager exhibits both transactional and transformational leadership behaviors. Transactional leadership considers the leader and follower interacting through a reward and punishment criterion, where the follower will seek rewards and recognition for adherence to the wishes of the project manager while he may be reprimanded for acting in manners contrary to the directions (Bass, 1990). In the transactional leadership mode, the project manager will stimulate the follower's self-interest, rather than their emotions and intellect. Whereas, the transformational leader seeking to inspire their followers through emotional stimulation and personal characteristics, such as charisma (Bass, 1990). Schedule and scope oriented engineering projects with multiple

business objectives in the life of the project favor project managers exhibiting transactional project management behaviors. Transactional leadership could be very effective in a transactional work environment, such as a manufacturing or construction industry (Avolio & Bass, 2002). With a blend of skills as in inclusive leaders, the success rate of a project manager exhibiting behaviors such as communicating the goals in an intellectual and emotional manner for projects that require vision, organizational commitment and business unit interaction appears to be very high.

Further, the leadership skills of the project manager provide vital linkage of the project to the organization's strategy and as motivational impetus to the project team (Wysocki, 2007). Organizational culture and leadership are intertwined organizational elements (Schein, 2004). Both elements are essential for the organization's competitive advantage, viability, and longevity. At times, the leader may not even be aware of messages from his team, since some are unconscious, such as how they react to stressful situations, while others are more visible. Conscious acts such as allocation of resources, rewards and status to their followers are easy to recognize. Under such situations, a leader needs to communicate the goals to his followers through primary and secondary mechanisms (Schein, 2004). Leaders need to be sensitive to the need to be unambiguous in their behaviors so that his team is aware of the important items to focus on, rather than distracted on immaterial issues. Politics within an organization is an outcome of the need to allocate the firm's limited resources and to balance the organization and its individual sub-units needs (Tichy, 1983). This situation creates a need to collaborate, compromise and/or dominate. To achieve project success, the project leader needs to network with others and build coalitions to ensure they are willing to listen to him and provide all the support as necessary (Pinto, 1996). The project manager, in this situation, is displaying an ability to leverage their relationship-side of their personality, seeing people as an important source of assistance in achieving project outcomes. In the fast changing world, the field of project management has made great strides to match the needs of the dynamic business environment not seen in older generations. Projects are becoming increasingly complex and interconnected with change, complexity and innovation as the new paradigm. Organizations that do not adapt to this new reality will be lost in the rush (DeCarlo, 2004). Rather than navigating the project through conventional monitoring metrics, such as conformance to schedule or cost, competent project managers understand the need to consider their projects in

the greater context of the organization to steer to success.

## Conclusion

As organizations continue to execute business strategies through projects, the need to employ project management as a business process becomes integral to organizational success. Contemporary organizations are fully convinced that to be successful, they need to be conversant with the modern management techniques. With continuing state of the euro zone crisis and mounting economic and social problems in the Asian continent, organizational environment continues to be in state of flux from conflicting external and internal forces. More than ever, there is a greater need for talented leaders to manage such critical issues to enable the organizations to evolve, adopt and stay alive if not grow further. Project success is very vital to meet the aspirations of the project stake holders, especially the project sponsor. Inclusive leadership inspires hope promising a purposeful way forward to a positive mind-changing and life-changing future. In the context of engineering project management, the inclusive leadership conveys passionate commitment with a focus on successful outcome yielding great results to the organization.

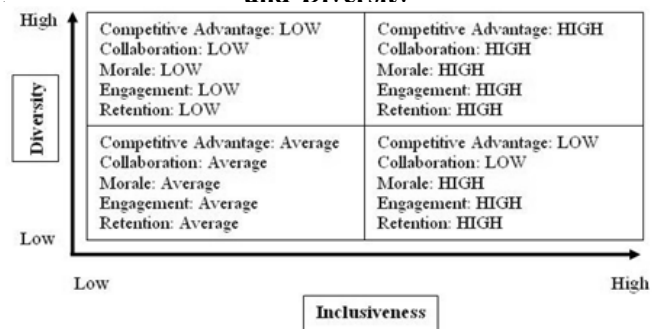
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**Figure 1: Interactive Model relating Inclusiveness and Diversity**



**Figure 2: Project Iron Triangle**



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# DO WE NEED FDI IN RETAIL? AN ANALYSIS

Shrawan Kumar Singh★

Foreign Direct Investment (FDI) matters in a globalised world. But what is crucial in determining the supply of FDI is the technology factor. This is evident in the close link between FDI and trade. In this context of Foreign Direct Investment in Multi-brand Retail (FDIMBR), the word 'reform' is being misused to cover everything from irrelevant fiddling to minor changes. Many supposed reforms relate to increasing the equity share foreigners can hold in sectors like retail and airlines. But foreign investment is hardly 2% of GDP. This is a small fraction of the total investment rate of around 35% of GDP. The so-called reforms by the government, especially the opening of the retail sector to foreign investors, are hardly the answer to the problem. Foreign direct investments are somewhat good as well as bad for retail sector. As every coin has two faces and hence foreign investment in retail has its advantages and disadvantages as well. Government has taken this decision in good faith. It is always said 'if there is a problem there is a solution' and we should explore the proper solution to prevent any future damage. Government should be proactive. Supervision is required for each and every steps and proper action is must. Transparent system required for small enterprises, local industries, farmers and affected people.

## FDI policy in multi-brand retail

The Cabinet Committee on Economic Affairs on September 14, 2012 recommended the new reform (regulated via notifications and press notes issued by the department of industrial policy and promotion) permitting 51 per cent FDI in multi-brand retail and relaxing key conditions to investment in the open single-brand retail sector. The new reform is measured in its approach. On the face of it, while it seems that the multi-brand retail sector is now entirely open, it is subject to an individual state's welcome policy. The Centre has empowered the States to either participate in the growth story by using the state-specific Shops and Establishments Act to permit foreign entrants or use the same legislation to chase them away. The reform mandates that a region should have more than one million people before it can welcome a foreign retailer and details that 30 per cent of sourcing requirements be met from local medium and small scale enterprises over a five-year period. Further, the regulation is insistent that 50 per cent of the proposed

FDI be in back-end infrastructure (does not include real-estate costs). This is bound to strengthen supply-chain logistics, make the farm-to-fork journey cheaper, and is a step towards organised retail markets.

Later, the government enhanced the small industry investment threshold from \$1 million to \$2 million. The definition of smallness is not a constraint. If foreign retailers have objections, it is because they are unwilling to commit themselves to develop the capacities of Indian manufacturers, and would rather go for imports. If India's retail sector is attractive enough, the FDI policy for multi-brand retail will also lead to transfer of technologies to Indian SMEs.

## Arguments for and against FDI in MBRT

Advocates tout it as the:

- (i) much-needed major policy push that could arrest the economic downturn;
- (ii) bring in not only foreign funds but advanced technology and expertise, create infrastructure.
- (iii) offer better prices to farmers, generate ancillary industries.
- (iv) create millions of jobs. The government says at least 50% of total FDI in retail shall be invested in back-end infrastructure. This includes investment in processing, manufacturing, distribution, packaging & logistics.
- (v) India loses nearly 20%-40% of its 230 million tonne of fruits and vegetables annually due to lack of proper storage.
- (vi) we require more cold chains in the country.
- (vii) the thumb rule of pricing a product from a farmer to a consumer is 1:2:3:4. What a farmer sells for 1 is sold at the Mandi for a 2-fold gain, which becomes 3-fold at the consumption end in the wholesale market and 4-fold when it reaches the consumer through a retailer. Unless, the numerous intermediaries in the chain between the farmer and the consumer-

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aggregator, market trader, wholesaler, sub-wholesalers—are eliminated, the farmer's lot is not going to improve and neither is the consumer's.

- (viii) consumers will get commodities of daily use at reduced prices.
- (ix) Government too stands to gain by this move through more transparent and accountable monitoring of goods and supply chain management systems. It can expect to receive an additional tax.

Arguments against: Even if big retail companies help the farmers in resurrecting their economy, what plan does the government has for millions of middlemen who are part of the business process chain that ensures manufactured products reach end users. Sceptics present a doomsday scenario:

- (i) it will wipe out small farmers and traders.
- (ii) result in job losses that engage millions of uneducated and semi-educated people at various stages of retail business spread across towns and cities. We are afraid that Tesco and Wal-Mart will only engage smart and educated workforce in small strength, comparatively.
- (iii) open the floodgates for cheap goods from countries like China.
- (iv) adversely impacting Indian industry.
- (v) our foreign dependency will be increased so it will affect our overall development in technology, agriculture, production etc.

While both arguments have some validity, the two sides err on the side of extremes. FDI in retail is not an unmitigated disaster as projected by some, nor a magic wand leading to instant economic growth. Haldirams, Bikanerwalas, Nirulas, Natus all these Indian chains have multiplied their outlets, diversified their production line, upgraded their packing and presentation, and are doing roaring business. In fact, some of the largest MNCs like McDonald's, Pizza Hut and Domino's have been forced to Indianise their offerings (Kumar, 2012).

### India's Strength and Weakness

The Indian retail sector can be broadly classified into:

- (i) Food Retailers,
- (ii) Health and beauty Products,
- (iii) Clothing and Footwear,
- (iv) Home Furniture and Household goods,
- (v) Durable goods, and

- (vi) Leisure and Personal Goods.

Of these above segment Food and beverage and clothing segment is expected to grow exponentially. Two questions arise with the coming of 'organised' multi-brand retail, namely whether through FDI or indigenous - can the kirana store owner create an effective response so that he competes successfully to retain his share of the consumer's growing shopping basket?, and will he want to make the change? What are the kirana's strengths? They are:

### Strengths:

- (i) kirana stores have great neighbourhood locations and unbeatable access. With ever-increasing traffic congestion, this is a huge customer benefit. Our country lends itself to neighbourhood solutions better than countries that have wider open spaces and lower population densities;
- (ii) low rents and 'flexible' wage costs, versus larger players. Indeed, the biggest hurdles that large-format 'modern' retail faces are the high, inflexible rents and the need to constantly train a churning and less flexible staff, and
- (iii) the fact that an entrepreneur leads the store brings with it the ability to give what every customer wants: personal service and flexibility, not to mention the nice word and the eye contact when they need it, and
- (iv) the markets are segmented to serve different clientele. There is also the advantage of buying on credit from kirana merchants and settling bills on salary day. Small grocery shops realise the value of home delivery, small stores also reduce a rupee or two on most items. This demand-and-supply relationship will remain unchanged notwithstanding the entry of bigwigs like Tesco, Carrefour and WalMart.

### Weaknesses:

- (i) the lack of scale in buying and procurement;
- (ii) lack of expensive technology and processes;
- (iii) the inability to offer a wide assortment; and
- (iv) inadequacy to brand and advertise.

All these disadvantages can be overcome:

- (a) consider issue of lack of economies of scale. There is a successful model to achieve this through the cooperative. Internationally, groups of stores combine to form a cooperative that negotiates centrally and buys locally so that they get the same pricing advantage;

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(b) smarter phones, e-commerce and social media access have revolutionised the kirana owner's options. Access to sophisticated inventory models, business intelligence aids and training aids are all possible now to help reduce costs and improve customer service like never before. Social media marketing opportunities enable him to advertise at very low costs and to laser-target his customers in a way that, perhaps, can't be matched by large-footprint retailers. Today, the models, technologies and processes are available for the 'traditional' kirana store to compete with 'modern' retail, while retaining its strengths.

Let's come to the second question: will the kirana store owner want to change? Here is where we need to separate kirana owners into two groups. The first are those who are stuck in the past, who want the status quo because they are comfortable with it - even if their customers aren't - and those who are unwilling to adapt to the new reality. They look at themselves as besieged martyrs. The second group of kiranas is those who can be inspired to grab the opportunities of modern life with both hands and their hearts to delight their customers. Small retailers will enhance their customer proposition by steps like new product lines and brands, better display, renovation of stores, introduction of self-service and electronic payment systems. Kiranas not only need to change their assortment of products, but also price them smartly, to attract buyers. From pricing to packaging, they need to change their self assortment has to be tilted towards local goods, which the branded multinational retailers will not offer. They also need to market their schemes and offers well. From offering more local products and attractive schemes, to re-designing their stores and shelves, the kiranas have their task cut out in the coming years. They have to invest in changing the look and feel of their stores and ramping up their customer service and delivery mechanisms. They will increase their free home deliveries and also make their services more customized. The initial offers, freebies and investments will take a hit on their margins. But that is the only way for them to survive. They also have a much better understanding of the local market and will continue to do good business. This group focuses on customers and the opportunities to serve them better. Creating this change would require leadership to combine kiranas into larger cooperatives, to raise capital and invest to create an appropriate supply chain and a brand that can compete with the best. It also means creating processes, systems and, above all, a culture and value system to enable dynamism, partnership and service to thrive. One just has to look at late Dr. Verghese Kurien and the inspiring Amul story to see that this is possible. It makes the issue of

'FDI in retail' really the sideshow in what could be a great win-win-win model for the supplier, retailer and consumer in India (Nedungadi, 2012). Even without FDI in retail, more than half of electronic and electrical items, machine tools, building hardware, bathroom fittings and sanitary ware, lights and chandeliers sold in India are made in China (Kumar, 2012).

### The Debate

But in the debate on FDI in retail there is little clarity on what problem we are trying to solve by getting FDI. FDI in multi brand retail comes not as a relief but as a matter to be given a serious thought. The debate so far is threefold Chowdhary (2013):

(i) one section projecting huge surge of investment in infrastructure and thereby increment in the employment levels; but employment for whom is the crucial question?

(ii) the second group is the one which is sceptical about the opening of markets for foreign retail giants like Walmart, Carrefour, K-mart etc. not because they fear that it would affect the overall development of the economy. Rather, this group fears competition from the big foreign companies which have deep pockets to procure products from the world market. Thus, it would affect their profits by a huge margin; and

(iii) the third group comprises of the unorganized retail sector which fears its elimination from the market in the long run.

The Centre believes that allowing foreign direct investment (FDI) into India's retail sector will benefit farmers. This would happen through increased direct purchases of produce and investments in warehouses, refrigerated vans and other back-end supply chain infrastructure. But this premise ignores the influence of two major hurdles, apart from the general political opposition to FDI, on the ground — antiquated Agricultural Produce Marketing Committee (APMC) laws and a plethora of local trade-distorting taxes. 'All these only go to highlight the need for undertaking 'internal liberalisation' of our agricultural marketing systems. The various trade-distorting local levies should be done away with. Without these, it would be naïve to presume FDI in retail will work wonders for either farmers or consumers' (Editorial Comment, 2011).

The biggest fear in India is that there may not be adequate institutions and effective governance mechanisms to monitor the operations of the global retailers (Singh, 2011). There should be one main question that should be posed to determine if FDI in multi-brand retail is justified — will

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such multi-brand retail reduce the cost of distribution from the producer (be it farmer or manufacturer) to the end consumer? In marketing terms, this is known as the channel cost. The Indian distribution system, as it has evolved over the years, is among the most cost-effective and efficient in the world. Our markets are highly efficient, driven from the bottom up by the self-interest of millions of small traders and merchants (Swamy, 2011).

According to Profs. Jha and Gaiha (2012) it is pertinent to ask the question: is Foreign Direct Investment in Multi-brand Retail (FDIMBR) a policy tool? If yes, then what are the policy goals that this tool should serve? Or is FDIMBR a policy objective in itself? If yes, whose policy objective is it? Most sensible commentators would aver that FDIMBR should not be a policy objective but a policy tool designed to serve a long list of policy objectives including lucrative prices for farmers, efficient handling of food stocks to reduce wastage during storage and transport, and stable prices with low food price inflation for consumers. In addition, it is claimed that FDIMBR will not decimate kirana stores in the country. If it serves all these purposes, FDIMBR will be a veritable panacea! However, there is scant empirical evidence to back up such assertions. They take up three instances of insufficient empirical evidence:

(i) nobody has shown that growth of kirana stores will be unaffected by the entry of FDIMBR. The usual assertion is that when Indian retail outlets opened across the country, there was no reduction in the number of kirana stores. Further, it is argued, FDIMBR will be confined to major metropolitan centres. However, as the scale of retail outlets increases, the growth of kirana stores will be constrained. There is every reason to suppose that FDIMBR outlets will be able to expand rapidly into other areas of the country. It has been alleged that some FDIMBR outlets have used aggressive techniques, including bribery, to expand their reach. Their reach will be considerably more extensive as well as deep. Kirana stores by virtue of being in the way of such expansion are unlikely to remain unscathed.

(ii) empirical claim made in favour of FDIMBR is that such investment would create eight million jobs. It is unclear is whether this is net of the counterfactual of what the size of kirana stores would be in the absence of FDIMBR entry. Unless this question is convincingly answered, it is difficult to accept this claim at face value.

(iii) empirical observation made is that currently, small farmers get no more than 18-20% of the wholesale price because of lack of bargaining power and limited storage

capacity. Direct buying is not going to alter this as FDIMBR outlets will not be very different from large buyers, i.e., there are monopsonistic or near-monopsonistic buyers. In India where average large holdings are very small and more than 60% of the population depends on agriculture and we realise that the consequences of permitting FDIMBR can be dire for the farmers as well as for the government budget that may have a higher agricultural subsidy bill. Moreover, WalMart and others are not going to build new rural infrastructure through a 50% commitment towards back-end investment. Cost-effectiveness will require that they build access roads and cold chains nearer their outlets/stores. So, building of rural infrastructure is a pipe dream.

The empirical case for justifying FDIMBR as a worthwhile policy tool has not been made. Assertions abound but evidence is patchy. Indeed, an over-emphatic case runs the real risk of solidifying resistance to it. Good economics is not necessarily an enemy of good politics if argued well with strong evidence (Jha and Gaiha, 2012). The Government benefits from the household sector, which includes proprietary and partnership firms. Without enabling it to access cheap capital through the banking sector. This unorganised sector, therefore, deserves better treatment from the Government. Opening up India to overseas trading giants on an exaggerated perception of benefits of foreign investment is not such a wise policy decision (Ramesh, 2012).

Though the main consideration for allowing FDI in retail is not its benefit for farm sector, the debate has predominantly focused on threats and benefits to the country's farmers and the farm sector. Interestingly, the main stakeholders, i.e., farmers, have not reacted much to the policy decision and response of various states has been purely on party lines. The main mechanism adopted by organised retail for sourcing supply of farm goods is direct procurement of produce from farmers with or without contract farming. Past experience in India, though confined to select pockets, shows that this has helped some farmers in getting higher net income for their produce. It is apparent from the debate that both benefits and threats are being exaggerated and the real context for assessing impact on farmers is missed. Growth in organised retail with or without FDI will directly benefit a small percentage of Indian farmers and the apprehension of harm on farm sector is unfounded. At worst, it could be benign for the sector. As the effect of FDI in organised retail on farm sector is not a significant factor for deciding desirability of FDI in organised retail, this decision should be guided by other factors such as effect on consumers and the overall economy (Chand, 2012).

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According to Stiglitz (2013) ‘Indian policymakers need to figure out the real impediments to the development of organized retail. It’s not shortage of capital. India has been exporting capital.’ Some forms of foreign funding are important, as they provide access to technology and markets. India, with its abundance of entrepreneurs, must tread the path of foreign direct investment with caution in the light of the ‘overwhelming’ evidence other countries have to offer on the issue’. Instead of introducing FDI, our government should rather support the industries and retailers in the country itself with better policies and financial aids. China did prove to be a great success in implementing FDI but we should not forget that India has law but China has both law and order.

### Conclusion

There is no national consensus on allowing FDI in retail. The short cut to containing inflation is not in bringing FDI in retail but in our own existing policies of food-supply chains and archaic laws that govern our markets for agricultural products (Himanshu, 2012). That FDI in retail would dampen inflation is difficult to fathom. What has prompted the changes in policy now, and will they do much to increase investments in the domestic economy and the growth rate? Where’s the stimulus for growth? We need to do some house-keeping tasks in quick time (Ramaswami, 2012). All in all, despite the widely divergent sentiment surrounding the opening of the retail sector to FDI, the policy has evolved quite a bit over the years. One hopes, however, that the pulls and pushes of politics would only be stepping stones and not stumbling blocks in the journey towards achieving higher and inclusive growth.

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## SOCIAL MEDIA AND BUSINESS ENVIRONMENT

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The fields where literature on social media is most available are marketing and sociology. That being said, much of that literature has a broad applicability as the literature assumes that the intended recipient has a low knowledge level within the area and as such takes a very expansive approach to the topic. This is also something we have incorporated in this study, introducing the subject thoroughly before going deeper into issues. In the beginning we introduced the concept of a new media, which stands in contrast to the form media has had during the twenty first century. The industrialized media and the industrial information economy have been the basis for all information and communication. A strong characteristic of the industrial media is its one-to-many form and capital intensive nature.

What signifies this new emerging media is social interaction, collaboration, sharing, building communities, discussions and relationships. Social media is in fact any form of media where individuals or organizations share and discuss information, a process which has come to be referred to as “conversation”. The communication, or conversation, can take many different forms; from audio to text to images to video and anything beyond or in between. The largest arena of social media is the writeable web, even if mobile communication devices, text-messaging services and the like are part of the scene.

Television is a non-interactive one-to-many medium. One of television’s more notable qualities is that it has the very strong ability to turn anyone within a close enough range into a couch potato. Participation and interaction with television is strictly limited. Apart from the ability to change the channel or adjust volume there are painfully few instances where the viewer is involved. At the greatest extent involvement in television can be attributed to documentary soaps where the audience is expected to vote on an outcome.

Many popular Internet applications and social media networks require a significantly higher user interaction. Interaction occurs on several levels not only between different users, but also between users and content or different applications. Most of what social media is based on is the collaboration of users and the individual’s creation, or participation in creation, of new digital content. This is known as user-generated content (UGC) or also as user-created content (UCC). User generated content is in part the defining essence of the social web.

The point being made is that the social web is a window to a greater distribution and diversity of media when compared to traditional media. Digital media has presented the opportunity not only to interact with other individuals, but also with the content. Texts, images and video files are not only being shared, but they are also being manipulated.

### Contribution and Participation of Users

The writeable web and social media platforms grant individuals a new way of viewing information. They are no longer the mere consumers of content where information from a source is presented to the masses. Individuals are empowered to view their practical and social lives through the eyes of someone who could voice an opinion or inject a thought anywhere. Whether it is a criticism or a concern, writeable platforms offer anyone with access the possibility to engage in the public debate.

Whether an individual participates in content creation or collaboration does not generally depend on if a superior has ordered them to, although this does hold true in many cases. Neither is project participation based on expected returns, although some do focus on money for the long-term of activities. The critical mass of participation in many online or social projects cannot be explained by the presence of price or any other forms of future monetary return. This form of work is often free of micro-level management such as who will work with whom, on what project and so forth. Greater individual freedoms, for instance the freedom to act and be unconstrained by the need to ask permission, is key for non-monetary motivation as a driver of production. It is the freedom to seek information and to write about it, to be able to join or leave various projects and associations with others that underlies the new efficiency of networked social efforts. These factors are emerging because people are being granted more freedom to act effectively.

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As the potential for interaction with the networked public sphere increases individuals become less passive, and thus more engaged. The effort required to partake in an open conversation being lowered individuals become more engaged participants in the debates about their observations. This allows anyone to speak, to inquire, to investigate and none the least to be heard without needing the outlet of resources available only to major media organizations.

There are also many social factors playing a significant role. The readily available and easy to use online tools as well as cheap and fast access to the same are an important part. This, when coupled with the willingness to share content and also to contribute to communities, has changed media consumption habits of Internet users. All factors taken together are central forces that drive user created content and will continue to do so in the future.

### **Corporations Participation**

There are no non commercial production facilities and there are no volunteer energy plants. Companies could never exist on having their primary source of income rely on voluntary contributions. This being said most of basic scientific research is non profit, educational or funded by government grants.

As well as individuals participating in collaborative projects and social media content production companies and corporations do so also. A large portion of that which today is available through the Internet was made possible by the voluntary contributions of collaborative social networks. Even if there are no visible financial gains from participating in collaborative efforts or free content creation, failing to do so could have short term a large impact on future operations. The results are that we are seeing the emergence of a new decentralized and very effective means of collaboration. These collaborative efforts do not involve a price system nor do they rely on managerial structure for coordination. This complements the uncoordinated non-market behaviour which is accredited to social network spheres. Information produced in this way has seen a dramatic increase in importance.

### **About Users**

There are many different types of users in regard to how active they are in online communities; to which degree they participate and what reasons they have for utilizing the social web are examples.

A not insignificant aspect is that not all participants are created equal. Corporations, for example, still wield a significantly larger amount of influence than that of the

individual. This holds true even for an aggregated number of consumers. Following this line there is a very strong distinction between different types of consumers and participants. While some contribute very little, or nothing at all and occupy the role of true consumers, certain individuals contribute very large amounts of information and wield a greater influence.

The social web and online communities are commonly viewed as applications and tools that allow groups of people to share ideas and information. They also allow companies to communicate directly with customers or for professionals to start collaborative projects. This is factually true, but taken at face value it is also rather misleading. The majority of online conversation is driven by a small number of highly active users. The rest of community users are more or less passive observers and will occasionally add a comment to an ongoing discussion.

The greater majority, 90% of users, are not active participants in the discussion or information creation process. Around 9% of users will contribute from time to time with, but they do not continuously contribute, or contribute regularly. The last 1% of users is the elite. They post, share, discuss and comment spending copious amounts of time doing so, always making the latest addition to the discussion directly after an event occurs. This is known as participation inequality.

Web users participate differently online, and produce different amounts of content. The top 10% of users are responsible for the creation of 80% of content. Additional content is contributed by another 65% of users. This leaves four of ten users who either never contribute to or ever visit any part of the writeable web.

### **Collective and Collaborative Knowledge**

A clear strength of social media is the aspect of communication and collaboration. Connecting people of similar interests or common goals and combining their knowledge. New tools allow different parties to interact without established relationships or prior interaction.

No one person knows everything, but everybody knows something. The sum of two parts in many cases may yield something greater than the whole. This line of argument is referred to as collective intelligence. In the case of networked digital media it refers to the ability of a virtual community to leverage its combined expertise. Collaborative efforts within the group have a higher efficiency and greater return on investment than the combined individual efforts would have had.

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Individuals can do a great deal more for themselves if they do so acting independently. Not acting independently fosters co-dependence making an individual restricted by the cooperation and permission of others. The networked digital media allows individuals to create their own expressions and seek out information they need with very little dependence on commercial media forms, such as those which have dominated the twentieth century. The limitations of cooperation of an industrial information economy are not present in the same manner in social media. A group of individuals can do far more in loose affiliation with one another rather than if they were forced to build long-term stable relations.

What one person could do or for that matter what one person could know has previously set certain limitations. With the emergence of the social media and collaborative media culture axioms such as this no longer always hold true. What we were not able to do on our own previously, we may be able to do collectively. Collaborative projects in social media offer a medium where personal autonomy and cooperation co-exist and one need not necessarily exclude the other. The fluidity with which cooperation can be entered into increases the diversity and distance between individuals entering into collaborative relationships. In the case of collective intelligence, or collaborative information control, only a limited amount of information is known to all individuals. This is the information, which the collective as a whole requires to function, maintain its existence and reach its goals. Everything else is known by individuals who make the information they possess available for the collective use. A side note is that any new information to be accepted into collective knowledge will be measured against what the group believes to be core knowledge.

The binding factor, or in other words, that which holds a collective intelligence together is not the possession of knowledge. Possession of knowledge is a static factor which may grow in volume, but not necessarily in importance thus quickly becoming a simple shared commodity. The process of acquiring knowledge is far more important to maintaining a collective intelligence. Information acquisition is dynamic and participatory. This process continuously tests and reaffirms a collective's social ties, binding the group and therefore also the collective intelligence closer together.

### **Social Media in Businesses**

The latest available study has shown that, of online adults, three in four use social tools or technologies. Social media is becoming a mainstream tool adopted by the majority of online adults.

Networked workers, workers who are connected through the Internet and email at work, are not only connected while at work. These workers are also more likely to have access to a wide range of technologies outside of the workplace. They are, for example, more likely to own cellular phones, laptops, and Sidekicks. When compared to average workers networked workers owned a cellular phone in 15% more of cases, 20% more owned a desktop and 32% more owned laptops. An increasing amount of employees are working from home, and the workload at home is also increasing. Nearly half of workers do some of their work from home. Over a third conduct work activities from home at least a few times per month and one in four workers regularly do some work at home, that is daily. Networked workers have visibly higher rates of doing work from home. Overall networked workers have a 10% higher rate of working from home.

Nearly all people who are employed make use of new information and communication technologies, even if they are not part of the networked workforce. More than nine in ten workers are in some way making use of new communications technologies. These workers are referred to as wired and ready workers as they have gained an affinity with the Internet and new communications technologies.

Seven in ten workers use all three basic communication technologies, these being cell phone, email and internet communications. These technologies have, according to workers, had both positive and negative effects. Whilst workers are better connected and more able to perform their jobs, workers report that the higher connectivity granted by information and communication technologies has added to stress and demands of their positions. Eight in ten say that new technologies have improved their ability to do their job and seven in ten that their abilities to share ideas with co-workers has improved. This is contrasted by roughly 50% claiming that the level of stress and the demands of their work have increased.

Social network sites are increasing in importance and popularity. One third of adults with Internet access report using social network sites. Employed internet users are even more likely to use social network sites, four in ten do so, and one in ten does so from work. There is a difference between younger and older adults among the general population, but younger users are only 4% more likely to access social network sites from the workplace compared to their older counterparts. While at work social network site users are equally likely to communicate with co-workers as with family and friends. An interesting note is

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that of the companies surveyed, who choose to block access to certain services on the Internet, half of them did so with regard to social networking sites. This is to be put into perspective that 60% of the same companies did so with regard to online gaming.

Social media and networking sites are something which firms can benefit from. Employees' gossip, conversations, and sharing of photos on life streams such as My Space or Face book potentially benefit firms. It's part of professional networking. These services help colleagues stay in touch and helps retain relationships with customers and business partners. Allowing workers a greater flexibility and freedom creates an organisation more capable of maintaining stability.

Employees see the collaboration, networking, problem-solving and increased productivity possibilities of Web2.0 applications and wish to apply these in the workplace. These tools directly contribute to spread of knowledge and provide management with vital tools as workforces are scaled back. These tools also boost motivation and morale, especially among the digital natives.

Social media tools for organizational communication and collaboration have the potential to connect people in a very different way from what is done today. Web2.0 tools fundamentally change the way in which employees interact with each other. These tools also enable them to grow their professional capacity since the communication form promotes mutual support, rapid networking, inspiration and idea exchange.

Social media applications become even more powerful tools when they are integrated or incorporated with other core business applications. The applications have the potential to fundamentally improve aspects such as operating efficiency, employee retention, company culture and professional development. This is due to a capillary-like framework which quickly spreads information within the organization, speeding core business processes.

Companies already reporting widespread implementation of social media and Web2.0 applications within their organization include IBM, SAP, Oracle, Best Buy, and Siemens. Another 10,000 companies are using social media applications supplied by third parties inside to expand their core businesses and facilitate communication and collaborative needs.

Information in the form of breaking news spreads at very great speed on the Internet. Through the social web and micro-sharing services, such as twitter, news reaches

thousands upon thousands within seconds. November 26 and the terrorist attacks in Mumbai was the latest illustration of this fact. Twitter users all over the world got word of the situation in Mumbai before the mainstream media even knew something had happened. Speed is one of the real strengths of social web applications. However, it is not only how fast it works to spread the word. Micro-sharing services function to spread information at a constant rate as a situation unfolds. Near instantaneous updates follow very direct streams to anyone following a particular event.

As the economy toughens, through the spread of financial crisis and large scale economic downturn there is a great need for increased efficiency. Workers find a need to communicate faster and more efficiently as labor forces are downscaled and each individual takes on a greater role or a heavier workload. Tools facilitating better and faster collaboration move from the nice-to-have to core and crucial.

During times of economic hardship and downturn there is a visible effect on all business. In order to adapt to a changing business environment with different opportunities companies need to use a new toolset. To survive systems need to be fast, effective, flexible and adaptive. Taking years to develop closed and very expensive software will not be possible in the future. It is not often that the cheapest path is the best path. Often the trade-offs outweigh the low price. In the case of social web applications however, the tools available are very cheap to implement and can be acquired at a low cost, and in some cases no cost at all.

Businesses are being pulled into social media. Some are taking measures to incorporate new tools into their daily activities and others are searching for a restrictive approach to limit their exposure. Whichever direction is chosen workers still find new technologies to be useful aids in their work. Those who have access to new tools and technologies work from home to a greater extent and are more available to do their jobs. Social media is spreading throughout the business world and through the workforce. With this spread come gains and challenges, creating a situation where businesses will need social media strategies.

## Conclusion

Throughout this study we have discussed many different issues regarding what it means to be a company in a changing world and how, through using new tools and new approaches to communication. Many of the new media applications in use today have revolutionized the way we as a society view information; from creation to distribution and even ownership. We believe that, in the same way

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digital natives have taken to digital social networks as an extension of their social off-line lives and how industrial mainstream media have come to value the information source of the blogging community, companies and businesses will also find great value in social media.

There are challenges with social media, regardless of whether businesses choose to implement social media or not. With an implementation of social media come all the issues of adjusting to new tools and new ways of working. By not implementing those same tools companies run the risk of not understanding how social media acts with business and losing out on competitive advantages. By using social media companies may access huge potential, but at the price of risks. If companies choose not to acknowledge social media they avoid the hazards of implementing new tools. They do so and expose themselves to issues all companies will be facing, but will not be able to realize any of the gains.

In short social media tools increase transparency, help develop culture and grant individuals a participatory capacity. There are challenges wherefore clear strategies as well as competent leaders with strong support from champions are a must. Early implementation of social media will build knowledge and experience, even if it comes at a cost of trial and error. The businesses who have successfully through the experience of failure implemented social media tools to their operations will in the future hold the competitive advantages necessary to flourish in a changing world.

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## MEASURING MARKETING PERFORMANCE A REVIEW OF METRICS

Syed Irfan Shafi★ C. Madhavaiah★★

‘What is not measured is not managed’ is a well-worn management catchphrase. Indeed, where would businesses be if they did not consistently monitor and measure the long-term health and stability of their organisations across multiple dimensions from cash flow to productivity to return on investment? A metric is a measuring system that quantifies a trend, dynamic, or characteristic. In virtually all disciplines, practitioners use metrics to explain phenomena, diagnose causes, share findings, and project the results of future events. Throughout the world of science, business, and government, metrics encourage rigor and objectivity. They make it possible to compare observations across regions and time periods. They facilitate understanding and collaboration.

Marketing systems vendors and the analysts who love them have analogously promoted marketing performance measurement (MPM) as marketing process management and marketing performance measurement, and sometimes marketing performance management. What makes things even worse is that many marketing process management systems have a marketing performance measurement component. The result has been to take the inherently murky concept of measuring marketing performance and muddy it still further. Marketing performance is inherently ambiguous because it is not clear what we are measuring. Is it the efficiency of the marketing processes, such as how many marketers does it take to change a media plan? Or is it the effectiveness of the process, such as how much value did the campaign generate? If we are measuring effectiveness, just how do we calculate the “value” of a marketing campaign anyway? And where do customers and customer value fit into all this? There are no simple answers, but we can at least clarify the questions. Here is a typology that may help in planning marketing performance measures:

**Efficiency Metrics:** describe the cost to execute marketing projects. These projects are typically called a campaign or program. The two major efficiency metrics are staff hours per project and cycle time per project. These metrics are often but not always correlated and, in many cases, reducing the cycle time (e.g., getting campaigns out the door quicker) improves results in ways that are much more

important than any internal cost savings. This is why cycle time and staff hours must both be measured separately.

**Program metrics:** measure program effectiveness by comparing their costs and results. Most marketing programs generate a set of marketing contacts, such as media impressions or direct mail pieces. But some contacts are worth more than others, depending on the number and quality of responses they generate. Simply calculating the cost per contact is rarely enough. Instead, program metrics must calculate the value of results.

Direct marketing programs can use immediate response metrics such as number of orders, revenue or profit per order. These can then be related to cost to calculate profit per program or return on investment (ROI), but (direct marketing is an exception: most programs generate sales that either cannot be traced to a specific promotion or are made by a third party such as a retailer or dealer who does not report them to the advertiser at all. In those cases, marketers must calculate inferred sales by looking at reorders or product movement figures from vendors such as ACNielsen and IRI. Specialist vendors such as Veridigm and Marketing Management Analytics can do sophisticated econometric modelling to estimate the incremental impact of such marketing programs, taking into account all other factors simultaneously affecting the market. Marketing programs have results that extend beyond immediate sales. Savvy marketers recognize this and evaluate two additional classes of metrics:

**Brand metrics:** It measure attitudes related to a product on the assumption that these are indicators of future purchases. These include awareness and knowledge of the brand preferences for the brand versus its competitors, purchase intentions and product satisfaction. Most of this information is gathered through surveys. Sophisticated marketers correlate marketing programs with changes in brand metrics

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and changes in brand metrics with future sales. This lets them assign financial value to marketing programs to calculate a long term return on marketing investments.

Customer value metrics estimate future purchases by individual customers and customer segments. Although they are concerned with the future, customer value metrics are derived from historical data. Two key measures are retention and purchase rates. If companies assume these will continue unchanged, they can be combined to estimate the future value of a new customer this value can then be built into the ROI assessment of a marketing program. Add acquisition rates and you can estimate the future cash flows of an entire business.

### **The role of marketing metrics**

Ambler (2003) emphasises that the role of marketing metrics in most enterprises should be very insignificant to begin with. According to Ambler (2003), "the general pattern of development begins with top management having little appreciation of the significance of marketing metrics". From a survey conducted by The Marketing Society in 2005 with chief marketing officers and non-marketers of equivalent hierarchical level, Ambler (2005) establishes that marketers who aim to earn the respect of their non-marketing counterparts need to be financially savvy rather than marketing savvy. According to the outcome of the study, modern enterprises are finance driven and whoever does not understand the finance discipline does not carry much weight in their views (Ambler, 2005). Transferring this to the discipline of marketing metrics, a crucial role of a marketing measurement system is to earn the respect of top and financial management. One way to achieve this is to start measuring marketing efficiency with the help of financial methods (Ambler, 2005). A supporting viewpoint with the focus on one of the metrics in particular, the measurement of brand equity, but also with the general agreement, that marketing's role for generating a company's cash flow is highly underestimated, is provided by Stewart-Allen (2000). Stewart-Allen (2000) agrees that top boards make frighteningly little use of important measurement tools which help the companies to investigate where their cash flows come from.

In a 2006 study among professional service firms it has been established that the role of marketing metrics is significant for service enterprises (The Practising CPA, 2006). One of the conclusions of the study is that marketing measurement is essential for professional service enterprises to improve their marketplace effectiveness in order to generate increased revenues but the sums those enterprises spend on marketing metrics is infinitesimal,

namely only one-tenths of a percent. The conductors of the study, thus, suggest that enterprises need to show their dedication to increasing marketing effectiveness by clearly budgeting resources to measure this effectiveness (The Practising CPA, 2006). This approach acknowledges that enterprises in their striving for success neglect the importance of measuring this success.

Greeneyer (2006) argues that nowadays marketing investments need to deliver some kind of tangible and short-term gain in order to be granted. This leads to a turnaround of the marketers thinking pattern in as much as the information available needs to be turned into intelligence which helps to produce bottom-line results. It is suggested that this turnaround be carried through in stages with each stage contributing visibly to the bottom line (Greeneyer, 2006).

### **Types of Metrics**

There are two basic types of metrics:

Results metrics are bottom line-oriented. They can be used to measure total gross or net revenue, segmented revenue by product line, or revenue by company type or sales area (e.g., a specific clinic or delivery point).

Activity metrics (e.g., phone calls, letters, and meetings) measure the core activities required to generate the desired results. Merriman recommends placing a greater emphasis on activity metrics for sales personnel relatively new to sales and/or new to a program and a correspondingly greater emphasis on results metrics for more experienced professionals. Different types of sales metrics can be used for a variety of purposes. For example, projected productivity metrics can help a larger program identify the need for and the appropriate deployment of sales/marketing staff. Likewise, sales metrics can be used to establish productivity standards in order to measure and monitor the performance of sales professionals.

Many types of sales metrics may appear useful, but invariably have little value. Classic examples include number of sales calls per week or number of companies 'closed.' In the absence of total revenue generated, these metrics offer little value. Sales calls per week mean little if a sales professionalism speaking to the wrong companies (e.g., a company with comparatively little volume potential) or to the wrong individual (e.g., a non-decision-maker). Viewed purely as an activity metric, calls per week provide little insight. Combined with the results of a performance metric, calls per week can serve as a useful activity barometer, but nothing more.

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## Mastering Marketing Metrics

Marketing measurement has been slow to develop because of the long-time focus on the “four Ps” (product, price, place, and promotion), a planning model that relies on managing organizational outputs, not organizational outcomes. Marketing and communication’s almost total reliance on attitudinal rather than financial measures is the other problem. This is reflected in the mantra-like belief of practitioners and academics alike that “attitudes lead to behaviours,” a widely promulgated premise that hasn’t been adequately demonstrated. I have written extensively about the difficulty of using attitudinal measures to determine the financial ROI from marketing communication and branding programs, but attitudes and attitudinal change remain the lingua franca of marketing evaluation. In spite of the challenges, I continue to seek ways to measure marketing and marketing communication investments. Two major questions and four primary techniques can help companies estimate and measure return on marketing, branding, and communication investments. Attitudinal change or financial returns? The primary issue in most marketing, communication, and certainly most branding measurement initiatives is whether the criterion variable should be attitudinal change or financial returns. According to the methodologies used by most marketing organizations, attitudinal change seems to be winning hands down. That doesn’t mean attitudes are right, useful, or important to managers, it simply means that is the current level of sophistication. While attitudinal change is nice to know about, and might be helpful in developing future branding or other marketing communication programs, both practitioners and academics have been singularly unsuccessful in connecting attitudinal change to behavioural change. In truth, behavioural change really creates the return on any type of branding or marketing investment. Alternatively, connecting financial investments to financial returns has proven more successful. In fact, that’s what ROI is all about—returns on financial investments, not returns on attitudinal investments. In any type of marketing or branding metrics scenario, the metrics answer depends on the goal. Customers or shareholders? The second major question is whether to measure the marketing returns from customers, either attitudinal or financial, or to determine the proper allocation and return of finite corporate resources. It’s far more valuable to measure financial returns from income flows that customers generate than from attitudinal change. The real challenge, though, is whether to build a system that identifies the long- and short-term returns on marketing and communication investments or to properly identify and allocate the firm’s finite

resources to maximize shareholder value. Some might argue that customer income flows and shareholder value are directly related, but in practice this is usually an either/or decision. Managers commonly have to choose between building customer or shareholder value, which often seem to be at opposite ends of the spectrum.

### A review of marketing metrics

What Lord Leverhulme (ThinkExist.com Quotations, 2008) so bluntly expressed in the beginning of the previous century is still a concern for most marketers even in today’s age of progressive measurement availability: Half of the advertising is wasted, but it cannot be established which half. Not only Flack (1999) in the late Nineties states that no marketing discipline has a fail-proof model which can predict and evaluate exactly the efficiency of a marketing activity. The need for a marketing measurement system has meanwhile been acknowledged by many marketing practitioners, academics and consultants.

Marketing metrics is an important instrument which can be used to measure marketing performance as well as the likely key metrics which should be used to assess the efficiency and effectiveness of marketing efforts (Solcansky, Sychrova, Milichovsky, 2011). Having learnt and worked through different marketing metrics, can help to work with much greater confidence and to better allocate and manage scarce marketing resources as well as control marketing efforts. Every company should be able to demonstrate own efficiency and effectiveness by used metrics or other processes and standards. For business competitiveness and improvement of performance, it is important to have appropriate metrics for measuring effectiveness. Another reason for growing interest of marketing metrics is dissatisfaction with traditional metrics (accounting), trends in corporate costs and rapid developments in information technology (Seggie, Cavusgil, Phelan, 2007). Marketing performance measurement has, of course, been practiced and studied for decades. The history showed that marketing performance theories have moved in three consistent directions over the years: first from financial to non-financial output measures; second, from output to input measures; and third, from uni-dimensional to multidimensional measures (Clark, 1999). Evaluation of this history suggested a need for the marketing community to develop a set of measures small enough to be manageable but large enough to be comprehensive.

In general, metrics are set of disposals that help companies quantify, compare and at last interpret own performance (Solcansky, Sychrova & Milichovsky, 2011). Each

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company chooses which marketing metric will be more helpful to use. Recent studies showed that there are several metrics which are financial (according to foundations laid by Srivastava et. al. (1998, 2001) and Rust et. al. (2004)) and not-financial (Borle et. al., 2008) and which are more frequently used than others. All these metrics are related with customers, their opinion and recognition which can be crucial for not only sales revenues but also for firm's value.

Many of the metrics used by marketing managers can be split into 2 main categories: metrics that measure the value of brands (Fernando et. al., 2006) and metrics that measure the value of customers (Borle et. al. 2008). These studies have shown the importance of brand value metrics in their relation to customer and firm value. It also allows managers to justify marketing spend on increasing individual brand value and brand equity since they can directly measure the impact of brand value on customer and firm value

In the literature review to follow, the discipline of marketing metrics is introduced from different perspectives. To begin with, an overview of the development for the need for marketing metrics systems is provided, followed by the description of the role of marketing metrics that evolved out of the recognised need. Further on, different approaches to implementing marketing metrics in enterprises are analysed. It is distinguished between value based, strategy based, research based and other approaches.

The use of marketing metrics was the main result of pressures from top management and shareholders to justify marketing spending. However, the consequence of this growing need for quantitative measures of marketing and firm performance has led to a multitude of metrics measuring everything from levels of customer satisfaction to the number of unique clicks to a specific website. The goal of all of these metrics has been to gain some quantifiable measure of any number of business goals, from measuring the effectiveness of marketing campaigns to proxies of firm value. In addition, we also discuss two specific types of marketing metrics with regard to the five key questions this paper sets out to answer. These include: (1) backward-looking versus forward-looking metrics and (2) the customer and brand value metrics that link directly to financial performance and firm value. We discuss how each of these types of metrics have impacted marketing research and practice in addition to how each of these types of metrics relates directly to manager's ability to generate effective marketing strategies.

Literature in marketing that develops or discusses key metrics was used. We break these key metrics in the

literature into seven distinct categories and give examples along with some discussion of literature in each of these categories. These seven categories include:

1. Brand value metrics
2. Customer value metrics
3. Word of mouth and referral value metrics
4. Retention and acquisition metrics
5. Cross-buying and up-buying metrics
6. Multi-channel shopping metrics
7. Product return metrics

### **Multi-channel shopping**

Where it was less common in the past for firms to have a presence in multiple channels, with the advent of the Internet, almost all firms now have a multichannel presence. The challenge then is to understand how each of the channels can impact customer purchase behaviour and customer profitability. First, research has shown that customers who shop in multiple channels are more profitable than customers who shop in only a single channel. Using data from a high-tech B2B firm, Kumar and Venkatesan (2005) show that customers who shop across multiple distribution channels are more likely to score highly on various customer-based metrics such as revenue and likelihood to stay active. In addition, Venkatesan et al. (2007) use data from an apparel retailer to show that customer who purchase across more distribution channels have a higher future profit potential. However, research is just starting to analyse how firms can develop a strategy to communicate with customers effectively in different channels. Thomas and Sullivan (2005) use data from a major US retailer to develop a six-step process of how to manage marketing communications with multichannel customers. Additional research by Pauwels and Neslin (2008) uses data from a major catalog retailer to quantify the impact of opening a brick-and-mortar retail store when the only channels the firm previously used was catalog and Internet. However, with the continuing growth of retailers across many different channels, several questions still remain. These research questions include how to effectively migrate customers to different channels or how to measure the impact of channels where no purchases occur, for example using the Internet for search and the brick and- mortar store for purchase. This leaves ample opportunities for future research to develop metrics that measure the impact of multi-channel shopping on customer profitability.

### **Understanding Marketing Matrices**

Market metrics are used in business planning and marketing

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monitoring to keep the marketing programme on track. It all very well spending millions on advertising, but how do you know that the advertising is doing its job or that there's even a market out there. The most common market metrics that companies use are:

- ◆ Market size
- ◆ Market share
- ◆ Market penetration
- ◆ Installed base
- ◆ Product usage
- ◆ Customer attitudes
- ◆ Brand awareness
- ◆ Advertising awareness
- ◆ Brand image
- ◆ Customer satisfaction

Companies will use these types of measures in combination with specific studies, quantitative and qualitative, looking at positioning, new product development, competitive threats, advertising design, and pricing and overall market strategy. In addition they will often use a range of statistical methods to link these measures together.

#### Market size

Market size is the number or value of units sold to a market in a given period (normally a year). Estimating market size can be difficult. Approaches include surveying manufacturers (which may lead to problems of overstatement), surveying the channel/distribution route (which may lead to problems of double counting and missing parts of the market), or surveys of end-users (most expensive as it requires a good survey). By taking market size (units and revenue) and dividing by the number of customers you can get estimates of basket size - how much each customer in the market is worth.

#### Market share

Market share is the number or value of units sold in a given period for a manufacturer as a percentage of the total market size. It can be defined either as share of units sold or share of revenue. If the market size is known a company can infer its own market share based on its own sales data. It is possible to estimate share of revenue using published accounts, but some care has to be taken as manufacturer's sale price is far lower than the end-retail price and different businesses may have different channel costs. It is also unusual for accounts to have disaggregated figures that would make share analysis possible

#### Market penetration

Market penetration which is the number of customers you have as a percentage of the total customers in the market. This can be on the basis of sales in a period (sales penetration) or installed base. Combining penetration with market share you can calculate sales per customer. If you have a large customer penetration, but a low market share, then you are making many low-value sales and one way to increase share is to increase the value of the sales, rather than chase more customers. Sales penetration divided by installed penetration gives your level of customer activity. You can also use this to assess customer loyalty - the percentage of customers who stick to your brand, and brand repertoire - the number of brands bought per customer. By considering individual customers you can also look at share of wallet - how much of total business is coming your way. If you look at sales per individual (from database sales figures or a research survey), you often see a pareto effect - 80% of the sales comes from 20% of the customers. In business to business markets, this can be even more extreme than 80/20.

#### Installed base (or parc)

The installed base is the number of units that exist in the market including historical and secondhand purchases. In technology markets, products rarely exist in isolation. The installed base adds inertia to a market and requires thought about compatibility and manageability.

#### Product usage

Product or brand usage measures the frequency and weight of use of a product. A straightforward method of segmenting a market is to look at weight of purchase, separating heavy purchasers from light purchasers. By looking for differences between these two groups it can be possible to find mechanisms to increase usage across the market as a whole or to develop specific strategies aimed at the most valuable customers. Product usage can also look at time of day, regency and circumstances of use. Would you believe sugar can be used in making concrete?

#### Customer attitudes

Usage and attitudes often go together. This is often particularly important for advertising research. One effect of changing or improving communication is to affect attitudes and understanding (it is a moot point as to whether changes in behaviour leads to changes in attitudes or vice versa). Most attitudinal research uses banks of attitude statements (like "There should be more for young people

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to do in the evening”) and asks people to agree or disagree. Combined with factor and cluster analysis, this can lead to an attitudinal segmentation of a market. The key to attitudinal research is to find attitudes that relate to weight of use.

#### Brand awareness

The percentage of customers in a market able to name your brand. May be spontaneous or prompted. Popular brands would only be measured spontaneously, lesser known brands would be measured prompted. Can be cross-analysed with market penetration to assess depth of brand coverage and brand reach - the potential for the brand to win new customers. Also used with Brand Equity to establish the value of the brand.

#### Advertising awareness

The percentage of customers in a market who claim to have seen your advertising. May be spontaneous or prompted awareness. There is often a halo effect from the brand for prompted awareness so it may be higher than reality. Sometimes check questions are included. Because of the importance of measuring advertising awareness, advertising may be designed to use test and control areas. One with advertising, one without in order that the research really measures changes caused by the advert. Combining advertising awareness with market sales data you can estimate the “sale uplift” caused by the advertising and consequently the advertising cost per additional sale.

An additional measure is media impact - where the advertising was seen or which element of the campaign was seen. It is common for people to misappropriate advertising - many people think the only ads they remember are on television.

#### Brand image

Brand image is the associations between a brand and image based statements (eg “Is a brand for older people”). This is typically a bank of specific statements that the brand is rated against sometimes in comparison to other brands. The “brand image” is the pattern of scores across the image bank. Effective advertising normally centres on trying to move or improve a particular facet of brand image (Skoda is a famous example). Strong brands have clear patterns of association. Weaker brands are less clearly defined. By counting the associations made we can measure Image Strength (the percentage of all people making an association between a brand and a statement) and Image Character (the percentage of those making an association making the association positively). Niche brands may have a strong

Image character, but weak Image Strength. Brand image can be combined with sales penetration and brand awareness to attempt to understand what the key brand association are that drive sales.

#### Customer satisfaction

Customer satisfaction measures well you are delivering the product/service that you provide. Not normally part of market metrics as it relates purely to your customers. Some companies do try and measure satisfaction of non-customers relying purely on brand image, but technically this is a different measure as it is perception, rather than reality based. Nonetheless, customer satisfaction can be considered competitively, to see how your service and performance compares to that of your competitors.

#### Marketing Metrics: Opportunities, Performance, and Accountability

Marketers are by no means protected to the drive toward quantitative planning and evaluation. Marketing may once have been regarded as more an art than a science. Executives may once have cheerfully admitted that they knew they wasted half the money they spent on advertising, but they didn’t know which half. Those days, however, are gone.

Today, marketers must understand their addressable markets quantitatively. They must measure new opportunities and the investment needed to realize them. Marketers must quantify the value of products, customers, and distribution channels—all under various pricing and promotional scenarios. Increasingly, marketers are held accountable for the financial ramifications of their decisions. Observers have noted this trend in graphic terms:

“For years, corporate marketers have walked into budget meetings like neighbourhood junkies. They couldn’t always justify how well they spent past hand outs or what difference it all made. They just wanted more money—for flashy TV ads, for big-ticket events, for, you know, getting out the message and building up the brand. But those heady days of blind budget increases are fast being replaced with a new mantra: measurement and accountability.”

#### Conclusion and Future Research Directions

In recent years, there has been a significant increase in the number and type of marketing metrics that managers can use to measure marketing effectiveness and to develop marketing strategies with the goal of increasing firm performance. However, with the abundance of marketing metrics to choose from, the challenge marketing managers and retailers now face is not whether to use marketing

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metrics, but instead how to determine which metrics are the most important metrics to utilize for a given firm.

On-going research on marketing metrics will continue to provide insights to marketing managers as they establish optimal marketing strategies which are directly linked to financial outcomes. Thus, we provide a roadmap of much needed research in the area of marketing metrics. First and foremost, research needs to continue to establish the linkages between marketing metrics and firm performance. Next, research needs to continue to focus on the two tenets of marketing – customer acquisition and customer retention. In addition, marketing is constantly evolving and managers need to understand how “new” marketing, such as social content, can impact current marketing practice. Most importantly, the emphasis on these studies should continue to focus on metrics that can guide future decision-making and not focus only on the past.

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**Exhibit 1: Brand value and brand equity metrics**

<b>Author (year)</b>	<b>Finding/contribution</b>
Keller (1993)	The author provides a conceptual model of brand equity from the customer's perspective.
Simon and Sullivan (1993)	A brand's value is the capitalized value of the profits that result from associating that brand's name with specific products and services.
Kerin and Sethuraman (1998)	The authors discuss the link between brand value and shareholder value. The authors find the link to be positive, but the functional form of the relationship is concave (decreasing returns) with respect to the firm's Market to Book Ratio.
Madden et al. (2006)	Using the Fama-French method, the authors find empirical evidence that stronger brands deliver stronger shareholder value with less risk to the firm
Leone et al. (2006)	The authors provide a discussion on the link between Brand Equity and Customer Equity. The authors show that while the literature has been divergent in nature, there are great similarities between the two.

**Exhibit 2: Customer Value Metrics**

<b>Author (year)</b>	<b>Finding/contribution</b>
Venkatesan and Kumar(2004)	The authors define a customer-level CLV objective function and empirically identify the behavioural drivers of contribution margin and purchase frequency. In addition, the authors present an optimal resource allocation strategy that can be used by the firm to send the appropriate marketing communications at the right time to maximize profits.
Rust et al. (2004b)	The authors define financial return as a function of the change in Customer Equity as a result of an incremental increase in spending. The authors find drivers of Customer Equity based on survey information of customers from the Airline industry. In addition, the authors use a brand-switching matrix to introduce competitive effects into the model estimation.
Gupta et al. (2004)	The authors demonstrate how valuing customers makes it feasible to value firms, include high growth firms with negative earnings. They demonstrate their valuation method by using publicly available data for five firms. They find that a 1% improvement in retention, merging or acquisition cost improves firm value by 5%, 1% and .1%, respectively. They also find that a 1% improvement in retention has almost five times greater impact on firm value than a 1% change in discount rate or cost of capital.
Petersen and Kumar (2008)	The authors introduce a new CLV objective function that includes product returns as a separate part of the equation. The authors show that the newly proposed CLV objective function provides better fit, better prediction, lower over-prediction bias, and better segmentation than previous CLV models. In addition, the authors show the firm requires fewer resources to maximize profitability when it takes product returns into account.

**Exhibit 3: Retention and acquisition metrics**

<b>Author (year)</b>	<b>Finding/contribution</b>
Thomas (2001)	The author shows that customer acquisition and retention are not independent processes. However, because of data limitations, customer management decisions are frequently based only on an analysis of acquired customers. This analysis shows that these decisions can be biased and misleading. The author presents a modelling approach that estimates the length of a customer's lifetime and adjusts for this bias.
Verhoef (2003)	The author investigates the differential effects of customer relationship perceptions and relationship marketing instruments on customer retention and customer share development over time. The results show that affective commitment and loyalty programs that provide economic incentives positively affect both customer retention and customer share development, whereas direct mailings influence customer share development. However, the effect of these variables is rather small.
Reinartz et al. (2005)	In this research, the authors present a modelling framework for balancing resources between customer acquisition efforts and customer retention efforts. The key question that the framework addresses is, "What is the customer profitability maximizing balance?" In addition, they answer questions about how much marketing spending to allocate to customer acquisition and retention and how to distribute those allocations across communication channels.
Fader et al. (2005)	The authors present a new model that links the well-known RFM (recency, frequency, monetary value) paradigm with customer lifetime value (CLV). The stochastic model, featuring a Pareto/NBD framework to capture the flow of transactions over time and a gamma-gamma sub-model for dollars per transaction, reveals a number of subtle but important non-linear associations that would be missed by relying on observed data alone

**Exhibit 4: Cross-buying and up-buying metrics**

<b>Author (year)</b>	<b>Finding/contribution</b>
Verhoef et al. (2001)	In this article the authors investigate how satisfaction and payment equity affect cross-buying at a multiservice provider. They also consider its competitors' performance on these factors. The results show that the effect of satisfaction differs between customers with lengthy and short relationships. It also shows that payment equity negatively affects cross-buying for customers with long relationships. However, if the prices of the supplier are perceived as fairer than the prices of the competitor, the customers' probability of cross-buying increases.
Knott et al. (2002)	The authors present and evaluate next-product-to-buy (NPTB) models for improving the effectiveness of cross-selling. The NPTB model reduces the waste of poorly targeted cross-selling activities by predicting the product each customer would be most likely to buy next. The field test shows that the NPTB model increases profits compared to a heuristic approach, and that profit are incremental over and above sales that would have occurred through other channels.
Kumar et al. (2006b)	The authors provide a framework that enables managers to determine the appropriate product(s) to sell to customers at a given time based on that customer's history and the history of other customers at the firm.
Kumar et al. (2008a)	The authors provide empirical evidence of the antecedents and consequences of cross buying in a non-contractual retail setting.
Kumar et al. (forthcoming)	The authors provide a framework and methodology for targeting the right customers with the right products at the right time. They do this by running a field experiment with a company and comparing the results of a typical sales campaign with one that is driven by their methodology

**Exhibit 5: Product returns metrics**

<b>Author (year)</b>	<b>Finding/contribution</b>
Anderson et al. (forthcoming)	The authors show that not including product returns in the demand function creates an overestimation bias of demand. In addition, the authors empirically show that customers have an option value for product returns that is measurable.
Petersen and Kumar (forthcoming)	The authors use data from a B2C catalogue retailer to empirically describe the antecedents and Consequences of product return behaviour. The authors find that product returns positively affect (to a threshold) future purchase behaviour – making them necessary, but not evil.
Anderson et al. (2008)	The authors run a field experiment with a retail firm and empirically show that products offered on sale have a lower probability of being returned than products purchased at full price.
Petersen and Kumar (2008)	The authors integrate product return behaviour in the CLV objective function and show that not including it or including it as a component of buying behaviour (i.e., net buying behaviour as products purchased minus products returned) offers significant decreases in predictive accuracy and optimal resource allocation.