

# SCMS JOURNAL OF INDIAN MANAGEMENT

## Contents

Volume 3	July-September 2006	Number 3
<i>Title of the Article</i>	<i>Author</i>	<i>Page No.</i>
Culture of the Eastern European Family Business	<i>Vipin Gupta, Carole Cassidy and Maurice Gervais</i>	05 -17
Information Technology on Indian Banking	<i>K. Mohan</i>	18 - 24
Indian Mobile Telephony: Mobile Number Portability	<i>Pankaj Madhani</i>	25 - 28
Nexus Relations: Economic Growth and R & D	<i>Abey P.Philip</i>	29 - 35
Outsourcing: Employee Experience	<i>Caroll Hern and Ronald J.Burke</i>	36 - 49
Store Brands: Success Probability	<i>T.D.Babu, M.Appalayya, M.Mutyalu Naidu and G.Jayabal</i>	50 - 62
Reporting Practices: Corporate Social Responsibility	<i>Shankar T.K. and Viney K.Thakar</i>	63 - 72
Bancassurance: Indian Context	<i>S.Anand and V.Murugaiah</i>	73 - 81
Expectations and Perceptions in Information Services	<i>Ajay Kumar Pillai</i>	82 - 99
Leasing Aircraft - Indian Aviation Market	<i>Nalini Prava Tripathy</i>	100-102
<i>Management in New Age: Western Windows Eastern Doors</i>	<i>Satheesh Kumar T.N.</i>	103-103
<i>How to be Brilliant? Change your ways in 90 days</i>	<i>Sabu M. Nair</i>	104-104
<i>Business Environment</i>	<i>Sandhya Akolkar</i>	105-106

## *The Chairman speaks ...*



Family businesses around the world are dominating over non-family businesses according to the reports of various studies conducted so far. Naturally, any curious entrepreneur is likely to be interested to know more about the factors that help the family businesses to out-perform.

Unfortunately, no serious study has yet been made in this respect in the Indian context. Therefore, we have selected a well-studied paper on the topic, 'The culture of East European family business,' as the lead article in this edition. Perhaps across different cultures in the world the fundamental principles and practices of doing business may be the same and differences may occur only in the matter of behavioral patterns. Hence the end points of the study paper can be of some relevance to us. What I would like to add in this context is that if the family businesses have to become successful, they need to develop an appropriate strategic plan for their family, prior to having a successful strategic plan for their business.

The remaining articles have been selected to cater to the interests of the diverse categories of our readers.

We hope you will enjoy this edition of SJIM. Your comments and feed backs are always welcome.

**Dr.G.P.C.NAYAR**  
**Chairman, SCMS Group of Educational Institutions**

## SCMS Journal of Indian Management

A Quarterly Publication of

SCMS

- Editor-in-Chief** : **Dr.G.P.C.Nayar**  
Chairman  
SCMS Group of Educational Institutions
- Editor** : **Dr.D.Radhakrishnan Nair**  
Formerly Director, Mahatma Gandhi  
University Research Centre

### Editorial Advisory Board

- Dr.Subramanian Swamy** : Formerly Professor, Harvard University, Cambridge, MA, US.  
Formerly Professor of Economics, IIT, Delhi.
- Prof.Radha Thevannoor** : Director, SCMS School of Technology and Management,  
Kochi.
- Dr.Thomas Steger** : Professor of European Management, Chemnitz University  
of Technology, Chemnitz, Germany.
- Dr.Kishore G.Kulkarni** : Professor, Metropolitan State College of Denver and  
Editor - *Indian Journal of Economics and Business*, Denver,  
US.
- Dr.Naoyuki Yoshino** : Professor of Economics, Keio University, Tokyo, Japan.
- Dr.Mathew J.Manimala** : Professor of Organization Behaviour and Jamuna  
Raghavan Chair Professor of Entrepreneurship at the  
Indian Institute of Management, Bangalore.
- Dr.Tapan K.Panda** : Professor of Marketing, Indian Institute of Management,  
Indore.
- Dr.Azhar Kazmi** : Professor, Department of Management and Marketing, King  
Fahd University of Petroleum & Minerals, Dhahran, Saudi  
Arabia.
- Dr.Jose Maria Cubillo-Pinilla** : Professor, International Marketing, Polytechnic  
University of Madrid, Spain.
- Dr.I.M.Pandey** : Professor and Dean, Asian Institute of Technology, Klong  
Luang, Pathumthani, Thailand.
- Dr.George Sleeba** : Chief General Manager (Marketing), The Fertilisers and  
Chemicals Travancore Ltd., (FACT) Udyogamandal,  
Kochi, Kerala.
- Mr.Jiji Thomson IAS** : Principal Secretary to Government of Kerala.



## Editorial



### **On the Move**

#### Exhaustion to replenishment

*Nineties marked a kind of exhaustion in getting enough personnel in business.*

*A sudden spurt of industrial growth demanded more and more from b-schools*

*It turned to b-schools for their products. Products there were scanty.*

*Demand was more, production less.*

*To meet the requirement, remedial measures had to be taken.*

*Supply of more and more trained personnel was the need of the hour.*

*This strategy for replenishment culminated in mushrooming of b-schools.*

*Initially, the starting of IIMs and similar other institutions like SCMS was only the cue.*

*They were exemplary for other schools to emulate.*

*Instead, a proliferation of b-schools all over in different hues and shapes cropped up.*

*What happens in a b-school is alchemy.*

*This "medieval chemical philosophy" is the appellation proper to the process.*

*The raw materials in a b-school are graduates in arts, science, engineering, technology, and commerce.*

***Here, the base metal is changed into gold, the precious one.***

*Otherwise, they should have continued to add to the bulk of educated unemployed.*

*The young graduates become marketable in the process.*

*The transmutation of base metal in alchemy is the prime function in a b-school.*

*However, the fine function of alchemy has not been well addressed in many b-schools.*

*The world is dashing forward and only technology can help it on the move.*

*Business world equipped with technology well managed could only save it.*

*The alchemy in a b-school trims and transforms the youth to get groomed, in the preparation of the elixir of longevity of a wholesome human race.*

*Do all the b-schools vindicate this task?*



**Dr.D.Radhakrishnan Nair**

**Editorial Assistant: Mr.E.V.Johnson**

© SCMS Journal of Indian Management, SCMS New Campus, Prathap Nagar, Muttom, Aluva-683 106, Kochi, Kerala, India  
Ph: 91-484-262 3803 / 262 3804 / 262 3885 / 262 3887 Fax: 91-484-262 3855, Website: www.scmsgroup.org  
E-mail: editor@scmsgroup.org / scmseditorcochin@yahoo.com / scms@vsnl.com

All rights reserved. No part of this publication may be reproduced in any form without the written consent of the publisher. School of Communication and Management Studies and SCMS Journal of Indian Management assume no responsibility for the views expressed or information furnished by the authors. Edited and published by the Editor for and on behalf of SCMS and printed at Maptho Printings, Cochin-683104.

# Culture of the Eastern European Family Business

Vipin Gupta, Carole Cassidy and Maurice Gervais



The family businesses have a distinct form of culture, and this culture is associated with the regions to which these family businesses belong. Ten articles on the family businesses in different societies of Eastern Europe, using nine GLOBE cultural dimensions, have been brought under comparative logistics. The findings reveal the distinctive culture of the family businesses, and the factors influencing these cultural orientations as well as diversity among the family businesses. A comparison with the culture of the region indicates significant parallels between regional culture and family business culture. Regional roots may significantly influence the cultures of the family business.

Family businesses are a dominant form of organization in cultures around the world, accounting for estimated two thirds of all businesses in the world (Riti, 2000). Recent research suggests that family firms outperform non-family firms on a number of dimensions, including financial effectiveness (Anderson & Reeb, 2003); operational effectiveness (productivity - Kirchoff & Kirchoff, 1987 & customer service - Lyman, 1991); and social capital (concern for employees and communities - Astrachan & Kolenko, 1994). Using the Business Week "CEO 1000," McConaughy (1994) reported family firms to be operationally more efficient, more valuable, having higher stock

returns, using less debt and paying out fewer dividends than their non-family counterparts.



Dr. Vipin Gupta, Roslyn Solomon Jaffe Chair Professor of Strategy, Simmons College School of Management, Boston University, 409 Commonwealth Avenue, Boston, Massachusetts 02215, Tel: 617-521-3800, Email: Gupta05@gmail.com

Ms. Carole Cassidy, MBA, 21 Cutter Avenue, Apt. 3, West Somerville, MA 02144, Tel: 617-281-8323, Email: carole.Cassidy@simmons.edu

Prof. Maurice Gervais, Visiting Professor-MBA, Strategy, international marketing, Simmons College School of Management, Boston University, 409 Commonwealth Avenue, Boston, Massachusetts 02215, Tel: 617-521-3800, Email: maurice.gervais@simmons.edu, mgervais@vzavenuz.net

Despite the prominence of family businesses, there is only limited knowledge base about the culture of family businesses as a form of business organization. And, the knowledge base that does exist tends to view family businesses in very generic terms, as one homogeneous category, without regard to the diversity that might exist in their orientations. Also, we currently lack understanding of the fundamental factors that influence the cultural behavior of the family firms.

Extant literature suggests that family businesses have idiosyncratic features

that are often associated with their own distinctive advantage. Family businesses tend to grow organically using the family's financial and managerial resources, and/or intra-organizationally generated and promoted financial and managerial resources. These resources are durable, dedicated, and co-specialized to the family values and practices. The family businesses face substantial resource constraints, financial and managerial, as they are often reluctant to seek external sources of funding and managerial resources for accelerated growth (Gallo, 1994). Many family businesses are known for their operational richness, diversity, agility, and resilience. Yet they face positional disadvantages in the marketplace. They often operate in structurally unattractive industries, which require limited resources and that face few entry barriers (Gallo, 1995). Consequently, they find it difficult to capture the value inherent in their operational capability, and face adverse terms of exchange and survival.

The highly engaged and enduring resources and relationships, internally with the employees and externally with the community, generate a high degree of social and psychological capital for the family businesses (Astrachan and Kolenko, 1994). The family businesses show a strong empathy, sympathy, cohesion, and resilience. They seek to involve community businesses in both sourcing as well as marketing. However, while their bonding capital tends to be strong, their bridging capital tends to be weak. Because of their social and psychological bonds and commitments, they are unable to adequately exploit global opportunities, going beyond their communities.

Family businesses tend to operate on a long time horizon, because of the concerns about family reputation and prestige, cross-generational sustainability of the business, and strength of informal culture (Gallo, 1995). On the flip side, family businesses are prone to escalating commitment and attempts to protect, ignore, or even hide the bad decisions by the family members. They face significant gaps in due diligence and governance, because of the limited role often assigned to the professional managers. They also tend to have shortsighted policies of development and investment into growth and innovation, especially in capital-intensive industries (Church, 1993).

The above general characteristics of family businesses may be expected to vary as a function of the regional cultural context. Regional culture context tend to have significant influence on societal cultures, which in turn tend to impact organizational cultures. Based on a study of about 1,000 organizations and 61 societies, GLOBE

program reported that about a third of the variation in organizational cultural practices is accounted by the societal context effects; and about a sixth by the society specific industrial domain effects (House et al, 2004). Further, more than half of the variation in societal culture dimensions is accounted by the regional context (House et al, 2004).

In case of family businesses, the influence of regional cultures is likely to be particularly strong because family businesses tend to be rooted in strong and enduring kinship and local networks.

In this paper, we focus on the family businesses in the Eastern Europe region. In Eastern Europe, the family businesses were dissolved during the communism period. After the end of communism, new family businesses have emerged in the region, and some of the older family businesses – that had been acquired by the state during the communism – have been revived. Thus, it is of interest to learn about the nascent culture that is emerging amongst family businesses in this region.

We identify culture in terms of cultivated practices and values within an organization. Culture is often operationalized in terms of dimensions. While several typologies of organizational culture dimensions exist, we use the GLOBE framework (House, et al, 2004). The advantage of the GLOBE framework lies in the parallel structure of organizational and societal dimensions. This allows one to compare organizational cultures with the characteristics of cultures in the society and region, and thereby identify how the organizations have developed differentiated and unique cultures.

In the GLOBE framework, nine dimensions of cultures are identified:

- (1) Power Distance
- (2) Uncertainty Avoidance
- (3) Institutional collectivism
- (4) In-group collectivism
- (5) Gender egalitarianism
- (6) Future orientation
- (7) Performance orientation
- (8) Humane orientation
- (9) Assertiveness

We use the above nine dimensions to analyze family businesses in Eastern Europe, using a set of ten articles obtained after an extensive outreach.

Next, we review the literature on family businesses in the Eastern Europe. The research methodology is then presented. The culture of the family businesses in the region, and the factors influencing this cultural orientation, is then discussed. The implications for further research and managerial practice are identified.

### Literature Review - Family Businesses in the Eastern Europe

In the Eastern European region, historically the government under the communism economic system owned all businesses. During the 1990s, these societies embraced market economy system.

A number of new entrepreneurial ventures have since been established, both by taking over the privatized government owned enterprises as well as in the form of start-ups. Most have been founded by the former middle class – the professionals, highly skilled workers and military officers – who have suffered most of all social groups as a result of the reforms – motivated by a desire to retain the previous standard of living for their family.

In the communist era, friendship had an unparalleled value and significance. The citizens reported “finding reliable friends” or “communicating with friends” as one of the most important goals in life – ahead of work or family life (Shlapentokh 1989: 174). Friendship was the basis of “deep intimate relations,” as well as assistance in “beating the system” in everyday life. The stability of residence and lifetime attachment to the enterprise allowed cultivating and retaining a stable set of friends, as individuals and as couples. The personal friendship networks consequently play an integral role in the family businesses founded in the region since the 1990s (Pistru, Welsch & Roberts, 1997; Barkhatova, McMylor, and Mellor, 2001).

In the first variant, several family couples connected through friendship ties are engaged in a business, referred here as the *Friendship model*. A high degree of dependence of each family unit on the family business, where both husband and wife are involved, frequently generates tensions among the friends about the decision rights and income distribution. The model is often sustained by giving greater control and decision rights to one of the couples. In addition, informal mechanisms are used for friendly get-togethers to retain non-business relationships (see, for instance, Barkhatova, McMylor, and Mellor, 2001). The model appears to be supported by the uncertainty tolerance and low performance orientation in the cluster.

In another variant, multiple generations of a family are engaged in a business, with the friends of the family participating primarily through

their financial contribution (see, for instance, Pistru, Welsch & Roberts, 1997), referred here as the *Goodwill model*. The resilience is added to the family business by having one spouse work in an established business, as the other spouse gets involved in the family business. Such a model helps augment the financial resources of the business, and provides weak ties with a more diverse set of skills and relationships through the externally employed spouses. The model appears to be supported by a high degree of in-group collectivism and gender egalitarianism in the cluster. In some cases, the family may have been in the business for a long time before the Communist era, and re-established the business or regained the control over the older business after the end of the Communist era (see, for instance, Hanzelkova, 2004). The distinguishing characteristics of the two models are summarized below:

*Friendship model:* A stable set of friends engaged in a lifetime of work and family building, sometimes alienating the champion from the friends, and at other times producing a sense of managerial distance enmeshed with human concern.

*Goodwill model:* Parents, siblings, and extended personal friendship networks all contribute finance and two to three generations work together to launch a business, or in some cases to regain control over the traditional family business after the fall of the Communism, while spouses work with more established business.

### Research Methodology

In December 2005, we sent a call for papers requesting published and unpublished articles on the family businesses in different regions of the world, including Eastern Europe. The call was sent to more than hundred family business centers and institutes around the world, as well as to the major family business research and practitioner networks. The call was also sent to the members of various related professional academic organizations, such as the Academy of Management. In addition, an extensive search of electronic databases as well as worldwide web was conducted to identify relevant articles on the family businesses in different parts of the world. Permission of the authors was sought for inclusion of their article for furthering the research on family business in different regions of the world. Based on the search and author permissions, 220 articles were generated. These articles were reviewed by an interdisciplinary team of five Ph.D. holders for rigor, cultural insights and distinctiveness. Ten articles were finally selected for each of the ten regional clusters of the world, as identified by the GLOBE program (House et al, 2004).

**A list of articles selected for the Eastern European region is in Table 1.**

Table 1 - Eastern European Family Business Articles
Barkhatova, Nonna. Russian Families in Small Businesses.
Duh, Mojca Importance and Characteristics of Family Enterprises in Slovenia.
Dyer, W. Gibb, Jr. and Mortensen, Svetlana Panicheva. Entrepreneurship and Family Business in a Hostile Environment: the Case of Lithuania (2001-2005).
Hanzelkova, Alena, Re-Establishing Traditional Czech Family Businesses: A Multiple Case Study on the Present Challenges.
Konis, Elmos, The Family Business and the Impact of Competitive Pressure.
Pivoda, Miroslav and Hoy, Frank. EcoPurify Case Study.
Sarri, Katerina and Trichopoulou Anna. Female entrepreneurship, self-starting entrepreneurs and family business successors: A review of the Greek Situation.
Spanos, Loukas, Tsipouri, Lena and Xanthakis, Manolis. Family Firms and Corporate Governance Rating: the Greek Case.
Stavrou, Eleni T., Kleanthous, Tonia and Anastasiou, Tassos. Leadership Personality and Firm Culture During Hereditary Transitions in Family Firms: Model Development and Empirical Investigation.
Vadnjak, Jaka and Glas, Miroslav. Transgenerational Entrepreneurial Attitudes in Family Businesses in a Transition Economy.

Each of the selected articles was thoroughly scanned to identify themes that were related with the nine GLOBE dimensions of culture.

### **Findings: Culture of Eastern European Family Businesses and the Influence Factors**

#### *Power Distance*

Power distance may be explained by the hierarchy and degree to which decisions are made at the top. Power distance, and the degree to which it exists, is evident more on a case-by-case, or company-by-company basis. Yet, some common cultural tendencies may be identified – in general, the Eastern European family businesses are inclined to concentrate power, yet the complexities of the environment are encouraging a shift towards a shared power approach.

*First, in the Eastern European family businesses, there tends to be a preference for a single leader at the top.* Vadnjak and Glas (2006) conducted surveys in Slovenia regarding succession and attitudes of family businesses. In their studies they found that “many more second generation entrepreneurs believe in only

one successor (not a team)” (Vadnjak & Glas, 2006: 11), illustrating the successors’ beliefs that teams are less efficient than one leader at the top, thereby showing a high power distance in those firms. This example of high power distance shows a lack of a collective body for decision-making and the overall decision-making process as a whole, where pronouncements are passed down from one top leader to lower-level subordinates. Similarly, in Barkhatova’s research of twelve Siberian family-owned businesses, “all... [sampled] family firms are characterized by autocratic and patriarchal style of management and control,” (Barkhatova, 2006: 19) underlining the tendency for various family enterprises to trend away from cooperative management styles. Another example is in the study of Spanos, Tsipouri and Xanthakis in which 120 companies are studied through a corporate governance lens. In this study, “the principal characteristic among the majority of the family firms is that the main owner (family) is usually involved in the key-decision making of the firm” (Spanos, Tsipouri and Xanthakis, 2006: 3).

*Second, in volatile and hostile environments, there is a tendency to embrace a more shared leadership model.* High power distance does not reside in all Eastern European family



businesses, especially when collaboration is vital to the sustainability of the firm. In Dyer and Mortensen's (2006) study, where three of the six businesses studied in Lithuania were family businesses, all three of the businesses used the collective family unit to make key decisions for the firms. Firm one, a clothing manufacturer included in-laws in the decision making process as well. Firm three, an accessories and hat firm, kept most decision making within the immediate family unit (wife, husband, brother and son) but also sought outside help in the aid of an accountant for financing and marketing strategies as well. Furthermore, Firm five, a clothing store and auto repair shop run by a husband and wife, made decisions among themselves and at times expanded key decision making to the remaining ten employees of the joint firms. Because of the "hostile" business environment in Lithuania, networks and connections play an integral role in family run businesses, and in this, such collaboration among friends, family and contacts is crucial to decision making and running a business.

*Third, performance-driven role models also inspire the family businesses to move from 'ascribed' power models to more 'earned' power models.* In the case studies of Cyprus, there is evidence of a shift of power among the top management of the firm, showing a trend away from high power distance toward "professionalism." Konis' (2006) study gives a first hand account of such changing attitudes toward professionalism: "until recently, I mean (in) the last few years, the Cypriot manager was always the owner of the company, who started a business, and rarely bothered to learn the techniques of management. 'I am the owner, this is how things will be done', he would say. Now, maybe things have changed, people are learning the management methods. Now, with more public companies, specialized managers are being hired." (Konis, 2006: 9) Although Konis illustrates this changing attitude, it's worth mentioning that on Cyprus, "the family is the center and all else, including business, revolves around it" (Konis, 2006: 9).

#### *Uncertainty Avoidance*

Uncertainty avoidance may be seen through a company's focus on technology, training, education and the like in order to prepare itself for future changes within the industry and economy. Many of the firms in Eastern Europe have a high "sense" and need for uncertainty avoidance, even if they lack opportunity to actually circumvent uncertainty itself. This is mostly due to a lack of immediate resources or opportunities.

*First, erosion of their idiosyncratic knowledge and the knowledge gaps contribute to significant uncertainty among family businesses.* Consider Hanzelkova's (2006) study on traditional Czech restituted firms. The technological obsolescence of restituted firms places an increasing uncertainty for most family owned businesses due to the intense capital expenditure needed to overcome the depreciation of fixed assets. To further complicate this was the lack of "higher education, [training in management of] people or [the] study of economics during the communist regime" (Hanzelkova, 2006: 11). This starvation of knowledge leaves many restituted family business behind the business cycle of newer firms, and generating greater uncertainty in their sustainability.

*Second, the family firms tend to under-estimate the need for technology enhanced corporate governance, thereby subjecting their practices to high uncertainty.* Spanos, Tsipouri and Xanthakis (2006) underline the need for transparency in all aspects of their Greek family firms, to clarify where the company is focused, key business decisions and missions. However, these firms tend to underestimate the technology requirements for assuring high levels of transparency required by the constituencies.

*Third, the family firms tend to rely on the emotional reservoir of their family and family relationships to survive, resolve, and manage the uncertainties.* Consider Pirvoda and Hoy's (2006) disguised case of EcoPurify in the Czech Republic. In this, twin brothers started a venture for purified wastewater based on technology they developed while working in communist Czechoslovakia. First and foremost, they started a venture in "a country that had not known free enterprise for almost half a century [which] would require creativity in organization and finance as well as in technology" (Pirvoda & Hoy, 2006: 1). A heavy investment in R&D left them as pioneers in a very uncertain time. As inventors of this new technology, the brother sought detours around communist laws and unofficially worked on their treatment experiments in communist Slovenia. With the Velvet Revolution, the brothers "moved forward to commercialize their technologies and resigned their positions at the Technical University of Bratislava" (Pirvoda & Hoy, 2006: 3). All of these examples of innovation, determination and entrepreneurship show very low uncertainty avoidance for two very resolute brothers in the Czech Republic.

### *Institutional Collectivism*

Institutional collectivism refers to an emphasis on collective interests, institutions, and coordination systems, as opposed to a focus on individual incentives and goals. The family firms in Eastern Europe appear to have a low sense of institutional collectivism when it comes to sharing rewards, but a high sense of institutional collectivism in relation to benefiting from collective goods.

*First, the family firms find it difficult to navigate by following the rules of their governments in low trust contexts.* Where there is not trust in greater society, trust also seems to dissolve in family businesses as well. In Czech Republic, there is a “high crime rate, unethical behavior leading to a lack of trust, a generally poor image of business people, and lack of a qualified workforce with problems in the overall management of human resources” (Hanzelkova, 2006: 9). The Czech family firms show a general mistrust of the government and its practices. The state is seen as inefficient “in terms of excessive bureaucracy, practices discriminatory towards smaller and Czech firms (as opposed to large companies with foreign capital), [and] frequently changing and confusing legislation that is difficult to follow and implement” (Hanzelkova, 2006: 9).

*Second, the family firms often strive to invent alternative rules for accommodating government interests.* This is seen in Dyer and Mortensen’s (2006) Lithuanian case studies. Firms 1 and 3 are illegally operating within the corrupt Lithuanian society, to become part of a “gray economy.” These family businesses operate illegally due to the oppressive taxation and bureaucratic conduct of the Lithuanian government. It is noted that “if a [proprietor] were to pay all the required taxes, she would quickly go bankrupt. Thus bribes are also a way of life in Lithuanian family businesses” (Dyer & Mortensen, 2006: 10).

*Third, the family firms may also delicately balance their desire to be freed from government rules, with their desire to co-opt government as a key ally and partner in their game-play with broader sets of constituencies.* Thus, in Pirvoda and Hoy’s (2006) EcoPurify case, the twin brothers circumvent the laws of communist Czechoslovakia to start-up their business. Yet, during the communist regime, the two brothers co-opt the government interests by giving the latter the ownership of their patents.

### *In-Group Collectivism*

In-group collectivism refers to a sense of pride in and loyalty to the family and the group.

In Eastern European family businesses, there tends to be high degree of loyalty to the family, which at times may degenerate into cases of nepotism.

*First, family businesses tend to subscribe to the concept that family members contribute more than what is measurable in terms of their formal roles, positions, and contributions.* Family member contributions may be preservation of culture and maintaining the fabric of the family business, giving it some distinctive advantage. Thus, Vadnjaj and Glas’ (2006) case illustrates that “Slovenian businesses are not very open, they are wither more in favor of family exclusivity, or are still undecided. One of the family business paradigms is that family members are entitled to differential pay arrangements compared to the other employees” (Vadnjaj & Glas, 2006: 12).

*Second, family businesses actively seek contributions from their family members that may or may not be captured just in terms of the formal roles.* In Slovenia, “family members (not employed in the enterprise) are rarely paid for their work,” (Duh, 2006: 11), reflecting a loyalty seen in family businesses not seen in other firms, as this kind of “free” help and loyalty could not be expected from outside sources. Similarly, Stavrou, Kleanthous, and Anastasiou’s (2006) study of Cyprus shows, “members of a collaborative family share information and co-operate in reaching family decisions. They have common goals and aim to ensure family harmony, while they have discretion to express their opinions” (Stavrou, Kleanthous, & Anastasiou, 2006: 9). There is also a significant involvement of parent’s decision making and role, confirming a tendency toward in-group collectivism. “While parents alone were reported to make the important decisions for the family firm in only three firms (eight percent), they participated actively in decision making, mainly either through the governing board (38 per cent) or by jointly reaching decisions with the successor (28 per cent)” (Stavrou, Kleanthous, & Anastasiou’s, 2006: 15).

*Third, family businesses may segment their family and friendship relations also in terms of their business functionalism, and confine their loyalties and commitment to only those relations as are relevant for the business.* As some friends become

business partners, a preference is nowadays given more to meetings and pastime with friends as partners, than with friends as friends, contrary to what happened before. There has been an increasing 'commercialization' of friendship relations. New relations have appeared and only those which present a concrete interest from the point of support and development of business have been absorbed" (Barkhatova, 2006: 8). Other factors may also play in fragmenting the group cohesion. Thus, in Siberian cases, we find that, "in the companies, established by women, there is apparent competition for leadership, initiated by ambitions of husbands 'to take business in own hands'" (Barkhatova, 2006: 10). Still, in general, family business owners/managers stress the importance of not competing successors against one another. This is probably an unwritten policy more so in family businesses as the relationships do not stop at the company's doors.

#### *Gender Egalitarianism*

Gender egalitarianism refers to gender role overlap and the extent of opportunities given for entry, advancement, and recognition to women. In Eastern European family businesses, one finds significant struggle to achieve high levels of gender egalitarianism.

*First, women in family businesses tend to be given roles that are less challenging as leaders, and that are supportive, rather than leadership oriented.* Barkhatova (2006) observes that in the typical Siberian family businesses, one sees the "husband as the leader and the wife as the accountant/manager" (Barkhatova, 2006: 9). Although the role as manager appears to place the wife on an even playing field with her husband, the mere fact he is the "leader" denotes low gender egalitarianism. An even in cases where the wife is the leader and the husband in the accountant/manager role, it is still customary that "husbands as a rule are responsible for 'external' functions of business that is for relations with partners and suppliers. In the companies, established by women, there is apparent competition for leadership, initiated by ambitions of husbands 'to take business in own hands.' Periodically, from time to time men insist on taking a set of main functions such as personnel and finance management. Under actual leadership of wife in business, formal leaders at the companies are their husbands" (Barkhatova, 2006: 10). Therefore, even if there is perceived equality; it is a mere formality than an actuality. Similarly, we see a masculine culture in Cyprus, where "most local business is run by men" (Konis, 8) with no mention of women and their role in society, or the family business.

*Second, education plays an important role in the assumption of leadership positions by women in family businesses – going beyond the default case of lack of male successors.* In a study of female-owned family businesses in Greece, woman is either starting the business, or taking on the successor role in practice and not as a figurehead. Here, it is worth noting that "the level of education of female self started entrepreneurs appears to be quite high opposed to the female family business successors, the majority of which (68.4 per cent in 2000 and 57.8 per cent in 2002), had completed elementary and secondary education (technical schools in fields related to the family business activity)" (Sarri & Trichopoulou, 2006: 11).

*Third, societal sensitivity to gendering does filter into the gendered culture of family businesses.* In Greece, for instance, while "family influence [does]... affect[s] the decision of women to start up a family business," there is no evidence "that barriers and obstacles exist...prohibiting women who have no family connections with entrepreneurship to start up small business activity" (Sarri & Trichopoulou, 2006: 12). Further, "the Greek economy does not have considerable and decisive partitions in the business continuation (from parents to their children) or career change, and from this point it is regarded as a relatively "open society" (Sarri & Trichopoulou, 2006: 12). Similarly, in Lithuania, women in family businesses may play roles as sole owner/leader, partner to spouse, or managerial/accountant role. Yet, all these roles are identified as, and actually are, integral part in running the day-to-day business and in key decision-making. For instance, Dyer and Mortensen (2005: 9), report with respect to one of the family businesses, "Yuri identifies his business as a family firm, inasmuch as his wife and his mother-in-law are the key decision makers."

#### *Future Orientation*

Future orientation refers to planning, investing, saving, and visualizing futuristically, and delaying gratification and consumption. In Eastern Europe, the family firms tend to find it difficult to plan for the future, as they are more concerned with their short-term survival and growth in a transitional environment. Because resources in terms of money, human and knowledge capital are very scarce, planning for the future gives way to daily survival of the family business.

*First, families that experienced nationalization of their businesses during the communist times tend to be less interested in sustainability.* Thus, in Slovenia, “some ‘old’ family businesses reappeared as part of the restitution of previously nationalized enterprises. These were mostly focused on harvesting the accumulated wealth and not on long-term business growth” (Vadnjak & Glas, 2006: 2). Because such family business owners have unpleasant family memories of nationalization, instant gratification is sought, rather than a sustainable enterprise to provide income and wealth for generations to come.

*Second, concern with the group aspect of family business may contain future orientation of the family businesses.* Thus, on the island of Cyprus, we also see a trade-off between near future survival and growth of the family business, with a greater emphasis on family at the cost of business. “Due to family orientation, they appear to be more conscious of survival, kinship harmony and employment opportunities than they are for profitability” (Konis, 2006: 16). Indeed, this constant battle between family and business may threaten survival in the ever-evolving global market place. As Konis (2006: 16) observes, “Family (oriented) businesses are predominantly susceptible when having to deal with the speed of economic, industrial and competitive change. The strong social ties that previously sustained, and even contributed to the growth of such firms, become stifling factors that slow down the company in environments where the rate of external change has increased. According to the Cypriot entrepreneurs, this is exactly the difficult predicament they are now finding themselves in, which is endangering their very survival.”

*Third, concern with the cross-generational sustainability of family business tends to support future orientation.* Duh’s (2006) research in Slovenia shows that “the majority of family enterprises will continue to exist and develop as a family enterprise – such enterprises present in the sample 81.7 per cent; only 18.3 per cent of family enterprises in the sample did not consider whether or not their enterprises would continue to exist as a family enterprise” (Duh, 2006: 12). When surveyed, family firms ranked, in order of importance, future goals and plans for their family business and the most important future goal was to pass the business opportunity on to children. Furthermore, in order to sustain, the owner/manager of the family firm stressed the importance of reinvesting the profit for development of the firm, rather than instant family wealth (Duh, 2006: 13). A majority of these owner/managers (84 per cent) had a vision for their enterprise, if not an actual planned development model.

Note that future orientation is not necessarily same as a formal business planning; above conditions instead play a more important role. In Dyer and Mortensen’s (2006) study, only one in three family businesses had a formal business plan. In this firm, Nadia, her husband, her brother and her son ran a women’s accessories firm and in sharp “contrast to the other five firms we studied, Nadia does carry out some formal business planning. She and her accountant meet each day after work to analyze sales data, determine what is selling, and identify problems. They use this information to develop marketing strategies and plan for the future” (Dyer & Mortensen, 2006: 11). Yet, even in other firms, future orientation was evident. For example, in Firm five, Johan and Tanya ran a family business, and although they lacked a formal business plan, “they meet regularly to discuss the problems in both businesses and make plans for the future. The founders would like to eventually turn these businesses over to their children” (Dyer & Mortensen, 2006: 13).

#### *Performance Orientation*

Performance orientation refers to the concern with recognizing, rewarding, and celebrating the diverse form of performance and contributions of people. The Eastern European family businesses appear to be drifting towards greater performance orientation, with the development of the market-based economy in the region.

*First, the new generation – with new ideas for growth — tends to bring greater sense of performance orientation to the family businesses.* In Slovenia, thus, one finds “significantly bigger enthusiasm of higher generation business for growth potential may be interpreted as confirmation of the proposition that higher generation entrepreneurs are more growth oriented than founders” (Vadnjak & Glas, 2006: 14). However, at the same time, performance orientation of the family businesses is moderated by substantial inter-generational differences in the significance of growth (Vadnjak & Glas, 2006).

*Second, the biggest challenge to performance orientation is situated in the issue of estate planning.* In Slovenia, for instance, “for family businesses, there is the highly emotional issue of the distribution of shares – to whom, how many, and when. It is a particularly sensitive issue when it comes to whether the children should hold stakes in the company while the parents are still alive and active (Vadnjak & Glas, 2006: 12). The ownership dilemma of shares, and how they are distributed is “a compromise on the question of whether

non-active children should still receive shares: the answer could be affirmative but the shares could differ between active and non-active children following the idea that active children could be remunerated through shares, not just salaries and profit-sharing" (Vadnjal & Glas, 2006: 12). The broader question is should all members of the family (employees and non-employees) reap the benefits of the family business? If so, how?

*Third, opening of the family business to professional management can be an important transition point for a shift towards a culture of greater performance orientation.* In the Cypriot society, Konis (2006) reports an underlying shift toward a meritocratic family business, consistent with greater professionalism. The focus is on "meritocracy in contrast to nepotism, more organization and planning, less emotion" (Konis, 2006: 18).

#### *Humane Orientation*

Humane orientation refers to a concern for tolerating mistakes, being caring, warm, kind, and supportive towards other people in the society. The Eastern European family businesses appear to be quite sensitive to humane orientation.

*First, humane orientation inherent in family businesses may result in greater reliance on informal approaches, that allow greater sympathy and generosity, though not necessarily support business development.* Thus, Spanos, Tsipouri and Xanthakis (2006) report Greek family business: "not having appropriate risk management systems; not following appropriate norms of company board structure and management (e.g. directors' independence, board committees' establishment, CFO position); ...confusing family matters and business matters and so on" (Spanos, Tsipouri & Xanthakis, 2006: 12).

*Second, family businesses may have heightened sense of issues that concern people around them.* In Pivoda and Hoy's (2006) EcoPurify study in Czech Republic, the business of wastewater treatment originated from the concern for the state of environment. The two brothers were challenged by their father to "find solutions to the environmental problems caused by advances in science and industry, [and] this challenge influenced subsequent education and career choices made by the brothers" (Pivoda & Hoy, 2006: 1). The same challenge then became the basis for one of the brothers encapsulating his son into the business, as a family commitment to the cause.

*Third, family businesses play an important humane oriented role as members of their local communities.* The family businesses in different Eastern European studies play an important role in their local communities, especially in smaller nations and towns, such as Cyprus.

#### *Assertiveness*

Assertiveness refers to inter-personal communication effectiveness, political engagement, perseverance, and commitment to secure what one is worth. The Eastern European family businesses appear to have a fairly strong sense of assertiveness to overcome the environmental complexities and challenges.

*First, family businesses show fairly high levels of resilience and efforts to fight the adversities, especially in unfavorable and non-supportive situations.* In Pivoda and Hoy's (2006) case study on EcoPurify in the Czech Republic, we revisit the passion of the twin brothers for the science and technology of their water purification system. These two pioneers, or go-getters, show their assertiveness throughout the case, whether it be the circumvention of communist laws to develop, test and promote their product, or the tenacity to see their dream come to fruition, "after almost 40 years, the Manuses' ambitions were becoming a reality. They wanted to disseminate their technology throughout the world and to apply it to the most extensive ecological projects" (Pivoda & Hoy, 2006: 6).

*Second, first generation entrepreneurs tend to have particularly strong sense of assertiveness, given the limitations of their resources.* In their study of women-owned family businesses in Greece, Sarri and Trichopoulou (2006) illustrate a motivation based on high self-confidence and esteem of the first generation female entrepreneurs. "New self-starting female entrepreneurs in Greece seem to be motivated to entrepreneurship mainly from pull factors that refer to economic reasons, self-fulfillment including the needs for creativity, autonomy and independence" (Sarri & Trichopoulou, 2006: 17).

*Third, marginalized groups also tend to have a strong sense of assertiveness in their family businesses, particularly in adverse and resource deficient situations.* In the Barkhatova's (2006) Siberian cases, for example, because of the very nature of the illegal, or "grey" businesses set up, we see family businesses that are assertive in their motivation to produce and market goods to Siberian society. However, where the situation is not as adverse, the family businesses may take the path of least resistance for survival.

## Discussion of the Findings

The GLOBE program shows that the societal practices in the Eastern European region is low on performance orientation and uncertainty avoidance, but high on assertiveness, in-group collectivism, and gender egalitarianism (House et al, 2004). They are moderate on the other four dimensions – institutional collectivism, future orientation, humane orientation, and power distance (House et al, 2004). Moreover, the region puts a high value on uncertainty avoidance, and a low value on institutional collectivism.

The key findings with respect to the family business culture in the Eastern Europe are summarized in Table 2. The culture of family businesses in the Eastern Europe appears to be characterized by a high degree of In-group collectivism, assertiveness, and humane orientation. Uncertainty avoidance and institutional collectivism appears to be low. The other four dimensions are moderate – performance orientation, gender egalitarianism, future orientation, and power distance.

The family business culture thus appears to mirror the societal culture practices, with a few exceptions. First, family businesses in the region have a stronger sense of performance orientation than that prevalent in the region's society. Our findings suggest that new generation of successors, as well as professional role models, are supporting a greater sense of performance orientation in the cluster's family businesses. However, an appropriate approach to estate management that appropriately rewards the active members of the family, and other constituencies involved in the family business, remains a challenge.

Second, family businesses in the region also appear to have a strong sense of humane orientation. This humane orientation

manifests itself in the use of informal approaches, and heightened sense of membership in the local community and of the issues of significance to the local community.

Third, family businesses in the region appear to have a more moderate sense of gender egalitarianism, than that practiced in the region's societal culture. Though the region's gender sensitivity does filter into the culture of family businesses, yet women are often given supporting roles considered of less relevance and are protected from more challenging assignments even as leaders. Education of women, however, may be changing these attitudes.

Fourth, family businesses in the region appear to have a weaker sense of institutional collectivism, which is consistent with the low value on institutional collectivism placed in these societies. Though these businesses show a tendency to co-opt the government as partners, yet they also try to circumvent rules to further their own private interests. Collective interests are deemed less important in a societal context where trust is breaking down in the transitional environment.

Despite these differences, there is evidence that the family business cultures are founded in the broader culture of the region and the societies. For instance, a low uncertainty avoidance culture may be associated with the erosion of knowledge experienced by the family businesses. Also, given greater use of informal approaches and family's emotional reservoir, the family businesses in the region under-estimate the need for technology-enhanced corporate governance, planning, and control. However, such lack of uncertainty avoidance may not be conducive to performance. At the societal level also, these societies aspire for high levels of uncertainty avoidance, rejecting the low levels of their current practices.

**Table 2: Family Business Culture in Eastern Europe and Influence Factors**

*Power Distance (moderate)*

- *preference for a single leader at the top.*
- *in volatile and hostile environments, there is a tendency to embrace a more shared leadership model.*
- *performance-driven role models also inspire the family businesses to move from 'ascribed' power models to more 'earned' power models*

*Uncertainty Avoidance (low)*

- *erosion of their idiosyncratic knowledge and the knowledge gaps contribute to significant uncertainty among family businesses.*

- *the family firms tend to under-estimate the need for technology enhanced corporate governance, thereby subjecting their practices to high uncertainty.*
- *the family firms tend to rely on the emotional reservoir of their family and family relationships to survive, resolve, and manage the uncertainties.*

#### *Institutional Collectivism (low)*

- *the family firms find it difficult to navigate by following the rules of their governments in low trust contexts.*
- *the family firms often strive to invent alternative rules for accommodating government interests.*
- *the family firms may also delicately balance their desire to be freed from government rules, with their desire to coopt government as a key ally and partner in their game-play with broader sets of constituencies.*

#### *In-group Collectivism (high)*

- *family businesses tend to subscribe to the concept that family members contribute more than what is measurable in terms of their formal roles, positions, and contributions.*
- *family businesses actively seek contributions from their family members, that may or may not be captured just in terms of the formal roles.*
- *family businesses may segment their family and friendship relations also in terms of their business functionalism, and confine their loyalties and commitment to only those relations as are relevant for the business.*

#### *Gender Egalitarianism (moderate)*

- *women in family businesses tend to be given roles that are less challenging as leaders, and that are supportive, rather than leadership oriented.*
- *education plays an important role in the assumption of leadership positions by women in family businesses – going beyond the default case of lack of male successors.*
- *societal sensitivity to gendering does filter into the gendered culture of family businesses.*

#### *Future Orientation (moderate)*

- *families that experienced nationalization of their businesses during the communist times tend to be less interested in sustainability.*
- *concern with the group aspect of family business may contain future orientation of the family businesses.*
- *concern with the cross-generational sustainability of family business tends to support future orientation.*

#### *Performance Orientation (moderate)*

- *the new generation – with new ideas for growth – tends to bring greater sense of performance orientation to the family businesses.*
- *the biggest challenge to performance orientation is situated in the issue of estate planning.*

- *opening of the family business to professional management can be an important transition point for a shift towards a culture of greater performance orientation.*

#### *Humane Orientation (high)*

- *humane orientation inherent in family businesses may result in greater reliance on informal approaches, that allow greater sympathy and generosity, though not necessarily support business development.*
- *family businesses may have heightened sense of issues that concern people around them.*
- *family businesses play an important humane oriented role as members of their local communities.*

#### *Assertiveness (high)*

- *family businesses show fairly high levels of resilience and efforts to fight the adversities, especially in unfavorable and non-supportive situations.*
- *first generation entrepreneurs tend to have particularly strong sense of assertiveness, given the limitations of their resources.*
- *marginalized groups also tend to have a strong sense of assertiveness in their family businesses, particularly in adverse and resource deficient situations.*

## Conclusions

In this paper, we investigated if the family businesses have a distinct form of culture, and if this culture is associated with the regions to which these family businesses belong. We reviewed a set of ten articles on the family businesses in different societies of Eastern Europe, using nine GLOBE cultural dimensions. Our findings revealed the distinctive culture of the family businesses, and the factors influencing these cultural orientations as well as diversity among the family businesses. A comparison with the culture of the region indicates significant parallels between regional culture and family business culture. This suggests that cultures of the family business may be significantly influenced by the regions from where they emanate.

The findings do provide pointers for further research. A limitation of our research is a focus only on a single region – Eastern Europe. Studies in other regions are required to identify differences in family business cultures, as a function of the regional cultures. Also, the findings are based on a sample of ten articles. Further studies are required to validate the findings reported here. It will also be useful to use frameworks other than GLOBE to assess the cultural orientation of the family businesses and of the regions. Moreover, a qualitative approach was used here to assess the culture of the family businesses. Use of survey-based and other more direct measures would be advisable to quantify the similarities and differences in the cultures of different family businesses, and to evaluate the common denominator attributable to the regional-effect.

The core managerial implication of our findings is that the family businesses cultures are influenced by their regional culture, but are not necessarily determined by the regional cultures. It would be a mistake to consider family business cultures as homogeneous – either at a global level, or at the regional level. Several factors may influence the cultures of family businesses, which may generate heterogeneity amongst family business cultures even within specific regions. Yet, understanding of the regional culture and its influence on the family business culture can help clarify the differentiated roots of the competitive advantage of different family businesses.

## Note

<sup>1</sup> The research conducted here was partly supported by Family Owned Business Institute at the Grand Valley State University, and by Simmons College School of Management. The authors acknowledge the help of Thomas Schwarz, Nancy Levenburg, Jaideep Motwani, and Lynda Moore in the search, prospecting, and review of the articles used as the sample for this study. Shorouq Almallah provided excellent administrative support. The sample articles were collected and reviewed for a comparative compendium on the family business models around the world. Contact the first author for further details.

## References

Anderson, R.C. & Reeb, D.M., "Founding family ownership and firm performance: Evidence from the S&P 500," *Journal of Finance*. 58: 1301-1328, 2003.



- Astrachan, J.H. & Kolenko, T.A., "A neglected factor explaining family business success: Human resource practices," *Family Business Review*, 7: 251-262, 1994.
- Barkhatova, N., McMyler, P., and Mellor, R., "Family business in Russia: the path to middle class?" *British Journal of Sociology*, 52 (2), 249-269, 2001.
- Church, R., "The Family Firm in Industrial Capitalism: International Perspectives on Hypotheses and History," *Business History*, 35, 7-43, 1993.
- Gallo, M.A., *Global perspectives on family businesses*, Chicago: Loyola University, 1994.
- Gallo, M.A., "Family businesses in Spain: Tracks followed and outcomes reached by those among the largest thousand," *Family Business Review*, 8 (4): 245-254, 1995.
- Hanzelkova, A., "Re-Establishing Traditional Czech Family Businesses - A Multiple Case Study on the Present Challenges," Unpublished *Ph.D. dissertation*, University of Jyväskylä, Czech Republic, 2004.
- House, R.J., Hanges, P.J., Javidan, M., Dorfman, P., and Gupta, V., Eds., "Culture, Leadership, and Organizations: The GLOBE study of 62 societies," Thousand Oaks, CA: Sage Publications, 2004.
- Kirchoff, B.A., & Kirchoff, J.J., "Family contributions to productivity and profitability in small business," *Journal of Small Business Management*, 24-31, 1987.
- Lyman, A.F., "Customer service: Does family ownership make a difference?" *Family Business Review*, 4 (3): 303-324, 1991.
- McConaughy, D., "Founding-family-controlled corporations: An agency-theoretic analysis of corporate ownership and its impact upon performance, operating efficiency and capital structure," *Doctoral dissertation*, University of Cincinnati, 1994.
- Pistrui, D., Welsch, H.P., Wintermantel, O., Liao, J. and Pohl, H.J., "Entrepreneurial orientation and family forces in the New Germany: Similarities and differences between East and West German entrepreneurs," *Family Business Review*, Vol. 13, No. 3, 2000.
- Riti, M.D., "Need to nurture tradition of family businesses," April 1, 2000 [www.rediff.com](http://www.rediff.com)
- Shlapentokh, V., *Public and private life of the Soviet people - changing values in post-Stalin Russia*, Oxford, Oxford University Press, 1989.



# Information Technology

## on Indian Banking



K.Mohan

Information technology and the communications networking systems have globally revolutionised the working of banks and financial entities. However, with a significant workforce, the public sector banks have not been able to harness the beneficial effects of computerization. Information technology is viewed more as reconciliation equipment for the back office and a ledger mechanism for the front office. This, in effect, constrains PSBs from providing a 'single window concept' service to their customers in a world where banking is increasingly becoming a consumer-centric service provider. The gainful effects of the use of information technology and also the impact of IT on banking performance and customer services are foregrounded in the paper.

The financial sector reforms introduced in the early 1990s envisaged an effective and strong financial industry. The introduction of these reforms brought with it a healthy competition. Banks felt the need to upgrade their customer service to a much higher plane in order to survive in this competitive environment. They found technology as an ideal tool to achieve this objective. Public sector banks were guided by the recommendations of the Committee for up-gradation of Banking Technology. Though the pace of the computerization has been moderate, the manner in which public sector banks went in for investments in technology was enough proof of the belief the banks have on technology to secure their future.



Dr.K.Mohan, Reader, School of Management,  
Pondicherry University, Pondicherry - 605 014,  
Tamil Nadu, Tel: 413-2655991, Email:  
drkmohan57@rediffmail.com

Till 1980s, banks had only one delivery channel which is the branch presence. Suddenly, technology has opened up options for various delivery channels. Technology-aided products like ATMs, Point of Sale devices, anywhere Banking, Smart Cards, Internet Banking and WAP Banking, have given the customers to choose his channel of Getting catered to his requirements. Consequently, the banks should also have channel-based strategy to serve the customers. Over the years, technology has brought a sea change in the functioning of the banks. The earlier manual system of preparation, have been automated, thereby saving a lot of time and effort. The use of ATMs and introduction of more

technology in the front office gains greater importance now than in the past. Use of ATMs has proved to be faster, accurate and it can also be utilized for value added services, like consumer loan processing.

### Indian Banking Scenario

While looking at the Indian banking scenario it becomes imperative to look at the different constituents as they have some common and some different drivers that influence their strategies. These are the public sector banks (PSBs), the private sector banks (PVSBs) including eight new PVSBs and the foreign banks (FBs). They are at different stages of technology adoption partly due to their different legacies as much as the differences in their strategic approach to computerization and technology absorption.

The agenda for the different constituents will vary due to organizational differences, the spread and the nature of operations. With the Central Vigilance Commission's (CVC) guidelines almost 70 per cent of the business of public sector banks should be computerized. This is the first step in the technology absorption process. In the second stage, the networking of branches and centralized processing systems has been initiated. Simultaneously, customer centric initiatives for net and mobile and WAP banking also have been under way.

Indian banking is at the threshold of a paradigm shift. The applications of technology and product innovations are bringing about structural changes in the Indian Banking system. Off-site ATMs, on-line debit cards and electronic everywhere banking are transforming the traditional concept of branch banking. While banks are striving to strengthen customer relationship and move towards 'relationship banking,' customers are increasingly moving away from the confines of traditional branch banking and seeking the convenience of remote electronic banking. Old indicators of bank performance such as growth in deposit mobilization and business are increasingly becoming outdated and newer parameters such as the level of net interest margins; non-performing assets, provisions made and profitability are gaining prominence. These changes have necessitated a re-look into the corporate policy of banks, particularly in regard to manpower policy and rationalization of business operations. On the other hand financial institutions are evolving roadmaps for transforming themselves into "Universal Banking" entities.

Information technology and the communications networking systems have revolutionised the working of banks and financial entities all over the world. It is only recently that information technology has begun to make headway in the offices of commercial banks. With a significant workforce, the public sector banks have not been able to harness the beneficial effects of computerization. Information technology is viewed more as reconciliation equipment for the back office and a ledger mechanism for the front office. This, in effect, constrains PSBs from providing a 'single window concept' service to their customers in a world where banking is increasingly becoming a consumer-centric service provider. This lack of leveraging of their investment in effect has inhibited their decision-support system, which is a growing threat they encounter from their private sector and foreign counterparts.

### Use of Internet in Banking Industry

Internet is a network of networks. It is not a single network, but a global interconnected network of networks providing free exchange of information. It implies the most pragmatic use of information technology as medium of universal communication. It has brought unprecedented changes in society. Spanning the entire globe, the Net has redefined the methods of communication, work, study, education, interaction, entertainment, health, trade and commerce. The versatile facilities and opportunities provided by the Internet and World Wide Web led to the development of electronic commerce. This became possible when the Internet transformed from the ordinal system providing static web pages, into interactive two-way system.

### E-Commerce

Electronic Commerce is a system, which includes transactions that centre on buying and selling of goods and services to directly generate revenue. E-commerce builds on the advantages of traditional commerce by adding the flexibility offered by electronic networks. E-commerce helps conduct of traditional commerce through new ways of transferring and processing information.

### E-Banking

E-banking and electronically providing financial services are branches of electronic commerce. A significant development

has been achieved in offering a variety of new and innovative E-banking services to customers today, which were not thought of before.

### Corporate Internet Banking (CIB)

It facilitates banking from your desk. At the click of a mouse, we can access your accounts at any branch of the bank and also keep track of your accounts at its numerous branches.

### Online Banking Features and its Benefits

Online Banking provides the following benefits to the customers:

- ❖ **Fund Transfers:** Managing your supply-chain network, effectively by using its online fund transfer mechanism. You can affect fund transfer on a real time basis across bank locations.
- ❖ **Request:** Make any request online instantaneously.
- ❖ **Account Information:** The complete database that the bank has about your account is available to you at your terminal. It provides you,
  - Ø **Current balance** in your account on real time basis.
  - Ø **Day's transactions** in the account.
  - Ø Details of **cash credit limit, drawing power, amount utilized, etc.**
- ❖ Downloading of **statement of account** as excel or text/document file. The statements can be integrated with customer's Enterprise Resource Planning System (ERPS) for auto reconciliation.

Customers also can submit the following requests on-line:

- Ø Registration for account statement through e-mail, either on daily/weekly/fortnightly/monthly basis;
- Ø Stop payment of cheque;
- Ø Cheque book replenishment;
- Ø Demand Draft/ Pay order;
- Ø Opening of Fixed Deposit Account/ Recurring Deposit Account, etc;
- Ø Opening of Letter of Credit, etc.

### Effecting Investments through E-Banking

The bank's web site also allows the customer to invest in shares, mutual funds and other financial products.

### On-line Trading in Shares

**Cash Trading:** This is a delivery based trading system, which is generally done with the intention of taking delivery of shares or moneys.

**Margin Trading:** Customers can also do an intra-settlement trading normally up to four times his available funds, wherein they can take long buy/ short sell positions in stocks with the intention of squaring off the position within the same settlement cycle.

**Spot Trading:** When looking at an immediate liquidity option, 'cash on spot' may work the best for the customer. On selling shares through 'cash on spot,' money is credited to his bank account the same evening and not on the exchange payout date. This money can then be withdrawn from any of the bank's ATMs. The customer can also trade directly at the recognized stock exchanges of the country through his bank.

### Online Investments in Mutual Funds

Electronic banking also brings the customer the same convenience while investing in Mutual funds – hassle free and paperless investments. One can invest in mutual funds without the hassles of filling in application forms or any other paper work. One need not provide signatures or any proof of identity for investing online. Once a customer places a request for investing in a particular fund, there are no manual processes involved. His bank funds are automatically debited or credited while simultaneously crediting or debiting his unit holdings.

### Trading in Derivatives

**Futures:** Through electronic banking the customer can also trade in index and stock futures on the approved stock exchange. In futures trading, he takes buy/sell positions in index or stock(s) contracts having a longer contract period of up to three months.

**Options:** An option is a contract, which gives the buyer the right to buy or sell shares at a specific price, on or before a specific date. For this, the buyer has to pay to the seller some money, which is called premium. There is no obligation on the buyer to complete the transaction if the price is not favourable to him. To buy/sell on index/stock options, he has to place certain percentage of order value as trading limit by taking buy/sell

positions much more than what he could have taken in cash segment.

**On-line Initial Public Offers (IPOs)**

The customer could also invest in IPOs online without going through the hassles of filling any application form/paper work; Get in-depth analyses of new IPOs issues, which are about to enter the share market and analyse on these. IPO calendar, recent IPO listings, prospectus, offer documents, and IPO analysis are a few features, which help a customer to keep on top of the IPO market.

**Current Technology Models**

The use of technology has several impacts on the banking business. It provides multiple delivery channels for the service

industry; it enables management of data that is critical for business design as well as the reporting requirements both internal and external. It has an impact on the efficiency of operations, impacting the cost of doing business. It is evident from various estimates the new technology enabled delivery channels are attractive from the point of reducing cost of operations. It is estimated that as against rupee one for a branch transaction the costs for Internet transaction is estimated to be Rs.0.1, followed by Rs.0.35 for telephone banking and Rs.0.45 for the ATM Channel.

The Technology path taken by various players in the Indian banking industry is presented in Chart A below. Most of the PSBs, PVSBs and FBs are looking at e-commerce strategies in their net banking channels. They have already initiated IT strategies with commitment of IT budgets to embrace technology.

**CHART A**  
**The Trodden Path: Technology - driven Banking Delivery Channels**

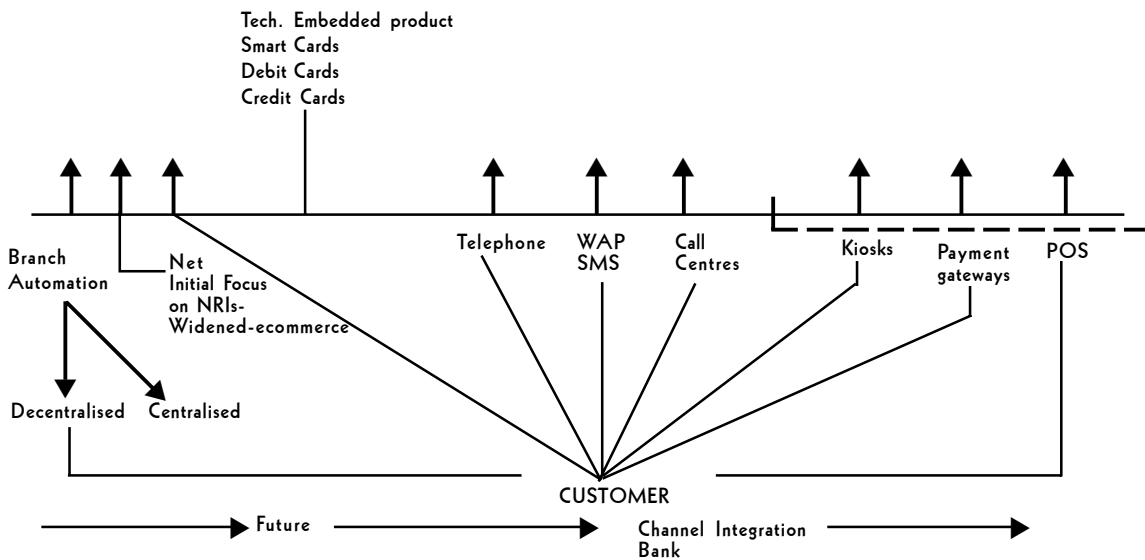
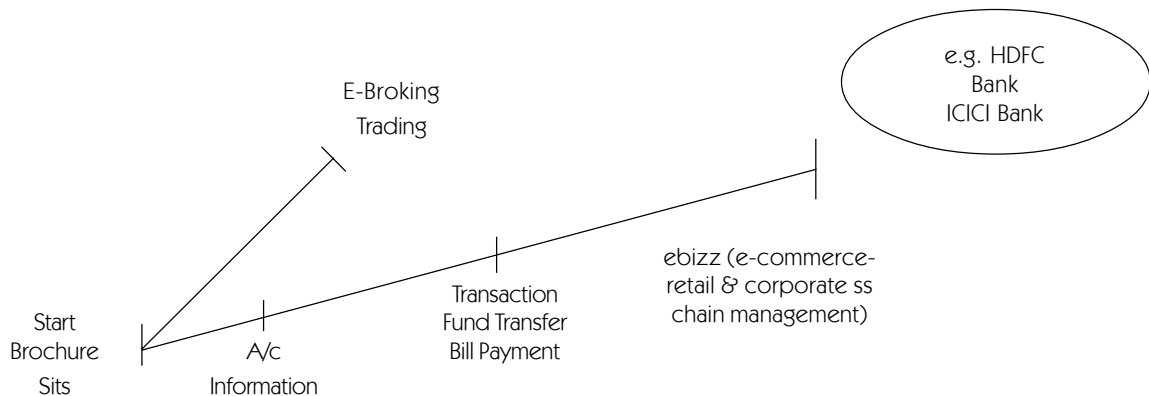


Chart B below presents the phases of internet banking in India. Initially targeted at NRI customers the net banking initiative was enlarged to cover domestic customers too. The immense possibilities of B2B and B2C have been successfully adopted by the banks. Use of WAP enabled technology in banking is also becoming a global trend and introduced by few of the private and foreign banks in India. It has an impact of both the

retail and corporate businesses of banks. Some of the leading PVSBs are actively engaged in e-commerce space. These PVSBs have tied up with service providers (e.g. ICICI Bank with Orange and Airtel) and with content and facility providers (such merchants, utilities, stock brokers, etc.) These services have also been branded (e.g. Infinity of ICICI Bank, iconnect of UTI Bank and Net banking of HDFC Bank).

**CHART B**  
**Phases of Internet Banking in India**



### PHASES

#### The Future Scenario

Globally, the business model currently in equilibrium is a click and mortar one. But the way brick model is used is changing, focusing on high net worth clients and increasing number of customers-volume business being directed to the lower cost channels based on web and wap. But the offer of these delivery channels has become a business imperative to meet customer expectations of 'anytime anywhere service.' The global trends in the financial industry are leading to 24x7 and straight through processing systems. Customer relationship management (CRM) and data warehousing and mining are the areas where there is considerable development and investment. New technologies such as the interactive TV are also gaining ground and their pervasiveness is expected to increase as technology develops and cost falls. The RBI and the Vasudevan Committee on technological up-gradation have set the broad agenda in the banking sector. These include the establishment of a real time gross settlement system. Standards have been set for the usage of Smart cards. Globally also multiple application cards including debit credit, stored value are replacing magnetic stripe cards and as chip costs decline further, their usage will increase. We may also see the emergence of new models of technology - driven solutions in the form of ASP models, which is gaining currency particularly with small and medium sized banks. Banks may also look out for outsourcing models once the level of confidence increases and solutions vendors address security issues.

Several banks have also earmarked substantive budgets and are drawing up IT strategies to face the future challenges. The technology imperatives are of two sorts – one for the internal management of banks and the other for the interface with customers, be it depositors or borrowers. The areas, which will as a corollary require focus, are network security, an area in which TCS is involved in providing solutions, with increasing use of Public Key Infrastructure (PKI) security system over financial networks. Data warehousing and mining will become important for banks to take business decisions. Banks will need to build up homogeneous databases to enable leveraging on technology driven systems. Customer relationship management will also become important, not only from the viewpoint of competition and increased customer base but also from the point of delivering / offering multiple products and services to the customer. Adoption of best global practices and guidelines issued by the Basle Committee will also make demands for information and systems for internal management. Enterprise wide risk management systems is another area where banks will have to devote more attention, taking off from the ALM guidelines that have been issued to date. There will also be a need for channel integration and middleware once multiple delivery channels are in place. Because of technology's impact on operating costs it will also enable differential pricing of services depending on the channel it wants to promote, as amply demonstrated by the instances of different interest rate offered by Egg to its customers or Citibank's Suidha Scheme involving promotion of delivery channels other than branches for its retail

clients. Technology will thus transform both the front end and back end of banking business.

### Challenges Ahead

The adoption of information technology by the banking sector, no doubt has brought in a number of benefits to the customers. But, at the same time, technology poses several challenges to the banking industry, which need to be addressed in a focused manner.

### Investment

Huge investments have to be made for building the infrastructure to ensure ROI. This infrastructure has to be made available 24 hours a day and all days through the year. Technology cannot afford to have downtime.

### Reengineering

The existing systems have to be re-engineered in order to reap the full benefits of the technology. Laws, which have existed for long, have to be given a fresh look.

### Audit

When technology helps in minimizing the manual work, it also has certain drawbacks. The complacent feeling that what computer does can never go wrong should get rid of and a more systematic checks and rechecks have to be put in place. EDP Audit skills have to be developed. Such EDP Audits should be made on a periodic basis and the correctness of computing ensured.

### Lifestyle Marketing

The advent of private sector banks has seen the adoption of lifestyle marketing strategy in financial sector too. Some of the public sector banks also have started doing some rethinking on their strategies and ways to blend their marketing towards lifestyle marketing strategy. In fact, a more proactive approach like studying evolving lifestyles can yield a definite ground to design newer products suited to the evolving lifestyles. This might require collection of more data about the customers through direct and indirect methods. As in the case of individuals, corporations also have their own lifestyles, which have to be studied. They can be shown how an effective networking can

make their investments on technology yield better results. Networking is a major tool, which can provide immense data for corporates.

### E-Security Measures

The primary problem faced by both service providers and seekers through the electronic media at the earlier stages was to ensure security, integrity of the transmitted and stored data, secrecy and to prevent unscrupulous hackers interfering and manipulating transactions. They could intercept messages from the electronic media, and get access to sensitive data like 'passwords' and credit card numbers and thereafter cause extensive hacking of the web sites. Extensive cases of 'Cyber-crimes' and Cyber-frauds' have been identified in earlier stages. The Vasudevan Committee has recommended that the RBI may consider the Institute for Development of Research in Banking Technology (IDRBT), Hyderabad, as the Certification Agency for Security Management for the financial sector.

### Legal framework for Electronic Transactions

The communication systems and the digital technology have made dramatic changes in the way the business is transacted. A lot of business transactions are carried out now electronically with little regards to geographical dispersion of the trading partners. The laws governing commercial transactions have to be consistent irrespective of the jurisdiction in which the trading partners reside.

### Conclusion

It is possible that in the coming years the technology infrastructure even in the rural and semi urban areas will enlarge to cover internet kiosks, WAP phones, set top boxes and better communication facilities. It is probable that technology driven banking may also make inroads into serving customers in these areas. According to Mohammed Yunus of Grameen Bank of Bangladesh, "IT offers an opportunity unprecedented in the entire human history to end poverty from the face of this earth. Its role in defining business models in banking can only get enlarged. A time may come when the financial market is totally open and competitive, when banks will be faced with the choice of inventing the future rather than responding to it and technology can play an important role in it."

---

**References**

- Basant, Rakesh, "Corporate Response to Economic Reforms," *Economic and Political Weekly*, March 4, 2004.
- Berger, A.N., Hanweck, G.A., and Humphrey, D.B., "Competitive Viability in Banking: Scale, Scope and Product Mix Economies," *Journal of Monetary Economics*, 20, 1987.
- Berger, A.N. Hunter, W.C. and Timme, S.G., "The Efficiency of Financial Institutions: A Review and Preview of Research- Past, Present and Future," *Journal of Banking and Finance*, 17, 1993.
- Cover story on "The Future of Indian Banking" – A Survey, *Business World* 4<sup>th</sup> July 2005.
- Economic Times*
- Financial Express*
- Ramachandra Gowda, "Transformation in Banking Services: Customer's Choice Vs. Customer's Shifting of a Bank," *SMART Journal of Business Management Studies*, Vol.1. Jan-June 2005.
- The Hindu Business Line*, various issues during 2003 – 2005
- Trend and Progress of Banking Report for 2000-2001* – RBI Publication.
- Vittal, N., Former, Central Vigilance Commission, New Delhi, "The Emerging Challenges: Strategies and Solutions for Indian Banking System," *Indian Banks Association Bulletin*, March 2001.





# Indian Mobile Telephony Mobile Number Portability

Pankaj Madhani



The growth of Mobile Telephony in India is leading itself into colossal proportion. It demands the role of regulatory authority in protecting consumer interests. The paper discusses role of Telecom Regulatory Authority of India (TRAI) in evolution of Quality of Service (QoS) benchmarks. Paper also underlines world trend of Mobile Number Portability (MNP). Mobile Number Portability enables a subscriber to switch between services or operators while retaining the original telephone number, without compromising on quality, reliability, and operational convenience. MNP increases the level of competition among service providers and rewards customers with the best customer service, network coverage, and service quality. The Paper also highlights worldwide implementation of MNP.

## Growth of Mobile Telephony in India

India continues to retain the title of being the world's fastest growing mobile market. Cell phones can be described as inevitability in 21<sup>st</sup> century based on the fact that mobile phone connections have already crossed fixed line by wide margins. According to the Telecom Regulatory Authority of India (TRAI), the subscriber base for mobile telephony services showed a record growth. At the end of January 2006, there were 30 million more mobile connections than fixed lines.<sup>1</sup> India's total telecom subscriber base grossed 130 million with 49.21 million fixed line

subscribers.<sup>1</sup> With 80.61 million mobile subscribers, and four million to five million cell users being added every month, the Indian telecom sector is certainly hot.



Prof. Pankaj Madhani, Assistant Professor, S.K. Patel Institute of Management and Computer Studies, Sector - 23, GH-6 Cross Road, Gandhinagar-382 023, Gujarat, India, Email: pmmadhani@yahoo.com

The telecom sector in India has been opened up to private participants along with foreign direct investment (FDI). The telecom sector is attracting significant foreign direct investment (FDI). To fuel growth, recently the government has raised foreign direct investment (FDI) ceiling in the telecom sector from 49 per cent to 74 per cent with Indian owners in control of the management of companies.<sup>2</sup>

Among the recent foreign players to invest in the Indian telecom sector are

Vodafone of the UK and Maxis of Malaysia. With the opening up of telecom sector to intense competition with licences for a number of services being granted, the telecommunication sector has seen a tremendous growth in the recent past both in terms of number of telecom service providers and subscriber base. Mobile telephony market is shared among 13 mobile groups with Bharti Tele-Ventures, Reliance Infocomm and BSNL (Bharat Sanchar Nigam Ltd.) holding 22 per cent, 20 per cent and 19 per cent share respectively.<sup>3</sup>

India is widely seen as the last big market for mobile phone growth. However, the market is still big enough for more growth as less than 40 per cent of the country's total area is covered by mobile networks and just around eight per cent of the Indian population owns a mobile phone, compared with China's 30 per cent.<sup>4</sup> By the end of 2006, India is expected to be the world's third-largest mobile market by number of users, behind China and the United States.<sup>4</sup>

### **Regulatory Framework for Customer Protection**

Along with the growth, there are of course, problems for the stakeholders, including the consumers. Regulatory authorities have several key functions to play with the changing technology and invention in their respective sector. Nevertheless the primary objective for the existence of a regulatory body is to protect consumer interests. Regulatory authorities have the crucial role of providing an effective regulatory framework and adequate safeguards to ensure free and fair competition and protection of consumer interests. The role of the regulatory authorities is much more significant during the reform process of any sector in a fast growing economy like India.

### **Role of Telecom Regulatory Authority of India (TRAI) as a Regulatory Agency**

With the private companies and Government companies sharing markets of various services in the telecom sector, necessity of an independent regulator to regulate the activities of this sector and to protect consumer interests was felt. Accordingly, TRAI came into existence in the year 1997 through an Act of Parliament. TRAI has been vested with comprehensive powers and also has the responsibility of advising GOI (Government of India) on all policy matter pertaining to the telecom industry.

### **Present scenario: Evolution of Quality of Service (QoS) Performance Benchmark**

TRAI lay down standards of quality of service to be provided by

the service providers and ensure the quality of service and conduct the periodical survey of such service provided by the service providers so as to protect interest of the consumers. TRAI has defined various quality benchmarks parameters (i.e. call drop rate, downtime etc.) to increase operation efficiency and to achieve high quality of mobile services. By virtue of these parameters and benchmarks, service providers in the telecom sector were expected to achieve certain levels of performance within the prescribed time frame. It has also promoted encouraging levels of competitiveness and consciousness amongst the service providers for achieving a high level of performance for the ultimate benefit of the consumers. TRAI should make the Quality of Service (QoS) measures widely known. Service operators can establish a relationship between Quality of Service (QoS) levels and pricing strategy and use this information as a competitive tool.

### **Future Scenario: Mobile Number Portability for maximizing Customer Benefits**

In order for service providers to understand what hinders them from providing good quality of service to their customers, they must understand the gaps that might exist in the delivery of their service. Customer satisfaction is the degree of fit between customers' expectations of service quality and the quality of the service as perceived by the customer. In areas where there is not enough competition, the operators do not make the investment required to improve the Quality of Service (QoS). Mobile Number Portability provides customers enough flexibility in mobile operation network to select best service providers to attain highest customer satisfaction. Mobile Number Portability enables a subscriber to switch between services or operators while retaining the original telephone number, without compromising on quality, reliability, and operational convenience. Recently TRAI made recommendation to implement Mobile Number Portability by April 1, 2007.

### **Mobile Number Portability as a Unique Driver of Competition**

Mobile Number Portability is a fundamental prerequisite for competition in a telecommunications market. Without this facility users are locked into their existing suppliers and can change operator only with considerable disruption and expense.

Competition between mobile service providers in India is already

intense. The beneficiary of this competition would be the Indian consumer. Mobile Number Portability benefits subscribers and increases the level of competition between service providers, rewarding customers with the best customer service, network coverage, and service quality. It also enables business to save time and expenses on advertising the changed numbers, creates new opportunity for technology development and added jobs for IT professionals, while rewarding the most competitive and most consumer-friendly service provider.

In the Indian context, Mobile Number Portability will encourage the introduction and adoption of new telecom services and technologies. This will not only benefit users but also those service providers who continually upgrade and innovate to enhance Quality of Service (QoS). Additionally, it is a source of competition between all telecommunications operators. Mobile Number Portability gives the freedom to the consumers to switch the operator without any concern about retaining their number. Mobile Number Portability implementation removes barriers to competition and ensures a fully dynamic competitive market. Subscriber customers and operators who price competitively and provide quality service will benefit most from execution of Mobile Number Portability.

Currently in India, subscribers need to change their cell phone numbers when changing service operators. Changing a cell phone number can be a major inconvenience and a barrier preventing them from exercising the choice of changing operators. This inability prevents customers from taking full advantage of the intense market competition among operators or the introduction of new services and technologies. Mobile Number Portability eliminates these hurdles.

### **Impact of Mobile Number Portability: High Level of Customer Satisfaction**

Mobile Number Portability provides following subscriber benefits <sup>5</sup>:

1. Benefits to subscribers who retain their telephone number when switching a service provider, and include cost savings from having to change mobile number. Such subscribers are able to avoid the costs of reprinting business cards and other office stationary, informing callers, changing signs and lost business.

2. Benefits that arise out of increased effectiveness and service quality improvements and any associated price reductions resulting from increased competition.

Mobile Number Portability also provides following additional benefits to callers:

1. Benefits to callers who are able to avoid the need to change existing telephone number entries in their diaries, directories, PDA (Personal Digital Assistant), computer databases, abbreviated and predictive dialers.
2. Benefits to callers who would also dial fewer wrong numbers and make fewer directory assistance inquiries for getting changed telephone number.

There is a latent demand for Mobile Number Portability in India. International Data Corporation (IDC) India conducted a survey and found that "30 per cent of mobile subscribers are likely to shift to an operator offering better service, if given the option."<sup>6</sup>

Mobile Number Portability brings in a fundamental change in the way telecom service providers do business. Mobile Number Portability takes competition to a pinnacle where a subscriber can easily ditch an inefficient or complacent service operator. It thus keeps all the service operators on their toes.

### **Mobile Number Portability: Global Scenario**

Mobile Number Portability has been implemented in different parts of the world. Introducing Mobile Number Portability will allow some of customers to shift between service providers and could improve their customer satisfaction level. In Hong Kong, nearly 30 per cent of mobile users ported their numbers in the year after the introduction of Mobile Number Portability in 1999 and after the implementation of Mobile Number Portability, Hong Kong witnessed intense price war.<sup>7</sup> Operators who provide the best quality of service and coverage, and highest 'value-for-money' will benefit because consumers will prefer to begin service with them and will no longer hesitate to leave current inefficient service providers. In the United States, for example, "when unsatisfied cell phone customers want to change their service but not their phone number, more switch to Verizon Wireless than other major carriers. Verizon is doing well because of the quality of their network and customer service."<sup>8</sup>

Mobile Number Portability has been enforced in the majority of developed world markets by regulators as a means of increasing effective competition in local mobile markets. Internationally, almost all developed countries have made Mobile Number Portability compulsory. Singapore was the first in 1997, followed by Hong Kong and the Netherlands in 1999, Spain, Sweden and Switzerland in 2000, Australia, Denmark, Italy, Norway and UK in 2001, Belgium and Germany in 2002, Austria, France, Finland, Greece, Ireland, Luxembourg, Portugal, South Korea and the United States in 2003 and Brazil, Taiwan, Japan, Panama in 2004.<sup>9</sup> Mobile Number Portability is due to be implemented in up to 15 countries across the globe, next year. Mobile Number Portability will be made operational in Canada in 2007.<sup>10</sup>

### Mobile Number Portability: Indian Scenario

It might be thought that Mobile Number Portability would have the greatest impact in saturated or maturing markets when demand growth has eased and the market and pricing structure have become more rationalized. However, the decision to introduce Mobile Number Portability could be taken well before that. The Netherlands decided to provide Mobile Number Portability when mobile penetration was as low as ten per cent. The Dutch example shows that market maturity is not a precondition for the introduction of Mobile Number Portability.<sup>5</sup>

With current mobile penetration of eight per cent and considering the future high growth of mobile telephony in India, it is appropriate at this stage to discuss the issue of Mobile Number Portability in order to ensure peak competition in the mobile telephony sector based on all issues of concern to subscribers including Quality of Service (QoS), customer service, area coverage, variety of services offered, and so on, thereby maximizing subscriber benefits.

Recently Cellular Operators Association of India (COAI) has hired 'Spectrum Strategy Consultants' to carry out a detailed study on the issue of the Mobile Number Portability. 'Spectrum Strategy Consultants' is a leading international strategy consultancy and have got relevant experience in the field of Mobile Number Portability. They would carry out the study in four phases including technical feasibility, economic feasibility, market research and impact on Quality of Service (QoS).<sup>11</sup> TRAI had already recommended implementation of Mobile Number Portability by April 1, 2007.

### Conclusion

Subscribers have a significant choice of services to choose from and move between, if they so desire. However, the inability of the subscriber to retain original telephone number while changing service operators presents a hindrance to competition. Mobile telecom market cannot be considered competitive until users have the right to change operators at no cost and without inconvenience. The introduction of Mobile Number Portability will overcome this barrier to competition. If the customer is to really benefit from the telecom sector revolution, Mobile Number Portability as a concept should be thought of now, before it gets too late. By providing Mobile Number Portability, service providers must compete on price, quality and service offerings, rather than by trying to lock users into their networks.

### References

- 1 *Express India*, "Mobile users at 81 million, total base at 130 million," February 10, 2006.
- 2 *The Hindu*, "Increased FDI ceiling in telecom sector notified," November 8, 2005.
- 3 "The Indian Telecom Services Performance Indicators July - September 2005," *Telecom Regulatory Authority of India, (TRAI) Dec.*, 2005.
- 4 *Express India*, "India to be world's No.3 in mobile phone users," January 21, 2006.
- 5 "Consultation paper on Mobile Number Portability: Telecom Regulatory Authority of India (TRAI)," July 22, 2005.
- 6 *The Hindu Business Line*, "30 per cent of mobile users look for better operators: IDC," March 16, 2005.
- 7 *Financial Review* (Australia), September 19, 2001.
- 8 *The Houston Chronicle*, "Cell Phone Wars," June 26, 2004.
- 9 "A Global Perspective on Number Portability," *Syniverse Technologies Research Report*, May 2004.
- 10 "Implementation of Wireless Number Portability: Setting a New World-Class Standard," *PriceWaterhouse Coopers LLP, Research Report*, September 9, 2005.
- 11 "Cellular Operators Association of India (COAI)," *Monthly Bulletin*, December 2005.



# Nexus Relations: Economic Growth and R & D

Abey P.Philip



History shows that modern economic growth has been inspired by rapid and consistent up gradation of technology. Technology has emerged as the principal driving force for long run economic growth. Research and Development expenditure is an integral part of the economy now. The structure of the Indian economy is changing and economy is growing. The study looks into the association between R&D expenditure and economic growth in India. The study uses co-integration and Granger causality test to determine the association between R&D expenditure and economic growth, during the period of 1950-2005. Empirical evidence shows that there is a long run positive relation between the R&D and economic growth in India. Causality test shows that R&D expenditure causes economic growth in India in the long run.

**T**echnology-based innovations are a major influence on the economic development of any country especially in the developing countries. Research and Development will modify the assumption of the economic growth of the country to a great extent. To give assistance to this statement, allocation of Research and Development should be in some form linked to major areas of economic activity (Chandrasekaran 1995). The research and development expenditure in the various sectors has been substantial influences to the business and industrial sectors. Economic theory emphasizes the

accumulation of R&D and human capital in explaining economic growth<sup>1</sup>.



Dr. Abey P. Philip, Lecturer, School of Communication and Management Studies, SCMS Campus, Prathap Nagar, Muttom, Aluva-683 106, Kerala, Tel: 0484-2623887, Email: abey@scmsgroup.org

History shows that modern economic growth has been inspired by rapid and consistent up-gradation of technology and scientific knowledge. It is estimated that from one third to one half of the growth experienced by the industrially advanced country has come up from the technological progress. Thus technology has emerged as the principal driving force for long run economic growth. Economic growth results both from slow and steady improvements in technology and from knowledge

embodied in physical and human capital as well as from the inventions.

In recent years technological progress through research and development has been widely recognised as a key factor contributing to economic growth. As a result there is an important shift to attribute to technological progress rather than accumulation of wealth. It is so called development of endogenous growth models. Romer (1986) has put forward the first step that the research and development enhanced the economic growth. He pointed out that the incorporated technological progress as an important source of growth. These endogenous models were developed because of dissatisfaction with neo-classical growth models. In the neo classical models although it was factor that could account for higher per capita per GDP growth.

### Earlier Empirical Studies

Many empirical studies shows that the importance of research and development to the economic growth and a causality which run from, research and development to economic growth in output. Coe and Helpman (1993) developed an endogenous growth model, which found out that among OCED countries the domestic R&D capital stock has significant effect on its total factor productivity. Lichenberg (1992) mentioned the importance of R&D to economic growth when he found that R&D investment has a positive impact on a country's productivity. Verspagen (1993) explains that a strong positive relationship between degree of technology intensity and growth rate of the manufacturing sector. He stated that growth rates differ between countries at the sectoral level due to the different degree of technology intensity. Branch (1974) stated that there is tendency for present R&D to influence future profitability and at the same time to be influenced by past profitability. However Barro and Sala-i-Martin (1995) pointed out that the actual direction, as there are increasing interaction between innovation and demand. Present R&D may be lead to new product or

new features added to existing product through product innovation.

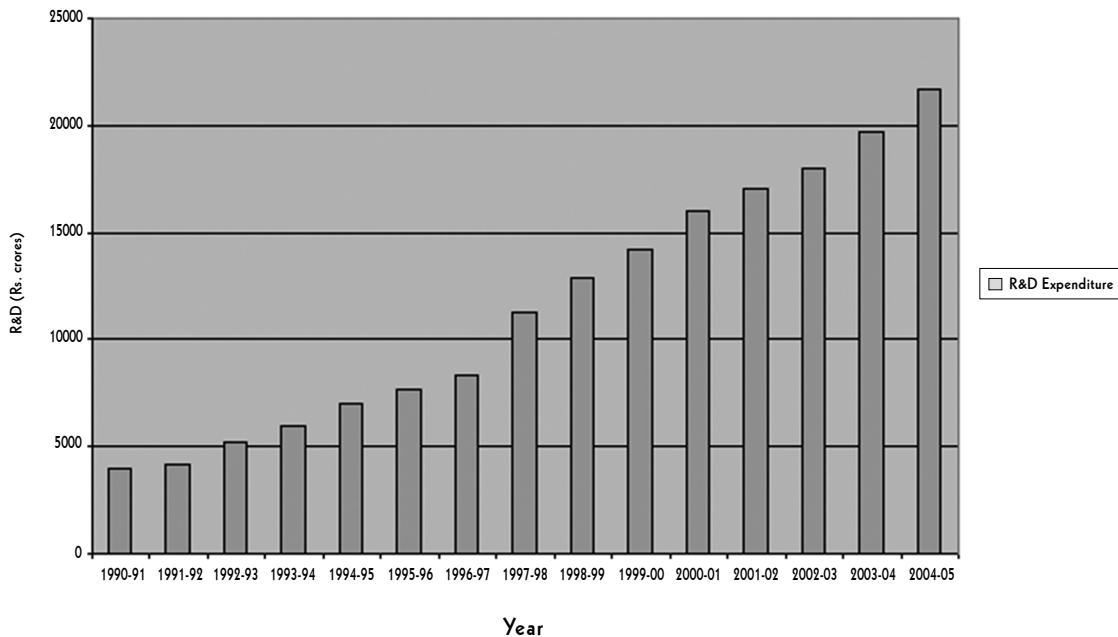
Geweke (1982) tested causality between the growth of R&D expenditure and growth of output in the manufacturing sector of OCED countries. The result shows that the significant bi-directional causality between the growth of R&D expenditure to growth of output. Only four OCED countries have unidirectional causality between the growths of research and development expenditure to growth of output. France and Italy exhibit bi-directional causality while Canada, South Korea and Taiwan indicate unidirectional causality between the R&D expenditure and growth of output.

### India's R&D Expenditure

India has shown substantial economic performance, with speedy expansion of high-tech industries laying foundation for country's development potential. Since the late 1990s, this growth has been moving together with an export-oriented expansion in domestic and foreign corporate R&D investments, especially in the information and telecommunications technology (ICT) sector. India's emergence as a major economic and R&D power is anticipated to have wide-ranging implications for the people of India and globally. Still, only 0.81 per cent of gross domestic Product (GNP) was devoted to the R&D during the period of 2002-2005.

The data shows that the research and development expenditure in India has been increased over a period of time. The national investment on research and development activities was 4.68 crores in 1950-51. It had increased to 14,164 Crores during the period 1999-2005. Sector wise the percentage share of national expenditure during the period 1999- 2005 was 7.6 per cent, State Government 8.8 per cent, public sector industries 10 .7 per cent and private sector industries were 11.6 per cent. The national investment on R&D activities attained a level of Rs.18000.16 crores in 2002-03, Rs. 19726.99 crores in 2003-04 and Rs. 21639.58 crores in 2004-05.

### Research And Development Expenditure in India



Source: Research and Development Statistics at Glance 2004-05, Department of Science and Technology, Ministry of Science and Technology, Government of India, new Delhi, India, Oct, 2005.

India's R&D expenditure is still low compared to major industrial economies, in dollar terms, on a per-capita basis and in terms of its ratio to GDP (about 0.8 per cent of GDP in 2005, according to official estimates). These figures can, however be misleading. India's official data excludes much corporate and internationally funded R&D activity. Also, international comparisons at market prices are deceptive. One-dollar equivalent spent on R&D in India results in an output many times larger than the same amount spent in high cost economies. Indian R&D spending levels are indeed substantial on a purchasing power parity (PPP) basis. Adjusting data on R&D expenditure to differences in purchasing power is, however, a complex affair (NSF 2006). According to UNESCO data, India's R&D expenditure has increased from 10 billion dollars in 1996 to 20 billion dollars in 2000, making it the seventh largest country in that year in gross domestic expenditure on R&D (GERD) measured at PPP. China was the fourth largest country with R&D expenditure, estimated at 49 billion dollars (UNESCO 2005). On the other hand, a large share of government R&D outlays in India is not utilized effectively, especially compared to spending in the private sector. One example of this is the fact that a large number of, so-called, scientists in government research labs do nothing or little actual R&D.

Furthermore, it should be noted that the pattern of financing R&D operations has begun to change significantly since the late 1990s. One major development is increased access to local and international private financing for R&D, including funding from multinational companies and the emergence of more significant foreign venture capital industry activities.

In India the bulk research and development expenditure are done by the central Government and the state Governments. They account for 85 per cent of the research and development expenditure. Taking into account private sector expenditure research and development have been estimated at 0.73 per cent of GDP at 1999-2000. A greater involvement of Government in research and development efforts through an appropriate set up can play an important part in creating wider technological base in the country and it will boost the economic growth.

Chandrasekaran and Basavrajappa (2001) found that fostering and supporting research technological innovation could lead to accelerate economic growth. The analysis indicates that agriculture and mainstream industries are the major current drivers of the Indian economy. There are the areas where technologies

inputs can be made to make India globally more competitive. Chandrasekaran (1995) has stated that allocation for research and development should in some form be linked to major areas of economic activity. There have been significant changes in the industrial and business environment of the country after allocating more expenditure on research and development.

An Economist Intelligence Unit (EIU) global survey conducted in 2004 found that multinational companies are redistributing their product innovation activities across the globe. Some 70 per cent of the companies surveyed employed R&D people overseas; 52 per cent reported that increasing overseas R&D spending was a priority. When asked to choose the most likely centers for overseas investment, India ranked third (behind the U.S. and China), attracting 28 per cent of the respondents (EIU 2004a and 2004b).

While still moderate compared to industrial economies, R&D in India has expanded significantly, especially in recent years. R&D expenditure has grown at an annual rate (CAGR) of 45 per cent in the 2002–2004 period. Outlays have more than tripled between 1997 and 2004, reaching about 6.8 billion dollars in 2004 in current market prices.

The total research and development expenditure has been increased from Rs. 7,479 crores in 1994-95 to Rs. 14,164 crores in 1999-2000. In percentage terms the share of the Government in the total R&D expenditure increased from 79.6 per cent of the total R&D expenditure in 1999-2000. R&D expenditure is a critical source for not only improving existing product differentiation but for innovation of new technology. It will affect significantly the growth of our country. Investing funds on the R&D may have significant effects on the economic growth of the country. It may have bi-directional or unidirectional causality between R&D expenditure and economic growth.

The purpose of this paper is therefore to examine the causality between Research and Development expenditure and economic growth. The Granger causality test is used to find out the relationship between R&D expenditure and economic growth.

### Causality Test

Given the importance to the R&D in India's economic growth, the evidence shows that there is a strong relationship between R&D and economic growth. The objective of this paper is to explore whether higher R&D investment leads to economic

growth in India. The two types of data, R&D expenditure and Gross Domestic Product during the period of 1950–2005, were used to find out the nexus relationship between these two variables. To investigate this issue of causality, I used the different types of unit root test, error correction model and the causality test. The data collected from 1950–2005 from the various issues of *RBI bulletin* and *Economic survey of India*.

Before cointegration can be applied, it is necessary to test time series for stationarity as well as its order of cointegration. If GDP and R&D are both I(1) then they are cointegrated and the disturbance term is stationary in other words I(0). Once it is established that the two variables are stationary, then we can go for the other tests for the cointegration and error correction model.

To perform the Granger causality test for the growth-led R&D and the R&D-led growth hypothesis, we can consider the following set of equations:

$$\ln GDP_t = \gamma_0 + \gamma_1 \ln(RD_t) + U_t \quad (5)$$

$$\ln RD_t = \gamma_0 + \gamma_1 \ln(GDP_t) + U_t \quad (6)$$

If the log of GDP and R&D are cointegrated, then the residuals from the cointegration equations (5) and (6) must be integrated to order zero, meaning that the residuals are stationary.

Bahamani – Oskooee and Alse (1993) have criticized studies on the above procedure and they stated that this procedure does not check the cointegrating properties of the concerned variables. If some times the variables are cointegrated, then the standard causality test techniques outlined above lead to misleading. The solution to this situation is going for the error correction model. Here the path of Johansen and Juselius (1990) followed to solve this problem.

The error correction model is formulated as follows:

$$X_t - X_{t-1} = f(Z_{(t-1)} - 1) + C + U_{(t-1)} \quad (7)$$

Where as  $X_t = 2$  vector with components

$$X_{(1, 2)} = GDP_{(t)}$$

$$X_{(2, t)} = RD_{(t)}$$

$$Z_{(t)} = \text{Constant.}$$

$$U_{(t-1)} = \text{error term.}$$



After finishing the error correction model, the Granger pair wise causality test between the R&D and economic growth and find out the GDP led economic growth or R&D expenditure led economic growth.

The formulate of the Pair wise Granger causality test is as follows:

$$\Delta GDP_t = a_1 + \sum_{i=1}^p \alpha_{i1} \Delta GDP_{t-i} + \sum_{i=1}^q \beta_{i1} \Delta RD_{t-i} + U_t \quad \text{--- (8)}$$

$$\Delta RD_t = a_2 + \sum_{i=1}^l \alpha_{i2} \Delta GDP_{t-i} + \sum_{i=1}^m \beta_{i2} \Delta RD_{t-i} + U_t \quad \text{--- (9)}$$

Where  $\Delta$  is the disturbance operator,  $\alpha_{ij}$ s and  $\beta_{ij}$ s are parameters and  $a_{ij}$ s are constant terms. The R&D expenditure doesn't cause the economic growth in Granger sense, if all the  $\beta_{ij}$ s coefficients in equation (8) are insignificant. Thus in the equation (8) the hypothesis,  $H_0^{(1)}: \beta_{11} = \beta_{12} = \dots \beta_{q1} = 0$  is tested against the alternative hypothesis  $H_1^{(1)}$ . At least one of the  $\beta_{ij} = 0, i \neq$

$1, 2, \dots, q$ , if we reject the  $H_1^{(1)}$ . We would conclude that R&D leads to economic growth. Similarly  $H_1^{(2)}: \alpha_{12} = \alpha_{22} = \dots \alpha_{q2} = 0$  is tested against the alternative hypothesis  $H_1^{(2)}$ . At least one  $\alpha_{i2} \neq 0, i = 1, 2, \dots, l$  to examine whether economic growth leads to R&D expenditure growth. If we reject the null hypothesis of  $H_0^{(2)}$ , then we can conclude that economic growth leads to R&D expenditure.

**Empirical Results**

Before cointegration techniques can be applied, it is necessary to test a time series for stationary. Table-1 shows that results of stationary test of both ADF and PP test statistics for R&D and GDP. It can be seen that the R&D and GDP are rejected and both R&D and GDP are stationary at order of one or I (0).

**Table - 1  
Stationary Test**

Variables					
Test	GDP	RD	Significant Level		
			1%	5%	10%
ADF	-5.330617	5.050418	-3.5778	-2.9259	-2.6005
PP	-8.136238	11.10850	-3.5745	-2.9241s	-2.5997

Then we can apply the Johansen co integration analysis test with the option to avoid the time trend with the restrictions on the time trend parameters. It will give more pictures about the long run cointegration of the variables. LR Test (Lambda – Max test) of null hypothesis that they are 'r' cointegrating vector

against alternative hypothesis there are r+1 co integrated vector. Table 2 shows that null hypothesis of 'r' cointegrated vector reject at five per cent level of significance. The trace values are 1749.4 and 24.8 respectively. On the basis of the trace value we can say that the R&D and GDP are cointegrating in the period of 1950-2005.

**Table - 2  
Johansen Test for Cointegration LR Test**

R	Test Statistic	5%	10%	20%
0	179.4***	10.1	12.1	14.7
1	24.8***	1.7	2.8	4.0

\*\*\* Shows five per cent level of significance comparing t statistics comparing by Johansen (1994)

**Table - 3**  
**Johansen Test for Cointegration Test**

R	t test	20%	10%	5%
0	24.8	1.7	2.8	4.0
1	24.2	11.2	13.3	15.2

Table-3 represents that trace test of null hypothesis that there are at most 'r' cointegrated vector against the alternative that they are 2 cointegrated vectors. The results shows that the R&D expenditure and economic growth are cointegrated intercepts and time trends, with cointegrating restrictions on the time trends parameters. The trace values are 24.8 and 24.2 respectively and it rejects the null hypothesis of at most 'r' cointegrated vector. Therefore it can be expected that is a long run relation between the R&D expenditure and Economic growth. Now we can go for the cointegration technique and error correction model.

The table-4 shows that error correction of the model. It represents that R&D expenditure is significant at five per cent level but in the case of GDP is not significant. This indicates that the direction of causality in the long run is only unidirectional

from R&D expenditure to the economic growth. So we can conclude from the analysis that R&D expenditure makes nexus causality to economic growth. But economic growth does not have any impact on the R&D expenditure in the long run.

On the basis of above analysis we can run the Pair wise Granger causality test to find out the nexus causality between the economic growth and R&D expenditure. The Table-five shows that the R&D expenditure led to the economic growth hypothesis and rejected the null hypothesis, but in the case of second hypothesis of economic growth leads to the R&D expenditure accepted the null hypothesis of  $H_0^{(2)}$ . It shows that the economic growth led R&D expenditure does not have any influence on India.

**Table - 4**  
**Error-Correction Model**

Variables				
Regressions	Lag	E (-1)	f (RD → GDP)	f(GDP → RD)
$\Delta GDP_t - GDP_{t-1} = f(GDP_{t-1}, t-1 + c + u_t)$	1	0.042689	-0.078912	-0.001038
$\Delta RD_t - RD_{t-1} = f(RD_{t-1}, t-1 + c + u_t)$	1	0.0022068	0.005609	-0.0000209

**Table - 5**  
**Pair wise Granger Causality Test**

Hypothesis	F-value	Probability	Decision
$H_0^{(1)}$ R&D expenditure does not cause Economic growth	5.39064	0.00835	Reject $H_0^{(1)}$
$H_1^{(2)}$ Economic growth does not cause the R&D Expenditure	0.86478	0.04268	Accept $H_1^{(2)}$

## Conclusion

India's emergence as a major economic and R&D power will have varied local and global consequences. These admit direct, as well as indirect issues in trade, investment, employment, the environment and trajectories for technological development. The impact is balanced to be significant in major sectors such as: ICT, industrial manufacturing, construction and other engineering, agriculture and life sciences. This study exploits the cointegration and Granger Causality test to find out the nexus relationship between the R&D expenditure and economic growth in India during the period of 1950-2005. The augmented Dickey-Fuller test and Phillips-Perron test have been used to find out the stationary status of the variables. The Johansen cointegration models have been used with the option to avoid the time series trend parameters to find out the cointegration of the R&D expenditure and the economic growth of India. Finally the applied Granger Causality test is used to find causality between the R&D expenditure and the economic variables.

Empirical evidence shows that there is long run positive relation between the R&D and Economic growth in India. But the Causality test shows that R&D expenditure led economic growth is significant but economic growth led R&D expenditure is insignificant. It is easy to say that in India the R&D expenditure led economic growth causes the economic growth in India in the long run.

## Bibliography

- Aghion, P. and Howitt, P., "A Model of Growth Through Creative Destruction," *Econometrica*, Vol. 60, 323-51, 1992.
- Bahamani-Oskooee and Alse, J., "Export Growth and Economic Growth: An Application to the Demand for Money," *Bulletin of Economics and Statistics*, Vol. 52, 169-210, 1993.
- Barro and Sala-i-Martin, X., "Economic Growth," McGraw-Hill, Inc, 1995.
- Branch, B., "Research and Development Activity and Profitability: A Distributed Lag Analysis," *Journal of Political Economy*, Vol. 82, 999-1011, 1974.
- Chandrasekaran, S., "Technology Priorities for India's Development – Need for Restructuring," *Economic and Political Weekly*, 2739-48, 1995.
- Chandrasekaran, S. and K.P. Basavaraju, "Technological Innovation and Economic Development; Choices and challenges for India," *Economic and Political Weekly*, Vol. 33, August, 3238-3245, 2001.
- Coe, D. T., and Helpman, E., "International R&D Spillovers, NBER working papers No: 444, Cambridge, Mass," *National Bureau of Economic Research*, 1993.
- Culver, E. S., and Papell, H. D., "Is there is a Unit Root in the Inflation Rate? Evidence from Sequential Brea and Panel Data Models," *Journal of Applied Econometrics*, Vol. 12, 435-444, 1991.
- Engle, R.F., and Granger, W. J., "Co-Integration and Error Correction Model: Representation, Estimation and Testing," *Econometrica*, Vol. 55, 251-276, 1987.
- Geweke, "Measurement of Linear Dependence and Feedback between Multiple Time Series," *Journal of American Statistical Association*, Vol. 77, 304-313, 1982.
- Granger, W. J., and Newbold, P., "Spurious Regressions in Econometrics," Vol.2, 111-120, 1974.
- Johansen, S., and Juselius, "Maximum Likelihood estimation and Inference in Co-integration," *The Journal of Developing Areas*, Vol. 27, July, 535-542, 1990.
- Lichtenberg, F. R., "Research and Investment and International Productivity Differences, NBER working papers No: 4161, Cambridge, Mass," *National Bureau of Economic Research*, 1974.
- Phillips, D.C.B., and Perron, "Test for a Unit Root in Time Series Regression," *Biometrika*, Vol. 75, 335-346, 1991.
- Stock, J.H., and Watson, M. W., "Interpreting the Evidence in Money Income Causality," *Journal of Econometrics*, Vol. 40, 39-91, 1974.
- Verspagen, B., "Uneven Growth between Independent Economics: An Evolutionary View of Technological Gaps," *Trade and Growth*, Aldershot, England, 1993.

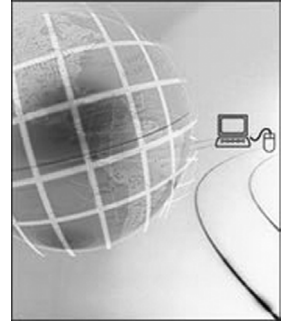
## (Footnotes)

- <sup>1</sup> Aghion, P. and Howitt, P., "A model of growth through creative destruction," *Econometrica*, vol. 60, 323-51, (1992).



# Outsourcing: Employee Experience

Caroll Hern and Ronald J. Burke



In the past decade, organizations embraced the outsourcing of non-core functions as an important element of their business operations. The outsourcing of particular human resource (HR) functions has become increasingly common. The present exploratory research examines the consequences of HR outsourcing on employees transitioned to an outsourcing provider and employees hired directly by the outsourcing provider. Both single item and multiple item measures were used. These findings highlight the importance of detailed planning and managing of the outsourcing decision and process if benefits are to be realized.

Outsourcing has become an increasingly common option for companies seeking to reduce costs, enhance service and focus on core competencies. Most commonly used for information technology services (IT), this trend of business process outsourcing (BPO) is also increasingly prevalent in Human Resources (HR). It is a \$1.36-billion industry in Canada alone and is expected to increase 10.6 per cent each year over the next five years (*Canadian HR Reporter*, 2004). According to the Gartner Group, HR administrative tasks topped the list of processes outsourced in 2003 and predict that by 2007, HR BPO will be a \$37.8 billion-plus industry in the United States, up from \$25 billion in 2002, for an 8.6 per cent growth rate. According to a recent survey by Hewitt

Associates, more than sixty per cent of companies outsource part or all of HR administration.



Ms. Carroll Hern, Senior Vice-President, Human Resources & Development, The CUMIS Group Limited, P.O. Box 5065, Burlington, ON L7R 4C2, Tel: (905) 632-1221 ext. 5043, E-mail: carroll.hern@cumis.com



Dr. Ronald J. Burke, Professor, Schulich School of Business, York University, 4700 Keele Street, Toronto Ontario, Canada, M3J 1P3, Tel: 416-736-5096, Email: rburke@schulich.yorku.ca

## Benefits of Outsourcing

Some of the main driving factors prompting organizations to outsource include: cost savings, a focus on core competencies, access to leading-edge technological advances, access to specialized expertise, improvement in the delivery and quality of services, and/or a solution to resolving organizational politics (Belcourt & McBey, 2004). Research on outsourcing typically presents outsourcing as primarily a time and money-saving strategy, as a way to obtain better services at cheaper rates (Jeffay, Bohannon, & Laspisa, 1997).

Studies of cost savings pertaining to outsourcing arrangements of two or more years showed average savings of fifteen per cent (Belcourt & McBey, 2004). Exult, a leading HR BPO provider, states that it is reasonable to expect at least a 20 per cent reduction in HR administrative costs (Lawler, et al, 2004).

### Limitations of Outsourcing

There are major risk areas that organizations need to consider when making the decision to outsource, some of which include, projected benefits are often not fully realized, flexibility to change service requirements are limited, reduced value of the organization and employee morale is negatively affected. (Belcourt & McBey, 2004).

A decision to outsource needs to take the psychological effects into consideration, as it represents the human cost of the outsourcing activity. "Choosing not to address the emotional toll an outsourcing decision can have may lead to actual costs, in the form of reduced morale and productivity or an unsuccessful outsourcing relationship" (Overby, 2004, p.1). Outsourcing inevitability results in displaced employees (Belcourt & McBey, 2004) ultimately affecting morale and productivity. In an outsourcing arrangement, employees may be transferred to the outsourced vendor, internally to other departments, out-placed or offered voluntary retirement packages (Belcourt & McBey, 2004). All of these options can result in negative reactions or feelings from the affected employees.

Outsourcing is not a small undertaking; it requires planning, communication and follow-up. Companies that have effectively implemented outsourcing in their organizations point to different reasons for their success, but most employers agree on the following core elements to successful implementation:

1. Planning and Preparation: set realistic objectives and expectations for the process and the transition.
2. Vendor Selection: select the right outsourcing provider
3. Contract Negotiations: be thorough in understanding and documenting requirements
4. Manage the Relationship: design and execute a robust governance structure, promote teamwork and evaluate progress by measuring the right things

5. Effective Change Management: includes obtaining stakeholder buy-in, communicating early and often and planning for the work that will stay and for the people whose work will go away.

Before making the decision to outsource, companies must plan thoroughly and gain full commitment from the entire organization. Outsourcing must be conducted carefully, systematically and with explicit goals. The primary motives for considering outsourcing should include strategic as well as tactical considerations at both the department and organizational level. It is important that management should not use outsourcing to justify relinquishing control of inadequately managed, poorly understood or costly functions, as this would result in an unsatisfactory outcome. Preparation involves examining current internal processes and setting realistic goals for the outsourcer (*HR focus*, 2003).

### Objectives

The intent of this study was to explore the outsourcing decision and its implementation on the work attitudes and experiences of employees involved in a HRBPO initiative. More specifically, it provided a comparison of employees who transferred to a BPO provider and employees hired directly into the BPO provider. The study also provided information regarding the best way for organizations to manage the outsourcing arrangement by identifying the key components affecting employees in order to realize successful outcomes.

### History of the Two Organizations

#### Retail Bank

This company is a leading North American financial institution providing financial services to more than nine million customers, including retail and small business banking customers as well as corporate and investment banking customers. It employs approximately 45,000 employees at branches and offices across Canada, the United States and around the world.

The company approached the outsourcing decision in a very methodical way. They first needed to decide if they wanted to build the necessary system infrastructure in-house. Having made the decision not to do that, they looked strategically to determine if they were likely to be in the HR operations business in the next five years. The answer to these questions was no, as they

believed that the function needed to be focused on adding value through business partnerships within the company. They felt that the work performed by HR Operations was a commodity service and that they would likely want to stop doing activities that were albeit critical in nature, were more administrative. There had been talks in the past and several internal studies about what kind of HR processes could be outsourced and the potential risks and benefits.

**BPO Provider**

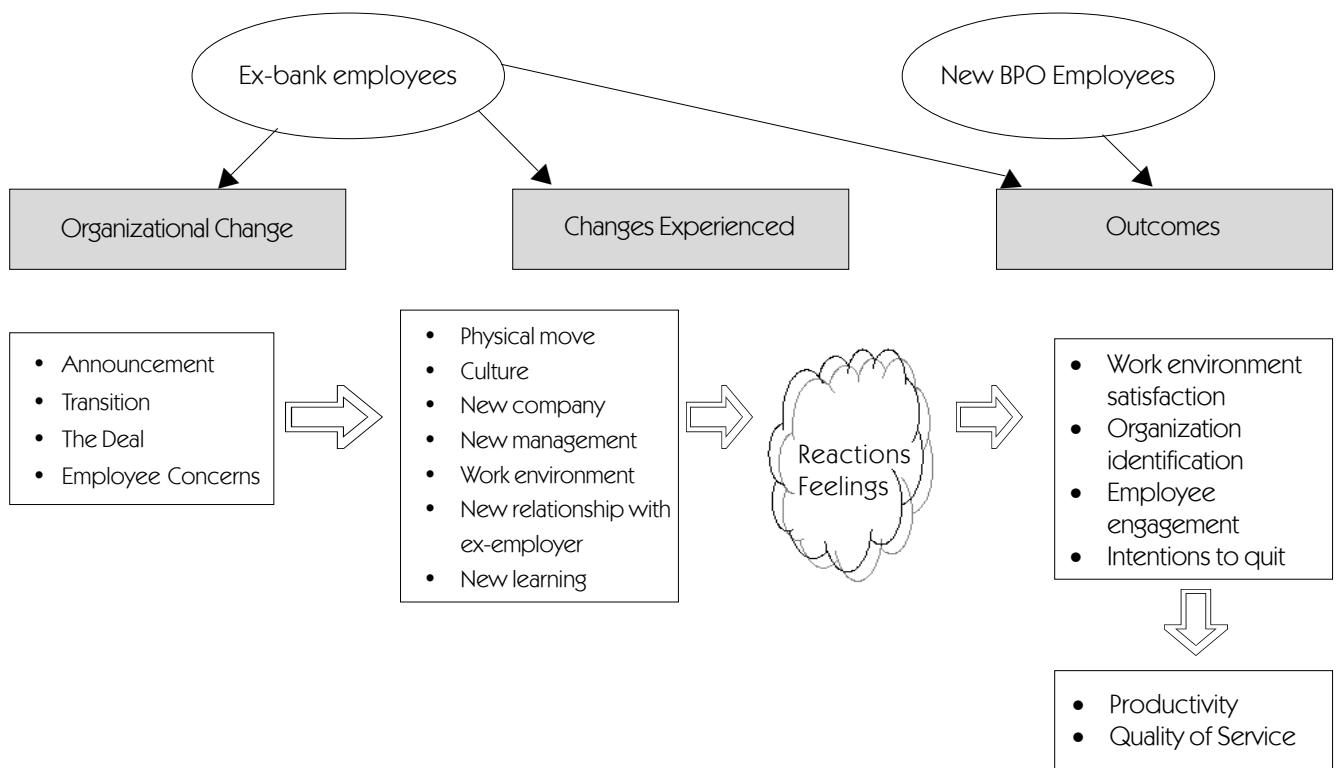
The outsourcing company provides BPO services in key emerging areas including Human Resources, Finance and Accounting and Supply Management. The company also has a long tradition of successfully providing solutions to both the public and private sectors with administrative, transaction and contact centre outsourcing services. The organization provides

a broad portfolio of business and technology solutions to help its clients worldwide improve their business performance. The company moved into HR BPO from specializations in Information Technology outsourcing, in anticipation of the growth opportunities. The retail bank was their first BPO client.

**Research Framework**

A research model was developed to guide both the selection of variables to be included in the study and data analyses (see Figure 1). One panel of variables examined the outsourcing decision made in 2001 (e.g., planning); a second considered aspects of the change experienced by the ex-bank employees and the third assessed a number of work outcomes currently experienced by both the ex-bank employees and the new BPO employees (e.g., organizational identification, intent to quit, motivation, sense of accomplishment).

**Figure 1**  
**Research Framework**



## Method

### Procedure

The study was conducted four years after the initial contract was signed and the announcement was made. Interviews with key managers who were involved in creating the outsourcing initiative were held to determine key success factors that were developed for employees. Then a focus group of randomly selected employees (ex-retail bank) was carried out to identify what was important to them during the transition. Information from the interviews and focus group was then used to develop a questionnaire to be administered to employees. Five individuals who were not part of the sample pilot tested the questionnaire. Data were collected using an anonymously completed questionnaire.

## Respondents

The questionnaire was distributed to about 180 employees from all departments in the BPO provider. Respondents came from two distinct groups employees formerly employed by the retail bank and transitioned to the outsourcing provider and employees who did not experience a transition due to the outsourcing arrangement but were hired to service the retail bank by the outsourcing provider. The demographic characteristics of the sample are shown in Table 1. There were 95 respondents to the survey, representing a 55 per cent response rate. Of the total, 39 transitioned from the retail bank and 49 were newly hired to the BPO provider and were not previously employed by the retail bank. Seven of the survey respondents did not complete this demographic information,

**Table 1**  
**Demographic Characteristics of Sample**

Type of Employee	N	%	Work Status	N	%
Transitioned	39	44.5	Full time	84	94.4
Direct Hire	49	55.5	Part time	4	4.5
			Other	1	0.1
<b>Tenure with Outsourcing</b>			<b>Age</b>		
1 year or less	16	16.8	25 - 34	18	19.4
1 - 2 or less	14	14.7	35 - 44	27	29.0
2 - 5 or less	51	53.7	45 - 54	38	40.9
5 - 16 or less	6	6.3	55 and above	10	10.7
16 or more	6	6.3			
<b>Tenure with bank</b>			<b>Organisational level Management</b>		
1 year or less	5	11.4	Non Management	11	11.7
2 - less than 2 years	2	4.5		83	88.3
5 - less than 10 years	5	11.4	<b>Role</b>		
10 - 15 or less	13	29.5	HR Call Centre	13	13.7
15 years or more	19	43.2	Payroll	18	18.9
			Technology	22	23.2
			Compensation	3	3.2
			Pension/Restructuring	11	11.6
			Admin Support	4	4.2
			Benefits & Health	4	4.2
			Project Management	7	7.4
			Other	9	9.5
			Missing	1	1.1

although based on the remaining responses; it would appear that five had transitioned from the retail bank for a total of 44. With regard to length of service, the majority of respondents (51) had worked for the outsourcing provider between two years and five years. Of the 44 employees who identified they transitioned from the retail bank, the majority (19) had worked for the retail bank for more than fifteen years prior to transitioning to the BPO provider. The vast majority of respondents (88.4 per cent) were employed on a full-time basis, with only a small percentage employed on a part-time or contract basis (8.4 per cent). With regard to age, the majority of respondents were between 35 years and 54 years of age. Only 11.6 per cent of the respondents manage other people, leaving the vast majority operating as individual contributors (87.4 per cent). The role of the individual contributors was fairly evenly spread across all occupational groups, with the highest number of respondents working in the Call Centre, Payroll and Technology areas.

## Measures

Both single items (e.g., organizational tenure, age) and multiple item measures were used.

### Organizational change

**Outsourcing Announcement** was measured by seven items ( $\alpha = .64$ ) and included whether there was sufficient information about the deal, and whether the reasons for the outsourcing decision were clearly explained.

**Transition** was assessed by five items ( $\alpha = .90$ ) and considered whether the planning for the move was well done and the usefulness of the orientation process.

**Reactions to the outsourcing agreement** was measured by five items ( $\alpha = .61$ ) and included whether it was fair and comparable to their experience at the retail bank (pay, physical work-environment, technology).

**Employee Concern** was measured by two items ( $\alpha = .69$ ) and determined whether employee concerns were addressed by the retail bank and the outsourcing provider.

### Changes Experienced by Employees

**Role Clarity** was measured by four items ( $\alpha = .81$ ) and assessed the extent to which respondents understood their roles and responsibilities.

**Resources** were measured by four items ( $\alpha = .75$ ) and assessed satisfaction with information, tools and technology to perform the job effectively.

Culture was assessed by six items ( $\alpha = .7$ ) and examined differences (culture clash) between the two organizations.

**Client/retail (bank) interaction** was measured by two items ( $\alpha = .85$ ) and tapped the extent to which respondents knew how to interact with their client.

**Client Relationship** was assessed by three items ( $\alpha = .83$ ) and examined the smoothness of the client-vendor relationship.

**Satisfaction with immediate supervisor** was measured by eleven items ( $\alpha = .96$ ) and included encouraged to do their best work, has clear accountabilities, and open communication.

**Satisfaction with Senior management** was measured by four items ( $\alpha = .92$ ) and assessed honesty and integrity, open and honest communications and the promotion of team work.

**Management Communication** was measured by three items ( $\alpha = .66$ ) and included keeping employees informed, and openness to suggestions.

### Work Outcomes

**Pay Satisfaction** was measured by three items ( $\alpha = .89$ ) and considered fairness of pay differences within the organization, and compared with other companies.

**Motivation** was assessed by three items ( $\alpha = .81$ ) and considered levels of work enthusiasm, motivated to "go the extra mile."

**Sense of Accomplishment** was measured by three items ( $\alpha = .86$ ) included feeling a strong sense of accomplishment and making an effective contribution.

**Organization Identification** was measured by four items ( $\alpha = .47$ ). Items included: proud to be identified with the company, would recommend organization to others, and seeing the company as good place to work.

**Work Environment** was measured by seven items ( $\alpha = .85$ ) and included recognition, work/life balance, development opportunities and physical working conditions.



**Intent to quit** was measured by three items ( $\alpha = .83$ ) including want to work for organization now, for the next five years and for the remainder of their career.

## Results

### Transitioned compared with Direct Hire employees

Table 2 shows the comparisons of responses on a variety of work attitudes and work outcomes by employees that transitioned from the retail bank and those hired directly by the outsourcing provider. A decision was made to use the .10 level of significance given both the exploratory nature of the study and the relatively small sample sizes.

Significant differences ( $p < .10$ ) were present on about half of the comparisons (7 of 13, 54 per cent). The following comments are made in summary. Employees that transitioned from the retail bank scored lower on all seven variables that reached statistical significance: satisfaction with supervisor, satisfaction with senior executives, communication, the work environment more generally, satisfaction with pay, levels of motivation and organizational identification. The two employee groups were similar on available resources, role clarity, client interaction, their views on the client relationship, sense of accomplishment and intention to quit.

**Table 2**

Measure	Outsourcer			Retail Bank			F	p
	Mean	SD	N	Mean	SD	N		
Sat.with Supervisor	42.65	9.86	49	38.72	12.09	39	2.83	.095
Senior Management	13.61	3.81	49	11.81	3.91	38	4.64	.034
Resources	14.78	3.05	49	14.31	2.95	39	0.53	.470
Role Clarity	14.51	2.98	49	14.95	2.78	38	0.49	.487
Client Interaction	5.89	2.14	49	5.37	2.24	38	1.25	.266
Client Relationship	9.34	3.36	49	8.37	3.38	38	1.81	.182
Management Communication	10.32	2.50	49	9.10	2.23	38	5.60	.020
Work Environment	24.02	5.55	49	21.00	5.81	39	6.17	.015
Pay Satisfaction	8.10	3.47	49	6.74	3.32	38	3.44	.067
Sense of Accomplishment	11.16	2.76	49	11.52	2.68	38	0.38	.540
Motivation	10.59	2.99	49	9.51	2.92	39	2.88	.093
Organization Identification	14.37	3.55	49	10.82	4.56	39	16.84	.000
Intentions to Quit	8.61	3.26	49	8.37	3.34	38	0.12	.733

### Predictors of Work Attitudes and Work Outcomes

Hierarchical regression analyses were then undertaken to predict the various work attitudes and work outcomes. Three blocks of predictors were entered in a specified order. The first block ( $N=2$ ) consisted of personal demographic characteristics (e.g., age, employee type-transitioned vs. direct hire). The second block of predictors ( $N=3$ ) consisted of work situation factors (e.g., organizational level, tenure with the outsourcing firm). The third block of predictors consisted of the outsourcing process and outsourcing experience measures ( $N=5$ ). These

included, for example, adequacy of available resources, role clarity, and satisfaction with supervision among others. The first two blocks of predictors served as control variables before considering the relationship of the outsourcing process and experience measures and the various work attitudes and work outcomes. When a block of predictors accounted for a significant amount or increment in explained variance ( $p < .10$ ), individual measures within such blocks having significant and independent relationships with the dependent variable were identified ( $p < .10$ ). Table 3 presents the results of these analyses.

**Table 3**  
**Predictors of Work Attitudes and Work Outcomes**

Quality of Service (N=85)	R	R <sup>2</sup>	$\Delta R^2$	P
Personal demographics	.05	.00	.00	NS
Work situation	.14	.02	.02	NS
Process	.69	.47	.45	.001
Resources (.53)				
Supervision (.34)				
Motivation (N=85)				
Personal demographics	.20	.04	.04	NS
Work situation	.28	.08	.04	NS
Process				
Resources (.39)	.62	.39	.31	.001
Client Relationship (N=85)				
Personal demographics	.14	.02	.02	NS
Work situation	.27	.07	.05	NS
Process				
Role clarity (.27)	.42	.18	.11	.10
Valued (N=85)				
Personal demographics	.16	.03	.03	NS
Work situation	.22	.05	.02	NS
Process				
Work environment (.43)				
Resources (.29)				
Senior executives (.24)	.76	.58	.53	.001
Client (N=85)				
Personal demographics	.17	.03	.03	NS
Work situation				
Organizational level (-.32)	.43	.18	.15	.001
Process	.57	.32	.14	.05
Intent to Quit (N=85)				
Personal demographics	.07	.00	.00	NS
Work situation	.13	.02	.02	NS
Process				
Work environment (.28)	.44	.19	.17	.01
Accomplishment (N=84)				
Personal demographic	.07	.00	.00	NS
Work situation	.10	.01	.01	NS
Process				
Senior executive (.42)				
Work environment (.34)	.63	.39	.38	.001
Organizational identification (N=85)				
Personal demographics				
Former client	.40	.16	.16	.001
Work situation	.42	.18	.02	NS
Process				
Senior executive (.42)				
Work environment (.34)	.78	.62	.44	.001
Service Goals (N=83)				
Personal demographics	.12	.01	.01	NS
Work situation				
Organizational level (-.29)	.28	.08	.07	.10
Process				
Resources (.26)	.45	.20	.12	.10

The following comments are offered in summary. First, personal demographics accounted for a significant amount of explained variance on only one of the nine work attitudes and work outcomes (Organizational Identification). Second, work situation factors accounted for a significant increment in explained variance on only two of the nine work outcomes (client, service goals). Third, the outsourcing process and experience variables accounted for a significant increment in explained variance on all nine work attitudes and outcomes.

Three outsourcing process and experience measures (Resources, Work Environment, Satisfaction with Senior Management) had significant and independent relationships with three or more of the work attitude and outcome measures.

## Discussion

### Planning and Preparation

#### *Planning for the Change Process*

The retail bank spent a lot of time on communication from a change perspective and results from interviews indicate they felt it was well executed. The communications strategy was designed with continuous and repetitive information sessions and support counsellors to help ease the pain of the transition. Communication sessions were designed to help people understand the rationale for the change, who the BPO provider was, what their company values were and how those values were aligned to the bank's values. Management from both companies were available to talk about what the change would mean for every employee and provided individual communication sessions on the details of their comparable employment offer. The transition team worked to ensure the logistics of the move was executed seamlessly.

In the model for this study, the planning for the organizational change includes the measures of satisfaction levels with the outsourcing announcement, the planning for the transition, the employee deal and satisfaction with how the employee concerns were handled. Results indicate that all of these measures were related to each other. The data indicated that on average, respondents did not feel satisfied or dissatisfied with the planning process. That is, employees from the retail bank indicated they were more satisfied with the transition and the employee deal and less satisfied with the announcement and how employee concerns were dealt with.

These results are important as the study showed a direct relationship between employee satisfaction levels with the planning measures and how satisfied they are with their work environment, their identification with the BPO organization, their intentions to quit and pay satisfaction. Interesting, there was no relationship between the planning of the organizational change and the employee's motivation or sense of accomplishment. This study therefore indicates there is a strong correlation between the planning of the change process and the affects that has on the organizational outcomes of the BPO provider. It would follow that the BPO provider needs to play a very active role in the planning of the change process that is typically designed by the client organization, due to the future impact this process will have on their satisfaction with the BPO provider organization.

### Planning for Cultural Differences

Results from the study show that employees were not prepared for the cultural differences that existed between the two companies. The study showed that 88 per cent of respondents were not aware of the culture at the BPO provider, 86 per cent believed there were cultural differences between the two companies and 86 per cent of respondents did not feel that the BPO provider organization painted a realistic picture of what things would be like in the new company. The study showed that differences existed in the way staff management was conducted and the levels of bureaucracy, finding 76 per cent of the respondents indicating that it was not easy to adjust to the culture changes at the new company.

### Planning for Leadership

From the bank's perspective, the decision to outsource was largely centered on minimizing risk, however the decision as to who would lead this new business was not only not considered, it was not a decision point under consideration. Once the transaction was complete and employees were transitioned to the BPO provider, the retail bank would also transfer the senior leadership for the remaining transition period to the BPO provider. This decision actually created more risk in that employees were now dealing with more layers of change.

Management literature generally credits individual leaders with a surprising degree of influence over business results. This research study confirms this view. Changes in leadership for the transitioned group of employees, have had great impact. Results

show that 81 per cent of transitioned employees believe that the amount of change in leadership by the BPO organization has had impact on the business.

### Preparing the Client Organization

Information from management interviews from the retail bank state that they are not sure they spent enough time thinking in advance how to manage the interaction between HR community post transition. It was very difficult to anticipate behaviours of the HR community and plan for them in advance. Respondents were asked if and when they felt a difference in the relationship they had with their previous employer, examining the shift from the role of employee to the role of external vendor. Results showed that 71 per cent of transitioned employees experienced a change in relationship. The changes occurred over time but the majority of employees experienced the change when they became employees of the BPO provider and then again immediately after the move to the BPO provider organization. The vendor/client relationship presented an opportunity for some retail bank "clients" to get more of what they wanted when they wanted it. Post transition, these requests cannot be accommodated with as much flexibility as they enjoyed in the past and would come with a cost associated to them. It is likely that a retail bank transition leader could have intervened and managed the client transition more effectively. Educating the HR community, line managers and employees on this change needed to be a higher priority in order ease these transition issues.

### Delivering on Promises

Employee communication was designed to provide as much information about the benefits of working for BPO provider as was known at the time. Since this was a new business model for the BPO provider, communications included the vision of the new environment highlighting the advantages to employees joining the new organization.

Open-ended responses from transitioned employees regarding their recommendations to senior management show strong themes about lack of trust, honesty an improved communication. It is expected that during the planning and preparation stages information regarding the benefits of working for the BPO provider would be a critical element of the communications strategy. However, to be overly optimistic about the benefits and commitments made can lead to severe declines in trust levels

that employees have with the organization. Not delivering on commitments made can erode the foundation of trust in the organization that is so essential to high levels of corporate performance.

### Generating New Business

Employees understood that the new company was investing a lot of energy on creating a new business. Part of why the BPO provider wanted to get in this business was that they were committed to expansion. Fulfilling on this commitment would have reinforced to employees why the retail bank wanted to do this and the benefits to employees. Both organizations "sold" this to employees as a growth opportunity. When that didn't happen, there was a disconnect for employees. The issue creates confusion and distrust for employees and creates more of an issue for employees for why the retail bank outsourced this business.

### Effectiveness in Change Management

#### More Care and Feeding required for Transitioned Employees

When comparing overall satisfaction levels between transitioned employees and newly hired employees, the study reveals that there are significant differences between satisfaction levels. A key difference between the two groups is whether they had control over the choice to join the organization. Transitioned employees entered into the BPO organization on an involuntary basis and the newly hired employees chose to or voluntarily decided to join the BPO organization. People in the throws of change, often describe dramatic emotions that rarely encompass the positive. They experience being unappreciated, anxious and at minimum confused. For most people, the negative reaction to change is related to *control* – over their influence, their surroundings, their source of pride, and how they have grown accustomed to living and working. Employee reactions from this outsourcing study confirm this to be true. More employees had a negative reaction rather than a positive reaction to the announcement of the outsourcing deal. Negative reactions outweighed positive reactions 2:1. Respondents were instructed to choose as many of the adjectives that applied. For negative reactions Betrayal (N=21) and Insecure (N=26) were selected the majority of time. For positive reactions, Hopeful (N=16) and Optimistic (N=15) were selected the majority of the time. It is reasonable to assume that the newly hired employees entered the new organization with more optimism.

Both groups are dealing with the same set of changes, namely adjusting to new management, new culture, new client relationships, new ways of interacting with the client, new resources and tools and new communication protocol. Conventional on-boarding strategies or tactics to adjust to the new environment may not be sufficient for the transitioned employees.

The gaps in satisfaction levels between the two groups occurred with the work environment, their identification with the BPO organization, senior management and management communication. Employees hired by the BPO provider were significantly more satisfied than transitioned employees in these measures.

To improve satisfaction levels with the work environment and organization identification for the transitioned employees, at least equal to satisfaction levels with newly hired employees would require more senior management effort on addressing work related issues, demonstrating honesty and integrity, open and honest communication, increased openness to suggestions and keeping them more informed about issues that affect them. More attention above and beyond normal conventional change practices for transitioned employees whose anxiety levels and information needs have skyrocketed than would be applied to newly hired employees.

### Transition Period

The study reflects that 33 per cent of the transitioned employees believed that the pace of change to the BPO provider was too fast, 57 per cent of employees felt the pace was about right and very few employees felt that the pace was too slow. Most people do adapt to change but not before passing through some psychological gates. People move from discomfort with risks to acceptance in four stages: shock, defensive retreat, acknowledgement and adaptation and change. Another approach to how people come to terms with change is based on three phases: letting go, existing in a neutral zone and making new beginnings. Organizations are often tempted to push people into the "beginning" phase, not recognizing or not accepting the need to complete the psychological work of the two previous phases. Until the satisfaction levels are aligned between the two groups, it is reasonable to infer that the transitioned employees are still in a transition phase.

These results and the psychological realities emphasize the need for strong transition management by the senior management of the organization and a recognition that the transition process continues past the actual legal and physical move. During transition, leaders need to remain readily available for questions and to convey whatever information they know when they know it. To maintain trust, it is important to have rich information channels, conveying both bad news and any other relevant information in a timely way.

### Shift to a Commercial Mindset

Another critical shift for employees is shifting from an insourcing mindset to an outsourcing mindset. An important part of the transition is embedding a new mind-set in that group of people. Before the legal changes, transitioned employees had been internal employees serving internal customers with an insourcing mindset. They had been a cost centre. Suddenly, they were a profit centre, serving one client, with the understanding that they would be serving more. This shift in mindset is another change layered on many other changes for employees to deal with.

Responses from the focus group participants and to open ended questions in this study indicate the shift was difficult for the retail bank employees. Some responses recommended that a front-office interface be established with non-transitioned employees so that these employees would not be in a position to have to negotiate client requests with the members of the client organization that they had worked with for so many years under a different operating model. However, much progress has been made as 55 per cent of transitioned employees feel that they have received adequate training on the tools to track client requests and 60 per cent of transitioned employees believe they can negotiate client request effectively. Similar results are reported for newly hired employees into the BPO provider organization.

### Manage the Relationship and Monitor the Arrangement

Senior management must stay involved during the implementation of the contract. Not only should there be a clearly defined escalation procedure, but senior management should meet at appropriate intervals to discuss how the relationship is working. Meetings should be held at the operational level to address the workings of the outsourcing

contract in practice, to identify and resolve any problems that have been encountered, and to agree on changes to ensure continued satisfaction.

A key finding of the study shows that client relationship can predict the level of motivation for all employees working for the BPO provider. Therefore, improving the client relationship will improve the level of motivation of the employees in the outsourcing firm. Other research has shown that the most successful outsourcing companies (those that achieve the most benefits) are the ones that manage their client relationship better. (Lawler, et al. 2004).

### **Contract Negotiation**

Contract negotiations were performed by management of the two organizations. Responses to open ended questions indicate that the contract was biased to the retail bank and these comments surfaced in the focus group discussions as an area where employees felt that the retail bank was unreasonable in their service level expectations and much higher than industry standards. Results of the study are in contrast to the verbal and written results, as 87 per cent of employees believe they achieve their service level targets at least 90 per cent of the time and 65 per cent believe these targets are reasonable. There is no difference in opinion between the transitioned employees and newly hired employees. An area of further study may be to determine the overall costs and impact to employee satisfaction associated with achieving these service levels.

### **Vendor Selection**

The literature states that when selecting a vendor it is necessary to evaluate the supplier's capacity to apply and retain sufficient professional knowledge for the target process to meet the user requirements. Many supplier organizations acquire domain expertise from clients through employee transfers. This study shows that only 27 per cent of transitioned employees believe that the BPO provider has a clear understanding of the business of Human Resources, compared to 51 per cent of newly hired employees who believe the provider does understand the HR business. This can be reasonably explained by the fact that this was a new business for the BPO provider and transferring the employees brought the knowledge and expertise to establish this new business. However, suppliers need to ensure they tap into this expertise effectively. Results show 22 per cent of

transitioned employees believe that the BPO provider's management is open to their suggestions or point of view.

Another selection criteria is the alignment of culture between the client and supplier organizations. Organizations seem to assume the culture of the outsourced organization will be similar to theirs, however once into the agreement, the vendors perception of time management, decision making processes, cooperation and teamwork may be very different (Power et al, 2004) Findings of this study show that alignment of culture between the two organizations can predict the level of satisfaction with the client relationship. Therefore, the better the culture fit, the better the client relationship. This may be explained by the fact that the more aligned two organizations are culturally, the less effort it takes to make decisions, to work together and resolve issues.

### **Relationship to Productivity and Performance**

Not surprisingly, the study results show that the more satisfied employees are with their work environment and have a high degree of identification with the organization, the less likely they are to leave the organization, thus reducing considerable costs and disruption of turnover.

A key finding in this study is that motivation and sense of accomplishment are related to each other and are indicators of employee engagement levels in the organization. Both employee groups are highly motivated to make this business succeed and have a strong sense of accomplishment. They feel that they are making effective contribution to the BPO strategic objectives and have a strong sense of personal accomplishment in their job. This ties in to why they say they achieve their service levels. They are motivated to go the extra mile and 98 per cent of employees have a positive view that they deliver great service to the retail bank.

People can be engaged in their jobs but not committed to their organizations. Those that are high in organizational commitment say that they would recommend the company to a close friend as a good place to work, they are proud to work for the company and they think the company is doing what it takes to be a leader in its industry. The study shows there are mixed levels of organizational commitment between the two groups. Transitioned employees have a lower level of organizational commitment in that they are less likely to recommend the BPO

provider to a friend seeking employment, have little pride in being identified with the organization and do not believe they are part of an organization that is a market leader in world class HR services.

### Implications for Practice

This study does provide important insights for practitioners, specifically senior managers who are contemplating or who have responsibility for initiating outsourcing. Recommendations from this study include:

1. The BPO provider needs to play a very active role in the planning of the change process that is typically designed by the client organization, due to the future impact this process will have on their satisfaction with the BPO provider organization.
2. Cultural differences need to be recognized in advance of the contract, in order to plan for additional interventions to mitigate the impact.
3. Moving a transition leader would be another way of mitigating the behaviours of retail bank managers and employees when dealing with the transitioning employees. Alternatively, if a transition leader from the retail bank was not viable, bringing in the transition leader to work with retail bank leaders prior to the deal cutover could possibly condition the BPO leader to the sensitivities and culture differences that would need to be managed after the legal and physical moves had taken place.
4. Educating the HR community, line managers and employees on this change needed to be a higher priority in order ease these transition issues.
5. Not delivering on commitments made can erode the foundation of trust in the organization that is so essential to high levels of corporate performance.
6. Regular communication sessions on the status of commitments made to employees would be beneficial to keep employees informed on the progress against these commitments and provides a forum for critical two-way dialogue.
7. If the direct supervisor is part of to the transitioned group of employees, the supervisor will not be viewed as part of the BPO provider management team.
8. More attention above and beyond normal conventional change practices for transitioned employees whose anxiety levels and information needs have skyrocketed than would be applied to newly hired employees.
9. Emphasize the need for strong transition management by the senior management of the organization and a recognition that the transition process continues past the actual legal and physical move.
10. To assist in establishing a commercial mindset, establish a front-office interface in the BPO provider organization that is staffed with non-transitioned employees so that these employees would not be in a position to have to negotiate client requests with the members of the client organization that they had worked with for so many years under a different operating model.
11. Improving clarification of roles and responsibilities of the Alliance Team will improve the client relationship.
12. Constant attention to the client relationship at all levels in the organization will improve the level of motivation of the employees in the outsourcing firm.
13. BPO provider organizations that are transferring employees from the client organization in order to gain knowledge and expertise for the target process need to ensure they tap into this expertise effectively.
14. The relationship between the client organization and BPO provider will be more productive if the cultures of the two organizations are aligned.

### Limitations to the Study

It is important to consider the findings in light of the limitations associated with this study. The study has three limitations: first the study was limited to one multinational organization. Therefore, attempts to extend the conclusions to other research contexts may be misleading. Nevertheless, financial institutions with comparable characteristics may draw inferences from this work. Second, although the response rate is above average for organizations, the sample size was relatively small and therefore the study is more exploratory in nature. Future research should examine these conclusions against other large corporate outsourcing HR BPO initiatives. The third limitation is that the data

was collected four years after the change was announced. Employee reactions may have dissipated over this time period. The opportunity exists to establish an ongoing longitudinal investigation to evaluate staff perception over time.

### Footnotes

<sup>1</sup> Preparation of this manuscript was supported in part by the Schulich School of Business, York University. We thank the two organizations that participated in the research. Lisa Fiksenbaum assisted in data analysis.

### References

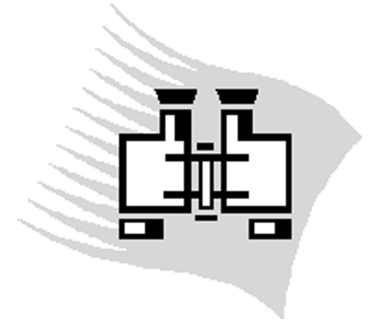
- Abraham, K.G., & Taylor, S.K., "Firm's use of outside contractors: Theory and evidence," *Journal of Labour Economics*, 14, 394-406, 1996.
- Abrahamsen, L., & Ruth, D., "Getting the Job Done, From the Outside In," *Workspan*, 46, 22-31, 2003.
- Adler, P., "Making the HR Outsourcing Decision," *MIT Sloan Management Review*, 45, 53-66, 2003.
- Anonymous Author, "HR Outsourcing: Success Steps to Observe For Your Company," *HR Focus*, 80, 8-12, 2003.
- Anonymous Author, "Top reasons to outsource HR Delivery," *Benefits Canada*, 27, 2003.
- Anonymous Author, "A Look at the Pros and Cons of Outsourcing HR & Compensation," *IOMA's Pay for Performance Report* 4, 4, 2004.
- Anonymous Author, *Large Scale Outsourcing of HR Services Offers Both Benefits and Challenges*, Towers Perrin Monitor, 2004.
- Belcourt, M., & McBey, K., *Strategic Human Resource Planning*, 2<sup>nd</sup> ed. Scarborough: Nelson Thomson Learning, 2004.
- Caplan, J., "Ride the Wave of Business Transformation Outsourcing," *China Staff* 10, 23- 32, 2004.
- Feeny, D., & Lacity, M., & Willcocks, L.P., "Taking the measure of outsourcing providers: successful outsourcing of back-office business functions requires knowing not only your company's needs but also the 12 core capabilities that are key criteria for screening suppliers," *MIT Sloan Management Review* Vol. 46, Issue 3, 41, 2005.
- Flannery, T.P., & Heckathorn, L., "How to build your business case for outsourcing," *Benefits Quarterly*, 19, 7-17, 2003.
- Greer, C.R., & Youngblood, S.A. & Gray, D.A., "Human resource management outsourcing: The make or buy decision," *Academy of Management Executive*, 13, 85-92, 1999.
- Hindle, J., "HR outsourcing in operation critical success factors," *Human Resource Management International Digest*, 13, 39-46, 2005.
- HR Focus, "Planning to Outsource," *HR Focus*, 81, 1-5, 2004.
- Huber, N., "Poorly negotiated contracts can undermine outsourcing benefits," *Computer Weekly*, Nov. 11, 18 - 21, 2003.
- Hunt, P., "The Long View," *Supply Management*, 9, 32-39, 2004.
- Jeffay, J., & Bohannon, S. & Laspisa, E., "Beyond Benefits: The Changing Face of HR Outsourcing," *Benefits Quarterly*, 13, 41-50, 1997.
- Lawler III, E., & Ulrich, D., & Fitz-enz, J., & Madden, V.J., *Human resources business process outsourcing: transforming how HR gets its work done*, San Francisco: Jossey-Bass, 2004.
- Logue, A.C., "what's "Just Right" for you," *HR Magazine*, 49, 78-84, 2004.
- O'Connell, S.E., "Outsourced Systems Provide Economy, Improved Service," *HR Magazine*, 42, 36-41, 1997.
- Oshima, M., & Kao, T. & Tower, J., "Achieving Post-Outsourcing Success," *HR Human Resource Planning*, 28, 7-18, 2005.
- Overby, S., "The Inner Cost of Outsourcing: When Contemplating Outsourcing," *CIOs Should First Think About Their People*, *CIO*, 18, 1-9, 2004.



- 
- Peterson, E.S., "From those who've been there...outsourcing leaders talk about their experiences," *Benefits Quarterly*, Vol. 13, Issue 1, 6, 1997.
- Piachaud, B., "Outsourcing technology," *Research Technology Management*, 48, 40-50, 2005.
- Power, M. & Bonifazi, C., & Desouza, K.C., "The Ten Outsourcing Traps to Avoid," *Journal of Business Strategy*, 25, 37-54, 2004.
- Smail, P.J., "Cutting Costs & Taking Control," *Workspan*, 46, 50-57, 2003.
- Stroh, L., & Treehuboff, D., "Outsourcing HR functions; When and When not-to go outside," *Journal of Leadership & Organizational Studies*, 10, 19-28, 2003.
- Tarsh, S., "Managing the outsourcing relationship: A shared vision produces greater rewards," *The Outsourcing Institute: Articles & Info*. London, England, 2004.
- Vu, U., "Are you ready for offshoring," *Canadian HR Reporter*, 17, 1-7, 2004.
- Weiss, D., "High-Impact HR," *Etobicoke: Wiley & Sons*, 1999.
- Yallop, J., & Morgan, C., "Beyond Performance Standards: How to get the most from your outsourcing relationship," *Benefits Quarterly*, 19, 17-24, 2003.
- Zhu, Z., & Hsu, K., & Lillie, J., "Outsourcing – a strategic move; the process and the ingredients for success," *Management decision*, 39, 378-385, 2001.



# Store Brands: Success Probability



T.D.Babu, M.Appalayya, M.Mutyalu Naidu and G.Jayabal

There is a perceived price advantage to the consumer with store brands in staple foods, garments, masalas and home care products in that order to the extent of sixty per cent to sixty nine per cent. Store brands in staple foods category are the most preferred among the store brands. More than half of staple food requirement on an average is met from store brands. Store brands are perceived to be cheaper than national brands. Apart from the price edge, another advantage enjoyed by the store brands is that the sales person of store brands would explain well about them, since they are of the firm employing him. Employed persons forecast good future for store brands, but, on the contrary, non-employee persons like businessmen, pensioners etc don't think so.

National brands, which are omnipresent, and which are not owned by any one particular retail shop, and which are perceived to have high value proposition, are gradually giving way to cheaper-priced store label brands in certain categories, in the consumers' mind space. The two racing categories — national brands and store brands would either live together due to each of their unique strengths or the stronger of the two would survive. The store brands, which are a progeny of newly emerging super stores on one side and the mass — producible national brands, on the other side, want to



Prof. T.D. Babu, Assistant Professor, Dept. of Business Management, Deccan School of Management, Hyderabad - 500001, Andhra Pradesh, Tel: 9848208506, Email: tdbabu17@rediffmail.com

Dr. M. Appalayya, Professor, Dept. of Business Management, Deccan School of Management, Hyderabad - 500001, Andhra Pradesh, Ph: 9848514011.

Dr. M. Mutyalu Naidu, Registrar, Central Institute for English and Foreign Languages, Deemed University, Hyderabad.

Dr. G. Jayabal, Reader, Alagappa Institute of Management, Alagappa University, Karaikudi - 630003, Tamilnadu, Tel: 9443175128.

find out the possibility of their survival of one over the other. The business instinct of each of these categories would make strategies for either growth or survival, if some information and advice were provided. Some haunting issues, which require immediate information and advice on, are: Is there a definite role for store brands with the growing retailing industry? Will national brands perish, owing to the price pressure of store brands? Does the advent of store brands mean any loss for consumers who are enjoying the fruits of national branding, in terms of creativity and value? Will store brands eliminate national brands clearly? Can

store brands rise in value levels and attain firm foothold in the market? What is the future of store brands and national brands? We will examine these two competing categories for clearer understanding, and thus provide some insights on managing them, to the benefit of the owners of these two categories.

### Definition of Store Brands and National Brands

1. "Private labels- the meaning can be obtained from the word itself. It is a label that is private and not available with all and sundry." The terms, *labels* and *brands*, are used interchangeably in this article.
2. "Private labels or store labels are those product lines that are owned, controlled, and merchandised and sold by a specific retailer in its own stores. Unlike national brands, which are available with most of the retailers, these are exclusively available with a particular retailer only." Store brands are cheaper. Whereas, 'national brands' are those that are available everywhere, with every retailer, national brands are with high value propositions and thus usually bear higher price tags.

### Comparing and contrasting Store Brands with National Brands

Store brands and national brands occupy their places side by side in the same store one giving a measure of contrast for the other. Usually price on the label is one measure, which contrasts one with the other. But other measures, like perception, invisible value, and the resultant preference are hidden in the minds of the consumers. Usually store brands are cheaper than national brands, and the former available only in a particular store and the latter with every retailer across the market- regional, national or international. National brands are the product of a bigger organization generally with a massive production facility, organized research and innovation, and marketing being supported by bigger advertising budgets.

The interest in these two types of brands is recent in Indian business scenario. Indian consumer is recently being exposed to this duality of brand concepts relatively more frequently than a decade back. Relatively bigger retailers who are the parents of the store brand concepts started coming up with bigger investments in good number. They are naturally interested in making their ventures successful by focusing on crucial areas,

of which store brand management is one. They are also interested in the rationale of store brands (the reason for their existence) and their vulnerable areas.

### The Potential of Store Brands to dominate National Brands?

The performance of store brands in India is quite reckonable.

The share of private labels of the total business for some retailers is as follows: Shoppers' Shop- 20 per cent, Subhiksha- 20 per cent, Life Style- 25 per cent, Food World – 20 per cent, Nilgiris – 50 per cent, Westside – 95 per cent, etc. A recent Economic Times report says that Pantaloons' in-house labels contribute to a whopping 71.5 per cent to its total sales and the success of these in-house brands lies in the fact that they offer customers more international designs, fabrics, styling and at affordable prices. The AC Nielson Shopper Trends 2004 Report states that, although private labels are fairly recent phenomenon in India, it is a trend that is catching up very fast. According to this report, out of total number of shoppers who shop in supermarkets or hypermarkets in India, 47 per cent are aware of the private labels. This awareness percentage is however lowest of 15 Asia-Pacific markets surveyed by this report.

The private labels in UK, unlike US, are highly evolved and hence have better acceptance among consumers over there. Private labels account for more than 15 per cent of the total sales volume in the US (as of 2002). It is around 25 per cent in Canada and nearly 50 per cent in Europe. In U.K. alone, 40 per cent of the sales in supermarkets are from Private Labels. (Private labels sales in Wal-Mart were around 16 per cent in 2002). If they have grown there, what are the fulfilled expectations that have helped private labels to grow there? The same have to be fulfilled here in India also by them either to survive or grow.

### The Expectations of Consumers from Store Brands

According to V.Rajesh, Sales and Marketing Head, Giant Hypermarket, the benefits from private labels are: a) New products would be created which benefit both consumers in terms of choice and far end -supply chain member- agriculture - in terms of remunerative prices and speedy outflow. b) National brand manufacturer's surplus capacity can be seasonally diverted to their benefit only, to store brands. c) The trend for consumption of processed food will increase and this fact has positive implications for business growth.

Hyderabad and Secunderabad Twin Cities, being highly populous and also with family income levels rising due to software boom, is the cynosure for retail industries. Already many big retailers like Pantaloon, Giant, FoodWorld, Hyderabad Central, Shopper's Stop, Life Style etc have set up their shops as much early as 2000. Many more are coming up on fast track.

Now the curiosity is to see how store brands are going to fare and how their cascading benefits are going to accrue on the agricultural sector of backward Telangana area. Now the moot questions are: Will store brands be accepted over national brands? Is price a determinant for tilting scales towards private brands? What are the perceptions of the Hyderabad consumers towards store brands? What is in store for store brands in terms of growth and survival? To what extent are private brands perceived to be cheaper than national brands, category wise? According to a study done by Sukanya Ashokkumar (2005), price effect of private labels can not be underestimated, awareness levels about private labels are high in even towns like Salem, consumers perceive that quality of private labels is also high and brand factor does not work for low involvement goods. Another important finding is that local retailer can fare as nicely as national retailer.

### Problem Statement and Objectives of the Study

The perceptions and current evaluation of the Hyderabad consumers in respect of store brands, their cheapness, the extent and level of preference for them and their success probability, if ascertained, can spotlight on the best pathway for the brand owners to follow in terms of modifications for the strategies and all that is necessary to have pro-business growth perceptions. An exercise to identify and measure these parameters among consumers is thought to be appropriate at this stage of booming retailing industry and the concomitant upheaval of store brands. Hence the research has got to be undertaken to find out: a) the evaluation of Hyderabad consumers about the extent of cheapness, currently, of store brands over national brands in different categories, b) the level of their preference for the store brands category wise, c) the specific categories of products in which store brands are preferred over national brands, d) the share of store brands out of total monthly purchases in percentage terms, e) the extent of consumers perceiving store brands as cheaper, f) the extent of consumers perceiving national brands as having better quality than store

brands, g) the extent of consumers anticipating better future for store brands, h) the impact of age, sex, working status and income levels on the perception or evaluation of the store brands.

The Private Label Manufacturers Association (PLMA) estimated that the overall market size of private labels is \$ 50 billion. Further, a study by Gallup also shows that, 75 per cent of the consumers already treat private labels on par with national brands. Private labels account for more than 15 per cent of the total sales volume in the USA (2002), 25 per cent in Canada and in Europe roughly 50 per cent. In India, the share of organized retailing is hardly three per cent of the total retail business, of which around Rs. 700 crores is through private labels. The share of some of the selected and popular retailers is shown in the Table 1.

**Table-1**  
**Share of Private Labels in the Retail Business**

Name of the Retailer	Share of private labels in total retail business
1 Shoppers' Stop	20%
2 Subhiksha	20%
3 Life Style	25%
4 Food World	20%
5 Nilgiris	50%
6 Westside	95%

Source: B.K.Anand (2005), "Expert Views: Private Labels", Advertising Express, Icfai university Press, Hyderabad, Vol. V, No.4, pp-27-39.

Further, the AC Nielson's study forecasts the launch of a good number of private labels in India; it reveals that an Indian spends every month \$50 on food, groceries and personal care items and of which 42 per cent is entirely spent on fresh foods. It implies that Indians spend relatively more on groceries, especially on staple foods and hence it gives scope for retailers to introduce private labels.

Majority of the private labels all over the world are positioned as the cheaper alternatives to national brands. A study by AC Nielson (2003) reveals the extent of price difference of store brands in comparison with national brands in the consumer-packaged goods as shown in the table 2.

**Table-2**  
**Price Differential between Private and National brands of Consumer Packaged Goods**

	Category of Goods	Price Differential (cheapness of Store Brands over national brands)
1	Personal Care	45%
2	Diapers/ Feminine Hygiene	33%
3	Non-alcoholic Beverages	32%
4	Papers, Plastic, Wraps	29%
6	Health Care	43%
7	Alcoholic Beverages	33%
8	Snacks and Candy	29%
9	Home Care	26%

Source: AC Nielson Study, Worldwide, 2003.

Whether similar trends are followed in India as well is a matter of current interest, more particularly because of the growing retailing industry. Probably taking cue from such interest, ICFAI Business School of Salem, led by Sukanya Shivkumar, has done research on "Private Labels: Regional Consumer Perceptions" and found out from the research, *inter alia*, that private labels of retailers are flourishing. In furtherance of the said research, some of the following issues have to be verified, which help the industry in formulating their growth strategies:

- ( i ) how cheaper are the store brands over national brands category wise as perceived by the consumers ?
- ( ii ) in which category of products do consumers prefer store brands over national brands ?
- ( iii ) What is the share of store brands in the total monthly purchases of consumers in percentage terms?
- ( iv ) Do consumers perceive the price advantage of store brands and, if so, to what extent?
- ( v ) Do perceptions of consumers vary in accordance with the gender, age, working status and income levels of the consumers?

The findings with regard to the above issues would give direction to industry such that the something will be done either to change the perceptions or the suit the perceptions with regard to price, quality and future growth.

### Methodology

Keeping the above issues in mind, a questionnaire was prepared, with multiple-choice format. It was first tested in the pilot study with a sample of 40 respondents who were shopping at the selected super / hypermarkets and final questionnaire was prepared with slight modifications. A team of investigators (our students) were trained about questionnaire administration. Later, the data were collected from 100 respondents at the following shops while they were shopping.

**Table-3**  
**Details of Retail Stops from where Data were Collected and No. of Respondents**

Name of the Retail Shop	No. of Respondents
Big Bazaar, Abids, Hyderabad	24
Giant Hyper Market, Hypermarket	22
FoodWorld, Himayathnagar	18
Trinethra Super Market, Mehdipatnam	12
Chermas, Abids, Hyd	10
Shoppers' Stop, Begumpet	8
Westside, Secunderabad	6
<b>Total</b>	<b>100</b>

**Table 4**  
**Characteristics of Sample Respondents**

Characteristics of Sample Respondents	
<b>I. Sex:</b>	
Male	55
Female	45
<b>Total</b>	<b>100</b>

II Age:	
a) d" 20 years	9
b) 21-30 years	32
c) 31-40 years	27
d) 41-50 years	24
e) e"50 years	8
<b>Total</b>	<b>100</b>
III Employment Status	
a) Employed	47
b) Businessmen	21
c) Pensioner	7
d) Others	25
<b>Total</b>	<b>100</b>
IV Monthly Income ( Rs.)	
a) < 10000	33
b) 10000- 25000	32
c) 25000- 50000	8
d) > 50000	27
	100

The collected data were tabulated, mostly in bivariate formats. Percentages, average score and  $\chi^2$  - tests were used for analyzing the data. As sample size is 100, percentages are not shown separately. For table-3, while computing average score, only the responses of the persons who actually responded were taken, and due weights of 5,4,3,2, and 1 were given to the rank-responses starting from one through five respectively. To make it clear, it is to be stated that low-number rank gets high weight and high-number rank gets low weight.

Further to test the below-mentioned hypotheses,  $\chi^2$  - tests were used assuming five per cent as the level of significance.

### III Research Hypotheses

The following are the research hypotheses formulated to investigate the differences in the perceptions about store brands as against national brands with variance in profile factors of age, sex, working status and income levels of the respondents.

- 1) Ho: No difference in the perceptions about the quality of the store brands vis-à-vis national brands among/ between different a) age groups b) the gender c) working status d) income levels of respondents.

**Table 5**  
**Perceived Price Difference of Store Brands over National Brands**

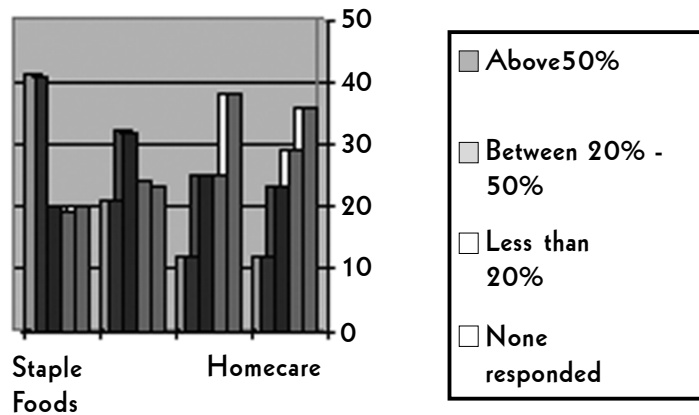
Sl.No.	Difference	Staple Foods	Garments	Masala, Food additionalities, oils etc.	Homecare: Phenyle, Floorcleaners etc
1	10% and Less	25	30	31	21
2	Between 11%- 19%	25	20	20	26
3	Above 20%	23	19	10	13
4	Not responded	27	31	39	40
5	Total	100	100	100	100

**Table 6**  
Preference for Store Brands - Category-wise ranking

Category	No. of Respondents	No. of Respondents	No. of Respondents	No. of Respondents	No. of Respondents	Not responded
Preference score	5	4	3	2	1	
Staple Foods	59	7	6	0	2	26
Garments	10	18	16	12	6	38
Skincare, Healthcare Perfume	6	7	10	6	14	57
Masala Oils, Food additionalities	6	26	8	10	6	44
Homecare	5	9	12	17	9	48

**Table 7**  
Value of Store Brands purchased as a Percentage of the Total Monthly Purchases

	Staple Foods	Garments	Food additionalities	Homecare
Above 50%	41	21	12	12
Between 20%-50%	20	32	25	23
Less than 20%	19	24	25	29
Not responded	20	23	38	36
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>



**Table 8**  
**Distribution of Respondents perceiving Store Brands as having Price Advantage and those not seeing Price Advantage in Store Brands**

Response	No. of Respondents	Total
No. of respondents perceiving store brands as having price advantage	55	55
No. of respondents not perceiving store brands as having price advantage	37	37

**Table 9**  
**No. of Respondents perceiving Store Brands as having better quality than National Brands**

Age	No. of Respondents perceiving store brands to be better in quality	No. of Respondents not perceiving store brands to be better in quality than national brands	Respondents viewing quality as a function of category, but not because of either being store brands or national brands	Total $\alpha=0.05$ $1-\alpha=0.95$ df = 4 CV=9.488 $\chi^2=2.411$ Ho is accepted
Less than 30	5	9	27	41
31-40	6	8	13	27
40 and above	5	7	20	32
<b>Total</b>	<b>16</b>	<b>24</b>	<b>60</b>	<b>100</b>

Ho: Perception that store brands have better quality than national brands is independent of age of respondents.

H1: Perception that store brands have better quality than national brands is dependent on the age of respondents.

$\alpha=0.05$

$1-\alpha=0.95$

df = 4

CV=9.488

$\chi^2=2.411$

Ho=Accepted.



**Table 10**  
**Distribution of Respondents forecasting better future for Store Brands vis-à-vis those forecasting better future for National Brands-Agewise**

Age	No. of Respondents forecasting better future for Store brands	No. of Respondents forecasting better future for National brands	Neutral	Total
Less than 30	14	27		41
31-40	8	19		27
41 and above	14	18		32
<b>Total</b>	<b>36</b>	<b>64</b>		<b>100</b>

Ho: Anticipation, by respondents, of better future for store brands is independent of age.

H1: Anticipation, by respondents, of better future for store brands is dependent age.

$\alpha=0.05$   $1-\alpha=0.95$   $df=2$   $CV=5.991$   $\chi^2=1.367$  Ho is accepted.

**Table 11**  
**Distribution of Respondents perceiving better quality in Store brands vis-à-vis those perceiving better quality for National brands- Age-wise**

Age	No. of Respondents forecasting better future for Store brands	No. of Respondents forecasting better future for National brands	Neutral	Total
Males	11	12	30	53
Females	6	11	30	47
<b>Total</b>	<b>17</b>	<b>23</b>	<b>60</b>	<b>100</b>

Ho: Perception that store brands have better quality is independent of sex.

H1: Perception that store brands have better quality is dependent on sex.

$\alpha=0.05$   $1-\alpha=0.95$   $df=2$   $CV=5.991$   $\chi^2=1.154$  Ho is accepted.

**Table 12****Distribution of Respondents forecasting better future for Store Brands vis-à-vis those not – Sex wise**

Sex	No. of Respondents forecasting better future for Store brands	No. of Respondents forecasting better future for National brands	Total	$\alpha=0.05$ $1-\alpha=0.95$ df =1 CV=3.841 $\chi^2=1.124$ Ho is Accepted
Males	21	32	53	
Female	17	30	47	
<b>Total</b>	<b>38</b>	<b>62</b>	<b>100</b>	

Ho: Anticipation, by respondents, of better future for store brands is independent of sex.

H1: Anticipation, by respondents, of better future for store brands is dependent sex.

$\alpha=0.05$     $1-\alpha=0.95$    df=1   CV=3.841    $\chi^2=1.124$    Ho is accepted.

**Table 13****Distribution of Respondents perceiving better quality in Store Brands over National Brands vis-à-vis those not- working status wise**

Working Status	No. of Respondents perceiving better quality in store brands over national brands	No. of Respondents not perceiving better quality in store brands over national brands	Those perceiving quality to a function of category	Total	$\alpha=0.05$ $1-\alpha=0.95$ df =2 CV=5.991 $\chi^2=6.46$ Ho=Accepted
Employed	11	14	22	47	
Others including business persons, pensioners etc	6	9	38	53	
<b>Total</b>	<b>17</b>	<b>23</b>	<b>60</b>	<b>100</b>	

Ho: The perception that store brands have better quality than national brands is independent of working status.

H1: The perception that store brands have better quality than national brands is dependent of working status.

$\alpha=0.05$     $1-\alpha=0.95$    df=2   CV=5.991    $\chi^2=6.46$    Ho is rejected.

**Table 14**  
**Distribution of Respondents forecasting better future for Store Brands vis-à-vis those not – Income Segment wise**

Income / Month	No. of Respondents forecasting better future for Store brands	No. of Respondents not anticipating better future for store brands	Total
Less than Rs.10000	17	20	37
Rs.10000-25000	16	14	30
More than 25000	5	28	33
<b>Total</b>	<b>38</b>	<b>62</b>	<b>100</b>

Ho: The perception of respondents regarding store brands' future is independent of income levels

H1: Depends on income levels

$$\alpha=0.05$$

$$1-\alpha=0.95$$

$$df=2$$

$$CV=5.991$$

$$\chi^2=11.294$$

Ho is rejected. Hence the perception is income-dependent.

**Table 15**  
**Distribution of Respondents forecasting better future for Store Brands vis-à-vis those not – Working Status wise**

Working Status	No. of Respondents forecasting better future for Store brands	No. of Respondents not anticipating better future for store brands	Total
Employed	24	23	67
Others	13	40	43
<b>Total</b>	<b>37</b>	<b>63</b>	<b>100</b>

Ho: The perception of respondents regarding store brands' future is independent of their working status; both the categories of people opine that store brands have better future over national brands.

H1: Depends on their working status

$$\alpha=0.05 \quad 1-\alpha=0.95 \quad df=(2-1)(3-1) \quad CV=5.991 \quad \chi^2=(8.66) > CV (=5.991)$$

Ho is rejected. Hence the perception is working status dependent.

- 2) Ho: No difference in the opinions of the respondents as to future of the store brands vis-à-vis national brands among / between a) genders b) age groups c) working statuses and d) different levels of income of respondents.

#### IV Findings of the Study

Majority (73 per cent) of the respondents have noticed the price difference in the case of store brands of staple foods, followed by garments (69 per cent), masala and food additionalities (61 per cent) and homecare products (60 per cent) (See Table-5). Further, 23 per cent of the respondents have noticed price difference of > 20 per cent in the case of staple foods, which is the highest.

In the Table 6, the ranking of preference of store brands category wise is shown and it is found that the staple foods are given highest average score (4.43 in the five point scale), followed by masala, oils, food additionalities (3.29), garments (2.74), home care (2.69) and skin care (2.65). In other words, store brands are mostly preferred in staple foods, followed by masalas and food additionalities, garments and so on.

It is observed that highest number (41) of respondents is buying above 50 per cent of their staple food requirement from store brands. Similarly, 32 per cent respondents are buying store brands to the extent of 20 per cent - 50 per cent of garments required. 25 per cent of respondents are buying less than 20 per cent of masala, oils and food additionalities in store brands. 29 per cent of the respondents are buying less than 20 per cent of home care products in store brands (See Table 7).

As per Table 8, as many as 55 per cent of the respondents accepted that store brands are cheaper than national brands.

It is disclosed that there is no difference in the perception about quality and price difference of store brands varying with age, gender, working status and income levels. See Tables 9, 11 and 13.

The perception regarding future of the store brands over national brands is tested. It is found that there is no difference in perception varying with age (Table 10), and gender (Table 12). But there is significant difference in the perceptions about the future of the store brands, varying with working status (Table 14) and levels of income (Table 15).

#### Discussion and Implications of the Study

National brands have a firm foothold in the minds of businessmen, and on the other hand, only employed people prefer store brands. National brands don't need to shudder at the advent of retailer's store brands. Employed people (24) believe that the store brands have better future, but almost equal number (23) of employed people does not think so. But respondents belonging to working status other than jobholders (40) don't see future any future for store brands and only 13 of this category agree that store brands have better future. It implies that store brands have a place, but not so exciting as to defocus on national brands. Employed people prefer store brands to the other people (not belonging to employment). The non-job holding people like businessmen, pensioners etc don't believe in the rationale of store brands. This is pleasant news for national brands and a cautionary note to retailers set to look down upon national brands. If at all the retailers want to focus on their own store brands, they have to target at employed people, and so the price difference, the visible factor, should be very sharp.

Store brand preference is category-specific. Low involvement goods like staple foods (41 respondents buying more than 50 per cent of their requirement from store brands) and food additionalities (25 respondents buying 20 per cent-50 per cent of their requirement from store brands). But contrary to our expectations, the store brands are preferred more in the category of garments, which are not low involvement goods. The probable cause for high preference of store brands in garments category is that the brand building effort put in by Pantaloons, Chermas etc is good.

Substitution of national brands with store brands is dependent on category of products. Low involvement products like staple foods, food additionalities etc., only are purchased from store brands, but not relatively high involvement products like skin care, home care etc.

The perception of the consumers about the quality of the store brands does not vary with sex and age. But it differs significantly varying with income levels and working status. People of higher incomes and people belonging to business class don't believe that store brands have comparable quality with national brands. Big retailers targeting at upper income brackets cannot discount the value and place of national brands.

That store brands have better future, as perceived by low-income groups, is contradicted by the people of business class and higher income levels. The findings draw a thick line between income levels and based on those levels, allot national brands to higher income groups and store brands to low income groups. These categories have their respective slots and their owner have to build proper defenses against future encroachment, since there is possibility that stores can build value and position their store brands on value plank as done Super Value, Pantaloons etc. and compete successfully with national brands. One distinguishing advantage of store brands is that their own sales person can explain better about store brand, but national brand has to sell on its own with support of brand value behind the scene.

### Findings and Conclusions in a Nutshell

There is a perceived price advantage to the consumer with store brands in staple foods, garments, masalas and home care products in that order to the extent of 60 per cent to 69 per cent. Store brands in staple foods category are the most preferred among the store brands. More than half of staple food requirement on an average is met from store brands. Store brands are perceived to be cheaper than national brands. Apart from the price edge, another advantage enjoyed by the store brands is that the sales person of store brands would explain well about them, since they are of the firm employing him.

Employed persons forecast good future for store brands, but, on the contrary, non-employee persons like businessmen, pensioners etc don't think so in numbers as many as employed persons in this sample, who are inclined towards store brands.

Higher income and non-employee category persons don't believe that the quality of store brands is comparable to that of national brands.

National brands are bound to survive and co-exist with the juicy store brands. Store brands are preferred more in non-involvement goods like staple foods, but garments, which are moderately high-involvement goods, are preferred in store brands rather than national brands. This paradox can be traced to the special brand building efforts made by the some cloth retailers in Hyderabad.

### Scope for further Research

Further research can focus on the following issues:

- a) to broaden the research scope to include in the sample the respondents from across the state and the nation as a whole for wider relevance, since the current study is limited to Hyderabad city only,
- b) occupation classification should have more strata, like white collar, blue collar, professionals etc.,
- c) family size, family type (joint, nuclear etc) may have impact on the choice of store brands versus national brands, and hence these have to be investigated for their effect on choice of store brands or national brands,
- d) religion, region etc do determine the value placed on visible and invisible features of brands and hence these factors have to be investigated for their impact on preference for store brands versus national brands.

### References

- Anand, B.K., "Private Labels," *Advertising Express, Special Issue on Private Labels*, Icfai University Press, 27, April 2005.
- Dale Buss, Changing Face of Private Labels.
- Gupta, Nitin, "Private Brands in Grocery Retailing: The Indian Scenario," *Advertising Express, Special Issue on Private Labels*, Icfai University Press, 41, April 2005.
- Ibid : B.K.Anand.
- Kanugovi Sreenath, "Private Labels - Retail Margin," *Advertising Express*, April, The icfai University Press, 60-61, 2005.
- Meera, Mullick- Kunwar, "Evolution of Private Label Branding," *Advertising Express*, The Icfai University Press, Vol.V, Issue 2, 27 – 34, February 2005.
- Neha Kausik, A Private Matter, Catalyst, Business Line, 1&3, July 8, 2004.
- Nirmal D. Menon, The Detail in Retail, Catalyst, Business Line, 3, December 9, 2004. op. cit : B.K.Anand.

---

Rajesh.V., "Private Labels in Food Retailing: The Competitive Edge" Advertising Express, Special Issue on Private Labels, Icfai University Press, 46, April 2005.

Sindhu J.Bhattacharya, "The Writing on the Wall, Catalyst," *Business Line*, 1, March 10, 2005.

Sukanya Ashokkumar, "Private Labels: Regional Consumer Perceptions, Advertising Express, Special Issue on Private Labels, Icfai University Press, 55, April 2005.

The website of The Private Labels Manufacturers Association (PLMA).

Vedamani, Gibson, G., "Managing Private Labels in Modern Retailing in India," Advertising Express, Special Issue on Private Labels, Icfai University Press, 39, April 2005.

**(Footnotes)**

- 1 Anand B.K., "Private Labels", Advertising Express, Special Issue on Private Labels, Icfai University Press, 27, April 2005.
- 2 Gupta, Nitin, "Private Brands in Grocery Retailing: The Indian Scenario," Advertising Express, Special Issue on Private Labels, Icfai University Press, 41, April 2005.



# Reporting Practices: Corporate Social Responsibility

Shankar T.K. and Viney K.Thakar



Corporate Social Responsibility (CSR) is the fundamental duty of any business to compensate the society to express its gratitude to society at large for all that it has provided. CSR Reporting helps people to gain insights regarding a company's policies and procedures as to what steps have been taken to address the burning and growing issues relating to the environment and ecology of the beautiful planet Earth, along with the protection and promotion of human rights which includes issues relating to discrimination, labour welfare, abolition of child labour, women's rights etc., and also protecting consumers from hazards due to service inadequacy or product malfunctioning. This study analyses CSR reporting practices of some leading Indian companies selected from various disciplines and compares these practices with those of some leading overseas companies in diverse industries.

In recent times, the primary goal of organisations has been the maximization of the shareholders' wealth in a legal and ethical manner. For the growth and development of any organisation, a large amount of resources in various forms is being drawn on a daily basis from the society at large. But the companies of the present times have forgotten the very concept of serving the interest of their stakeholders who are the real contributors to their success. They really need to give something in return to the stakeholders for all the help they have rendered. This is called Corporate Social Responsibility (CSR).

CSR activities undertaken by companies take numerous forms e.g.; services in areas like health, education, employment, shelter, pollution-free environment and so on. But all these need to be communicated to the stakeholders in clearly quantifiable terms. This aspect of CSR is called Reporting. Today, it is becoming increasingly mandatory for companies to report on their CSR activities either through internal or external means. There are a large number of guidelines and standards, which have been framed by various bodies like The U.N. Global Reporting Initiatives etc. These are being followed by companies to assess their



Mr.Shankar T.K., Officer - (HRD) - GTN Group of Companies, 3rd Floor, Palal Towers, MG Road, Ravipuram, Kochi – 682 016, India. Telephone 0484-2371822, Email-shankar\_t\_k@yahoo.co.in, shankukicha@gmail.com



Prof.Viney K.Thakar, Hon.Reader, School of Business Management - Accounting and Finance, Sri Sathya Sai Institute of Higher Learning, Prasanthi Nilayam, Andhra Pradesh-515134, Email: vineythakar@rediffmail.com

CSR activities and to publish their reports. This study takes a look at CSR, and in some depth, the reporting of CSR.

There are no specific legal guidelines available regarding CSR activities to be undertaken, but there do exist guidelines for reporting in the form of various standards. Even when companies do follow and report according to the standards specified in the guidelines, they restrict themselves only to the boundaries of the standards and fail to disclose anything more in detail on a voluntary basis.

The scope of this study is limited to the analysis of CSR reporting practices of four leading Indian companies selected from the manufacturing, hospitality, agro-based and process industries, compared with the CSR reporting practices of four overseas companies in the petrochemicals, pharmaceuticals and telecommunications industries.

This study is descriptive and analytical in nature and is predominantly based on secondary data, published and readily accessible. It is aimed at analyzing not only various aspects relating to CSR performance, but also the way companies report it using guidelines adopted by them. The study has adopted review of Annual Reports or Sustainability Reports published by eight companies representing various industries to report their CSR activities against standards. This study could be regarded as an attempt to shed light on various aspects of CSR and its Reporting, including possible shortcomings thereof.

CSR data for these companies has been sourced from their respective published Annual/ CSR reports and includes:

- Qualitative and descriptive information from the companies' annual reports, sustainability reports and websites.
- Extracts of various articles, publications, books, theses and research papers from national and international journals and websites.
- Published studies on CSR and CSR Reporting by various committees.

All the four overseas companies selected have followed the GRI Guidelines for reporting their CSR activities and were selected based on published rankings given by some organizations aggregated on several criteria for effective CSR reporting. Out of the four Indian companies, the ones belonging to the process

and manufacturing sector follow the GRI Guidelines one in the service sector follows. The U.N. Global Compact and the public limited Company in the process industry has so far not published any sustainability reports. The choice of these Indian and global companies was made to facilitate a cross industry comparative study and also to understand their CSR activities and reporting commitment.

### Definitions of CSR and Related Concepts

The European commission defines CSR as a "concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on a voluntary basis."

The European Union defines CSR as "a concept that an enterprise is accountable for its impact on all relevant stakeholders. It is the continuing commitment by business to behave fairly and responsibly and contribute to economic development while improving the quality of life of the workforce and their families as well as local community and society at large."

Business For Social Responsibility (BSR) defines corporate social responsibility as "achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment."

"Corporate Sustainability aligns an organization's products and services with stakeholder expectations, thereby adding economic, environmental and social value," (Price Waterhouse Coopers).

### Why do Companies need to embrace CSR?

Companies that are socially responsible in making profits also contribute to some, although obviously not all, aspects of social development. Every company should not be expected to be involved in every aspect of social development. But for a firm to be involved in some aspects, both within the firm and on the outside will make its products and services (for example financial services) more attractive to consumers as a whole, therefore making the company more profitable. There will be increased costs to implement CSR, but the benefits are likely to far outweigh the costs.

More companies than ever before are engaged in serious efforts to define, embrace and integrate CSR into all aspects of their



business, with their experiences being evidence that CSR has a positive impact on business economic performance. New voluntary CSR standards and performance measurement tools are being continually developed amidst the ongoing debate about whether and how to formalize legal CSR requirements for companies. Stakeholders — including shareholders, analysts, regulators, activists, labour unions, employees, community organizations, and the news media — are asking companies to be accountable not only for their own performance but for the performance of their entire supply chain, and for an increasing set of CSR issues. All this is taking place against the context of an even more complex global economy with continuing economic, social and environmental inequities.

The various benefits that a company derives out of its CSR activities are:

- **Improved Financial Performance:** In the last decade, an increasing number of studies have been conducted to examine this link. One of the more recent analyses — a 2002 DePaul University study — showed that overall financial performance of the 2001 Business Ethics Best Citizen companies was significantly better than that of the remaining companies in the S&P 500 Index, based on the 2001 Business Week ranking of total financial performance.
- **Reduced Operating Costs:** Many initiatives aimed at improving environmental performance — such as reducing emissions of gases or reducing use of agrochemicals, recycling initiatives, in the human resources arena, flexible scheduling and other work-life programs that result in reduced absenteeism and increased retention of employees often save companies' money through increased productivity and reduction of operating costs.
- **Enhanced Brand Image and Reputation:** Customers often prefer brands and companies with good reputations in CSR-related areas.
- **Increased Sales:** A number of studies have suggested a large and growing market for the products and services of companies perceived to be socially responsible.
- **Improved Productivity and Quality:** Company efforts to improve working conditions, lessen environmental

impacts or increase employee involvement in decision-making often lead to increased productivity and reduced error rate.

- **Increased ability to attract and retain employees:** Companies perceived to have strong CSR commitments often find it easier to recruit and retain employees, resulting in a reduction in turnover and associated recruitment and training costs.
- **Easier access to Capital:** The growth of socially responsible investing (SRI) means companies with strong CSR performance have increased access to capital that might not otherwise have been available.
- **Enhance Stakeholder Relations and Credibility:** Meeting rising expectations for disclosure and transparency can build trust, credibility, and create a useful dialogue with a range of important stakeholders, from local community representatives to environmental groups to employees.
- **Increase Integration and Alignment:** Many companies have found the CSR reporting process provides a useful tool for assessing their social and environmental impacts, conducting gap analyses of their existing CSR policies and programs, and driving performance on key goals and targets.
- **Strengthen Internal Communications:** Reporting also serves an internal function which is to help educate and motivate employees at all levels of the organization and across different regions and business units about the CSR strategy and performance.

While key factors, which have contributed to Increased CSR Activities, include globalization, loss of trust, civil society activism and institutional investor interest in CSR, some of the many current issues that have an impact on the process and implementation of CSR namely include:

- **Restructuring:-** which involves Management of change and Strategic decision making
- **Subcontracting:-** involving, outsourcing, relocation, the dual labour market and international division of labour
- **Local community:-** basically in terms of employment of people and production of goods and services, which involves sourcing from local suppliers and selling

to local customers or indirectly such as sponsoring local cultural or sporting programmes, giving spare equipments to community organizations, assisting local hospitals and schools and so on

- Environment:- companies are forced to adopt responsible behaviour, which aims to limit the risks and avoid negative consequences.

Companies face increasing demands for disclosure of their social and environmental performance from customers, investors, and a wide range of other stakeholders.<sup>5</sup> As a result, a growing number of companies are sharing information and issuing reports describing the economic, environmental, and social impacts of their operations and products. As reporting grows more widespread, companies face increasing challenges to improve the quality and comparability of what they report. The independent Global Reporting Initiative's Sustainability Reporting Guidelines, which promote disclosure on a broad set of management policies and performance indicators, have emerged as an important benchmark for many companies' CSR reporting. Globally, some government agencies and even stock exchanges have begun requiring more public disclosure of companies CSR performance. There is now a growing focus on current relevance in company CSR reporting, to ensure that data disclosed impacts stakeholders and it addresses the important issues with links to financial risks and opportunities.

The various principles that govern the reporting aspect are:<sup>2</sup>

- Transparency: regardless of the format and content of reports, users are made fully informed of the processes employed.
- Inclusiveness: The reporting organisations need to include their stakeholders in an attempt to continually improve the quality of its reports.
- Auditability: The auditability principle refers to the extent to which the reporting mechanisms are suitable for being audited by both internal and external parties.
- Completeness: All information that is necessary for readers to assess the economic, environmental, and social performance of the organization.
- Defining boundary: Conditions for reporting on economic, environmental, and social performance.

- Relevance: Relevance is the degree of importance assigned to a particular aspect, indicator, or piece of information, and represents the threshold at which information becomes significant enough to be reported.
- Sustainability Context: The reporting organisation should seek to place its performance in the larger context of ecological, social, or other limits or constraints, where such context adds significant meaning to the reported information.
- Accuracy: The accuracy principle refers to achieving the degree of exactness and low margin of error in reported information necessary for users to make decisions with a high degree of confidence.
- Neutrality: The neutrality principle refers to the fair and factual presentation of the organisation's economic, environmental, and social performance.
- Comparability: This principle refers to ensuring that reports on economic, environmental, and social performance support comparison against the organisation's earlier performance as well as against the performance of other organisations.
- Clarity: The clarity principle considers the extent to which information is understandable and usable by diverse user groups.
- Timeliness: The usefulness of information on economic, environmental, and social performance is closely tied to its timely availability to user groups.

The key developments in the area of CSR reporting have been the emergence of various standards formulated by various government and international bodies such as:

- Global Reporting Initiative Sustainability Reporting
- Guidelines Accountability 1000 (AA1000)
- International Standards Organization
- Coalition of Environmentally Responsible Economies (CERES)
- Social Accountability 8000
- The Global Compact
- Business for Social Responsibility (BSR)

Like for any major corporate initiative, the various steps undertaken to ensure a sound and effective implementation of CSR reporting must include:

- Top management Support and Commitment
- Formulating a Reporting Team
- Establishing Reporting Strategy congruent with overall corporate strategy
- Determining the content, enterprise-wise
- Building in an evaluation and feedback process for continuous improvement
- Evolving strategic lessons from the process

A research on CSR reporting conducted in late 2004 in collaboration with GreenBiz.com shows that 2000 to 3000 companies in U.S. now produce CSR reports and the key findings are as follows:<sup>4</sup>

- Audience: While most people think of CSR reports as aimed at external audiences, employees were cited as the most important audience for these reports, with external stakeholders a close second; company management is far behind, with NGOs and media the least important.
- Format: Reports continue to move from print based to on-line, but most respondents seem to have a rather limited definition of “interactivity” and a limited vision of just how these reports can impact employees.
- Report Integration: While most companies publish separate CSR reports and annual reports, there is clear interest in integrating them in some way — combined reports; synchronized and jointly released reports; summarizing the CSR report within the annual report and so on.
- Data management: Companies are greatly concerned with the accuracy of the data they collect and report, as well as with the timeliness, and complexity of the data management process.
- Reporting Systems: Despite increasing discussion of automation of data management and integration with management systems, companies, even the very sophisticated ones, are still largely dependent on

spreadsheets for data collection and management, while significant minorities have built custom requirements.

- The Global Reporting Initiative (GRI) is the most important guideline on CSR reporting for most companies and continues to be the supreme.
- CSR reports are becoming a more permanent feature of the businesses.
- Recognition of the potential business value of CSR reporting is still growing, but companies are still struggling to learn how to best realize that value.

Even though there are different standards used in CSR reporting, the one that has been selected for this study is the Global Reporting Initiatives (GRI). Key trends that have fuelled GRI's swift progress are:

- Expanding globalization
- Search for new forms of global governance
- Reform of corporate governance
- Global role of emerging economies
- Rising visibility of and expectations for organisations
- Measurement of progress toward sustainable development
- Governments' interest in sustainability reporting
- Financial markets' interest in sustainability reporting
- Emergence of next-generation accounting

Effective management in a global economy, where information (reliable or unreliable) travels at Internet speed, requires a proactive approach. Measuring and reporting both past and anticipated performance is a critical management tool in today's high-speed, interconnected world. GRI guidelines serve this purpose well, embracing the following general benefits:

- Today's strategic and operational complexities require a continual dialogue with investors, customers, advocates, suppliers, and employees. Reporting is a key ingredient to building, sustaining, and continually refining stakeholder engagement. Reports can help communicate an organisation's economic, environmental, and social opportunities and challenges

in a way far superior to simply responding to stakeholder information requests.

- Companies increasingly emphasize the importance of relationships with external parties, ranging from consumers to investors to community groups, as key to their business success. Transparency and open dialogue about performance, priorities, and future sustainability plans helps to strengthen these partnerships and to build trust.
- Sustainability reporting is a vehicle for linking typically discrete and insular functions of the corporation—finance, marketing, research and development—in a more strategic manner. Sustainability reporting opens internal conversations where they would not otherwise occur.
- The process of developing a sustainability report provides a warning of trouble spots—and unanticipated opportunities—in supply chains, in communities, among regulators, and in reputation and brand management. Reporting helps management evaluate potentially damaging developments before they develop into unwelcome surprises.
- Sustainability reporting helps sharpen management's ability to assess the organisation's contribution to natural, human, and social capital. This assessment enlarges the perspective provided by conventional financial accounts to create a more complete picture of long-term prospects.
- Sustainability reporting may reduce volatility and uncertainty in share price for publicly traded enterprises, as well as reducing the cost of capital. Fuller and more regular information disclosure, including much of what analysts seek from managers on an ad hoc basis, can add stability to a company's financial condition by avoiding major swings in investor behaviour caused by untimely or unexpected disclosures.

### **General Findings from the study of reports of the eight selected companies:**

The various observations made while studying the various reporting practices and aspects of the eight different companies can be summarized as:

- Businesses are apparently motivated more by image improvement than stakeholders' dialogue (as substantiated by number of items where companies choose to remain "silent").
- Only some reports clearly took into consideration stakeholders' suggestions.
- Despite GRI's intentions, companies are not able to bring about standardized reports, which are easily identifiable with the specified guidelines of GRI.
- Senior management support and involving internal and external stakeholders appear to be promoting the better reports.
- Reporting is not only done to satisfy legal obligations, but also to build image and win everybody's confidence by sounding promising, at the least.
- Although a fair and real care for the environment (ecological and social) may have been the starting point for CSR activity, we see that company image and market position and new product/service advantage seem to be the main drivers for reporting.
- Areas for improvement remain in all categories of CSR, particularly in human rights. The emphasis in some reports seems to be mostly on process, and little attention has been paid to measuring the impact of CSR practice.
- Increase in environmental legislation at both National and International level has increased the extent to which companies measure and assess their environmental impact. One of the key difficulties is that the selection of criteria for measuring and assessing environmental performance is either missing, or is largely defined by the companies themselves rather than through a clearly defined format.
- Responsibility to the local communities within which the companies operated was identified as being a traditional aspect at the heart of successful business strategy, again emphasizing the very importance of CSR.
- Most reports seek to demonstrate how company policy stretches beyond legislative minimal standards.

- Transparency and clarity is the key for interesting reporting as it facilitates better understanding of the subject to be reported.
- The overall process of reporting was rendered more credible in some cases as reflection on disappointing performances strengthened the reports claims to honesty, accountability and objectivity.
- The language that is used when presenting reports seems to make a considerable difference to the perception of the issue at hand.
- Information was reported with very little actual detail for consideration in some cases.
- There seems to be little evidence within the reports, specially that of Indian companies, to show how feedback is processed and considered and where feedback has influenced company actions or altered the reporting process.
- In some of the company reports, too much emphasis seems to have been placed upon the reporting process itself.
- The reporting process needs to be at the heart of how a company demonstrates its responsibilities as a citizen. This involves companies giving a full picture of their social and environmental footprints and not merely focusing upon seemingly self-selected and self-imposed targets and issues upon which progress has been developed (For example, evidence of "silence" in self selected items).
- If a company wishes to state that its report is prepared 'in accordance with' GRI guidelines it must address bribery and corruption issues in the report as in item SO2 under "social performance indicators."

### Recommendations for Indian Companies and their Key Stakeholders

The enabling environment for promoting transparent business transactions requires multifaceted approaches for all stakeholders. Such approaches include: regulation, voluntary codes and guidelines; awareness-raising campaigns; training and

internal controls, incentive schemes to ensure that CSR activity is monitored and reported throughout company operations. This report has tried to highlight some of the policies, practices and initiatives which Indian companies should adopt to ensure full disclosure regarding CSR activities and adequately address corruption for which India is internationally (in)famous. Specifically, as a result of this study, the following recommendations for the various stakeholders of Indian companies emerge:

#### For Companies

Balance business opportunity with societal impact for business success and present verifiable facts to this end.

- Companies should not merely follow the basic guidelines provided by the various standards; they should also start reporting on a voluntary basis.
- In order to facilitate stakeholders to carry on meaningful comparison, the company should specifically disclose their boundaries and assumptions underlying their CSR philosophy.
- Openness should be encouraged to facilitate healthy reporting.
- During the process of reporting, there should be a continuous assessment of progress as compared to the previous reports.
- Ensure that reporting does not become an end in itself by concentrating on more than just identifying key issues.
- Emphasis upon the process rather than just the outcome while reporting helps in disclosing all relevant facts in a clear and structured manner.
- Including stakeholders at various stages of reporting for their valuable inputs.
- Be bold enough to appropriately address the cancerous issue of Bribery and corruption in their reports. Businesses that seriously wish to contribute to the fight against corruption can turn for guidance to a growing number of initiatives in the field of

sustainability reporting to set high standards of corporate transparency.

- Companies in their efforts to adopt voluntary anti-bribery standards may want to win the support of a range of organisations: NGOs, bodies such as the Chambers of Commerce as well as inter-governmental bodies such as the World Bank, the United Nations etc., for global business.
- Companies must provide “help lines” and establish and report internal procedures by which employees can report or discuss ethical concerns anonymously (only a few Indian companies have formal processes in place for this).
- Make arrangements and publicize efforts to protect whistle blowers.
- Suggestions for Enhancing Reports’ Value:
  - Include goals and opportunities in the reports, preferably in quantitative and measurable terms.
  - Increase transparency in the reports by including frank discussions of their strengths and weaknesses rather than only including what sounds good.
  - Report appropriate context by including more than just anecdotal outcomes; they should explain how the example fits into the company’s overall strategies and processes.
  - Incorporate stakeholder involvement into the reporting process.

### For Customers

Customers and consumer should appreciate the benefits of CSR and provide wholehearted support to companies undertaking such initiatives.

- They should relentlessly fight for their rights against any hazards caused due to malfunctioning of products or inadequacy in contracted service purchased, and file complaints to the concerned authorities and provide healthy feedback relating to complaints and suggestions which in turn helps in CSR Reporting as it is one of GRI’s elements.

- They should advocate boycott of products of companies manufactured against guidelines specified by ILO to protect Human Rights, child labour, discrimination and against those involved in obvious corruption: such action must be reported in the CSR reports.

### For Employees

Employees should provide their sincere efforts to engage the company in CSR activities by suggesting its long-term benefits and importance to top management.

- They should also feel accountable to act as whistleblowers to report about incidents of bribery and corruption, cases regarding discrimination, non conducive work environment and threat of Human Rights etc. these need to be appropriately highlighted.

### For Governments (national and state-level)

- They should play the role of enablers more than that of regulators or controllers.
- Be more effective in implementing laws and regulations, and create an enabling environment for businesses to improve CSR performance and preferably, by making CSR reporting mandatory.
- Encourage CSR by giving substantial tax benefits on procurement of sustainable technologies.
- Create awareness of CSR and its reporting using print and electronic media.
- Provide incentives including awards and recognitions for achieving well defined CSR milestones based on verifiable reports.
- Bring different stakeholders on common platforms for sharing and understanding issues through National Forums / professional bodies etc. and encourage and sponsor CSR knowledge experts and provide channels for linkages with corporations for professional reporting.
- Watch out for the unfair treatment of companies in the international market, particularly in the WTO regime and provide and maintain a level playing field for Indian companies to compete internationally in the “flat world” scenario.

- Develop and encourage co-operation between businesses, governments and non-government organizations in CSR areas and reporting.
- With the lack of strict legislation or weak enforcement in India (as compared with the west), companies should be publicly recognised where they exceed legislated requirements

### For Society and Local Communities

The society should publicly encourage and acknowledge company's CSR Reporting practices and motivate and support them towards long-term sustainability.

- They should bring to the notice of concerned authorities any case regarding pollution, bribery, threat to ecology and natural habitats and demand disclosure in the errant company's CSR reports.
- They should appropriately react against agencies that provide resources in the form of land, labour, capital etc if they find companies undertaking activities against CSR principles or not accurately reporting about them.

### For the Media

The media can also play a vital role in the implementation of the above-suggested measures. It can bring to light, cases of corruption, bribery, and threat to environment, biodiversity and bring these companies to public notice. Better still, it can enhance the image of companies undertaking CSR and it's reporting, as this catches the immediate attention of stakeholders who will in turn support and promote the company's efforts.

### Concluding Remarks

In India, although CSR reporting is not mandatory, a small but sizeable number of both subsidiaries of multinationals and local companies in, for example, the steel, automotive and entertainment industries have made a promising and good beginning, and are publishing CSR reports mostly based on GRI or other standard guidelines. However, for most part, CSR activities of these companies seem to be focused on matter-of-fact community initiatives rather than on governance, risk and disclosure. Priorities could change with time. It is also observed that most Indian companies have followed one or another

international standard of their choice for CSR reporting, and are fairly well adhering to the respective stipulations – but not much more.

### Bibliography and References

- Accountability, "AA1000 Series: Introducing AA1000," [www.accountability.org](http://www.accountability.org).
- BSR Staff, April 2005, "Executive Summary on CSR Reporting," [www.BSR.com](http://www.BSR.com).
- Business for Social Responsibility, "Overview of Corporate Social Responsibility," [Better Management.com](http://Better Management.com), 2005.
- Corporate Board of Canada, "The National CSR Report -Managing Risks and Leveraging Opportunities," June 2004.
- "CSR News – Analysts at 17 Leading Socially Responsible Investment Firms Urge Corporate Reporting," Washington, D.C., October 6, 2004.
- "Ernst Ligtering and Simon Zadek, "GRI and Other CSR Tools," [www.Globalreporting.org](http://www.Globalreporting.org).
- "Ernst Ligtering and Simon Zadek," The Future of Corporate Responsibility Codes, Standards and Frameworks," [www.Globalreporting.org](http://www.Globalreporting.org).
- Glenn Cheney, July 2004, "The Corporate Conscience and the Triple Bottom Line."
- Global Reporting Initiatives, "Dialogue on Current and Future Directions: Some Key Issues and Perspectives for and from Our Stakeholders," 2003, [www.Globalreporting.org](http://www.Globalreporting.org).
- "Global Reporting Initiatives, "Global Reporting Initiatives & AA1000 Series," [www.Globalreporting.org](http://www.Globalreporting.org).
- Global Reporting Initiatives, "Global Reporting Initiatives & Global Sullivan Principles," [www.Globalreporting.org](http://www.Globalreporting.org).
- "Global Reporting Initiatives, "Global Reporting Initiatives & SA8000," [www.Globalreporting.org](http://www.Globalreporting.org).
- "Global Reporting Initiatives, "GRI and Other Initiatives, ISO 14000," [www.unglobalcompact.org](http://www.unglobalcompact.org).
- "GRI at a Glance," [www.Globalreporting.org](http://www.Globalreporting.org).

---

"GRI- Governance Overview," [www.Globalreporting.org](http://www.Globalreporting.org).

ILO, "What are International Labour Standards," [www.ilo.org](http://www.ilo.org).

"Its Not Just Enough to be," GRI's First Sustainability Report 2003-2004, [www.Globalreporting.org](http://www.Globalreporting.org).

Mcintosh, Malcolm, Thomas, Ruth, "International Standards for Corporate Responsibility."

"Sowing the Seeds of a Sustainable Future Corporate Social and Ethical Accounting, Auditing and Reporting," *The Environment Foundation*, March 1996.

Stuart Thomson, 2003 "CSR- Be ready for the challenge."

The CSR reporting Process - "Critical Success Factors," Sustainability Radar, March 2003.

United Nations Global Compact, "The Global Compact: Nine Principles," [www.unglobalcompact.org](http://www.unglobalcompact.org).

[www.Better Management.com](http://www.Better Management.com)

[www.Global Reporting.com](http://www.Global Reporting.com)

[www.schater consulting. Com](http://www.schater consulting. Com)

[www.social and ethical accounting.com](http://www.social and ethical accounting.com)





# Bancassurance: Indian Context

S.Anand and V.Murugaiah



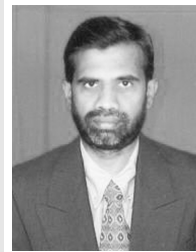
The Indian insurance industry is highly regulated and bancassurance as a concept is still in the evolution stage. India has a savings rate of 23 per cent of which savings with bank constitute more than 50 per cent of the domestic household savings. This presents an enviable opportunity for insurers to tap the potential of strong banking network. With the Indian banking customer getting more sophisticated in his financial needs and laying greater emphasis on convenience and a single provider for all financial products, the opportunities and challenges that the Indian market presents are immense. The key issues, critical success factors that contribute to a profitable partnership in Bancassurance and opportunities, growth prospects & future challenges in the journey of bancassurance business in the years to come unravel themselves.

Retail banks earn their income from the difference between the rate they charge on their lending and the interest they pay for deposits. Competition had thinned their profit margins. Mergers and acquisitions emerged as the driving force for banking success during the last two decades. There was little that the banks could offer their customers in terms of differentiated retail products. They were struggling to find ways to increase revenue. They had succeeded in stabilizing costs, but their revenue growth had collapsed. The challenge to the banks was to find ways and means to retain their customers, one by one. Banks had to identify what the customers needed, what they were worth and what it

could do better to increase this worth. One way to resolve this issue was to find a combination of products; all of them quite useful to the customers, price them suitably and embark on a mass distribution. This has led to the emergence of new concept called 'bancassurance' originally evolved in Europe. The creation of Bancassurance operations has a material impact on the financial services industry at large. It leads to the creation of 'one-stop shop' where a customer can apply for mortgages, pensions, savings and insurance products.



Dr.S.Anand, Asst.Professor (Finance), Goa Institute of Management, Ribandar, Goa - 403 006, Tel: 0832-2490320, Email: s.anand@gim.ac.in



Dr.V.Murugaiah, Chairman-Dept. of PG Studies in Business Administration, Kuvempu University, P.G.Centre, Davanagere, Karnataka, India, Tel: 9845403680, Email: dr\_murugaiah@rediffmail.com

## Concept

'Bancassurance' - a term coined by combining the two words bank and

insurance (in French) - connotes distribution of insurance products through banking channels. It is provision of insurance and banking products and services through a common distribution channel or to a common client base. It is also defined as "the ownership and channel integration of a bank and an insurance carrier, with the aim being to cross - sell insurance and investment products through the Bank's distribution network." 'Bancassurance' encompassing terms such as 'Allfinanz' (in German), 'Integrated Financial Services' and 'Assurebanking' describes a package of financial services that can fulfill both banking and insurance needs at the same time.

### Relevance of Bancassurance

In India, there are 75 branches per million inhabitants and banks have expertise on the financial needs, saving patterns and life stages of the customers they serve. Clearly, that's something insurance companies - both private and state-owned would find nearly impossible to achieve on their own. Banks also have much lower distribution costs than insurance companies and thus are emerging as the ideal distribution channel. Tying up with banks is the logical route for insurers to take for achieving extensive geographical spread and countrywide customer access at minimum cost.

Bancassurance model is highly relevant in the present context for the sustained growth and stability of financial service sector. This model leads to the integration of the financial service industry in terms of banking, securities business and insurance. The Universal Banking is evolving on these lines in India. Banks are the key pillars of India's financial system. Indian Banks have immense reach to households sector. Presently there are about 65000 branches of commercial banks in India and each branch serving an average of 16,000 people. Banks enjoy considerable goodwill and access in the rural regions. There are 32600 branches in rural India (about 50 per cent of total), 14400 semi-urban branches and 196 exclusive Regional Rural Banks in deep hinterland, where there is great potential for insurance growth. Moreover, banks have enormous retail customer base. The share of 'individuals' as a category in bank accounts is steadily increasing over the years. Rural and semi-urban bank accounts constitute close to 60 per cent in terms of number of accounts, indicating the number of potential lives that could be covered by insurance with the frontal involvement of banks. Banks world over have realized that offering value-added services such as insurance, helps to meet client expectations. Banks seek to

retain customer loyalty by offering them a vastly expanded and more sophisticated range of products.

Insurance distribution helps to increase the fee-based earnings of banks to a considerable extent, which in turn increases the earning potential of the bank to withstand the competition. Internationally, insurance activities contribute significantly to banks' total domestic retail revenues. Fee-based selling helps to enhance the levels of staff productivity in banks. This is vitally important to bring higher motivation levels in banks in India. The entry of banks in distribution helps to enlarge the insurance customer base rapidly. This helps to popularize insurance as an important financial protection product. Selling insurance to existing mass market banking customers is far less expensive than selling to a group of unknown customers. Experience in Europe has shown that bancassurance firms have a lower expense ratio. This benefit could go to the insured public by way of lower premiums.

### Key Motives

Historically, consolidation of financial services industry and the trend towards bancassurance has been derived by the following factors:

- For banks it is a means of
  - Product diversifying
  - Sourcing of additional fee income to earn risk free fee-based income
  - Boosting up the customer loyalty
  - Maximizing ROI
  - Increasing competitiveness
  - Reducing the expenses on administration and distribution channels
- Insurance companies see bancassurance as a tool for increasing their market penetration and premium turnover.
- Customer looks bancassurance as a bonanza in terms of reduced price, high quality product and delivery at doorsteps. In real sense, everybody is a winner here.

## Basic requirements

The basic requirement is an integrated approach towards bancassurance with the focus on strategy rather than issues. The following should be kept in mind while embarking on the path to bancassurance:

- Long term agreement (minimum 3-5 years) should be signed between the two parties
- Deciding factors for reaching an agreement should be the brand equity and service standards of the partner rather than price
- Total CRM should form the basis of relationship in order to achieve cross-selling
- Huge investment in IT systems, training, retraining, call center and product development will be required
- The objective should be the creation of the One-stop Shop with banks in the role of financial advisors to their clients

## Patterns of Distribution

The pattern of distribution alliance between bank and insurance for selling latter's products, can be any one of the following types:

- Banks selling products of their insurance subsidiary exclusively,
- Banks selling products of an insurance affiliate on an exclusive basis,
- Banks offering products of several insurance companies as 'super market'

## Business Models of Bancassurance

Various models have been developed based on the level of integration and the importance sought by the two players. The suitability of a particular model or otherwise in any given case has been found to be very much contingent on the nature and background of the entities and not amenable for replication by others. Group soundness and brand image of the partners, product range in terms of quality and diversity, concurrence of operational areas and client base served are some of the other aspects that need to be addressed adequately before deciding

upon the partners and the business model. The important prevailing bancassurance models in different countries are as given below:

- **Distribution Agreements:** The bank personnel sell the products of one insurer exclusively, either in stand-alone basis or bundle with bank products.
- **Strategic alliance:** This is a higher degree of intervention in product development, service provision and channel management by way of bank investing sizeably in insurance business without any contingent liability.
- **Joint venture:** A large bank with a well developed customer database partners with a large insurer with strong product and channel experience, to develop a powerful new distribution model.
- **Financial service group:** Under further integration between a bank and insurer, an insurance company may build or buy a bank or a bank may build or buy an insurance company. Thus banks could associate themselves with insurance companies by becoming a distributor or by being a strategic investor or developing a joint venture or by becoming a promoter.

## Benefits of Bancassurance

### • To Insurers

Insurers, both life and non-life, have much to gain from marketing through banks. Competition has driven down margins to extreme levels, especially in the non-life sector, and the insurers have found it difficult to grow using the usual channels of distribution, both direct marketing and through the intermediary. On the life side, agents sell fewer policies, that too targeting the up-scale market. The bulk of the middle class consumers are largely ignored. An alliance with a bank will assist the insurers to spread their marketing net far and wide. This would reduce their acquisition cost considerably, increase margins on core business, give access to a warm customer base and a trusted brand and create an opportunity for cross selling. In total, bancassurance is beneficial to the insurer on following counts:

- It is alternate channel with significant revenue opportunity

- It provides relief against high cost channels
- It ensures segmented target markets
- It provides scope for product innovation
- There is possibility of cost savings by 21.2 per cent, revenue gain by 4.4 per cent (of smaller partner's revenue base) and to realize these benefits the average time required is about 3 years (Source: JP Morgan & Monitor Group)
- It also leads to reduction in investments for distribution channels and marketing

### To Banks

Banks have an excellent database of their customers. Customers trust their bankers. The Banks know the financial health of every one of their customers. They can come up with a detailed profile and would be in a position to identify their financial needs – housing, education, marriage, pension etc. Bancassurance would help them to package products tailored to suit their needs. This could help them to generate an income that is risk free. It will increase their return on assets. It will reduce their operating costs. It will also prepare them to eventually enter the insurance business. Banks enjoy following additional benefits due to bancassurance:

- It offers additional products to customers meeting their life stage needs and increasing product density
- It increases customer retention and loyalty, since insurance products are sticky and annuity based
- It helps to generate significant revenues upfronted, in certain products. As the portfolios of business increase, the revenues snowball, year after year; becoming a significant proportion of revenue for each business line:
- It leverages investments in branches, phone banking, operations and systems for generating additional revenues
- It also helps to bring in a sales culture in the organization
- It is purely fee based activity and hence there is no lock up of assets or capital

### Global Scenario

As happened in France, Italy, Germany and Canada - banks were allowed first only to distribute the insurance products for a fee. This itself amounted to substantial income for banks since they were not carrying the risks and product development was also left to insurance companies. This seems fair since each player should contribute towards something in which he excels; banks in mass distribution and insurance companies in risk management. After stabilization, the roles may be expanded in opposite directions.

European bancassurers have decades of experience in managing insurance subsidiaries. Some of them - Lloyds TSB in the UK, Credit Agricole in France and Spain's Banco Bilbao Vizcaya - are delivering outstanding results. These banks have profitably sold insurance products to more than 25 per cent of their customers while generating more than 20 per cent on sales. Credit Agricole, the second largest life insurer in France, with \$11 billion of premium in force, employs only 170 people in its insurance subsidiary. It is able to limit overhead by harnessing the bank's existing resources and capabilities.

Despite the phenomenal success of Bancassurance in Europe, property and casualty products have not made many inroads. In Spain, Belgium, Germany and France where more than 50 per cent of all new life premium is generated by Bancassurance, only about six per cent property and casualty business comes from banks in Spain, five per cent in Belgium, four per cent in France and Italy.

Today, Europe leads the world in bancassurance. In US, hardly 20 per cent of all banks were selling insurance in 1998 against almost 70 to 90 per cent in many W. European countries. Market penetration of Bancassurance in new life businesses in Europe ranges between 30 per cent in U.K. to nearly 70 per cent in France and Spain. In France, almost 100 per cent banks are selling insurance products. The largest independent insurance company in France, the CNP has developed its product distribution through post offices. The merger of Winterthur, the largest Swiss insurance company with Credit Suisse and Citibank with Travellers Group has resulted in some of the largest financial conglomerates in the world. In Asia, Singapore, Taiwan and Hong Kong have surged ahead in bancassurance, with India and China taking tentative steps towards it. In the Middle East, only Saudi Arabia has made some attempts, which failed to take off.

## Market Potential

The Indian Insurance market accounts only for 0.59 per cent of \$2, 627 billion global insurance market. According to Swiss-Re report, life insurance premium is expected to increase from \$188 billion in 2003 to \$450 billion by 2014 and non-life premium would increase from \$123 billion to \$250 billion over the same period. In fact the same study has ranked India and China as the fastest growing markets for insurance business.

Since the six years that the sector has opened, it has witnessed a series of development. Consumer awareness has improved. Competition has brought more products and better customer servicing. It has had a positive impact on the economy as well in terms of income generation and employment growth.

Banks have an important role to play in the pension sector when deregulated. Low cost of collecting pension contributions is the key element in the success of developing the pension sector. Money transfer costs in Indian banking is low by international standards. Portability of pension accounts is a vital requirement, which banks can fulfill, in a credible framework.

Banks can play a major role in developing a viable healthcare programme in India. Only 2.5 million people have access to healthcare facilities. There is a growing demand for healthcare products, which banks can distribute and facilitate administration.

In 2001, bancassurance contributed to one per cent of non-life premiums and two per cent of life premium in India. By 2006, bancassurance is expected to contribute six per cent of non-life premiums and 13 per cent in life. There is a huge market potential out there in many countries and especially in India when compared to the global benchmark. It is good news to bancassurers that only about 25 per cent of the global insurable population is insured, and even among them most are underinsured.

## Regulatory issues

RBI has prescribed entry guidelines under the following three options for banks wanting to diversify in to insurance:

- Joint ventures for insurance business with risk participation is allowed for banks which have (i) Networth not less than Rs.500 crores, (ii) CRAR of not

less than ten per cent (iii) Reasonable level of NPA, (iv) Satisfactory performance records of subsidiaries (v) should have net profit for the last three continuous years.

- Bank which are not eligible for Joint Venture participation as above can make investments up ten per cent of the net worth of the bank or Rs.50 crores whichever is less in insurance company for providing infrastructure and service support without any contingent liability, provided they fulfill the requirement of CRAR, NPA and Net Profit as per item numbers (ii), (iii) and (iv) in the previous para.
- Any commercial bank may undertake insurance business on fee basis, as an agent of insurance companies, with no risk participation.

The guidelines issued by RBI on bank participation in insurance ventures are quite comprehensive and make a great deal of sense. There are basically three options available to banks to enter the insurance sector, namely, as a promoter, as a strategic investor and as a corporate agent for selling insurance policies.

It may be added here that the RBI has also come out with detailed guidelines for diversification into the insurance area in the case of non-banking finance companies (NBFCs). All NBFCs registered with RBI that satisfy the eligibility criteria will be permitted to set up a joint venture company for undertaking insurance business with risk participation. NBFCs like Sundaram Finance, Kotak Mahindra Finance and HDFC have become promoters of insurance ventures. Further, any NBFC registered with RBI having net owned funds of Rs.2 crores would be permitted to undertake insurance business as agents of insurance companies on fee basis, without any risk participation.

The development of bancassurance in India has been slowed down by certain regulatory barriers, which have only recently been cleared with the passage of the Insurance (Amendment) Act, 2002. Prior to this, all the directors of a company wishing to take up corporate agency (such as a bank) were technically required to undertake 100 hours of agency training and pass an examination. This was clearly an impractical requirement and had held up the implementation of bancassurance in the country. As the current legislation places the training and examination requirements upon a designated person ('the corporate

insurance executive') within the corporate agency, this barrier has effectively been removed.

IRDA has also notified regulations, inter alia, on licensing of insurance agents, agents' training etc. A bank can act as a Corporate Agent of any one life and or non-life insurer; but can act as a broker on behalf of many life non-life insurers. Thus banks undertake bancassurance will also subject to IRDA regulations.

Other regulatory changes of note in this area are the recently published Insurance Regulatory and Development Authority (IRDA) regulations relating to the licensing of corporate agents. This specifies the institutions that can become corporate agents and sets out the training and examination requirements for the individuals who will be selling on behalf of the corporate agent, the so-called 'specified persons'. 'Specified persons' have to satisfy the same training and examination requirements as insurance agents. A noticeable exception is that for those possessing the Certified Associate ship of Indian Institute of Bankers (CAIIB) only 50 hours of training (rather than 100 hours) will be required. This also applies to certified accountants and actuaries. It is hoped that this aspect of the regulations will lead to well educated, professional bank officers carrying out the financial advisory process.

The IRDA may allow banks on a case-by-case basis for bancassurance tie-ups with multiple insurance companies. The current rule stipulates that a bank can only go into such arrangement with only one insurance company from each of the life and non-life sector.

### Major Challenges

Aspects such as the most suited model for a given country with its economic, social and cultural ramifications interacting on each other, legislative hurdles, and the mindset of persons involved in this activity, have dominated the study and literature on bancassurance. The most critical factor for the failure is poor implementation. Other common problems are poor manpower management, lack of a sales culture within the bank, lack of interest by the branch management, poor product promotions, failure to integrate marketing plans, improper database expertise, poor sales channel linkages, inadequate incentives, resistance to change and negative attitudes toward insurance.

Though banks have the converge and reach across a wide geographical area, they however at times might not have the experience in several areas critical to successful bancassurance strategies. These include: developing life products, selling through face-to-face 'push' channels, underwriting and managing long term investments while providing advantage in managing low-cost distribution channel, providing local and regional recognition and reputation. These skill differences suggest several forms of partnership between banks and insurance companies.

### Critical Success Factors

Bancassurance succeeds where strategies are consistent with the bank's vision, awareness of target customers' needs, defined sales process for introducing insurance services, simple yet complete product offerings, strong service delivery mechanism, quality administration, synchronized planning across all business lines and subsidiaries, integration of insurance with bank products and services, extensive and focused training, sales management tracking system for reporting on agents' time and results of bank referrals and relevant and flexible database systems.

The following are also crucial operational aspects, which will play critical role in the success of bancassurance model in reality.

- Creating an environment of top-level involvement of bank management,
- Bringing relevance, motivation and skill development at the operating level at bank branches,
- Resolving possible conflicts of interest between the bank and the insurer,
- Setting up distribution procedures consistent with the manual systems in most banks,
- Establishing credible service level agreements between the bank and the insurer.

However, there are a few critical success factors that contribute to a long-standing and profitable partnership in bancassurance:

- It is essential that for both parties to understand that bancassurance is long-term alliance requiring significant upfront investments before returns are realised.

- Partners need to have a common business vision and direction towards future objectives.
- There should not be wide disparity in the core values of partners that may lead to a conflict of interest in the course of business.
- Partners must carefully select a sales model suited to the existing organisational structure and culture of the bank and insurer.
- In bancassurance venture, quality customer service is even more important because the bank refers its customers to the insurer and the bank's relationship with the customer can be damaged by poor service from the insurer.

Clearly, as has been the experience globally, only those partnerships that are built on a long-term commitment of partnering companies aimed at creating value for customer will succeed.

### Future Prospects

In a country of one billion people, the sky is the limit for insurance and bank products – particularly for the life insurance products. The Indian middle-income market segment is the second largest in the world after China. The insurance companies worldwide are eyeing the situation.

As per the survey conducted by Federation of Indian Chamber and Commerce of Industry, India has a population of 1054 million out of which only 77.7 million Indians have a life insurance policy. Almost 300 million people in the country can afford to buy life insurance but of this only 20 per cent have an insurance cover. Hence there is huge chunk of population yet to be tapped. The industry has lot of potential and needs to be competitive and market-driven.

During 2001-02, the total life insurance premium collection in India rose about Rs.50000 crores. If the industry is to grow at a rate of 20 per cent per annum, the life insurance market in India will be around Rs.171500 crores in ten years time. Even if banks can manage to get 25 per cent of the market, they will account for sales worth Rs.43000 crores in premium. If average commission is ten per cent of total premium, banks can earn

about Rs.4300 crores per year. Similarly they can earn another Rs.1000 crores as commission from non-life business. The annually renewable non-life market is above Rs.10000 crores in premium per year. This magnitude of potential fee based income by banks in India from bancassurance business is the attraction for banks to be preferred vendors of insurance products, in spite of possible challenges relating to choice of insurance business, cultural issues, compensation structure and capacity building. Entry of banks in distribution of insurance is certainly a step forward towards better competition and making insurance a market driven industry.

In a survey conducted by Limra in 2001, the results showed a remarkable shift in the mode of distribution from the present level. While company sales force will be the most popular mode of distribution, its market share is expected to decrease from the current 40 per cent to 28 per cent by 2010. It is also found in the survey that the market share of bancassurance is expected to increase from current 31 per cent to 33 per cent for the same period.

### Indian Potential: A SWOT Analysis

The evolution of bancassurance as a concept and its practical implementation in various parts of the world, have thrown up a number of opportunities and challenges. It is therefore essential to have a SWOT analysis done in the context of Bancassurance experiment in India.

#### Strengths

- Growing population beyond one billion creates vast potential for insurance products.
  - More than 900 Million lives waiting to be given a life cover,
  - About 200 Million households waiting to be approached for a householder's insurance policy,
  - Millions of people travelling in India can be tapped for Overseas Mediciam and Travel Insurance policies,
  - Middle market segment is the second largest in the world after China.

- Vast pool of skilled professionals both in Banks and Insurance companies who may be easily relocated for any Bancassurance venture.
- Large number of bank branches reaching even the remote areas
- Favourable regulatory environment
- Favourable economic, political and social conditions

### Weaknesses

- Weak customer database and IT infrastructure (like LAN, WAN, VAN, Internet connectivity) support
- The middle class population is overburdened by inflation and tax net.
- Lack of in-built flexibility of the products to attract the customers
- Restrictions on foreign share ownership limits the choice of bancassurance

### Opportunities

- Overall growth of the insurance industry
- Presence of Banks with good distribution facilities and technology
- Enormous Banks' database of customers
- Opening up of regulatory environment
- Foreign insurance entering the Indian market keen to use bank branches as their main distribution
- General insurance mostly commercial – personal lines viable with bancassurance
- Banks feeling the squeeze of spreads and capital adequacy

### Threats

- Classical way of working style of present workforce may lead to a threat of resistance to any change that Bancassurance may set in.
- Non-response from the target customers.

- The investors in the capital may turn their face off in case the rate of return on capital falls short of the existing rate of return on capital. Since banks and insurance companies have major portion of their income coming from the investments,
- Return from Bancassurance may not match with returns generated out of banking or investment activities of Bank.
- Competition in the market may result in lower prices and the Bancassurance venture may never break-even.
- Some of the current bancassurance deals may fall through when operational obstacle begin to emerge

### Conclusion

Banks, insurance companies and traditional asset management companies are converging to form a one stop financial services shop where a customer can obtain a loan, pension product and insurance at the same time. This convergence calls for complete integration of their distribution channels in accordance with an established model, whereby companies can substantially cut costs, enhance productivity and ensure that all stakeholders, shareholders, customers and staff are satisfied. Such an integrated distribution calls for the customer to be placed at the heart of the distribution network. Call centres and the agencies can no longer operate as separate channels. Rather a synergy is realized through realignment of roles and responsibilities and the creation of a new sales integrated sales process, maximizing lead generation activity.

The euphoria amongst bankers to enter into the insurance business stems from the notion that today it looks highly profitable. Faced with the twin facts of declining profitability, increasing risk and the need for bank managements to diversify into more profitable lines of business, insurance appears to be a potential avenue. Bancassurance could bring about a revolution in the way insurance is bought and sold in India. With a combined network of 65,000 bank branches accessing more than 300 million retail-banking customers, insurance services can be made available at affordable prices to people even in remote corners wherever a bank branch exists.

In India, the signs of initial success are already there despite the fact that it is a completely new phenomenon. The factors and



principles of why it is a success elsewhere exist in India, and there is no doubt that banks are set to become a significant distributor of insurance related products and services in the years to come.

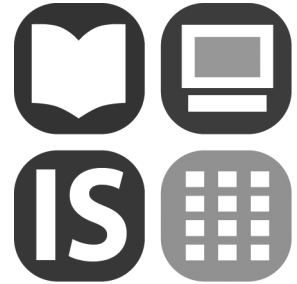
## Reference

- Abhijit Roy, "Bancassurance: The new buzzword – I," *The Hindu*, December 21, 2000.
- Abhishek Agrawal, "Insurance distribution in India – Brokers: Get, set, go," *Chartered Financial Analyst* – November 2002.
- "Asian Panorama," *Asia Insurance Post* July 2003.
- B.Panda, 'Bancassurance,' 'IMAGE,' *Issue 1 -A newsletter* by Indian Bank, July, 2002.
- C.S. Rao, Chairman, IRDA, "Emergence of Bancassurance In India," *address at the Banking Technology Excellence Awards (2003-2004) & Launch of National Financial Switch*, at IDRBT on 27th August 2004.
- <http://www.icfaipress.org/Books/Bancassurance>.
- Manoj Kumar, "Bancassurance: A SWOT Analysis," [www.einsuranceprofessional.com](http://www.einsuranceprofessional.com).
- R. Vipin Chandra, "Bancassurance" <http://www.worldinsurancebazaar.com>.
- R.Krishnamurthy, Managing Director & CEO, SBI Life Insurance Co. Ltd., *FICCI Seminar*, New Delhi, October 15, 2001.
- Stuart Purdy, "Financial twins," *Asia Insurance Post* July 2003.



# Expectations and Perceptions in Information Services

Ajay Kumar Pillai



This study examines and discusses the user's expectations and perceptions of service quality in university libraries and then evaluates the service quality of the University of Surrey library which is in UK using the LibQUAL+™ model. LibQUAL+™ is a research and development project undertaken by the Association of Research Libraries (ARL) in collaboration with Texas University and with financial support from the US Department of Education's fund. The findings of this study show that users' expectations and perceptions of the three dimensions (affect of service, information control and library as place) of the library service quality differ from each other. The results further indicate that the users are satisfied with the service provided by the library. However, there are some areas where there are gaps between user expectations and perceptions.

The university library has often been described as the heart of the learning community, providing a place for students and faculty to do their research and advance their knowledge (Simmonds and Andaleeb, 2001). An analysis of service quality is important as the expectations of university library users rise, as the number and diversity of library competitors grow, and as change, related to and independent of the electronic information environment, continues to have profound impact on service delivery and use (Heron et al., 1999).

The value of a library traditionally has been measured in terms of size indicators (Herman and Altman, 1998).

Size of collections, budget, expenditures and staff, for example, were the input measures to describe the effect and potential of

the library to be positioned to meet user needs. However, these input measures do not assess how well user needs are met. "A measure of library quality based solely on collections has become obsolete" (Nitecki, 1996, p 181). The impact of the library must in some way be measured in terms of user's interaction with the library's resources and its services.

A critical judge of the impact is the user (Franklin and Nitecki, 1999). The importance of the user as judge of quality assessment has been



Mr. Ajay Kumar Pillai, Lecturer, School of Communication and Management Studies, SCMS Campus, Prathap Nagar, Muttom, Aluva-683 106, Kerala, Tel: 0484-2623885/9846627046, Email: ckrishjay@gmail.com

advocated by Nitecki (1997) to gain insight into quality and to assess how well needs are met by the service. The primary focus of a library is service and a number of information science researchers (Kettinger and Lee, 1994) contend that library service quality is an important variable that affects success.

Changing views of what libraries are and how they are used by researchers have led to an increasing focus on measuring users perceptions of library service (Cook et al., 2003). This study attempts to assess customer's needs and expectations by conducting customer surveys, which consists of questionnaires, using the LibQUAL+™ model, designed to probe customer attitudes about library services.

## Literature Review

The topic of library service quality has recently been one of the most researched in the library and information field and a common and consistent theme emerging from early writings and subsequent research is that customer assessments of this construct stem from a mental comparison of their service expectations, that is, what they believe a service provider should offer, with their perceptions of the delivered service (Quinn 1997; Parasuraman, 2002). Research also suggests that customers do not perceive service quality in a unidimensional way, but rather judge quality based on multiple factors relevant to the context (Bitner and Zeithaml, 2003).

Research within library and information sciences has focused on gap reduction but has tended to use instruments not specifically tailored to library issues and concerns (Calvert and Hernon, 1997). However, recent studies of service quality in library and information sciences, using the SERVQUAL instrument or variants of it like LibQUAL+™, have focused on GAP five, the discrepancy between customers' expectations and their perception of service delivery (Calvert, 2001).

Nitecki (1996) acknowledges that the concept of quality has not been well defined in the library literature and Hernon and Altman (1998) point out that libraries have traditionally evaluated quality in terms of efficiency, but have neglected the perspective of the library user.

Quality, in library and information services, has been recognized as a multi-faceted concept, one that can be approached from different perspectives (Hernon, 2002). Two critical dimensions

are content and context. Content refers to obtaining what prompted the visit – particulars materials or information, study space, or an acceptable substitute. Context covers the experience itself, interactions with the staff, ease or difficulty in navigating the system, and the comfort of the physical environment (Hernon and Altman, 1988). Users who come into the library as well as those who visit through an electronic highway experience both the content and context of the service.

From these interactions users form opinions and attitudes about the library. This helps the libraries to gain insights into customer's conceptualization of what a service should deliver and how well that service meets idealized expectations (Nitecki and Hernon, 2000). The concept of library service quality has been defined in different ways, including the strength of a library's collection and physical resources and more recently, how well a library meets its customers' expectations through the services it provides.

## So, what constitutes superior library service quality?

(Parasuraman, 2002)

Library service quality focuses directly on users and places libraries within a framework similar to the one which business use. In context of library setting, service quality refers to the product (information content), service environment and service delivery. Poor service cannot be recalled, repaired or replaced because there is no tangible product, only an experience that the customer can recall (Barnard, 1993). Providing excellent service is the only way for libraries to flourish in the rapidly changing information environment (Nitecki, 1996).

In analysing their results on library service quality, Edwards and Browne (1995), conclude that library users focus on more specific elements of service quality. In their analysis of the two groups of library users' response to the questionnaire, one group appeared to place importance on reliability while the other group gave importance to assurance. A series of projects carried out by Calvert and Cullen investigated the same issues in university libraries.

As in previous studies, the perception of various groups of library users, were surveyed concerning the indicators which each group believed was important when judging the effectiveness of an university library (Cullen, 2001). Perceptions and expectations are closely linked but while the latter are

formed before the service is delivered, the former are created during that delivery process (Brophy and Coulling, 1996). Expectations are the reference points customers have coming in to a service experience; perceptions reflect the services as actually received (Bitner and Zeithaml, 2003).

Maister (1985) contended that both customer perception and expectation about a service operation play a role in determining customer satisfaction. Calvert (2001) pointed out that academic library users have similar expectations of service supported by comparative analysis of the survey data in the USA, New Zealand, Singapore and China. Since the university libraries offer largely similar services, there is a strong possibility that users value the same dimensions in forming the expectations and in measuring the service quality. The users of university libraries, however, in contrast to users of private service industries, tend to have no options, or if they do, those options are limited (Nagata et al., 2004).

### **So, What is the User's Expectation of a Library?**

(Rowley, 1997)

Each user has a different expectation and a major initial distinction lies in the mode of access. Users may:

- visit a library in person
- make a telephone call
- access a library database or service over a network.

An important facet of all these access experiences is that the person-to-person contact may form a relatively minor component of customer experience (Rowley, 1997). Thus a user comes to the library for many purposes with many differing expectations (Van House et al, 1990). Customers form expectations that lead to anticipations and predictions about the service quality and so influence the evaluation of the service when it is received (Kangis and Passa, 1997).

In a project that examined the relationship between customer perceptions and expectations of a library, British researchers concluded that user's experience has emerged as the most important factor impacting on the way they form expectations and perceptions of the service (Calvert, 2001).

A survey of Chinese university library students's expectations of service quality was compared to a similar survey done previously

in New Zealand. Marked similarities in results show that there is perhaps a global set of customer expectations that can be used to measure university library service quality.

Three dimensions that concern staff attitudes, the library environment and services that help the customers to find and use the library's materials efficiently are found in both studies (Calvert, 2001). In their research on service quality in university libraries (in this case the Yale University's Library), Nitecki and Herson (2000) report that based on analysis of the data relating to GAP 5, the library did not surpass reader expectations on any service attribute, but it did come close to meeting most expectations. The authors, therefore, conclude that Yale libraries are meeting but not exceeding customer expectations. Attributes associated with reliability emerge as the one most rated by users in this study (Cullen, 2001).

Simmonds and Andaleeb (2001) explored the relationship between expectations and perceptions of library users and found that resources and familiarity with the library were significant dimensions. The findings of Hiller (2001) and Cook and Heath (2001) also showed that one's familiarity with the library had the greatest impact on library use, followed by resources, tangibles and gender. Dole's research in Washburn University's library showed that users rank the library as Place and caring library staff as important issues (Dole, 2002). On the other hand, the results of Miami Libraries showed that users cared most about the dimension of personal control (Sessions et al., 2002).

Lilley and Usherwood's study of relationship between user perceptions and expectations of public library services in UK identified evidence of a snapshot that a user forms during the service experience. Their study revealed that users' experience has emerged as the most important factor impacting on the way that they form expectations and perceptions of the service.

This is further developed by Phipps (2001) who argues that assessment should focus on understanding the library users' need. More recent research carried out by Nagata et al (2004) suggest that only developing an informed perspective of the users' personal expectations and perceptions can appropriate services be provided. Since the actual delivery of information as a service outcome is as important as the service process in libraries, attributes inherent to libraries should be incorporated into the survey (Nagata et al., 2004). Only by knowing the user can libraries ensure their services are competitive and can make a difference in learning and research.

## LibQUAL+™

*“LibQUAL+™ is a way of listening to the users” (LibQUAL+™ 2004 Survey Results)*

The LibQUAL+™ survey instrument is a statistical management tool adapted from an instrument called SERVQUAL, which is grounded in the Gap Theory of Service Quality developed by the marketing research team of Parasuraman et al (1988). LibQUAL+™ has been documented in various locations and has been used to generate many and varied analyses (Cook, 2002; Blixrud, 2002;).

In looking for meaningful measures the results include the radar charts, a behavioural indicator (frequency and type of library use) and gap scores (Hitchingham and Kenney, 2002). In addition to providing the libraries with meaningful measures, LibQUAL+™ addresses behavioural issues concerning frequency of use, access of library resources through a library web page and use of non-library gateways for information and then also interprets data by placing perceived service quality ratings within the zone of tolerance defined as the distances between minimally-acceptable and desired service quality levels (Cook et al., 2003).

However, the idea that LibQUAL+™ provides a valid measure of service quality is based on two questionable assumptions: that library users have the necessary expertise to make accurate assessments of quality, and that perception serve as valid indicators of objective conditions (Walters, 2003). Surveys such as LibQUAL+™ are valuable for identifying key areas of strength and weakness in service programs but what such survey instruments cannot do is provide insight into the many facets of the service experience that colours the users' perceptions (Crowley and Gilreath, 2002).

Using the dimensions of SERVQUAL as a starting point, the concept of library service quality or LibQUAL+™, can be explored from the library user's perspective. However, the dimensions of SERVQUAL do not adequately apply to libraries and the type of services rendered. Thus the dimensions of service quality for libraries had to be recast (Cook and Thompson, 2000; Herson and Dugan, 2002).

Building on the SERVQUAL model, the original researchers found through their assessments in 1995, 1997 and 1999, that there were three library service dimensions isolated by SERVQUAL:

- Tangibles, which is appearance of physical facilities, equipment, personnel and communications material
- Reliability, which is ability to perform the promised service dependably and accurately
- Affect of library service, which combines the more subjective aspects of library service, such as responsiveness, assurance and empathy (Cook 2002).

The SERVQUAL instrument, regrounded and evaluated within the research library community finally emerged as the LibQUAL+ protocol. Researchers have reported their findings of an overarching construct of library service quality as well as the three dimensions that define the construct: affect of service, information control and library as place (Thompson and Cook, 2003). The 22 LibQUAL+™ core quantitative items measure perceptions of total service quality, as well as three sub-dimensions of perceived service quality:

*Affect of Service* (9 items, such as willingness to help users)

*Information Control* (8 items, such as a library web site enabling me to locate information on my own and electronic journal collections I require for my work)

*Library as Place* (5 items, such as a getaway for study, learning or research).

Figure 1 displays the three dimensions of library service quality. As explained earlier, each dimension is measured by a number of items, which together forms the main component of the survey consisting of 22 questions. The composite survey allows the library to observe not only how users perceive them, but also what their expectations are and how well or poorly the library is meeting these expectations.

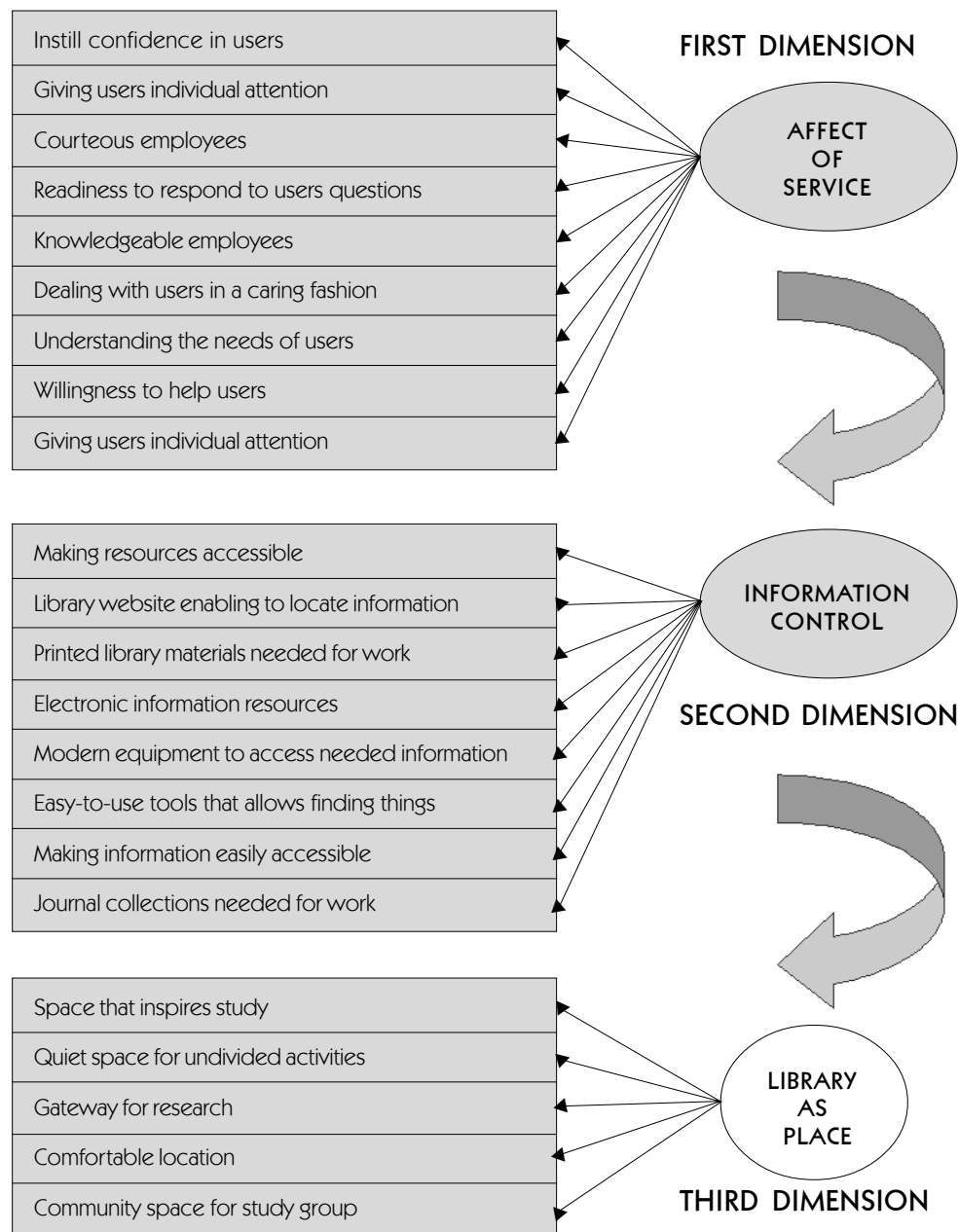


Figure 1 Dimensions of Library Service Quality (Source: Cook et al., 2001: 265)

The first dimension, affect of service, included the four questions intended by the SERVQUAL designers, but also included one question relating to convenient business hours which fell in the empathy dimension. Empathy is a critical element in the customer transactions. Libraries must convey a strong sense of understanding the user's situation (Quinn, 1997).

The increasing role of technology and the internet in particular, in service delivery in libraries (Parasuraman, 2004) makes the second dimension important. It covers interaction with the modern library (ease of navigation, convenience and help services) and delivery of the required information (format, content and time).

Library as place is reflective of a concept transcending the SERVQUAL tangibles dimension. The concept of library as place assesses the ability to meet community requirements for utilitarian space for study (Cook and Thompson, 2001).

**Methodology**

Service quality is frequently measured by the use of gap analysis, which identifies the gap between customer expectations and the actual service provided (Hernon and Calvert, 1996). Typically, for libraries this requires use of a data collection instrument composed of statements representing the broad range of items pertinent to service quality in libraries (Calvert and Hernon, 1997). The study reported here did the same for the University of Surrey library by using LibQUAL+™.

The general background and antecedents of the LibQUAL+™ program have been widely reported. Secondary data was gathered from the various sources including the original researchers.

Stratified Random sample was used to collect the primary data. In this method, the population is divided into two or more relevant and significant strata based on one or more attribute (Saunders et al., 2003). The samples in this study are the four groups of users of University of Surrey Library at the University campus.

Based on the sample size, it was decided to sample 150 library users and to ensure that each user was adequately represented; a random sample was stratified by site type.

**Table - 1**

Selected Sample Groups	Site
Students (Graduates and Undergraduates)	Austin Pearce Building, School of Management and Unis Library
Faculty	School of Management
Library Staff	University of Surrey Library.

**Table 1 Stratified Sampling (Source: Field Study, 2004)**

The survey was conducted separately at three sites in University of Surrey: the library itself, Austin Pearce Building which is frequented by students, and the School of Management. The targeted population was divided into three strata according to the site. Then a random sample was obtained within each stratum.

The proportion of units included in the sample for this study was 150. Once the data was collected, the researcher tested the two hypotheses by using dependent t-Test and evaluated the service quality using LibQUAL+™. This instrument measures gaps between minimum, perceived and desired levels of service for a range of library issues.

This research is interested in identifying the differences in expectations and perceptions of service quality of university library users because based on a number of studies in the library and information sciences (Edwards and Browne 1995; Hernon

and Nitecki 2001; Cullen 2001; Nagata et al 2004) understanding customer’s service expectations and perceptions is a key to delivering quality service in libraries. There are many reasons why users might perceive a service quality gap. This led to the first hypotheses:

**H<sub>01</sub>** *There is no difference between user expectations and perceptions of service quality in university libraries.*

**H<sub>11</sub>** *There is difference between user expectations and perceptions of service quality in university libraries.*

Using the dimensions of SERVQUAL as a starting point, the literature explored the three dimensions of library service quality. Since the dimensions of SERVQUAL could not be applied to libraries they were recast as Affect of Service, Information Control and Library as Place (Cook and Thompson 2000; Nitecki and Hernon, 2000; Calvert 2001; Cook 2002; Hernon and Dugan

2002). The second research question investigates the difference of user expectations and perceptions of library service quality when segmented by these three specific dimensions. This led to the second hypotheses:

**H<sub>02</sub>** *There is no difference between user expectations and perceptions of service quality in university libraries when segmented by three dimensions.*

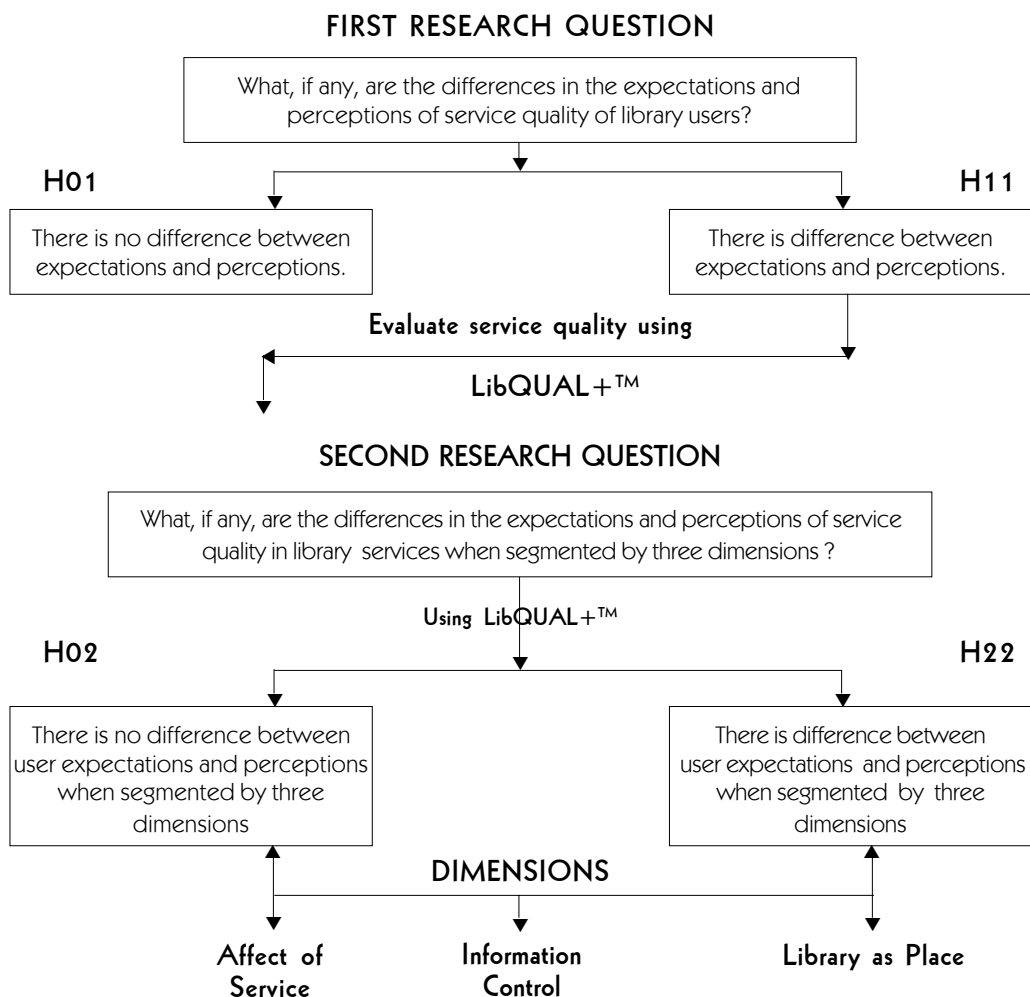
**H<sub>12</sub>** *There is difference between user expectations and perceptions of service quality in university libraries when segmented by three dimensions.*

Once the hypotheses were tested the next step was to evaluate the service quality of the University of Surrey library using

LibQUAL+™. The figure (see Figure 2) shows the flow diagram of the development of the research question. The research first intends to investigate whether there are some differences between the expectations and perceptions of library users.

Figure 2 shows the flow diagram of the development of the research question. The research first intends to investigate whether there are some differences between the expectations and perceptions of library users. The null and alternate hypotheses are displayed below the research question. The second research question attempts to find out if there are differences in user expectations and perceptions when service quality is segmented by the three dimensions. The service quality of the University of Surrey library is then evaluated using LibQUAL+™.

**Figure 2 Development of the Research Question**





## Analysis and Discussion

This section will present and analyse the results derived from this survey. Tools for analysis included use of SPSS 11.5 for Windows and Microsoft Excel 2002 for data and charts. In looking for meaningful measures the following were examined:

- Descriptive statistics for minimum, desired and perceived service levels;
- Gap scores (service adequacy and service superiority gaps)
- A behavioural indicator (frequency and type of library use);
- The radar graphs;
- Zone of tolerance All users

## Findings of Demographic Characteristics

While recognizing that some respondents are averse to completing surveys that request demographic information, LibQUAL+™ along with the American Psychological Association requires that basic sex and age demographics be assimilated in order to ensure that studies are truly comprehensive and address empirical concerns such as representation of response bias. As in most survey instruments, demographic information was collected to provide further differentiation of data. This information included gender, age, nationality and rank. Rank referred to one of the four sub-categories: graduate, faculty, undergraduate and staff.

**Table - 2**

	Background Information	Frequency	Percent	Cumulative Percent
Gender	Female	66	44	44
	Male	84	57	100
	<b>Total</b>	<b>150</b>	<b>100</b>	
Age	Below 24	20	13	13
	Between 25-35	87	58	71
	Between 36-45	37	24	95
	Above 47	06	05	100
	<b>Total</b>	<b>150</b>	<b>100</b>	
Nationality	British	29	20	20
	Europeans	14	9	29
	Asian-Chinese	57	38	67
	Asian Others	39	26	93
	Others	11	07	100
	<b>Total</b>	<b>150</b>	<b>100</b>	
Rank	Postgraduates	116	79	79
	Faculty	6	4	81
	Library Staff	14	09	90
	Undergraduates	13	08	100
	<b>Total</b>	<b>150</b>	<b>100</b>	

**2: Findings of Demographic characteristics (Source: Field Study, 2004)**

As can be seen from Table 2, there was a fairly equal balance between males and females. Over half of the respondents were between 25-35 years of age and the majority of respondents were postgraduates.

**The Respondents**

The sample of respondents was chosen from the users of University of Surrey library services. They can be divided into four main segments—graduates, faculty, undergraduates and library staff. The data were collected from respondents from all

four groups who were both regular visitors of the library and were available during the period of data collection. The return rate for University of Surrey is noted in Table 3.

Table 3 shows that of the 725 people randomly selected, 150 completed the survey, for a response rate of 20.6 per cent. 109 questionnaires were directly handed out to users while 41 questionnaires were sent by e-mail. Postgraduates (response rate 23.4 per cent) responded at a greater rate than undergraduates (14.4 per cent) and the response from faculty was the lowest.

**Table - 3**  
**University of Surrey Respondents**

	Randomly Selected		Received		Response Rate
	Direct	By Email	Direct	Email	%
Postgraduates	375	125	87	30	23.4
Faculty	45	25	2	4	8.5
Library Staff	55	10	12	2	21.5
Undergraduates	75	15	8	5	14.4
<b>Total</b>	<b>550</b>	<b>175</b>	<b>109</b>	<b>41</b>	<b>20.6</b>

**Table 3 : Return rates** (Source : Field Study, 2004)

**Hypotheses Testing**

**First Hypothesis**

In order to test whether there is a significant difference between the expectations and perceptions dependent T-test was used. Both the means of minimum and desired expectations were used to compare with the means of

perceptions to establish whether the null or alternate hypothesis holds good.

Table 4 indicates that there is a statistically significant difference between user’s minimum and desired expectations and perceptions of service quality in university libraries, with a 2-tailed significance of .000, which is less than .05 (.000 < .05).

**Table - 4**  
**Paired Samples Test**

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Minimum Expectation - Perception	.62	1.888	.154	.92	.32	4.021	149	.000

**Table A: Paired Sample Test Result 1** (Source: Field work, 2004)

**Paired Samples Test**

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Minimum Expectation - Perception	1.48	1.82	.149	1.19	1.77	9.94	149	.000

**Table B: Paired Sample Test Result 2 (Source: Field work, 2004)**

The result fails to accept the null hypothesis of no difference between user expectations and perceptions of service quality in university libraries. Based on the above findings, the null hypotheses are rejected and the alternate hypotheses are accepted. Thus, there is a difference between user expectations and perceptions of service quality in university libraries.

**Second Hypothesis**

In order to test whether there is a significant difference between the minimum and desired expectations and perceptions when segmented by the three dimensions dependent T-test was used.

**Table 5**

**Paired Samples Test 1 (Difference Between Users' Minimum Expectations & Perceptions)**

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	<b>Affect of Service:</b> Minimum Expectation - Perception	.62	1.888	.154	.92	.32	4.021	149	.000
Pair 2	<b>Information Control :</b> Minimum Expectation - Perception	.33	1.641	.134	.60	.07	2.488	149	.000
Pair 3	<b>Library as Place :</b> Minimum Expectation - Perception	.27	2.161	.176	.62	.08	1.549	149	.000

### Paired Samples Test 2 (Difference Between Users' Desired Expectations & Perceptions)

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	<b>Affect of Service:</b> Desired Expectation - Perception	1.48	1.823	.149	1.19	1.77	9.94	149	.000
Pair 2	<b>Information Control :</b> Desired Expectation - Perception	1.44	2.051	.167	1.11	1.77	8.59	149	.000
Pair 3	<b>Library as Place :</b> Desired Expectation - Perception	1.63	2.093	.171	1.30	1.97	9.55	149	.000

**Table 5: Paired Sample Test for the Difference Between Users' Minimum and Desired Expectations and Perceptions of Service Quality when Segmented by Three Dimensions**

Table 5 shows that there is a statistically significant difference between user's minimum and perceptions of service quality when segmented by three dimensions, with a 2-tailed significance of .000, which is less than .05 ( $.000 < .05$ ). The result fails to accept the null hypothesis of no difference between user expectations and perceptions of service quality when segmented by the three dimensions: Affect of Service, Information Control and Library as Place.

The hypotheses tests have clearly demonstrated that there is a significant difference between users' expectations and perceptions of service quality in university libraries. This difference was also observed when the service quality was segmented by the three dimensions: Affect of service, Information control and Library as place. The null hypotheses are rejected for both hypotheses since there are significant differences.

#### LibQUAL+™ Results

As explained in the literature review, the results can be used to generate many and varied analyses. For the results to be

meaningful, it is essential that the results must include gap scores, radar charts, a behavioural indicator and a zone of tolerance for all users. The three service measures, minimum, desired and perceived performance in this study represents the attempt to obtain qualitative data in a quantitative framework. In addition to these three values, measures of service adequacy and service superiority will also be obtained. This concept is described as an indicator of the extent to which the library is meeting its users' minimum expectations (Cook, 2002).

#### Gap Scores

In order to derive the gaps, for measuring perceptions of service quality, respondents are asked to establish their judgements across three scales for each question, the desired level of service they would like to receive, the minimum they are willing to accept, and the actual level of service they perceive to have been rendered.

#### Service Adequacy

The service adequacy gap score is calculated by subtracting the

minimum score from the perceived score on any given question, for each user. Both means and standard deviation are provided for service adequacy gap scores on each item of the survey, as well as for each of the three dimensions of library quality service. In general, service adequacy is an indicator of the extent to which the library is meeting the minimum expectations of its users (www.libqual.org, 2004)

$$\text{Service Adequacy GAP} = P_s (\text{Perceived Service}) - M_e \text{'s} (\text{Minimum Service})$$

**Service Superiority**

The service superiority gap score is calculated by subtracting the desired score from the perceived score on any given

question, for each user. Both means and standard deviation are provided for service superiority gap scores on each item of the survey, as well as for each of the three dimensions of library quality service. In general, service superiority is an indicator of the extent to which the library is exceeding the desired expectations of its users (www.libqual.org, 2004).

$$\text{Service Superiority GAP} = D_e \text{'s} (\text{Desired Service}) - P_s (\text{Perceived Service})$$

The Adequacy Gap is cited more frequently by most libraries participating in the LibQUAL+™ survey than the Superiority Gap. The Superiority Gap is almost always negative since it measures the difference between the perceived and desired or ideal expected service.

**Table - 6**

Dimension	Minimum	Desired	Perceived	Service Adequacy (SA) Gap
Affect of Service	6.41	7.52	6.46	0.57
Information Control	5.96	7.77	6.26	0.30
Library as Place	5.70	7.57	6.09	0.39
Overall	5.90	7.63	6.51	0.41

**Table 6: GAP Scores**

Table 6 displays the gap differences for each of the questions for the three dimensions of library service quality. Users in all categories indicated that the library was meeting or exceeding expectations on questions relating to affect of service and information control. On a scale of 1-9, users rated their minimum level of service in all three categories at 5.90 and their desired service level at 7.63. Their perceived rating of actual performance for the three dimensions was 6.51. Thus, performance exceeded expectations by .041.

The first of the categories, *Affect of Service*, refers to the library's interactive relationship and those areas where users interact directly with the library staff. The minimum expectation was 6.41 and the desired rating was 7.52 with a perceived performance of 6.98. The *Information Control* category showed a minimum expectation of 5.96 with a perceived performance of 6.26. For

the *Library as Place* category, the survey did not provide a favourable result when compared to the other two categories. The perceived performance was 6.09 and the minimum expectation was 5.70. The desired rating was 7.57.

**A Behavioural Frequency (frequency and type of library use)**

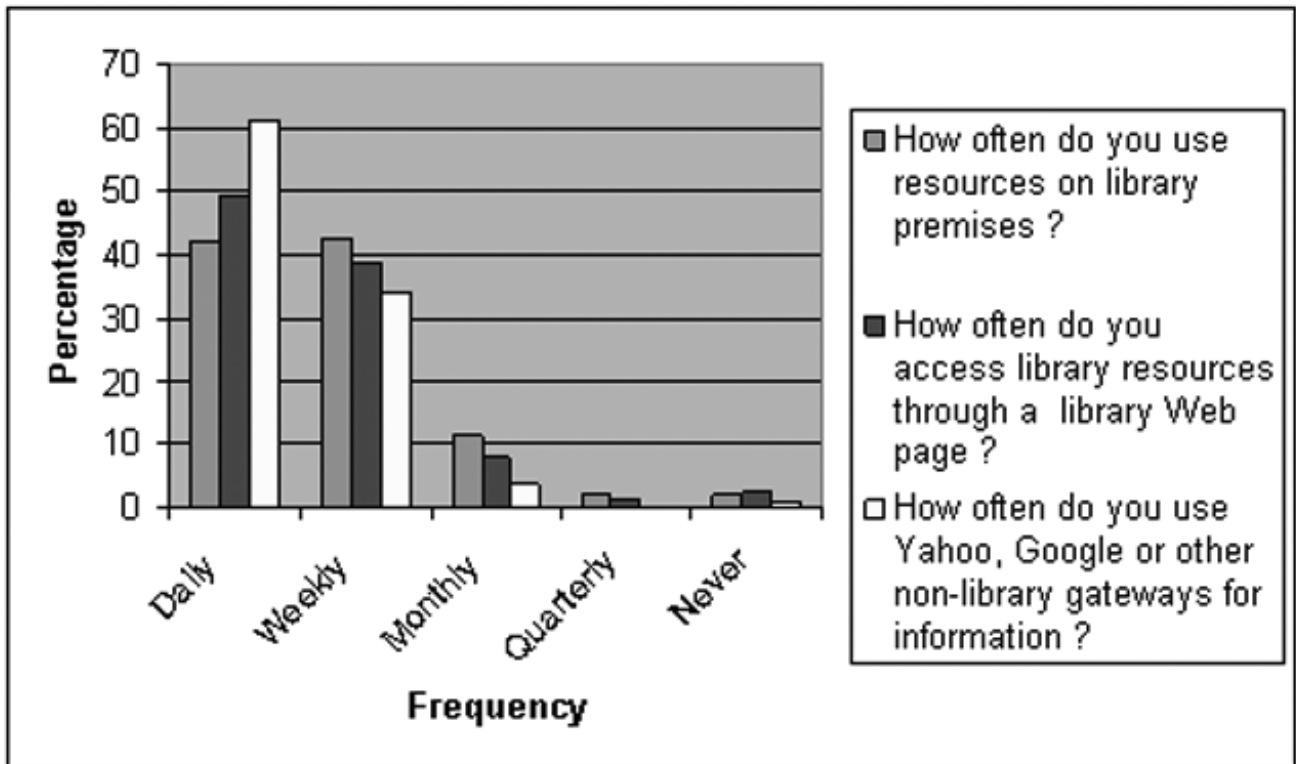
The behavioural frequency chart shows a graphic representation of library use (both on the premises and electronically) as well as use of non-library information gateways such as Yahoo™ and Google™. Bars represent the frequency with which respondents report using these resources: Daily, Weekly, Monthly, Quarterly and Never. The table displayed after the chart shows the number and percentage of respondents who selected the option.

Table - 7

	Daily	Weekly	Monthly	Quarterly	Never	n/%
How often do you use resources on library premises ?	63 42.0%	64 42.7%	17 11.3%	3 2.0%	3 2.0%	150 100%
How often do you access library resources through a library web page ?	74 49.3%	58 38.7%	12 8%	2 1.3%	4 2.7%	150 100%
How often do you use yahoo, Google or non-library gateways for information	92 61.3%	51 34.0%	6 4.0%	0 0%	1 1.7%	150 100%

Table 7 Frequency of Library Use

Figure 3 Frequency of Library Use



An analysis of the results shows that:

- While the weekly and daily rate were high, 17 per cent visited monthly, three per cent quarterly and three per cent never visited the library.
- Almost 50 per cent did access the library resources through a library web page daily, 38 per cent weekly, eight per cent monthly, two per cent quarterly and the number for quarterly was just two (around one per cent).
- 61 per cent used non-library gateways like yahoo or google for information daily, 34 per cent used it weekly and 4 per cent monthly.

The most overwhelming point to come out of these results is that users use non-library gateways like Yahoo and Google more frequently than any other library resource. As reflected in other studies, with the proliferation of the world wide web and the ease at which individuals can access and use the tools available on the internet, users especially students will always exhaust non-gateways search engines for initial research and seeking for information before going to library resources.

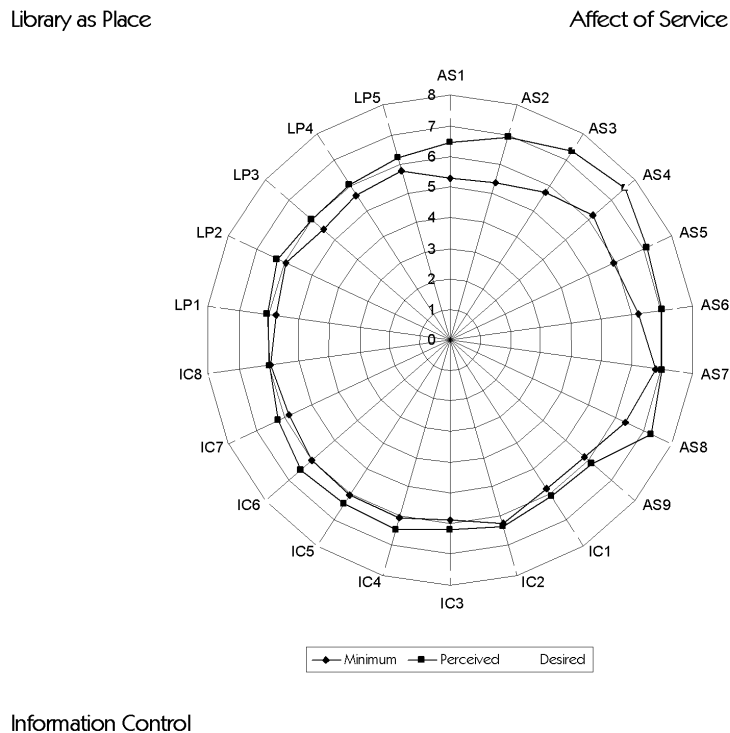
The one exception to this is if the individual has been specifically directed to a library resource, as the case would be for an assignment made by a professor to his or her students. This has also been the personal experience of the researcher.

### Radar Charts: Analysis of Results

Radar charts provide a quick summary of the scores for the minimum, perceived and desired values for all the 22 scale questions in this study. Sometimes called spider charts or polar charts, radar charts feature multiple axes or spokes along which data can be plotted (www.libqual.org, 2004). Variations in the data are shown by distance from the center of the chart. Lines connect the data points for each series, forming a spiral around the center.

In this study, each axis represents a different survey question. Questions are identified by a code at the end of each axis. The three dimensions measured by the survey are grouped together on the radar charts, and each dimension is labelled: Affect of Service (AS), Information Control (IC) and Library as Place (LP).

Figure 4 The Radar Charts



As evidenced in Figure 4, the radar chart presented in, with the predominance of blue and yellow (when viewed in colour), users feel that the library is meeting their expectations of service as put forth in the survey statements.

**Zone of Tolerance for All Users**

On the chart below, the zone of tolerance is displayed for all users. First the score of each dimension of library quality

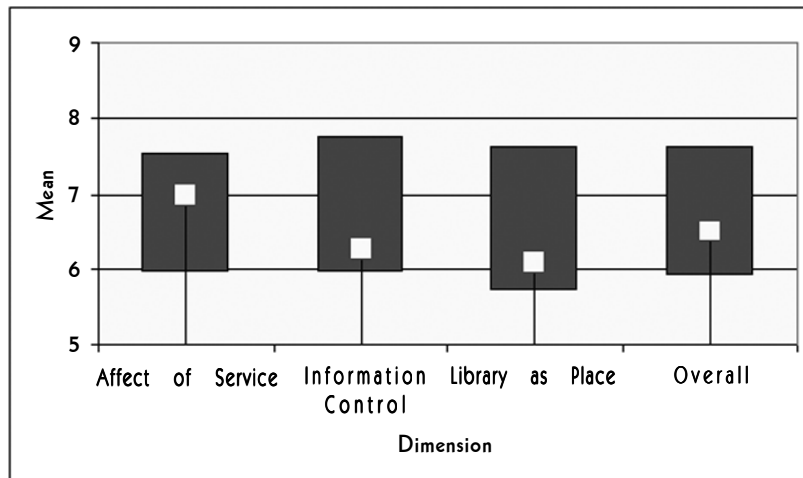
service are plotted graphically. The next step is to chart the zone of tolerance. The exterior bars represent the range of minimum to desired mean scores for each dimension. The interior bars represent the range of minimum to perceived mean scores (the service adequacy gap) for each dimension of library quality service. The desired scores and the minimum scores establish the boundaries of a zone of tolerance within which the perceived scores should desirably float.

**Table 8**

Dimension	Affect of Service	Information Control	Library as Place	Overall
Perceived	6.98	6.26	6.09	6.51
Desired	7.54	7.77	7.63	7.63
Minimum	5.96	5.96	5.7	5.9

**Table 8 Zone of Tolerance Chart**

**Figure 5 Zone of Tolerance Chart**



In the zone of tolerance chart, the bar represents the zone of tolerance for its dimensions. The top of the bar represents the mean score for the Desired. The bottom of the bar represents the mean score for Minimum. The square inside represents the mean for Perceived. As shown in the diagram (Figure 7), the perceived levels are within all the zones, with the perceived level for the information level closest to minimum. Information Control also has the highest desired level (the top of the zone)

of any of the dimensions, implying, as stated previously, it is the most important in the minds of the respondents. And though Affect of Service has its perceived level furthest from the minimum, it also has the lowest average desired level.

In summary many of the results reported here are to be expected, and confirm that the LibQUAL+™ protocol is performing in an expected manner. The results clearly indicate that the users are



satisfied with the service provided by the library. However there are some areas where there are gaps between user expectations and satisfaction. There is notable consistency of response among categories of students and there are statements where there are favourable gap score.

However, the results also indicate that students have concern about materials being in their proper place, the accuracy of the catalogue, breadth of the collection, turnaround times for recalls and inter-loans and the good order of photocopiers.

## Conclusion

This study has attempted to explore library service quality within the context of university libraries. The approach that was taken in this survey is one, which has been followed in other university libraries, both in UK and overseas. This approach centered respondents' perceptions and expectations around three dimensions – Affect of Service, Information Control and Library as Place. The three service measures (minimum, desired and perceived) used in this study represented the attempt to obtain qualitative data in a quantitative framework. In addition to these three values, measures of service adequacy and service superiority were also obtained.

In conclusion, the findings reflect the continued emphasis the University of Surrey library users place on the value of library services. This study advocated the importance of the user as the judge of service quality in university libraries. Through the use of LibQUAL+™ and a comparison of expectations to the service quality actually provided this study reported satisfactory quality expectations and perceptions ratings.

Research should be continued to find ways to better understand service quality in information and library services. There must be attempts to develop and explore new approaches like LibQUAL+™. Further research must be undertaken in other countries like India to explore the benefits of combining LibQUAL+™ with other methodology to provide even greater potential for evaluation of library services.

## References

- Barnard, S.B., "Implementing total quality management: a model for research libraries," *Journal of Library Administration*, 18 (1/2), 65-66, 1993.
- Bitner, M. and Zeithaml, V., "Services Marketing," 3 ed, New York, McGraw-Hill, 2003.
- Brophy, P. and Coulling, K., "Quality Management for Information and Library Managers," Aldershot, Gower, 1996.
- Calvert P. and Herson, P., "Surveying Service Quality within University Libraries," *The Journal of Academic Librarianship*, 408-415, 1997.
- Calvert, P.J., "International Variations in Measuring Customer Expectations," *Library Trends*, 49 (4), 732-57, 2001.
- Cook, C., "The Maturation of Assessment in Academic Libraries: The Role of LibQUAL+™ Performance Measurement and Metrics, 3 (2), 40-42, 2002.
- Cook, C. and Heath, F., "Users' Perceptions of Library Service Quality: A LibQUAL+ Qualitative Study," *Library Trends*, 49(4), 548-84, 2001.
- Cook, C. and Thompson, B., "Psychometric Properties of Scores from the Web-Based LibQUAL+ Study of Perceptions of Library Service Quality," *Library Trends*, 49 (4), 585-604, 2001.
- Cook, C., Heath F. and Thompson B., "Zones of Tolerance in Perceptions of Library Service Quality: A LibQUAL+(TM) Study," *Portal: Libraries and the Academy*, 3 (1), 113-23, 2003.
- Crowley, G.H. and Gilreath, C.L., "Probing User Perceptions of Service Quality: Using Focus Groups to Enhance Quantitative Surveys," *Performance Measurement and Metrics*, 3 (2), 78-84, 2002.
- Cullen, R., "Perspectives on User Satisfaction Surveys," *Library Trends*, 49 (4), 662-86, 2001.
- Dole, W.A., "LibQUAL+(TM) and the Small Academic Library," *Performance Measurement and Metrics*, 3 (2), 85-95, 2002.
- Edwards, S., and Browne, M., "Quality in Information Services: Do Users and Librarians differ in Their Expectations," *Library and Information Science Research*, 17, 163-182, 1995.

- Hernon, P. and Altman, E., "Assessing Service Quality: Satisfying the Expectations of Library Customers," *American Library Association*, Chicago, 1998.
- Hernon, P. and Calvert, P.J., "Methods for Measuring Service Quality in University Libraries in New Zealand," *The Journal of Academic Librarianship*, 22 (4), 387-391, 1996.
- Henon, P. Nitecki, D.A. and Altman, E., "Service Quality and Customer Satisfaction: An Assessment and Future Directions," *The Journal of Academic Librarianship*, 25 (1), 9-17, 1999.
- Hernon P., "Quality: New Directions in the Research," *The Journal of Academic Librarianship*, 28 (4), 224-231, 2002.
- Hernon, P. and Dugan, D.E., "An action Plan for Outcomes Assessment in your Library," Chicago, ALA, 2002.
- Hiller, S., "Assessing User Needs, Satisfaction and Library Performance at the University of Washington," *Library Trends*, 49 (4), 605-25, 2001.
- Hitchingham, E.E. and Kenny, D., "Extracting meaningful measures of user satisfaction from LibQUAL+™ for the University Libraries at Virginia Tech," *Performance Measurement and Metrics*, 3 (2), 48-58, 2002.
- Kangis, P. and Passa, V., "Awareness of Service Charges and its Influence on Customer Expectations and Perceptions of Quality in Banking," *The Journal of Services Marketing*, 11(2), 105-117, 1997.
- Kettinger, W.J., and Lee, C.C., "Perceived service quality and user satisfaction with the information services function," *Decision Sciences*, 25 (5), 737-766, 1997.
- Lilley, E. and Usherwood, B., "Wanting it all: the relationship between expectations and the public's perceptions of public library services," *Library Management*, 21(1), 13-24, 2000.
- Maister, D., "The Service Encounter," *Lexington, Lexington Books*, 1985.
- Nagata, H. Satoh, Y. Gerrard, S. and Kytomaki, P., "The dimensions that construct the evaluation of service quality in academic libraries," *Performance Measurement and Metrics*, 3 (2), 53-65, 2004.
- Nitecki, D.A., "Changing the Concept and Measure of Service Quality in Academic Libraries," *Journal of Academic Librarianship*, 22 (3), 1996.
- Nitecki, D.A., "SERVQUAL: Measuring Service Quality in Academic Libraries," *Association of Research Libraries*, 1997.
- Nitecki, D.A. and Hernon, P., "Measuring Service Quality at Yale's University Libraries," *The Journal of Academic Librarianship*, 26 (4), 259-273, 2000.
- Parasuraman, A., Zeithaml, V.A. and Berry, L.L., "SERVQUAL: A Multiple-Item Scale for Measuring Customer Perceptions of Service Quality," *Journal of Retailing*, 12-40, 1988.
- Parasuraman, A., "Forward – Performance Measurement and Metrics," *Performance Measurement and Metrics*, 3 (2), 37-39, 2002.
- Parasuraman, A., "Assessing and improving service performance for maximum impact: insights from a two-decade-long research journey," *Performance Measurement and Metrics*, 5 (2), 45-52, 2004.
- Phipps, S., (2001), "Beyond Measuring Service Quality: Learning from the Voices of the Customers, the Staff, the Processes, and the Organization," *Library Trends*, 49 (4), 635-61.
- Quinn, B., "Adapting Service Quality Concepts to Academic Libraries," *The Journal of Academic Librarianship*, 23 (5), 359-369, 1997.
- Rowley, J., "Customer Experience of Libraries," *Library Review*, 43 (6), 7-17, 1997.
- Sessions, J.A., Schenk, A., and Shrimplin, A.K., "LibQUAL+(TM) at Miami University: A Look from Outside ARL," *Performance Measurement and Metrics*, 3 (2), 59-68, 2002.
- Simmonds, L.P., and Andaleeb, S.S., "Usage of Academic Library: The Role of Service Quality, Resources and User Characteristics," *Library Trends*, 49 (4), 626-34, 2001.

---

Saunders, M., Lewis, P., and Thornhill, A., "Research Methods for Business Studies," 3ed, Prentice Hall, Essex, 2003.

Thomson, B., Cook, C., and Heath, F., "Two Short Forms of the LibQUAL+(TM) Survey: Assessing Users' Perceptions of Library Service Quality," *Library Quarterly*, 73 (4), 453-64, 2003.

Van House, N., "Measuring academic library performance: a practical approach, Chicago," ALA, 1990.

Walters, W.H., "Expertise and evidence in the assessment of

library service quality," *Performance Measurement and Metrics*, 4 (3), 98-102, 2003.

### Conference Papers

Blixrud, J., "Evaluating Library Service Quality: Use of LibQUAL+(TM)," *23<sup>rd</sup> Annual IATUL Meeting*, Kansas City, 2002.

Calvert, P., "International Variations in Measuring Customer Expectations," *ARL Measuring Service Quality Symposium*, Washington D.C., 2000.



# Leasing Aircraft- Indian Aviation Market

Nalini Prava Tripathy



With so many new airlines starting up, the global aircraft leasing business is booming in India. Fourteen international aircraft lessors have their presence in India. Many others are scouting for the opportunities. Though some of the world's biggest names have not yet arrived but due to boom in aviation sector the lease market is incredibly tight. According to Mr. Villupillai David, Regional Manager, Airbus, the experience has shown that understanding Indian market has generated more demand for new air carriers. It is being estimated by 2023 that there will be a market for 570 aircrafts in India worth over \$55 billion and even this may have to be revised upwards.

Historically the aviation industry has followed a thumb rule – airline traffic grows as twice as nominal rate of GDP. Last year India proved this adage right, with the market growth skyrocketing at 25 per cent. According to the Center for Asia Pacific Aviation, a healthy 20-25 per cent growth rate is forecasted for the next three years. In Paris Air Show Kingfisher, Jet Airways announced significant orders and yet to be launched indigo. Many established operators also announced aggressive fleet expansion plans. All private airlines in India have gone through lease facilities. This helps new airlines because a lease can be treated as expenditure, where as most of the time purchasing a plane is done on credit

and therefore is treated as debt. So with a leased plane, a new airline has something to fly and is free its debt for other expenditure.

Lease Rentals have increased by about 20 per cent globally in the last one year. Airlines have very little bargaining power when it comes to leases, and prices are usually similar across the board. With very little to distinguish between the offerings, relationships between leasing companies and airlines are absolutely crucial. It will take lot of due diligence on both sides for a leasing agreement to go through. At the first stage, lessors take a long hard look at the airlines start up capital, business plan and management. In the absence of credit ratings for airlines in India they conduct their own credit evaluations prior to leasing aircraft. After this, delicate negotiations are conducted covering the technical, financial and insurance aspects of business.

Indian airlines take planes on “dry lease” which only includes the aircraft. A “wet lease” covering both aircraft and crew, is not popular due to expense involved. For airlines, in addition to the rental costs, they have to pay for insurance and maintenance. As part of the lease terms, the leasing company specifies the minimum value at which the aircraft must be insured. Maintenance reserves for the aircraft



Dr. Nalini Prava Tripathy, Associate Professor (Finance), Indian Institute of Management Indore, Pigdamber, Rau, Indore - 453 331, Madhya Pradesh, India, Tel: + 91-731-4228400, E-mail: nalini@iimidr.ac.in / nalini\_prava@yahoo.co.in

**Table – 1**  
**Number of Leased Planes in India**

Sl.No.	Leased Company	No. of Aircraft
1	Aviation Lease and Finance Company	4
2	Aviation Capital Group	6
3	Awas	4
4	Bavaria International Aircraft Leasing	2
5	CIT Aerospace	4
6	Debis Air Finance	12
7	GATX Air	2
8	GECAS	10
9	ILFC	3
10	ORIX	5
11	RBS Aviation Capital	2
12	Singapore Aircraft Leasing	5
13	TOMBO Aviation The Netherlands	2
14	Volito Aviation	2

Source: Business World, October 24, 2005

**Table – 2**  
**Aircraft Purchase Orders Announced**

Sl.No.	Airline	No. of Places	Value \$ Billion
1	INDIGO	100	6
2	AIR INDIA	50	8
3	INDIAN AIRLINES	43	2.2
4	JET WIRWAYS	30	2.5
5	SPICEJET	20	1.2
6	AIR DECCAN	75	3
7	KINGFISHER	20	1.2
8	PARAMOUNT	10	0.3

are also collected unlike other parts of the world where there are several instances of non-serious players entering the low cost bandwagon. All start-ups in India are backed by large business houses with serious business plans. This certainly distinguishes the Indian market from others and makes us more comfortable for doing business.

Privately, some banks and leasing companies admit that it is difficult to get a good deal out of more established Asian carriers like Singapore Airlines or Cathay Pacific as they drive a much harder bargain due to their better global standing and stronger credit ratings. This could explain their eagerness to do business in India. By all counts, not all prospects in the economy are positive, there is also the problem of the newly reinstated tax on leasing. The exemption for withholding tax has been withdrawn since October 1, 2005. This promises to alter the economics of the leasing game and make life a lot tougher for future entrants.

There is lot of uncertainty as to the final impact of fully implemented tax. Some players think that leasing planes from countries that have entered into double taxation avoidance treaty with India is beneficial. Ireland being a favourite – could significantly reduce tax impact. In some ways this might actually have a stabilising effect on the sector and make newer entrants think twice before talking on large leased fleets. The slow legal system also continues to be a worry. This amortizes maintenance costs and makes it easier for companies to remarket aircraft in the event of default.

In many ways purchasing a carrier marks maturing of an industry – a logical progression from leasing to owning the asset. Just as the leasing business, aircraft manufacturers also do some tough due diligence. In addition to the parameters mentioned above they, also look at the airlines ability to raise future capital. If there is a slump in the industry, will they be able to ride it out and still make payments on time? For the airlines the price is obviously critical. Negotiations between manufacturers and airlines are a collaborative process. Discounts are given on the basis of order size, future prospects of the airline and the prospects of aviation industry in operating country. One per cent of the aircraft costs have to be paid upfront. Export credit agencies like EXIM bank and European Credit Agencies (ECA) will give credit

guarantees for a maximum of 85 per cent of the purchase price. Commercial loans are also available but are often more expensive.

Once a loan is secured, the plane is taken under a “hire-purchaser” lease, which allows the aircraft to be owned through a special purpose vehicle incorporated in jurisdiction where the repossession laws are favourable to the lender. At the end of the tenure, the airline owns the asset and final payment is made in a lump sum. In the long run (over 12 year cycle) owning an aircraft can become a liability on the airline balance sheet. This is where a plane on lease is an advantage, because leasing companies are generally amenable to renegotiating lease rentals. A mix of owning and leasing the fleet is how most airlines prefer to hedge their risks. Out of fleet of 51 aircrafts, Jet Airways has 27 on the operating lease and rest on hire-purchase lease.

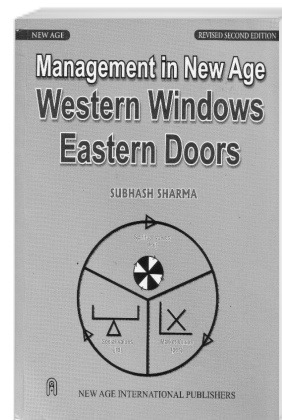
Another option for purchasing is sale and lease back. This is done when an airline buys a plane. Before that plane is paid off, be it less than one year or even six years down, the airlines sells it to a leasing company, who then makes all the remaining payments. The leasing company leases back to the airline immediately and become the eventual owner. According to the Singapore Airlines spokesperson when there is a sale of an aircraft at the end of its life with Singapore airlines the market value could be lower than the value mentioned in the book. Airline in India have a big boost in both leasing and purchasing, because most have adequate surplus of capital available with them.

### Questions

01. Should Airlines in India go for purchase or lease of aircraft?
02. Should India allow the foreign players or to stick to domestic players?
03. What are the suggestions for the government for the leasing companies/airlines in next decade?



# Skimming and Scanning



<b>Book Title</b>	:	<b>Management in New Age: Western Windows Eastern Doors</b>
<b>Author</b>	:	<b>Dr.Subhash Sharma</b>
<b>Edition</b>	:	<b>Revised Second Edition 2006</b>
<b>First Edition</b>	:	<b>1996</b>
<b>ISBN</b>	:	<b>81 - 224 - 1789 - 2</b>
<b>Price</b>	:	<b>Rs.120/-</b>
<b>Pages</b>	:	<b>228</b>
<b>Publisher</b>	:	<b>New Age International (P) Ltd., New Delhi</b>

This book is a revised edition of Dr.Sharma's book of the same title, published in 1996. Dr.Sharma in his book provides a new approach to the modern management thinking by aligning it with the Indian and Oriental thoughts and value systems. According to him, the modern management thinking is based on a utilitarian view, where efficiency, competition and hedonism are all that matters with the individual's aim being self-actualization and the state's role being one of promoting secular but materialistic values resulting in materialism, erosion of values and even promoting animal instincts in the society. In contrast to this, the author suggests an alternative thought system, which he terms as 'Ecotarian World View' where quality, non-violence and sacrifice (tyag) will lead the path, and individual's aim will be one of self-realization and the state will assume the role of promoting humanistic and ecotarian values with the result that the society will be driven more by humanism and values. The author suggests the **WEPT (Wealth, Ethics, Pleasure and Transcendental Dimensions)** model, which helps in dividing the society into four types (Spiritually and Economically underdeveloped, Ashram, Mal-developed and Ideal). Spiritually and Economically underdeveloped societies will have both concern for economic gain and ethical (Transcendental) dimension low. Ashram type will have concern for economic gain low but high ethical dimension; the Mal-developed will be high on concern for economic dimension

but low on ethical dimension. The Ideal-type will have both concern for economic gain and the ethical dimension high.

Dr.Sharma talks about a holistic approach to development and management (the 4E Model) covering Efficiency, Equity, Ethics and Ecology, which according to him is nothing but the balancing of *Dharma, Artha, Kama & Moksha*. He goes on to look at various aspects of management from this broad framework. In the end he suggests that a synthesis of Western and Eastern management thoughts is the need of the hour, cited as reasons for choosing the title of the book.

**About the author** Dr.Subhash Sharma is a graduate of IIM Ahmedabad, and holds a PhD from University of Southern California, Los Angeles. He was the founder Director of Indian Institute of Plantation Management, Bangalore, a position that he held till recently. He is also associated with Women's Institute for Studies in Development Oriented Management (WISDOM) in Rajasthan. Other books written by him are: *Quantum Rope: Science, Mysticism & Management* and *Arrow of Time: From the Blackholes To The Nirvana Point*.

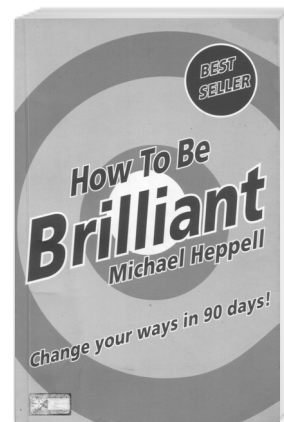
**Prof.Satheesh Kumar T.N.**

Finance and General Management, SCMS, Kochi

Email: [satheeshkumar@scmsgroup.org](mailto:satheeshkumar@scmsgroup.org)



# Skimming and Scanning



<b>Title</b>	:	<b><i>How to be Brilliant?</i></b> <b><i>Change your ways in 90 days</i></b>
<b>Author</b>	:	<b>Michael Heppell</b>
<b>ISBN</b>	:	<b>81-297-0696-2</b>
<b>Price</b>	:	<b>Rs. 150/-</b>
<b>Pages</b>	:	<b>141</b>
<b>Publisher</b>	:	<b>Pearson Education Ltd., New Delhi.</b>

The Book does one great service after one has read it fully and with dedication – it helps to find brilliance in everything, it facilitates us to realize how easy it is to be brilliant and how difficult it is without realizing how easy it is. Confused? I was too, as I went along with this brilliant summation of ideas by Michael Heppell. But where he says, 'Brilliance is a standard not a skill,' my interest got geared up.

How Brilliant is Heppell's idea of 'a wheel of life' which he wants the reader to mark on a scale of 1 – 10, various spokes of the wheel such as career, personal development, health, close family, money, relationship, contribution and vision. Once you know how your 'wheel of life' looks 'like' the author takes us to the next phase where he discusses the five characteristics of brilliant people – positive action, breaking out of limiting beliefs (where he tells us the real meaning of fear – false evidence appearing real), thinking differently, Heppell says "you can't solve your problems with the same thinking that caused them in the first place" Brilliant! Ability to manage stress and even turn it into energy is what the author calls. Massive action (The author gives a formula – Take massive action = get massive results).

The next chapter speaks about "Brilliant goal Setting" – where the author gives us a three 'P's Mantra – personal, positive and present tense. From there we are led to a 90 days time frame set to be brilliant, from being just the ordinary – being just poor is what no one wants, being good in the minimum expectation of people these days, being fantastic is appreciable but being

brilliant, gives brilliant results - rewards, quality of life and effect on others – brilliant!

Michael Heppell has a unique flow of taking the readers from chapter to chapter. The next two chapters are about setting brilliant life systems and for that brilliant rock busting. Setting brilliant belief system is like - 'I am an absolutely incredible & wonderful person' and Rock busting is attacking trivia like – 'lack of confidence, I don't have time, I am too old or young, no money' etc.

The author sums up with a 'final ingredient' to achieve brilliance – namely momentum. To quote "when a rocket leaves the launch pad on a trip to the moon, it uses 95 per cent of its energy in the first three minutes. It is that initial push which is needed to break through in achieving brilliance."

This book of 135 pages is simple concepts explained in simple language with stories and quotes to make it really sink in! Have I become brilliant after having read it at least two times? I am not sure, but one thing is certain – I have realised the positives and negatives in me and certainly that 'vision without action is a daydream. Action without vision is a nightmare.'

Michael Heppell's – how to be brilliant is simply brilliant.

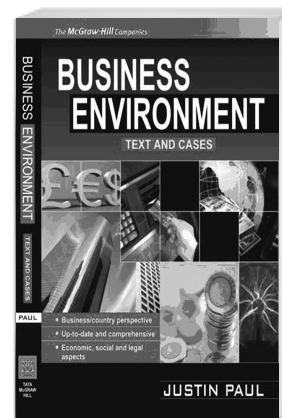
Three cheers!

**Prof. Sabu M. Nair**  
Asst. Professor-Marketing, SCMS, Kochi  
Email: sabu\_m\_nair@yahoo.co.uk





# Skimming and Scanning



<b>Title</b>	:	<b>BUSINESS ENVIRONMENT</b>
<b>Author</b>	:	<b>Dr. Justin Paul</b>
<b>Edition</b>	:	<b>First</b>
<b>ISBN</b>	:	<b>0-07-060396-0</b>
<b>Price</b>	:	<b>Rs.275/-</b>
<b>Pages</b>	:	<b>429</b>
<b>Publisher</b>	:	<b>TATA Mcgraw - Hill Publishing, New Delhi</b>

Year 1991 has rewritten all the business rules in a country where to become an entrepreneur one has to be from established business house. Now any one who has a dream to make it big and desire to live their dreams can be a successful entrepreneur.

The book interestingly takes a reader from past to the current scenario where comparison of the situations and correlation of the events can be established.

Part 1 discusses the compatibility of political environment with Economic systems. Wherein gender development and human development ratio and its overall impact and contribution to the growth of the Nation.

Part 2 Its starts with the 5 year plan of the Indian economy which has been adopted at Nehru era. Rao –Manmohan model, which put India on limelight internationally. And today slowly but steadily each sector making its mark on the overall Business environment. Nothing is permanent except change. Globalisation is an inevitable phenomenon, which cannot be avoided by any country. Like every other change it has its opportunities and threats as well. Nation needs to capitalize on the opportunities that Globalisation brings along and prepare to fight with the threats.

Part 3 The Indian Industries are second to none due to skilled manpower and adaptability. The only need is to overcome the Infrastructural bottleneck which is really the biggest hindrance in the road of the industrial development.

Part 4 Rationale behind the privatization and why it is inevitable. The growing significance of decentralization of fiscal transfers from central to state.

Part 5 Technology is the vital part of any service industry to run it as per customer delight. Indian customers and banks are going through a transition where banks are developing more user-friendly technology and customers are graduating from traditional banking to more self-directed means.

Part 6 Maturity of stock market by introducing Index options, stock options and stock futures and ban of Badla have started to prove their positive impact on an economy. The entry of ETFs its popularity in US market makes it a promising product. Ultimately the acceptance of the products and system adaptability will be determined what market wants.

Part 7 There is no absolute comfort zone available in global financial markets, nor anything is predictable. The move towards CAC thus calls for a conservative, cautious and calibrated

---

approach and clinical analysis of data on the global and local markets.

Part 8 India and China have been seen and predicted as a rapidly growing threat to the developed nations all over the globe. The skilled and readily available manpower with maximum youth population and zeal to grow is helping them to make their mark on around the world. But there are certain looming flaws which are prevalent among both the nations are poverty, uncontrolled growth of population, lop sided

gender development, poor health scenario. CSR has made inroads in Indian corporate and some of them have started working on it.

Part 9 An overview on Economic and business environment in Europe, SAARC, South and North American countries.

**Ms. Sandhya Akolkar**

Corporate Relationship Manager

Airtel, MP & CG



# SCMS Journal of Indian Management

## Subscription / Advertisement Form

Name :

Address :

City :

Zip Code :

Country :

E-mail :

Phone :

Draft Number :

(in favour of "SCMS Journal of Indian Management, Cochin")

Subscription Rates <i>Indian (in Rupees)</i>	1 year	2 years	Per issue
Companies/Academic Institutes :	1000 (\$60)	1800	250 (\$15)
Individual :	400	700	125
Students :	280	450	100

### Advertisement Rate

Outside back cover : Rs.30,000 in color, Rs.15,000 in black and white

Inside front cover : Rs.17,500 in color, Rs.10,000 in black and white

Inside back cover : Rs.15,000 in color, Rs.6,000 in black and white

Inner full-page : Rs.7500 in color, Rs.4,000 in black and white

Inner half-page : Rs.5000 in color, Rs.3,000 in black and white

### For all communications contact:

Editor, SCMS Journal of Indian Management, SCMS New Campus, Prathap Nagar, Muttom, Aluva - 683 106, Kochi, Kerala, India.

Phone: 91-484-262 3803 / 262 3804 / 262 3885 / 262 3887 Fax: 91-484-262 3855

Website: [www.scmsgroup.org](http://www.scmsgroup.org) E-mail: [editor@scmsgroup.org](mailto:editor@scmsgroup.org) / [scmseditorcochin@yahoo.com](mailto:scmseditorcochin@yahoo.com)



School of Communication and Management Studies

---

## SCMS Journal of Indian Management

### School of Communication and Management Studies

SCMS New Campus, Prathap Nagar

Muttom, Aluva-683 106, Kochi, Kerala, India

Ph: 91-484-262 3803 / 262 3804 / 262 3885 / 262 3887 Fax: 91-484-262 3855

E-mail: [editor@scmsgroup.org](mailto:editor@scmsgroup.org) / [scmseditorcochin@yahoo.com](mailto:scmseditorcochin@yahoo.com)

Website: [www.scmsgroup.org](http://www.scmsgroup.org)



VOLUME III, NUMBER III  
JULY-SEPTEMBER 2006

---

---

# SCMS JOURNAL OF INDIAN MANAGEMENT

---

---

Listed in Cabell's Directory

ISSN 0973-3167

<b>Culture</b>	Culture of the Eastern European Family Business <i>Vipin Gupta, Carole Cassidy and Maurice Gervais</i>	◇
<b>Technology</b>	Impact of Information Technology on Indian Banking <i>K. Mohan</i>	◇
<b>Mobile</b>	Indian Mobile Telephony: Mobile Number Portability <i>Pankaj Madhani</i>	◇
<b>R &amp; D</b>	Nexus Relations: Economic Growth and R & D <i>Abey P.Philip</i>	◇
<b>Outsourcing</b>	Outsourcing: Employee Experience <i>Caroll Hern and Ronald J.Burke</i>	◇
<b>Brands</b>	Store Brands: Success Probability <i>T.D.Babu, M.Appalayya, M.Mutyalu Naidu and G.Jayabal</i>	◇
<b>Initiative</b>	Reporting Practices: Corporate Social Responsibility <i>Shankar T.K. and Viney K.Thakar</i>	◇
<b>Bancassurance</b>	Bancassurance: Indian Context <i>S.Anand and V.Murugaiah</i>	◇
<b>Information</b>	Expectations and Perceptions in Information Services <i>Ajay Kumar Pillai</i>	◇
<b>Case-AviationI</b>	Leasing Aircraft - Indian Aviation Market <i>Nalini Prava Tripathy</i>	◇
	<i>Management in New Age: Western Windows Eastern Doors</i> <i>Satheesh Kumar T.N.</i>	◇
<b>Skimming &amp; Scanning</b>	<i>How to be Brilliant? Change your ways in 90 days</i> <i>Sabu M. Nair</i>	◇
	<i>Business Environment</i> <i>Sandhya Akolkar</i>	◇

---



*SCMS Journal of Indian Management*  
a quarterly publication  
of  
School of Communication and Management Studies, Kochi

**Dates of Release**

**Number I** – January-March on 1 April

**Number II** – April-June on 1 July

**Number III** – July-September on 1 October

**Number IV** – October-December on 1 January

# SCMS JOURNAL OF INDIAN MANAGEMENT

---

## Aims and Scope

The *SCMS Journal of Indian Management* is a peer-reviewed Journal. The Journal deems it its mission to submit to the readers fresh fruit of management thoughts and rich cream of current innovative research. The format of the Journal is designed reader-friendly. The academia and the corporates have an easy access to the Journal.

The Journal looks for articles conceptually sound, at once methodologically rigorous. The Journal loves to deal knowledge in management theory and practice individually and in unison. We wish our effort would bear fruit. We hope the Journal will have a long life in the shelves catering to the needs of b-students and b-faculty.

- § Proposals for articles that demonstrate clear and bold thinking, fresh and useful ideas, accessible and jargon-free expression, and unambiguous authority are invited. The following may be noted while articles are prepared.
- § What is the central message of the article you propose to write? Moreover, what is new, useful, counterintuitive, or important about your idea?
- § What are the real-world implications of the proposed article? Can the central message be applied in businesses today, and if so, how?
- § Who is the audience for your article? Why should a busy manager stop and read it?
- § What kind of research have you conducted to support the argument or logic in your article?
- § What academic, professional, or personal experience will you draw on to make the argument convincing? In other words, what is the source of your authority?
- § The manuscript of reasonable length shall be sent to the Editor—*SCMS Journal of India Management* (Both for postal and electronic submission details are given here under).

## The manuscript should accompany the following separately:

- § An abstract (about 100 words), a brief biographical sketch of above 100 words for authors describing designation, affiliation, specialization, number of books and articles published in the referee journals, membership on editorial boards and companies etc.
- § The declaration to the effect that the work is original and it has not been published earlier shall be sent.
- § Tables, charts and graphs should be typed in separate sheets. They should be numbered as Table 1, Graph 1 etc.
- § References used should be listed at the end of the text.
- § Editors reserve the right to modify and improve the manuscripts to meet the Journal's standards of presentation and style.
- § Editors have full right to accept or reject an article for publication. Editorial decisions will be communicated with in a period of four weeks of the receipt of the manuscripts.
- § All footnotes will be appended at the end of the article as a separate page. The typo script should use smaller size fonts.

---

## Address for Submission

### Electronic Submission

: E-mail: editor@scmsgroup.org/  
scmseditorcochin@yahoo.com  
The electronic submission must be in the form of an attachment with a covering letter to be sent as e-mail

### Post Submission

: The Editor  
SCMS Journal of Indian Management,  
SCMS New Campus, Prathap Nagar, Muttom,  
Aluva – 683 106, Kochi, Kerala, India  
Ph : +91 484 2623803, 2623804, 2623885, 2623887  
Fax : 91 484 2623855

---

