NSHM Journal of Management Research and Applications

NJMRA Vol:2 December 09

Bi-annual Peer Reviewed Journal of Management

© copyright : NSHM Business School, NSHM Knowledge Campus, Kolkata, India.

All efforts are made to ensure the correctness of published information. However the views expressed are those of respective authors and do not reflect the views of NJMRA or NBS. Every effort has been made to ensure that published information is free from copy right violations. However, authors are solely responsible for copyright violation and NJMRA does not accept any responsibility for any inadvertent omissions.

Printed at: OFFSWING COMMUNICATIONS, Bangur Avenue, Kolkata 700 055 (offswingdesign@gmail.com)

Editor
Dr. Rajlakshmi Mallik

Associate Editor
Mrs. Shampa Chakraberty

Design & Layout
Mrs. Sharmila Sinha

Publisher
NSHM Business School

Editorial Advisory and Review Panel

Prof. N. Balasubramanian
IFIM Business School, Bangalore

Prof. Sudip Bhattacharjee
University of Connecticut School of Business, USA

Prof. Arpita Dhar
Jadavpur University, Kolkata

Prof. Diganta Mukherjee
Usha Martin Academy, Kolkata

Dr. Tapan Panda
Everonn Systems India Ltd., Chennai

Dr. Meenu Sareen
ICFAI Business School, Kolkata

Dr. Jayanta Kumar Seal
Indian Institute of Foreign Trade

Dr. Arabinda Thakur
Peerless Hospital, Kolkata

Message from the Chief-Mentor

"I was extremely happy to receive the inaugural issue of the NSHM Journal of Management Research and Applications, published by the NSHM Business School.

I feel this initiative would go a long way in not only harnessing the full potential of our Intellectual Capital at NSHM Knowledge Campuses - but also provide a platform for Academicians and Industry Professionals alike in the country and abroad, to share their views as well as original research work with the academic and business fraternity; with the ultimate objective of improving management styles for the future.

At NSHM, we believe in experiential learning; and it is my firm belief that every volume of this journal would slowly but surely be a focal point in our quest for continual improvement in management practices.

I send my sincere appreciation to the entire editorial team as well as the valued contributors, who have ensured such a high order of content and presentation.

All the very best".

Cecil Antony
Chief Mentor
NSHM Knowledge Campus

Message from the Director

"The NSHM Journal of Management Research and Applications introduced by the Business Research and Information Centre is an initiative that highlights NSHM Business School's commitment to research and innovation as an integral part of management training. I do hope that with every issue of NJMRA the Journal would reach out to an ever widening circle of academia and experts from industry and management training fields, thereby playing an effective role in the dissemination and exchange of ideas. I wish the NSHM Journal of Management Research and Applications every success".

Rajib Chanda
Founding Director
NSHM Knowledge Campus

This page is intentionally left blank.

From the Editor's Table

We take great pleasure to present the second issue of the NSHM Journal of Management Research and Applications to our discerning readers. The enthusiastic reception of the first issue gave us hope and encouragement to strive even harder. This would not have been possible without the help and encouragement of the team members at NSHM Business School as well as the high quality contributions from the authors and judicious support from the referees.

In keeping with our objective of making NJMRA a broad based platform for presentation of research output that addresses various aspects of management principles and practices as also their interface, the current issue is a collection of papers and articles in HRM, Finance, Corporate Governance, Accounting Practices, IT and Business Process Management. They address diverse issues such as HR strategy and strategic planning, capital structure and corporate liquidity, the relationship between corporate governance and stock performance, web design and content analysis in banking, international convergence of accounting standards, role of IT in BPM and many more.

I hope that like the inaugural issue of NJMRA, the second issue will also be well received by the industry and academia. As always, I look forward to your valued comments and constructive criticism that will help us in our quest for reaching the peak.

On behalf of the editorial team,

Rajlakshmi Mallik
Assistant Professor & Coordinator
Business Research & Information Centre

HR Initiatives and Leadership for Business Excellence

Prasanta Mukherjee

Abscract
Developing a human resource strategy to support the business plan requires human resource management planning to be recognized as a fundamental part of the business planning process. It is argued that integrating HR strategy and strategic planning is fundamental to achieving business excellence. The four underpinning themes include:
1. that achieving business excellence is more than a simple accumulation of a range of best practices,
2. that achieving excellence in corporate business strategy is the single most important factor in achieving vision, mission and goals,
3. this provides a unique opportunity to view the organization holistically, with the principle focus being on the total organization and the total team as the underpinning concepts, and
4. that people tend to do two things well, i.e. the things they regard as important and/or enjoy and those things that the boss regards as important and will check.

Developing a human resource (HR) strategy to support the business plan requires human resource management (HRM) planning to be recognized as a fundamental part of the business planning process. This paper argues that integrating HR strategy and strategic planning is fundamental to

Introduction: Human capital is DNA for business excellence

External Affairs Minister Pranab Mukherjee (Kolkata, 24th May'08 IANS) said it is indisputable that human capital is the DNA for business excellence and we need skilled manpower for better economic growth Speaking at the 38th annual conference of National Institute of Personnel Management (NIPM), Mukherjee emphasised on the importance of human capital, and said in this world of technology, gadgets are not enough." It is indisputable that human capital is the DNA of business excellence." Adequate human resource is required to carry on the work process. Skilled manpower is needed for better economic growth. Human resource management is the tool for improving performance. He added that Pandit Jawaharlal Nehru also emphasised on human resource development. The central government plans to set up 30 new central universities, eight institutes of technology, seven institutes of management and five institutes of science. Education and research will be provided with adequate attention, he said. Human investment is the biggest investment in the path of economic growth. Coal India Ltd's chairman Partha Bhattacharya opined that human resource development now is not limited to the private sector, and even the public sector companies are increasingly taking initiative for staff betterment. Proper communication is the core of human management. Human capital is the most important component for business. He added that other components of

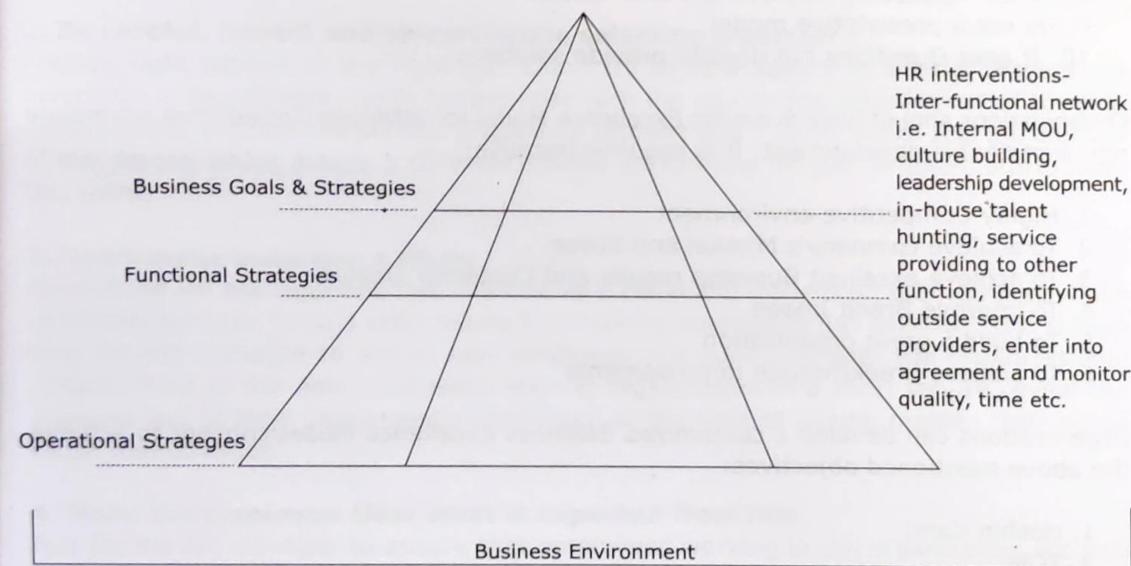
Prasanta Mukherjee, Sr. Faculty Member (HR), ICFAI, INC Durgapur
E-mail: Prasanta_muk@yahoo.com

business like machinery, technology and financial assistance can be provided for a business in abundance, but to amalgamate all these factors we need ample human resource. Better human resource development should be provided to build leadership qualities in the workforce.

The Role of HR Function in an Organization

Today HR function has more strategic role. A changing business environment can influence the outcome of current operations, stakeholders and corporate strategy as a whole. The HR function plays an important role in viewing and integrating business opportunities, stimulating employees, developing employee strengths and creating corporate teams that share the company's vision and translate this concern into bottom-line.

Figure below shows how HR is linked to the business strategies:



Discussion

With rapid change in marketplace and ever increasing competition in today's business environment, organizations are looking for every opportunity to improve their business results. To be competitive to sustain growth, the organization lays firm approach to drive performance and attain higher levels of efficiency. The Business excellence model is a tool which has a set of criteria using which the organization can improve performance on the critical factors that can drive their business to success.

The criteria provide a framework for performance excellence and help the organization to assess and measure performance on a wide range of key business indicators like-customer, product and service, operational and financial.

This allows organization to carry out a self assessment on the business performance and allows to identify strengths and to target areas for opportunities for improvement on processes and results affecting all key stakeholders-including customers, owners, suppliers, employees and the public.

The criteria also allow the organization to align its resources, productivity, and effectiveness and achieve the goals. In short Business Excellence Model is:

1. A comprehensive coverage of strategy driven performance
2. Focuses on needs,expectations,satisfaction of all stakeholders
3. Examines all processes that arte essential to achieve Business Excellence
4. Is a framework to assess and enhance Business Excellence
5. Continuous improvement in organizational overall performance and capabilities
6. Delivering ever improving value to customers, resulting in marketplace success
7. Understanding business and analyzing in the areas like-leadership, strategy and customer, market, information and data, knowledge sharing,HR,production processes and the results
8. Framework of excellence through values, processes and outcomes. In model they call it as "Approach, Deployment and Results"
9. Its not a prescriptive model
10. It asks Questions but doesn't provide solutions

Organizations should have Business Excellence Model for attaining Competitive advantage and sustainable development. It is requires because:

1. Highly Competitive environment
2. To achieve company's Mission and Vision
3. To achieve excellent Business results and Customer Delight
4. To improve Brand Image
5. To build a great organization
6. To achieve breakthrough improvements

Organizations can develop a customized Business Excellence Model/concept to achieve the above mentioned objectives:

1. Hoshin Kanri
2. TQM
3. Six Sigma
4. TPM
5. EFQM model
6. Balance Score Card
7. PCMM model

Excellence through Human Resource Management

In today's competitive business environment where people management has come on priority, excellence in discharging HR functions is on high demand from HR managers. There can not be any magic stick by which any HR manager can be transformed into an excellent one. It is only by proactive mindset and practice; HR manager can bring excellence in him. No one is born with the excellence value. Practically it is developed slowly by passage of time.

It is not necessary that only a highly qualified manager from a premier management school brings with him the guarantee of excellence. I have witnessed many persons with average upbringing, educational and social back ground proving themselves to be excellent HR managers. What is required is the quest of learning and attitude of taking ownership of the problems in the organization by the person.

The following are the rules for HR managers to attain Business Excellence in an Organization:

1. Become leader not a manager

The basic skills of excellence in HR require a manager to build people, bind people together with hearts minds and souls and for this he has to become a leader and not a mere manager. Every organization that has maintained its excellent over the period of time has been able to do so because it had a leader and not a manager who was able to transform the culture of excellence. While a manager does things right, as a leader HR manager should always do right things. While a manager may be efficient to move in a right direction to achieve excellence, as a HR manager you should have a vision to choose that direction. While manager may use the authority to discharge his functions, as a leader you should use your power derived from employees respect. HR manager has to develop the capability of working well without loosing balance in times of crisis.

2. Be careful, honest and sincere while selecting a person

Engage right person at the right job. Don't try to fit a square in a hole. Discourage favoritism in recruitment. Don't compromise with the quality and requirement of the job. Always prefer attitude in a person. Engage for attitude and train for skills. It is the attitude of the person which makes a difference while performing his job. Problem starts from this point.

3. Don't make induction a ritual

Most of the HR managers do this exercise as a ritual and leave it on subordinates which ultimately turn out to be a utter failure in achieving purpose of this exercise. This is high time for HR manager to mould new employee and tune him with the organizational culture. Most of the new employees leaving organization in a short tenure reveal the startling fact of their poor/negative induction at the time of joining making their prime cause demotivation.

4. Make the employee clear what is expected from him

It is for the HR manager to ensure that employees working in the organization are well aware of what the organization expects from them. In one of the reputed organization when I was called as an expert to diagnose the problem in people management, after observing the work culture I commented, 'In your organization everybody is doing every body's job and no body knows what he is doing'. HR Manager has to be cautious about this silent killer of the organization culture.

5. Be firm and fair

HR manager has to practice this policy down the line all the time. While dealing employee relations he has to exhibit and display his firmness and fairness even in sensitive situations to command respect from all corners. He has to champion the cause of employees and employer too.

6. Confront Problems

HR manager who escape from tricky situations and problems can not excel in discharging his functions. He has to confront the problems as they arise and disseminate them. Always remember that avoiding problems and keeping the dust under the carpet will not pave the way of excellence. In any organization where HR people pass the buck and shift the burden of problems like shuttle cock are bound to face more complex situations which may explode in a more aggressive way causing irreparable losses to organization culture.

7. Apply the principle of 20-80

As a HR professional it is not necessary all the time to use your technical knowledge for achieving excellence but what is required is skill of dealing with people and this ratio is known as 20-80. 80% is of your people handling skills in all situations with common sense management of human dignity and 20% is of your technical knowledge. If your reverse this ratio, you may never achieve excellence.

Developing Leadership Skills for Performance Management

1. Leadership Motivation Assessment :	How motivated are you to lead?
2. Leadership Motivation Tools:	Find the passion to lead
3. Information Gathering:	Information is inspiration
4. Building Expert Power:	Leading from the front
5. Task Allocation:	Picking the right person for the right situation
6. Leadership Styles:	Using the right one for the right Effectively
7. Mission Statement & Vision Statements:	The power of purpose
8. Successful Delegation:	How, when , why

Necessary Qualities needed to be a successful Leader - for Business Excellence

A sound ethical compass: If the boss's values are undemanding, the institutions will also be wobbly. That may not put it out of business, but it means the institution will have to pay a premium for talent. Good people do not like working for organizations whose values they mistrust.

1. The ability to take unpleasant decisions: Many judgments must be made on the basis of ambiguous information. Leaders often have to deal swiftly with conflicting demands without being sure of their facts. That calls for a strong stomach.

2. Clarity and focus are essential requirements for making those awkward judgments. Leading a large institution, and dealing at speed with a host of complicated and many-sided issues, is an immense intellectual challenge. In order to survive the clamor for time and attention, a leader must also be able to screen out unnecessary noise and to focus on what really matters.

3. Ambition. The best leaders are empire-builders who want to create something that outlasts them. That is different from ego-boosting personal ambition.

4. Effective communications skills are a relatively new requirement, the result of the increasing intrusion of the outside world. A good corporate leader should talk convincingly, which is not always the same thing as telling the whole truth.

5. The ability to judge people is an essential pre-requisite, given the importance of human capital. Judging who will work best in which slot is one of the key tasks of leadership. Like so many aspects of the top job, it requires intuition as well as experience.

6. A knack for developing talent is needed to build a stock of future leaders. People learn far more about the art of leading from a good mentor than from a great book.

7. Emotional self-confidence. Accumulating a pool of talent requires an ability to work with people who may be better at their job than you are at yours, and to guide to motivate them. Leaders who are jealous of their followers do not inspire loyalty. Self-confidence also allows people to admit to weakness and ask for help withoutfeeling defensive or inadequate. Successful leaders need to be able to say, I don't know what to do next, without losing the respect of their colleagues.

8. Adaptability will prove invaluable when things go wrong. Surviving a reverse calls for resilience and flexibility. The key is an ability to reframe: to reshape a problem so that from some angles it can look like a success.

9. Charm is not a quality taught on MBA courses, but few get to the top without it. A bit of luck helps too, though that may prove hard to manage.

The process of carrying out change is not just about strategies and plans for their delivery; it is also about relationships between people and the management of workforce diversity in the context of the changing business environment. The increased emphasis on excellence through recognition of the individual and the team gives a balanced approach to HR planning pivotal to overall strategy achievement. Since strategy is related to what customer satisfaction means for an organization and to the ever-changing environment it operates in, there is no blueprint for choosing how to manage a company's resources, no best way that is appropriate under all circumstances. Strategic planning becomes a process of planning within a range of parameters rather than formal targets; the emphasis is on the overall direction and pace of change rather than detailed milestones. There is a belief that if you tell people what is happening, what is necessary to achieve excellence, then they will perform accordingly. Some education strategies have effected improvement this way but others have foundered because informing and involving people does not guarantee the desired changes will happen.

People have to believe in a strategy and this requires that leaders create the right environment for the change to occur and for believing that it can. People management systems must be tailored to fit each unique business. But to create business excellence with HRM processes that intrinsically add value, all organizations need to develop HR strategies to support the integration of business planning with business excellence. A holistic approach nurtures proactive incremental change. It also avoids the sudden traumatic change that so many organizations endure as a result of radical improvement programmes and the inevitable stagnation that follows. In a sense the organization runs out of sustainable energy.

Summary and Conclusion

Excellence is not just about best practice or keeping pace or leapfrogging the competition on Monday to be caught again on Wednesday. Nor is it simply about establishing customers' requirements, important though that is. Excellence is increasingly concerned with having the individual intellectual capacity and the collective business intelligence to predict today what will happen tomorrow. Against this background, the integration of HR planning, in particular of an organization's intellectual capacity with strategic business planning, is likely to be the most effective route to true integration with business excellence. It implies

a balanced approach to excellence based upon a different interpretation of motivation theory, recognizing a new balance between financial and non-financial rewards. A context in which enabling personal growth and successful contribution through opportunities to learn and apply learning successfully are the dominant drivers both for personal and for organizational advancement.

Successful strategic planning seeks input from all stakeholders, including the shareholders, customers, suppliers and people, to identify the part each has to play to ensure the delivery of the business strategy. Given the global trends referred to earlier, the 'people' part of the strategic planning takes on new significance, since the capacity of the organization to learn is fundamental to improvement. The learning component of HR strategy becomes the business's own learning strategy.

To harness intellectual capacity and to get and keep the best people, far more innovative approaches than performance-related pay are necessary. Organizations have to create fluid structures of employment. This may mean that it is prudent to accommodate employees' own business interests within the umbrella of the organization. To get value from their key assets, organizations need to build environments in which their people are prepared to share their ideas rather than leaving the company to develop them. Whilst many organizations are investing heavily in employee development to retain the best, the future suggests more fundamental rethinking of the employee relationship. Knowledge and intellectual capacity are likely to be the tradable commodities of the labour market (in higher education they already are). They will also be the competitive edge in organizations where they are the only tangible asset. Effective integration of HR planning and business planning offers a credible vehicle for achieving business excellence.

Business excellence is the use of quality management principles and tools in business management. It is the systematic improvement of business performance based on the principles of customer focus, stakeholder value, and process management. Key practices in business excellence applied across functional areas in an enterprise include continuous and breakthrough improvement, preventative management and management by facts.

Some of the tools used are the balanced scorecard, the Six Sigma statistical tools, Process management and Project management.

Companies such as GE, Philips, DuPont and ICI Paints have run this program under various names such as Six Sigma initiative and Business Excellence. Business excellence, as described by the European Foundation for Quality Management (EFQM), refers to" outstanding practices in managing the organization and achieving results, all based on a set of eight fundamental concepts", these being "results orientation, customer focus, leadership and constancy of purpose, management by processes and facts, people development and involvement, continuous learning, innovation and improvement; partnership development, and public responsibility". In general, business excellence models have been developed by national bodies as a basis for award programs. For most of these bodies, the awards themselves are secondary in importance to the widespread adoption of the concepts of business excellence, which ultimately leads to improved national economic performance. By far the majority of organizations that use these models do so for self-assessment, through which they may identify improvement opportunities, areas of strength, and ideas for future organizational

development. Users of the EFQM Excellence Model, for instance, do so for the following purposes: self-assessment, strategy formulation, visioning, project management, supplier management, and mergers.

When used as a basis for an organization's improvement culture, the business excellence criteria within the models broadly channel and encourage the use of best practices into areas where their effect will be most beneficial to performance. When used simply for self-assessment, the criteria can clearly identify strong and weak areas of management practice so that tools such as benchmarking can be used to identify best-practice to enable the gaps to be closed. These critical links between business excellence models, best practice, and benchmarking are fundamental to the success of the models as tools of continuous improvement.

The most popular and influential model in the western world is the Malcolm Baldrige Award Model (also known as the Baldrige model, the Baldrige criteria, or the criteria for performance excellence), launched by the US government. More than 60 national and state/regional awards base their frameworks upon the Baldrige criteria. There are a number of internet resources that assist organizations in the application of business excellence principles. A useful one is the Business Performance Improvement Resource, which researches best practices in all business processes and then classifies them through business excellence models such as the Baldrige and EFQM models. Therefore, if an organization is already familiar with business excellence and has identified its opportunities for improvement through a business excellence assessment, it can use such resources to identify the most appropriate practices with which to address such opportunities.

References

Bass, B. M (1995): The meaningful of leadership. In J. T. Wren (Ed.): The leader compaction: Insights on leadership through the ages (pp. 17-38), New York, The Free Press.

Bass, B. M. & Avolio, B. J. (1994): Improving organizational effectiveness through transfer organizational leadership. Thousand Oaks, CA Sage.

Bunnies, W. G. (1997): Managing people is like lien dine cats. Provo UT: Executive Excellence.

Bunnies, W. G. & Thomas, R. J. (2002): Geeks and geezers. Boston. Harvard Business School Press.

Bhattacharya, D.K.: Human Resource Management, Excel Books,2008.

Burns, J. M. (1978): Leadership, New York. HarperCollins.

Charles, G Cobb. (2003): From Quality to Business Excellence: A Systems , American Society for Quality.

Commonwealth of Australia, Department of Education, Science and Training (2002. April 26): Higher education at the crossroads. An interview paper >http:/www.backingaustraliastature.on.au/publications/crossroad/defant.http>

Connaughton. S. I., & Daly. I. A. : (In press) Leading from Star: Strategies for effectively leading virtual teams. To be published in S. H. Godar & S. P. Ferns Eds. Virtual and collaborative teams Princess Technologies and practice. Hersbey PA Idea Group.

Cuoto. R. A. (1992): Public leadership education - The role of the citizen leader. Dayton, OH: The Kenering Foundation.

Kanji, Gopal K .: Measuring Business Excellence, Rutledge

Kausik, Anil, Chief Editor, Business Manager: Rules of Excellence for HR Managers.

Prince. H. (2003) Teaching leadership. A journey into the unknown Concept and conception. A newsletter for leadership educators.

Porter, J Leslie: Assessing Business Excellence, Elsevier Butterworth Henemann

Rajpal,Pravin: Achieving Business Excellence , Om books International

Tichy. N. M.(1993): The Leadership Engine, New York: Hamper Collins.

Debt and Liquid assets: Two Faces of the Same Coin

Sumitra Naha

Abstract
The present study is an attempt to ascertain empirically the relative strengths of the two competing theories on corporate liquidity viz. the static-trade-off theory and the financing hierarchy theory and thereby identify the determinants of liquid asset holding in the context of a developing country like India. A related objective is to explore the impact of liberalization on the choice of liquid asset holdings by Indian firms. The entire analysis focusing on the association between corporate liquidity and capital structure of firms has been done by using a sample of firms from the Indian manufacturing sector. The methodology used is panel regression analysis using representative firms each year. The two theories, static trade-off and financing hierarchy theory acts as complements, jointly influencing the demand for liquid asset holding. The most interesting observation is the significant and positive association between leverage ratio and corporate liquidity suggesting that Indian firms adhere to the precautionary motive of liquid asset holding. Liberalization has a positive impact on liquid asset holding reflecting that Indian firms' held more liquid assets in the post-liberalisation period.

Key words
Corporate Liquidity, Financial Structure, Liberalization, Capital Expenditure, Investment Opportunity, Financial Distress

Introduction

A variety of market imperfections are capable of explaining variation in the relative costs of different fund type, leading to a preference for internal funds over external financing. It should be noted that debt involves higher transaction costs than internal fund sources, which can be brought to bear almost immediately. Moreover internal funds give firms the flexibility to respond quickly as investment opportunities arise. Thus, transaction costs, flexibility, and liquidity constraints can all lead to an overriding preference for internally generated funds. As liquid funds are a necessity to a firm, the firm has to decide how much liquid assets to hold. The purpose of the present study is to identify the determinants of liquid asset holding. A related objective is to analyze how the choice of liquid asset holding is influenced by the availability of external fund, primarily debt.

Sumitra Naha, Lecturer, Gyan Jyoti College, Affiliated to the University of North Bengal, Dagapur, Near Pintail Village, NH-55, Hill Cart Road, Siliguri 734003.
Email: sumitra.naha@gmail.com

There are three motives for maintaining liquidity-transaction motive, precautionary motive and speculative motive. The transaction motive[1] refers to the holding of liquid assets to meet anticipated obligations as they are not perfectly synchronized with cash receipts i.e. to finance the transactions that a firm carries out in the normal course of business. Liquid assets provide a cushion that would allow the firm to survive a period of low earnings during which the firm might be unable to access capital markets or could do so only at a very high cost. The firm's financial structure will affect this decision because the degree of leverage used by the firm will affect the likelihood that cash flows will be insufficient to cover debt service and other fixed charges. This is referred to as precautionary motive. Again the decision to hold liquid assets may allow the firm to invest in a more attractive growth opportunity that may have a high option value of waiting. The speculative motive indicates the desire of a firm to take advantage of profitable opportunities typically outside the normal course of business. While the precautionary motive is defensive in nature, the speculative motive represents a positive approach.

The two competing theories on liquidity are the static trade-off and the financing hierarchy. The static-trade-off theory developed by Myers (1977) assumes that there is an optimal amount of liquid assets holding by firms determined by the trade-off between costs and benefits of liquid asset holding. A firm's holding of liquid assets involves both costs as well as benefits. The cost of holding liquid assets is the lower rate of return earned on these assets or a zero return on idle funds (cash), possibly because of tax disadvantages. The benefit accruing to a firm from holding liquid assets is that the firm can use the liquid assets to finance its activities and investments if other sources of funding are not available or are excessively costly and hence save the transaction costs or brokerage costs[2] associated with the purchase and sale of marketable securities. However, managers and shareholders view the costs and benefits of liquid asset holding differently.[3] Managers have a greater preference for cash, because it reduces firm risk and increases their discretion.[4] This greater preference for cash can lead managers to place too much importance on the precautionary motive for holding cash.

An alternative view to the static trade-off model is that there is no optimal amount of liquid asset holding by corporations, though there exists an optimal capital structure for a corporation. The optimal capital structure specifies an optimal amount of net debt, which is debt minus cash and other liquid assets. Thus, it is argued that there is no optimal amount of liquid assets, as liquid assets is actually negative debt. Firms can issue securities at low cost whenever they have insufficient cash to finance their invest plans. Since, adverse selection resulting from informational asymmetries makes equity expensive, firms avoid issuing equity and issues debt and reduce cash holding when they do not have sufficient resources or are faced with a deficit of internal funds. Like the pecking order theory[5] or the fund cost hierarchy, where a firm's financing pattern follows the least cost path; according to the financing hierarchy model of the liquidity theory if firms have sufficient resources or a surplus of internal funds, they can invest in profitable

1 See Keynes (1934).

2 See Miller and Orr (1966). The costs considered also include costs due to inefficient investment resulting from insufficient liquidity, emphasized in the theoretical models by Jensen and Meckling (1976), Myers (1977) and Myers and Majluf (1984).

3 Agency theory therefore explains why firms do not hold the amount of liquid assets that maximizes shareholder wealth.

4 Jensen's (1986) free cash flow theory.

5 See Myers and Majluf (1984).Acc to the pecking order theory retained earnings is preferred to external financing. If firms have to go for external financing, they prefer debt to external equity.

projects, or can utilize it for repaying debt or accumulating liquid assets. With this hypothesis, liquid assets rise or fall with the fortunes of the firm. Thus, the financing hierarchy model seems to be a mirror image of the pecking order theory in the sense that some kind of preference ordering from the highest to the lowest is reflected in both, though the focus is different.

The finance literature on the corporate choice of liquid assets holding is not very large. According to Myers (1977), the agency effects of various kinds coupled with different firm characteristics create important reasons for holding liquid assets. The literature on corporate finance has pointed towards both possibly favourable and unfavourable effects of liquid asset holding. Myers (1977) argued that the problems of debt overhang could be overcome with financial slack and hence established an incentive for maintaining liquid assets holding. On the other hand Jenson and Meckling (1976) have identified the asset substitution problem and opined that if levered equity holders have an incentive to engage in increasing the riskiness of the assets, they can implement this only if the firm's assets are sufficiently liquid to allow this transformation to take place. Myers and Rajan (1998) studied the positive and negative aspects of corporate liquidity. According to them asset liquidity bestows a benefit in the sense that it makes it possible for a firm to survive during periods of poor business conditions; it is disadvantageous in the sense that it makes it difficult for firm insiders to commit to a given course of actions. The values of the transformed assets are supposed to be appropriated entirely by firm insiders to the detriment of the firm's creditors. Kim, Mauer and Sherman (1998) present a theory of the choice of liquid assets when outside financing is costly by developing a three period model. They argue that the basic motivation for holding liquid assets is to create slack, which will allow firm insiders to exploit future attractive investment opportunities. The model predicts that the optimal investment in liquidity is increasing in the cost of external financing, variance of future cash flows, and return on future investment opportunities while decreasing in the return differential between physical assets and liquid assets. The authors also empirically tested the predictions using a large panel of U.S industrial firms over the period from 1975 to 1994. The results of the empirical test[6] revealed that the firm size had a negative relation to liquidity; market-to- book ratios and measures of future economic conditions had a positive relation to liquidity, thereby supporting the model's predictions of a positive relationship between liquidity and the cost of external financing and liquidity and future investment opportunities. Firms with more volatile earnings and lower returns on physical assets are found to include more liquid assets in their portfolio. Opler, Stulz, Pinkowitz and Williamson (1999) examine cross-sectionally the determinants and implications of holding cash and marketable securities[7]. The results are similar to that of Kim, Mauer and Sherman. In particular, they find a positive relationship with respect to growth opportunities. One difference is that here cash flows have positive impact on cash holdings; where as Kim find a negative relation with cash flow. Shyam-Sunder and Myers (1999) tested traditional capital structure models against the alternative of a pecking order model of corporate financing. They found that the basic pecking order model, which predicts external debt financing driven by the internal financial deficit, has much greater time-series explanatory power than a static tradeoff model,

6 The empirical examination is based a large panel of U.S industrial firms over the period from 1975 to 1994.

7 The sample included publicly traded U.S based firms during the time period 1971-1994.

which predicts that each firm adjusts gradually toward an optimal debt ratio. The statistical power of some usual tests of the tradeoff model turned to be virtually nil. Morellec (2001) provides an interesting analysis of the implications of liquidity that develops the asset transformation scheme[8], and concludes that ex ante, asset liquidity reduce the value of the firm and the debt capacity of the firm. Murray and Goyal (2003) examined the pecking order theory of corporate leverage on a broad cross-section of publicly traded American firms for 1971 to 1998. They observed that contrary to the pecking order theory, net equity issues track the financing deficit more closely than do net debt issues. While large firms exhibit some aspects of pecking order behavior, the evidence is not robust to the inclusion of conventional leverage factors, nor to the analysis of evidence from the 1990s. Financing deficit is less important in explaining net debt issues over time for firms of all sizes. Tong and Green (2004) tested the pecking order and trade-off hypotheses of corporate financing decisions using a cross-section of the largest Chinese listed companies. They developed three models in which trade-off and pecking order theories gave distinctively different predictions: (1) the determinants of leverage, (2) the relationship between leverage and dividends, and (3) the determinants of corporate investment. In model (1) they found a significant negative correlation between leverage and profitability; in model (2) a significant positive correlation between current leverage and past dividends was observed. These results broadly supported the pecking order hypothesis over trade-off theory. However, model (3) was inconclusive. Overall, the results provided tentative support for the pecking order hypothesis and demonstrated that a conventional model of corporate capital structure can explain the financing behaviour of Chinese companies. Seifert and Gonenc (2008) made an attempt to ascertain how well pecking order behavior applies to firms in the US, the UK, Germany and Japan. Investors in the US and UK have an asymmetric information problem caused, in part, by the relatively widespread ownership of stock in these two countries where managers and insiders know more than outside investors. German and Japanese investors, on the other hand, face an information asymmetric problem arising from relatively less and sometimes distorted information flows and generally less investor rights. Their empirical findings found little overall support for pecking order behavior for American, British, and German firms. On the other hand, the evidence was generally favorable for Japanese firms especially during the 1980s and early 1990s. The results for Japan were also consistent with the notion that relative transactions costs for debt and equity may have an important influence on financing decisions of firms in Japan.

The aim of this paper is two fold. First is, to compare the relative strengths of the two existing theories viz. the static trade-off and the financing hierarchy in determining liquid asset holding by Indian firms. In other words, the study tries to examine empirically whether the variables that influence liquid asset holding in developed economies continue to have a similar impact on liquid asset holding by firms in a developing economy like India where firms face altogether a different environment. Secondly, the interest lies in analyzing how corporate liquidity is affected by the series of economic reforms that were introduced in India in a phased manner.

This paper is organized as follows. It begins with a description of the variables and a comparison of the variation in the key descriptive variables across different liquidity groups. This is followed by a comparative analysis of simple models determining changes

8 Morellec (2001) considered a dynamic model of a levered firm whose net revenue, given a capital stock, follows a geometric Brownian motion.

in liquid asset holding - the static trade-off, financing hierarchy and subsequently a combined one. To capture the impact of liberalisation on corporate liquidity is another important objective of all the models. Finally, the main findings are summarized in the conclusion.

Sample and Methodology

The sample consists of 53 firms from twelve different industries belonging to the Indian Manufacturing sector. The period covered is 1979-80 to 2004-05. The regression is carried out in two parts. First to examine whether firm-characteristics differ across the different quartiles of corporate liquidity a difference of means test and analysis of variance (ANOVA) is conducted from the first to the fourth quartile and also to test the presence of Industry-specific effect ANOVA is applied to the liquidity ratios across different industry groups for the pre-and post-liberalisation periods separately. Then fixed effect panel regression technique- a different methodology as compared to most of earlier studies is used to compare the two theories, static-trade-off and financing hierarchy in determining liquidity across firms. Since this is an estimation technique simultaneously involving both cross-sectional and time series data, the estimates are expected to be more accurate and efficient.

Description of Variables

The dependent variable is a measure of liquid asset holding or liquidity ratio. To indicate the extent of liquidity, the commonly used ratios are,

- the ratio of cash and marketable securities to total assets or the cash ratio,
- the ratio of current asset to current liability often referred to as the current ratio,
- the ratio of net working capital to net assets or the net working capital ratio,

Since, cash is the most liquid asset, the cash ratio is used as a measure of liquid assets holding. From the data available, the proxy for cash ratio used is the ratio of cash and bank balances to net assets. Net assets are total assets minus cash.

The independent variables are proxies representing different variables that are emphasized in different theories from standard literature on corporate liquidity. The static trade off model emphasizes a set of variables. The set includes net working capital, firm size, R&D to sales, capital expenditures, and investment opportunities.

The level of a firm's net working capital (nwcna) has a bearing on its profitability as well as risk. A decrease in the networking capital of a firm leads to an increase in risk or the probability that the firm will become technically insolvent and will not be able to meet its obligations when they become due for payment. Thus, with decrease in the firm's net working capital, demand for liquid assets increase as for a firm external financing is costly and retaining reserves as liquid assets serves a precautionary motive.

According to Barclay & Smith (1996), large firms are more diversified, due to which the cost of external of financing for large firms are smaller. Firm size (size) affects liquidity. Moreover, the large firms having more tangible assets face less borrowing constraints as compared to small firms. Thus, White (1980) and Fazzari & Peterson (1998) argue that the large firms are more inclined to external financing and hence have less demand for liquid assets.

Financial distress, which results from a mismatch between the currently available liquid assets of a firm and its current obligations under its "hard financial contracts", is supposed to have important implications for the liquidity aspects of the firm. Thus, the financial distress costs are those that are related to the costs of liquidation of assets. Titman & Wessels (1988) argue that the costs of liquidation or distress costs are higher for firms that produce unique or specialized products and lower for firms with assets of high collateral value. They also suggest that the ratio of research and development to sales or the ratio of advertising to sales (rdns) may act as proxy for the indirect costs of financial distress. Again, research and development or advertising may contribute to building up of assets and resources characterized by asymmetric information between corporate insiders and outside investors in the market. So, Myers and Majluf (1984) have argued that firms can optimally maintain financial slack or excess liquidity, which can be used to finance projects, avoiding the adverse selection costs of interacting with a less informed market. This in turn gives rise to a positive relationship between corporate liquidity and research & development, advertising. Yet, another explanation for the positive relationship between liquidity and R&D and advertising cost is- R& D expenditure and advertising expenditure creates stock of future investment options that can expire unutilized if the firm runs into financial distress. These costs can be minimized if the firm reduces its insolvency risk by maintaining high liquidity. Therefore, corporate liquidity should be higher for firms with high R&D and advertising.

Next is the ratio of capital expenditures to assets (cpexna). According to Opler (1995), firms' incurring low capital expenditures is supposed to posses less collateralizable assets. Such firms choose higher debt levels and have less demand for liquid assets, to increase the chances of bankruptcy and thereby limit their managers' consumption of perquisites. Thus, capital expenditure is supposed to have a positive impact on liquidity to reduce the agency costs.

Smith and Watt (1992) are of the opinion that the investment opportunity (invop) of a firm also determines its demand for liquid assets. If the degree of information asymmetry between managers and investors are constant, then firms with high investment opportunities are expected to hold more cash, since the costs they incur if their financial condition worsens are higher.

Financing hierarchy theory likewise offers a set of variables that are supposed to explain choice of liquidity. As in the static trade-off theory, the financing hierarchy theory also puts forward few variables like firm size, R&D to sales, capital expenditures and investment opportunities. However, the emphasis is different.

The financing hierarchy view is that firms that are larger are presumably more successful and should have more liquid assets, thereby suggesting a positive association between firm size (size) and demand for liquid assets.

If R&D (rdns) is considered to represent an investment opportunity, then the financing hierarchy model argues that firms that invest more should have fewer internal resources and hence would accumulate less cash.

Following the financing hierarchy theory, increasing the capital stock, the firm incurs expenditure (cpexna), which in turn reduces the internal financing capacity of a firm.

Firms that are able to exploit high investment opportunities (invop) are expected to have good return. High cash flows in turn build up the liquid reserves of the firm faster than its use. Thus, similar to the static trade-off model, the financing hierarchy model is also of the view that the investment opportunities of a firm are positively associated with liquidity.

The financing hierarchy theory also emphasizes variables like leverage, cash flow and dividend payments.

John (1993) is of the view that firms with access to the debt markets may consider borrowing or external financing as a substitute to maintaining a stock of liquid assets. Thus, firm's debt ratio (dtna) which proxies for the firm's access to external markets is expected to be negatively related to the demand for liquid assets by firms. But Anderson (2002) argued that the precautionary motive for corporate liquidity accounted for a positive relationship between liquidity and leverage. Thus, the impact of leverage on liquidity seems to be ambiguous.

Chudson (1945) opined that demand for liquid cash tend to be higher among profitable firms. If high cash flows can serve as a proxy for highly profitable firms, then the ratio of EBIT to total assets (cflow) can provide a ready source of liquidity to meet operating expenditures and maturing liabilities. Hence, high cash flows are expected to have a positive relation with liquid asset holding.

The transaction cost model as well as the financing hierarchy model states that the firms that pay more dividends (divd) should have lower demand for cash and marketable securities. This is because a firm that currently pays dividends can raise funds at low cost by reducing its dividend payments, in contrast to a firm that does not pay dividends or pays very little dividends and has to access the capital markets to raise funds. The proxy used is a dummy variable that takes a value one if the firm pays dividend.

Descriptive Statistics

Table1 presents the descriptive statistics of the variables used in the regression equations.

Table 1. Descriptive Statistics of the variables included in the regression.

	Mean	Median
cbna	0.0587	0.0275
nwcna	0.1542	0.1674
rdns	0.0032	0.0011
size	7.6453	7.1968
cpexna	0.0842	0.0623
invop	1.4632	0.2226
dtna	0.2768	0.2101
cflow	-0.1002	-0.013

Variability of the Key explanatory variables across Liquidity groups
This section is devoted to the comparisons of the key determinants of liquidity across four different liquidity groups. The first, second and third quartiles are used to classify the four different cash-to-assets or liquidity groups. For the purpose of classification, the quartiles are constructed for each year and the ranges of the cash-to- assets ratio are determined as the interval between the maximum and the minimum value of each quartile group. To avoid the overlapping of the ranges of the cash-to- assets ratio across quartiles, the study concentrates on continuous ranges. Firms with the lowest cash balances i.e less than the value of the first quartile are included under the first group; the second and third group includes firms with liquidity ratio between the first and second quartile and that of second and third quartile respectively. The fourth group includes firms with highest cash balances or cash balances greater than the third quartile. The null hypothesis that firm-characteristics differ across the different quartiles of corporate liquidity is tested by conducting a difference of means test and analysis of variance (ANOVA), from the first to the fourth quartile. The results are reported in table 2.

Table 2. Comparison of variables across liquidity groups.
(Independent t-test and ANOVA)

Variables	t-values	F-ratios
rdns	1.002	0.433
dtna	2.488*	2.851*
cflow	2.632*	3.261*
size	2.546*	2.778*
nwcna	1.041	1.225
invop	0.321	1.371
cpexna	0.952	0.986

** indicates significant at .01 level
* indicates significant at .05 level

Firms across the quartiles of cash holding differ significantly at the 5% level only with respect to the leverage, cash flow and size variables. This shows that leverage, cash flow and size variables affect liquidity choice differently across different liquidity groups. But, the variations are not monotonically related to the liquidity groups. The variation of rest of the variables or firm characteristics is statistically insignificant. This reflects some kind of homogeneity in the behaviour of different firm characteristics across liquidity groups. Although the variation of other factors discussed in the theoretical literature is not significantly prominent across broad liquidity groups, such factors can still be significant in influencing liquidity across firms. To control for the firm-specific effects, these factors are incorporated in the subsequent models.

Test for the Presence of Industry-specific effect
Before running the regression equation the presence of industry-specific effect is tested

by performing ANOVA on the liquidity ratio across industry groups. The results presented in tables 3a and 3b show almost absence of variation in liquidity ratios across industry groups excepting for four years. This implies that the nature of the industry does not play any crucial role in determining corporate liquidity at least in the Indian case. Moreover, as the models in the following sections are estimated by using the fixed effect specification of panel regression analysis, the firm-specific effect can take care of the industry-specific effect if any.

Table 3a. ANOVA of cbna across industry groups in the Pre-liberalisation period

Year	F-ratio
1981	1.599
1982	0.733
1983	0.629
1984	0.606
1985	1.083
1986	2.648**
1987	0.878
1988	0.603
1989	2.036*
1990	1.503

Table 3b. ANOVA of cbna across industry groups in the Post-liberalisation period

Year	F-ratio
1991	0.866
1992	2.109*
1993	1.195
1994	0.889
1995	1.628
1996	0.867
1997	0.926
1998	1.501
1999	1.099
2000	1.544
2001	1.329
2002	0.965
2003	0.721
2004	1.962*
2005	2.252*

The results show that the ratio of net working capital to assets is turning out to be significant with a consistently negative influence on liquidity, implying that higher is the net working capital, less is the demand for liquid assets. The ratio of R&D expenditure to sales is significant in explaining variation in liquidity, but contrary to the theoretical predictions, the direction of influence is negative. The increase in R& D expenditure acts as a positive signal about firm quality and results in better access to the capital market. Hence firms with high R&D expenditure include more debt in their capital structure and as such have less demand for liquid assets. Firm size is having a significant and negative influence and investment opportunities is having a positive influence on liquid asset holding, consistent with the predictions of the static trade-off theory. The ratio of capital expenditures to assets is also turning out to be significant but the direction of impact is negative which seems to contradict the theoretical predictions. This may be an indication of credit constraint. It may be argued that if a firm has less collateralizable assets, then the firm will have lower access to debt market. Lenders will be reluctant to lend to such a firm and the firm will be supply constrained. As a result, out of the precautionary motive such firms will hold more liquid assets. The structure break dummy is significant and positive.

Financing Hierarchy model

This section estimates the regression equation including explanatory variables offered by the financing hierarchy theory. The three new explanatory variables introduced are dtna or the ratio of total debt to net assets, cflow is cash flow defined as the ratio of PAT to net assets and divd, a dummy variable that takes a value 1if the firm declares a dividend, 0 otherwise. The explained variable is corporate liquidity. The results are given in table 5. The regression equation estimated is:

$$\mathbf{cbna}_{it} = \sum_{i=1}^{53} \beta_i \mathbf{d}_{ij} + \beta_1\, \mathbf{rdns}_{it} + \beta_2\, \mathbf{size}_{it} + \beta_3\, \mathbf{cpexna}_{it} + \beta_4\, \mathbf{invop}_{it} + \beta_5 \mathbf{dtna}_{it} + \beta_6 \mathbf{cflow}_{it} +$$

$$\beta_7 \mathbf{divd}_{it} + \beta_8 \mathbf{lib}_{it} + \beta_{it}$$,where firm- level dummies $d_{ij}=1$ if i=j and 0 elsewhere.

Table 5. Fixed Effect results of the Financing Hierarchy model.

Variables	Co-efficients & t-ratios in parentheses
rdns	-1.002 (0.67)
size	-0.167 (2.11)*
cpexna	-0.023 (1.42)
invop	0.012 (1.68)*
dtna	0.444 (0.65)
cflow	1.321 (7.86)**
divd	-0.0856 (2.24)*
lib	0.0747 (1.77)*
R2 = 0.33	**F(60,1264)= 10.08, N=1325**

F (11,76) at 5% level is 1.91
F (11,76) at 1% level is 2.48

Static Trade-off model
This section, analyzes the effectiveness of the explanatory variables offered by the static-trade off theory in influencing corporate liquidity by using panel regression technique. Here, the structural break dummy is also introduced to control for the impact of reforms on liquidity in the post-liberalisation period.

The regression equation estimated is:

$$\mathbf{cbna}_{it} = \sum_{i=1}^{53} \beta_i \mathbf{d}_{ij} + \beta_1 \mathbf{nwcna}_{it} + \beta_2 \mathbf{rdns}_{it} + \beta_3 \mathbf{size}_{it} + \beta_4 \mathbf{cpexna}_{it} + \beta_5 \mathbf{invop}_{it} + \beta_6 \mathbf{lib}_{it}$$

$+ \beta_{it}$, where firm- level dummies $d_{ij}=1$ if i=j and 0 elsewhere.

cbna is defined as the ratio of cash and bank balances to net assets where net assets is total assets minus cash,
nwcna is the ratio of net working capital to net assets,
rdns is the ratio of research and development expenditure to net sales,
size is real firm size or the natural logarithm of net sales ,
cpexna is the ratio of capital expenditure to net assets, where capital expenditure is defined as the change in gross fixed assets over time
invop is investment opportunity or the sum of the growth rates of net fixed assets and net working capital
lib is the structural break dummy that takes a value 1 if the year is greater than1993,1994; or equal to zero.

The results are reported in table 4.

Table 4. Fixed Effect results of the Static Trade-off model.

Variables	Co-efficients & t-ratio in parentheses
nwcna	-1.112 (11.06)**
rdns	-0.336 (1.77) *
size	-0.018 (2.29) **
cpexna	-0.923 (3.58) **
invop	0.034 (1.46)
lib	0.314 (1.96) *
R2 =0.52	**F(58,1266)=33.56, N=1325**

** indicates significant at .01 level
* indicates significant at .05 level

** indicates significant at .01 level,
* indicates significant at .05 level

The debt ratio or leverage is statistically insignificant in influencing liquidity. Cash flow and dividend payments turn to be significant. Cash flow is having a positive influence and dividend payment a negative influence, consistent with the financing hierarchy theory. Among the variables that are common to both the financing hierarchy and static trade-off theory, only firm size and investment opportunity are found to be significant. The direction of impact being negative for firm size, is not confirming to the financing hierarchy theory. However, investment opportunity is having a positive influence on liquidity, consistent with the theory. This lends supports to the fact that when it comes to investment decisions firms rely relatively more on internal liquidity. The other two explanatory variables viz. R&D expenditure to sales and capital expenditure to assets do not show any significant impact on the liquid assets held by firms. The structural break dummy continues to be significant and positive.

Static Trade-off and Financing Hierarchy models combined
This model considers the combined set of explanatory variables which are representative of the static trade-off and the financing hierarchy theory. The regression equation estimated is

$$\mathbf{cbna}_{it} = \sum_{i=1}^{53} \beta_i \mathbf{d}_{ij} + \beta_1\, \mathbf{nwcna}_{it} + \beta_2\, \mathbf{rdns}_{it} + \beta_3\, \mathbf{size}_{it} + \beta_4\, \mathbf{cpexna}_{it} + \beta_5\, \mathbf{invop}_{it} + \beta_6\, \mathbf{dtna}_{it}$$

$$+ \beta_7\, \mathbf{cflow}_{it} + \beta_8\, \mathbf{divd}_{it} + \beta_9\, \mathbf{lib}_{it} + \beta_{it}$$ where firm- level dummies $d_{ij}=1$ if $i=j$ and 0

elsewhere. The results are reported in table 6.

It is observed that just like the static trade-off model here also, the ratio of net working capital to assets is consistently significant and negative. The proxy for financial distress or the ratio of research and development to net sales is turning out to be weakly significant and investment opportunity is completely insignificant. Firm size is significant and negative, consistent with the static-trade-off theory. The other explanation for firm size as forwarded by the financing hierarchy theory does not hold true atleast in the Indian case. In contrast, the behaviour of the ratio of capital expenditure to assets confirms to that of the financing hierarchy theory. It is significant and having a negative influence on liquidity. Unlike the financing hierarchy model, where firm leverage is insignificant, here, firm leverage or the ratio of debt to assets is highly significant. The direction of impact is positive, which seems to reflect the precautionary motive of Indian firms to hold liquid assets to reduce the probability of default due to external borrowing. The cash flow is found to have consistently a strong positive influence on corporate liquidity. Thus, the behaviour of the cash flow variable confirms to the financing hierarchy model. The dummy variable that stands for the declaration of dividend by a firm is also significant and negative pointing to the fact that Indian firms follow conservative dividend policy.

It is noticed that the R-square of the static trade-off model and that of the financing hierarchy model approximately adds up to the R-square of the combined model. Moreover, an interesting observation is that few variables that are insignificant in the independent models turn out to be significant in the combined model. This seems to reflect the fact that the variables jointly are more powerful in determining corporate liquidity than independently and that distinctly sorting out the influence of these two

competitive models on liquid asset holding is a difficult task. Thus, it can be concluded that the two theories act as complements in determining corporate liquidity.

Table 6. Fixed Effect results of the combined (static trade-off and financing hierarchy models)

Variables	Co-efficients and t-ratios in parentheses
nwcna	-1.1211 (25.53) **
rdns	-0.4520 (1.55)•
size	-0.1352 (3.69) **
cpexna	-0.4521 (6.55) **
invop	0.0076 (1.32)
dtna	0.5647 (5.05) **
cflow	1.435 (9.15) **
divd	-0.0532 (1.89) *
lib	0.0221 (2.08)*
$R2 = 0.78$	**F(61,1263)=41.03, N=1325**

** indicates significant at .01 level, * indicates significant at .05 level
• indicates significant at .1 level

Conclusion

This study explores empirically the association between financial structure and the firm's choice of liquid asset holding. At the same time it tries to assess the relative strengths of the static trade-off and the financing hierarchy theories in explaining changes in liquid asset holding. Apparently the results seem to provide support for a static trade-off view; however, the two theories, static trade-off and financing hierarchy jointly explain liquid asset holdings better. An interesting observation is factors like firm size, capital expenditures, cash flow influence corporate liquidity in just the opposite direction with which they influence corporate leverage[9]. If liquid asset holding by firms increase with increase in any of the above cited factors, it is reflected in a simultaneous decrease in leverage ratio. Thus, it can be argued that variables that make debt costly for a firm are variables that make cash or liquid asset holding advantageous. Overall, it may be aptly concluded that debt and liquid asset holding are the two faces of the same coin.

The extent of developments in the Indian capital market after fifteen years from the initiation of reforms could not provide incentive to Indian firms to reduce their liquid asset holding. Two explanations can be put forward in favour of firms' holding more liquid assets in the post-liberalisation period. The firms may feel less protected in the post-liberalisation period and following the precautionary motive may be interested in holding more assets in liquid form. The alternative explanation is that firms may be holding higher amount of liquid assets so that they promptly respond to newer investment opportunities, which may be forthcoming due to economic liberalisation.

References

Anderson, R. and K. Nyborg, (2002):Financial Development, Agency, and the ace of Adoption of New Techniques, Louvian Economic Papers.

Barclay, M.J., and C.W. Smith Jr, (1996):The Maturity structure of corporate Debt, Journal of Finance, Vol.50, pp.609-631.

Chudson, W., (1945): The pattern of Corporate Financial structure", National Bureau of Economic Research, New York.

Das, S. and Roy, M., (2007): The Determinants of Debt-Equity Mix: The Evidence from India, Globsyn Management Journal, Vol.1, pp33-41.

Fazzari, S.M., Hubbard, R.G., and Peterson, B., (1988): Financing constraints and Corporate Investment, Brookings papers on Economic Activity, Vol.19, pp.141-195.

Frank, M.Z., and Goyal, V. K. (2003): Testing the Pecking Order Theory of Capital Structure, Journal of Financial Economics, Vol. 67, Issue 2, pp.217-248.

Jensen, M. and Meckling, W. (1976): Theory of the Firm - Managerial Behaviour, Agency Cost, and Ownership Structure. Journal of Financial Economics, Vol. 3, pp. 305-360.

Jenson, M.C., (1986): Agency costs of free Cash Flow, Corporate Finance and Takeovers, American Economic Review, Vol. 76, pp.323-339.

John, T.A., (1993): Accounting measures of Corporate Liquidity, leverage, and costs of Financial Distress, Financial Management, Vol.22, pp.91-100.

Kim, S.C., Mauer, D.C. , and Sherman, A.E. (1998): The Determinants of Corporate Liquidity - Theory and Evidence, Journal of Financial and Quantitative Analysis, Vol.33, pp. 305-360.

Morellec, E. (2001): Asset Liquidity, Capacity choice and the pricing of Corporate Securities, Journal of Financial Economics, Vol.61, pp.173-206

Myers, S. (1977): Determinants of Corporate Borrowing. Journal of Financial Economics, Vol.5, pp.147-175

Myers, S. and N., Majluf, (1984): Corporate Financing and Investment Decisions when Firms have Information that Investors do not have. Journal of Financial Economics, Vol.13, pp. 187-221

Myers, S. and Rajan, R.G., (1998): The Paradox of Liquidity, Quarterly Journal of Economics, Vol.5, pp.733-771.

Opler, T., L. Pinkowitz, Stulz, R. and Wiliamson, R. (1999): The Determinants and Implications of Corporate Cash Holdings, Journal of Financial Economics, Vol.52, pp3-46.

Seifert, B. and Gonenc, H. (2008): The International Evidence on Pecking Order Hypothesis", Journal of Multinational Financial Management, Vol.18, Issue3, pp.244-260

Shyam-Sunder, L. and Myers, S. C. (1999): Testing Static-Trade-off against Pecking Order Models of Capital Structure, Journal of Financial Economics, Vol. 51, Issue 2, pp 219-244

Smith, C.W. and Watts, R.L. (1992): The Investment opportunity set and Corporate Financing, Dividend and Compensation Policies, Journal of Financial Economics, Vol.32, pp.263-292

Titman, S. and Wessels, R., (1988): The Determinants of Capital Structure Choice, Journal of Finance, Vol.43, pp.1-19

Tong, G. and Green, C.J. (2004): Pecking Order or Trade-off Hypothesis? Evidence on the Capital Structure of Chinese Companies, Working Paper series

White, H., (1980): A Heteroskedasticity- consistent covariance matrix estimator and a direct test for heteroskedasticity, Econometrica, Vol.48, pp.817-838.

Corporate Governance Ratings and its Impact on Stock's Performance

Garima Mathur*, Navita Nathani
& Silky Vigg

Abstract
This paper addresses the relationship between corporate governance rating and stock performance. The paper empirically investigates firstly whether corporate governance rating is significantly related with the stock performance of the companies which were rated highest in Corporate Governance through ICRA up to December 2008 and secondly can one rely on rating agency while choosing a portfolio. Corporate Governance is the way in which companies are directed, controlled and considers issues such as the relationship between shareholders, directors and auditors. The emphasis of ICRA's CGR is on a corporate's business practices and quality of disclosure standards that address the requirements of the regulators and are fair and transparent for its financial stakeholders. The study revealed that there is no significant relationship between the ICRA's Corporate Governance Ratings and stock's performance.

Key Words
Corporate Governance, CGR

Introduction

The corporate governance practices prevalent in a company reflect the distribution of rights and responsibilities among different participants in the organisation such as the Board, management, shareholders and other financial stakeholders, and the rules and procedures laid down and followed for making decisions on corporate affairs.

Mc Gregor (2000) define, "Governance is the process whereby people in power make decisions that create, destroy or maintains social systems, structures and processes. Corporate governance is therefore the process whereby people in power direct, monitor and lead corporations, and thereby either create, modify or destroy the structures and systems under which they operate. Corporate governors are both potential agents for change and also guardians of existing ways of working. As such, they are therefore a significant part of the fabric of our society." The author described the corporate governance as a social process intended to help oraganisations to monitor themselves and hence can make a better organization. Where as Gopal (1998) views that Corporate governance primarily hinges on complete transparency, integrity and accountability of the management .... there is also an increasingly greater focus on investor protection and public interest.

Garima Mathur, Faculty, Prestige Institute of Management, Gwalior.
Navita Nathani, Faculty, Prestige Institute of Management, Gwalior.
Silky Vigg, Lecture, Jagannath International Management School, Vasant Kunj, New Delhi.
*Email: hello_garima@yahoo.co.in

The OECD paper defines corporate governance as involving "a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently."

Van Den Berghe and De Ridder (1999) have described corporate governance broadly in two categories: the first one defines corporate governance in terms of processes and outcomes and the second category focused on relationships. Demb & Neubauer (1992a) state that 'Corporate Governance is the process by which corporations are made responsive to the rights and wishes of stakeholders'. Monks & Minow (1995) wrote that: 'It is the relationship among various participants in determining the direction and performance of corporations'. While Tricker (1994:xi) states 'Corporate governance addresses the issues facing boards of directors, such as the interaction with top management, and relationships with the owners and others interested in the affairs of the company, including creditors, debt financiers, analysts, auditors and corporate regulators'. Studies of Baure et al. (2003) are based on ratings of one or two years only, assuming that governance ratings should remain constant for a number of years. Without time series data, researchers cannot study how firms adjust their governance structure over time, or analyze the causality between governance and firm performance found in Black et al. (2002). A recent study by Leora, Klapper and Love (2004) find that differences in firm-level contracting environment would affect a firm's choice of governance mechanisms, in line with arguments put forth in Himmelberg et al. (1999). In the researches conducted on firm performance (Demsetz and Villalonga, 2001) fail to find significant relationship between ownership and performance. Whereas Cho (1998) concludes that investment affects corporate value and in turn corporate value affects ownership but not the opposite is not possible.

Zingales (1998) and Williamson (1985) expresses the view that "allocation of ownership, capital structure, managerial incentive schemes, takeovers, board of directors, pressure from institutional investors, product market competition, labour market competition, organisational structure, etc., can all be thought of as institutions that affect the process through which quasi-rents are distributed". He therefore defines "corporate governance" as "the complex set of constraints that shape the ex-post bargaining over the quasi-rents generated by a firm".

ICRA's Corporate Governance Rating (CGR)

ICRA's Corporate Governance Rating (CGR) is meant to indicate the relative level to which an organisation accepts and follows the codes and guidelines of corporate governance practices. The emphasis of ICRA's CGR is on a corporate's business practices and quality of disclosure standards that address the requirements of the regulators and are fair and transparent for its financial stakeholders.

ICRA's credit ratings basically represent current opinion on the relative credit risks associated with the rated debt obligations/issues. These ratings are assigned on an Indian (that is, national or local) credit rating scale for Rupee (local currency) denominated debt obligations. ICRA ratings are relative rankings of credit risk within India. These ratings

are not designed to enable any rating comparison among instruments across countries; rather these address the relative credit risks within India.

ICRA's ratings (other than Structured Finance Ratings) in the investment grade generally convey the relative likelihood of default, that is, the possibility of the debt obligation not being met as promised. All other ratings, including Structured Finance Ratings, reflect both the probability of default and the severity of loss on default, that is, the expected loss against the rated debt obligation. Credit ratings apart, ICRA also assigns Corporate Governance Ratings, besides Performance Ratings, Gradings and Rankings to mutual funds, construction companies and hospitals, which have different meanings.

Review of Literature

Garvey and Swan (1994) assert that "governance determines how the firm's top decision makers (executives) actually administer such contracts". Shleifer and Vishny (1997) define corporate governance by stating that it "deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". In the similar parlance a concept is suggested by Caramanolis-Cötelli (1995), who regards corporate governance as being determined by the equity allocation among insiders (including executives, CEOs, directors or other individual, corporate or institutional investors who are affiliated with management) and outside investors. Hart (1995) closely shares this view as he suggests that "corporate governance issues arise in an organisation whenever two conditions are present. First, there is an agency problem, or conflict of interest, involving members of the organisation - these might be owners, managers, workers or consumers. Second, transaction costs are such that this agency problem cannot be dealt with through a contract".

A considerable amount of research has been done over comparative corporate governance structures, especially between the US, Germany and Japan models (Shleifer and Vishny, 1997) and a number of initiatives taken by stock market and other authorities with recommendations and disclosure requirements on corporate governance issues.

Chakrabarti (2005) proposes that high-profile corporate governance failures in developed countries have brought the subject to media attention and it was an important issue for developing countries since it is central to financial and economic development. The research established that financial development is largely dependent on investor protection in a country. The author further states that the India has one of the best corporate governance laws but poor implementation together with socialistic policies which has affected corporate governance. One more study on corporate governance by (Arun et al, 2004) explain that a broader view of corporate governance should be applied to the banking sector, considering the special nature of this sector. They pointed out that corporate governance of banks in developing economies was much more influenced by political decisions than other corporate governance issues.

Berth et al (2001) demonstrate that regulation and supervisory systems that foster more accurate information disclosure empower private investor's legal rights, and does not offer very generous deposit insurance substantially boost banking system performance and stability. Wang et al (2003) examined the relationship between corporate governance and innovation in the Chinese banking sector. Drawing on interviews with senior managers and employees in state-owned, joint-holding and foreign banks, they examined the nature of the challenges faced by different types of firms in the context of reform and globalisation.

Firms with different ownership structures respond to the challenges in ways that reflect different resource allocation and commitment mechanisms.

Doidge et al (2004) studied the importance of particular country characteristics - such as legal protections for minority investors, and the level of economic and financial development - in creating and improving national measures for governance and transparency. They found that at a given level of country investor protection, better governance mechanisms are more likely to be accepted at the firm level as a country's financial and economic development improves.

Chen et. al. (2007, 2008) conducted a study on Taiwanese Listed Companies and investigated whether corporate governance characteristics, mandated by the Corporate governance Best-Practice Principles (CGBPP) for companies listed in Taiwan, are associated with earnings management. In particular, we examine whether the independence, financial expertise, and voluntary formation of independent directorship (supervisorship) are associated with the absolute value of discretionary accruals. Their findings suggest that the independence of supervisors, financial expertise of independent directors, and voluntary formation of independent directorship (supervisorship) are associated with lower likelihood of earnings management. These findings are stronger after the CGBPP was enacted, suggesting that the implementation of CGBPP has lowered the likelihood of earnings management.

Objectives

1. To calculate returns of the stocks selected.
2. To establish relationship between stock's performance and corporate governance ratings.

Hypothesis Formation

To find out relationship between ratings and stock performance a hypothesis was formed:
H01: It states that there is no significant effect of Corporate Governance Ratings on stock performance.

Research Methodology

The study was an attempt to portray the difference between corporate governance ratings and returns of the stocks. Corporate governance ratings were taken from ICRA rating agency and stocks performance were taken from S & P CNX NSE-500. The data was collected from the NSE web site of a quarter. The sampling frame of the study was from August 1, 2008 to December 31, 2008.

Tools for data analysis

ϕ Kolmogorove-Smirnov one sample test for normality was applied to check the normal distribution.

ϕ Linear regression was applied to find out the relationship between stock's performance and ratings.

Results and Discussions

Normality Test

Before going for further analysis the data was checked for the normality assumption. Normality was checked through Kolmogorov-Smirnov test. This test assesses whether there is a significant departure from normality in the population distribution for the

sample. The null hypothesis states that population distribution is normal. The Z values were 0.657 & 0.422 and the p-value (significant level) are more than 0.05 hence, the null hypothesis is not rejected and we can conclude that these data do not violate the normality assumption (Table 1 & 2).

NPar Tests

Table 1. One-Sample Kolmogorov-Smirnov Test

		Prices
N		7
Normal Parameters[a]	Mean	-.5958
	Std. Deviation	1.15932
Most Extreme Differences	Absolute	.248
	Positive	.229
	Negative	-.248
Kolmogorov-Smirnov Z		.657
Asymp. Sig. (2-tailed)		.781

a. Test distribution is normal

NPar Tests

Table 2. One-Sample Kolmogorov-Smirnov Test

		Ratings
N		7
Normal Parameters[a]	Mean	2.2857
	Std. Deviation	.95119
Most Extreme Differences	Absolute	.332
	Positive	.332
	Negative	-.239
Kolmogorov-Smirnov Z		.879
Asymp. Sig. (2-tailed)		.422

a. Test distribution is normal

Regression

Hence, linear regression was applied to know the relationship between returns and ratings.

ANOVA[b]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	.374	1	.374	.243	.643[a]
Residual	7.690	5	1.538		
Total	8.064	6			

a. Predictors: (Constant), Ratings
b. Dependent Variable: Prices

The ANOVA table summary indicates that the value of F is (.243) at significance level 64.3% and the value of F is not significant at 5% level of significance (t = -.493, significant at 64.3%).

Coefficients[a]

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	.004	1.304		.003	.997
Ratings	-.263	.532	-.215	-.493	.643

a. Dependent Variable: Returns

Regression equation for stock's return and ratings
Corporate Governance ratings = .004 + (-.263) (Stock's Return)

The beta value (-.263) indicates negative relationship between the stock's return and ratings, though insignificant. Results of regression clearly show that the ratings do not affect returns and the effect is still not significant. Therefore, the regression equation explains all the significant variations in dependent variable i.e the predictive accuracy of the regression equation is good. Hence, the null hypothesis is not rejected. Similar results were extracted in the study conducted by Drobetz et al (2004). Through these results it can be understood that although many organizations like ICRA are listing organizations in fulfilling their Corporate Governance responsibilities still there are chances that the company's return may not go in alignment with there Corporate Governance ratings. Hence, while making an investment portfolio one should think twice to rely on such ratings.

Conclusion
Corporate governance is involving a set of relationships between a company's management, its board, its shareholders, and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently.

Hence one can say that corporate governance ratings could be considered as true measure for selecting a company for investment. But the study predicts that the ratings and stock's excess returns are not at all correlated.

References

Arun, T.G. & J.D Turner (2004): Corporate Governance of Banks in Developing Economies: Concepts and Issues. Corporate Governance: An International Review, 12(3), 371-377.

Bauer, R., Gunster, N. and Otten, R., (2003): Empirical evidence on corporate governance in Europe. Journal of Asset Management, forthcoming.

Berth, J., G. Caprio & R. Levine (2001): The Regulation and Supervision of Banks around the World. World Bank, Working Paper. Retrieved on February 14, 2008, from http://ideas.repec.org/p/wbk/wbrwps/2588.html.

Black, B. (2001): The Corporate Governance behavior and market value of Russian firms. Emerging Markets Review 2, 89-108.

Black, B., Jang, H. and Kim, W. (2002): Does Corporate Governance affect firm value? Evidence from Korea. Working paper, Stanford Law School, Korea University Business School, and KDI School of Public Policy and Management.

Caramanolis-Cötelli, B. (1995): External and Internal Corporate Control Mechanisms and the Role of the Board of Directors: A Review of the Literature, Working Paper nr 9606, Institute of Banking and Financial Management.

Chakrabarti, Rajesh (2005): Corporate Governance in India- Evolution and Challenges. Retrieved on February 10, 2008 from http://ssrn.com/abstract=649857

Chen, Ken Y., Elder, Randal J. and Hsieh, Yung-Ming (2007,2008): Corporate Governance and Earnings Management: The Implications of Corporate Governance Best-Practice Principles for Taiwanese Listed Companies. Journal of Contemporary Accounting and Economics, Forthcoming. Available at SSRN: http://ssrn.com/abstract=981926

Cho, M.H. (1998): Ownership structure, investment, and the corporate value: an empirical analysis. Journal of Financial Economics 47, 103-121.

Demb, Ada & F. Friedrich Neubauer (1992): The corporate Board: Confronting the Paradoxes, Oxford University Press, Oxford.

Demsetz and Villalonga (2001): Ownership structure and corporate performance, Journal of Corporate Finance, Vol.7, pp.209-233.

Doidge, Craig, G. Andrew Karolyi and René M. Stulz (2004): Why Do Countries Matter So Much for Corporate Governance? Working Paper 10726. NBER Working Paper Series.

Drobetz W. , Schillhofer A & Zimmermann H. (2004): "Corporate Governance and Expected Stock Returns: Evidence from Germany", European Financial Management, Volume 10, Number 2, pp. 267-293 (27).

Garvey, G., and P. Swan, (1994): The Economics of Corporate Governance: Beyond the Marshallian Firm, Journal of Corporate Finance 1, 139-174.

Gopal K. (1998): Emerging Trends in Corporate Governance", Indian Management, Vol. October, pp.12.

Hart, O., (1995): Corporate Governance, Some Theory and Applications", The Economic Journal 105, 687-689.

Himmelberg, C.P. Hubbard, R.G., and Palia, D. (1999): Understanding the determinants of managerial ownership and the link between ownership and performance. Journal of Financial Economics 53, 353-384

Klapper, L.F. and Love, I., (2004): Corporate governance, investor protection, and performance in emerging markets. Journal of Corporate Finance, vol. 10, no. 5, 703-728

McGregor Lynn (2000): The Human Face of Corporate Governance, Palgrave: New York.

Monks, RAG and Minow, N (1995): Corporate Governance, Blackwell:Cambridge.

OECD (2004) OECD Principles of Corporate Governance. Paris: OECD.

Organisation for Economic Cooperation & Development (OECD) (2004), "OECD principles of corporate governance", available at: www.oecd.org/dataoecd/19/29/23888981.pdf,

Rajan, R., and Zingales, L. (1998): The Tyranny of the Inefficient: an Enquiry Into the Adverse Consequences of Power Struggles, Working Paper, University of Chicago.

Shleifer, A., and R. Vishny (1997): A Survey of Corporate Governance, Journal of Finance 52, 737-783.

Tricker R I (1994), International Corporate Governance, Simon and Schuster, Singapore.

Van den Berghe, L., De Ridder, L. (1999): International Standardisation of Good Corporate Governance, Kluwer Academic Publishers, Dordrecht, .

Wang, Duo & Marcela Miozzo (2003): Corporate Governance and Innovation in the Chinese Banking Sector. Retrieved on February 13, 2008, http://www.innovation_enterprise.com/6.1/6.1.25.php.

Williamson, O. (1985): The Economic Institutions of Capitalism, New York:The Free Press

Zingales, L., (1998): Corporate Governence, Discussion Paper Series no. 1806; London: Centre for Economic Policy Research

Evaluation of Internet Banking Sites in India Based on the Functionality Dimension

Bijith Marakarkandy*
Ashish Daptardar

Abstract

Purpose

The purpose of this study is to evaluate the internet banking websites of public, private and foreign banks operating in India.

Design / methodology / approach

This study uses a model proposed by Diniz et al to evaluate the websites from the users view point based on the functionality dimension. The internet banking websites of 26 public, 20 private, and 6 foreign banks in India were investigated by manually accessing them.

Findings

Results indicate that foreign banks and private banks have a high overall score compared to public sector banks in the internet banking site evaluation process that was done. Private sector and foreign banks lack a strong branch network in India and they were in the forefront of adopting innovative service delivery channels like internet banking.These banks being first movers in adopting internet banking still have a competitive advantage over the traditional public sector banks.

Research Limitations/Implications

A review of the literature on website quality assessment reveals that there are several website assesement tools e-ServQual (Zeithaml et al 2002) , Quality evaluation method (QEM) (Olsina et al 1999), WebQual (Barnsteadl 2000),Website assessment index (WAI) (Buenadicha et al,2001). The scope of this study is limited to the methodology by Diniz et al (2002) and the primary limitation is no attempt has been made to compare the findings vis-à-vis other methods found in the literature. The second limitation is that as the web is dynamic and the data collected and verified during the course of research may change with time and results may change. The third limitation is that the web evaluation scores presented in this paper is based on the functionality dimension and may change if reliability and usability dimensions are considered.

Originality/Value

The internet banking environment is very dynamic due to constant changes in web technology an understanding of the users viewpoint is necessary for policy making. This paper contributes to the literature by evaluating the internet banking websites based on users view point of banks in India and will allow bankers to identify grey areas and to take corrective action by introducing facilities and features on their banks web pages.

Keywords

Internet Banking, Electronic Banking, Content Analysis, Web Design, India

Bijith Marakarkandy, SBM, NMIMS University and Ashish Daptardar, D.J.Sanghvi College of Engineering
*bijith@djscoe.org

Introduction

Internet usage in India continues to grow. Recent findings by internet world stats indicate that India is among the top five countries with highest number of internet users. Table 1 depicts the number of internet users by country.

Table 1: Top five countries with highest number of internet users (World Internet User Statistics as on June 30, 2008.)

Country or Region	Internet Users, Latest Data	Penetration (% Population)	% of World Users	Population (2008 Est.)	User Growth (2000 - 2008)
China	253,000,000	19.0 %	17.3 %	1,330,044,605	1,024.4%
United States	220,141,969	72.5 %	15.0 %	303,824,646	130.9 %
Japan	94,000,000	73.8 %	6.4 %	127,288,419	99.7 %
India	60,000,000	5.2 %	4.1 %	1,147,995,898	1,100.0 %
Germany	52,533,914	63.8 %	3.6 %	82,369,548	118.9 %

Foreseeing this trend ICICI bank introduced internet banking in India in 1996 other banks followed. 1996 - 1998 was the adoption phase of internet banking for most Indian banks. Internet banking in India actually picked up only in 1999 due to the increased PC penetration and decrease in Internet Service Provider (ISP) charges. A high level committee headed by the ex-governor of Reserve Bank of India (RBI) Mr. M . Narasimham appointed by the government of India recommended methods to improve efficiency, productivity and profitability of banking sector by allowing operational and functional autonomy. The Information Technology Act, 2000 to remove the loopholes in the e- commerce transactions provided legal recognition to electronic documents this enabled appointment of certification authorities to certify digital signatures, ensuring confidentiality of data. The Information technology Act, 2000 also suggests punishments and penalties for cyber crimes. These bold steps taken by the government of India provided an impetus to the growth of Internet banking.

Internet banking websites of banks in India provide a host of services which includes bill payment of mobile phone, telephone, electricity, water, gas, credit card, e-rail reservations, movie tickets, account enquiry, fund transfer, insurance premium payments, online trading, stop payments, deposit renewal requests for cheque book, demand drafts, fund transfer .As this channel of delivering products and services have several advantages banks are trying their best to improve their web based services. This paper analyses and evaluates the web site quality of the banks based on its contents and characteristics and presents the results.

Structure of the Banking System in India

The banks operating in India can be categorized as Public sector banks, old private sector banks, the private sector banks and foreign banks .

Central Bank	Reserve Bank of India (regulates, controls credit, issues licenses and functions as banker of all bankers and government)
Nationalized Banks	Allahabad Bank · Andhra Bank · Bank of Baroda · Bank of India · Bank of Maharashtra · Canara Bank · Central Bank of India · Corporation Bank · Dena Bank · Indian Bank · Indian Overseas Bank · Oriental Bank of Commerce · Punjab & Sind Bank · Punjab National Bank · Syndicate Bank · Union Bank of India · United Bank of India · UCO Bank · Vijaya Bank · IDBI Bank
State Bank Group	State Bank of India · State Bank of Bikaner & Jaipur · State Bank of Hyderabad · State Bank of Indore · State Bank of Mysore · State Bank of Saurashtra · State Bank of Patiala· State Bank of Travancore
Private Banks	Axis Bank · Bank of Rajasthan · Catholic Syrian Bank · Centurion Bank of Punjab · City Union Bank · Development Credit Bank · Dhanalakshmi Bank · Federal Bank · HDFC Bank · ICICI Bank · IndusInd Bank · ING Vysya Bank · Jammu & Kashmir Bank · Karnataka Bank Limited · Karur Vysya Bank · Kotak Mahindra Bank · Lakshmi Vilas Bank ·Nainital Bank·Ratnakar Bank· SBI Commercial and International Bank Ltd. · South Indian Bank · Tamilnad Mercantile Bank · YES Bank
Foreign Banks	ABN AMRO Bank·Abu Dhabi Commercial Bank Ltd. ·Arab Bangladesh Bank Ltd. · American Express Banking Corp. · Antwerp Diamond Bank. · Bank International Indonesia· Bank of America ·Bank of Bahrain & Kuwait ·Bank of Nova Scotia ·Bank of Tokyo- Mitsubishi Ltd. ·BNP Paribas Bank of Ceylon · Barclays Bank Plc. · Calyon Bank· Citi Bank· Shinhan Bank· China Trust Commercial Bank ·Deutsche Bank · DBS Bank Ltd. · HSBC· J.P.Morgan Chase Bank · Krung Thai Bank Public Co.Ltd. · Mizuho Corporate bank Ltd. · Mashreq bank · Oman International Bank· Standard Chartered Bank· Sonali Bank· Societe Generale· State Bank of Mauritius· Bank of Scotland
Regional Rural Banks	South Malabar Gramin Bank · North Malabar Gramin Bank · Pragathi Gramin Bank · Shreyas Gramin Bank

Need for developing and promoting internet banking in India

The number of people per branch in different countries is shown in the table 2

Table 2: People per branch in different countries

Country	People per branch
France	1587
Germany	1945
United States	2720
Japan	3968
Hong Kong	4545
Sweden	4672
Canada	6410
India	15000

This indicates that India is a highly under-banked country.

Table 3 shows the number of bank branches and ATMs in different areas in India. (As at end-March 2008)

Table 3: Number of bank branches and ATMs in different areas in India (as at end March 2008)

Bank Group	**Number of bank branches**					**Number of ATMs**		
	Rural	Semi -urban	Urban	Metropolitan	Total	On-site	Off-site	Total
Nationalized bank	13,198	8,140	8,440	7,997	37,775	8,320	5,035	13,355
State Bank group	5,328	4,545	2,820	2,421	15,105	4,582	3,851	8,433
Old private sector banks	808	1,498	1,270	874	4,450	1,436	664	2,100
New private sector banks	223	870	1,147	1,285	3,525	3,879	5,988	9,867
Foreign banks	0	2	48	224	274	269	765	1,034
Total	19,557	15,055	13,725	12,801	61,129	18,486	16,303	34,789

Table 3 clearly shows that foreign banks have no presence in rural areas. Foreign and private banks are focusing attention on cities. The Reserve Bank of India (RBI) has been taking steps to impose on banks to open more branches in rural areas. However the economics of running a "brick and mortar" branch business model is expensive as nearly 30 percent of the cost goes for the upkeep of the real estate. In order to improve their profits banks need to reduce their operational cost by adopting a "click and mortar" business model that supplements conventional banking with internet banking this offers a cost efficient route for providing services rather than vast branch banking network. The use of technology will also provide new avenues to banks to expand their outreach, especially in the remote and rural areas.

Research frame work
This paper investigates the content and characteristics of internet banking websites in India based on a model proposed by Diniz et al.

Dinz et al. (1998) categorize web services on direction of the information flow between the users and the corporation over the Web. The major element of this categorization is its focus on the services offered, which are divided into the following three types:

- Dissemination: as a vehicle to publish information
- Transaction: as a channel to perform transactions
- Relationship: as a tool to improve relationship with users

In addition to the above categorization, there is also a second dimension involved which subdivides each category into three parts. They are

- Basic services
- Intermediate services
- Advanced services

As the bottom line for the bank customer is to get all financial needs on one preferred site. And hence this model for evaluation was chosen.

The websites of public sector, private sector and foreign banks were investigated and the services and products that were offered were categorized into basic, intermediate and advanced as illustrated in table 4.

Table 4: Categorization of website services based on the functionality dimension

	Basic	**Intermediate**	**Advanced**
Dissemination	News Interest Rates Policies and Guidelines	Search Tool Downloadable documents Form links	Use of Flash Advertisement
Transaction	Statement of account Cheque book request Demand draft request	Balance Enquiry Bill Payment Fund Transfer Stop payment request	Online Trading Online Tax payment
Relationship	Email FAQ Phone helpline	EMI calculator Branch locator Loan application	E-rail reservation Airline Booking Online Shopping

A score of one is assigned for the presence of the feature and zero for the absence of the feature based on table 4. A maximum score of 8 for dissemination, 9 for transaction and 9 for relationship. Based on these scores the most well developed website will have a maximum score of 26.52 banks having internet banking facility were chosen in the study of which 26 were public sector banks, 20 were private sector banks and 6 were foreign sector banks.

Public sector banks

Table 5: Public sector bank website evaluation scores

	Dissemination			Transaction			Relationship			Overall			
NAME OF THE BANK	Bas	Int	Adv	Bas	Int	Adv.	Bas	Int	Adv	Dis.	Trans	Rel	Overall
Andhra Bank	3	2	2	3	4	1	2	1	1	7	8	4	19
Allahabad Bank	3	3	2	1	2	1	3	3	0	8	4	6	18
Bank of Baroda	3	3	1	3	4	2	3	3	1	7	9	7	23
Bank of India	3	3	2	3	3	3	2	3	2	8	9	7	24
Bank of Maharashtra	2	2	1	2	2	1	3	3	0	5	5	6	16
Canara Bank	2	3	2	3	4	2	2	3	0	7	9	5	21
Central Bank of India	2	3	2	3	4	2	3	2	0	7	9	5	21
Corporation Bank	2	3	2	3	4	2	2	3	1	7	9	6	22
Dena Bank	3	3	2	1	4	1	3	3	0	8	6	6	20
Indian Bank	3	3	2	1	2	2	2	3	1	8	5	6	19
Indian Overseas Bank	2	3	2	1	3	1	3	2	0	7	5	5	17
IDBI Bank	2	2	2	2	3	1	3	3	2	6	6	8	20
Oriental Bank of Commerce	3	3	2	1	4	2	3	3	2	8	7	8	23
Punjab & Sind Bank	2	2	2	0	3	1	3	2	0	6	4	5	15
Punjab National Bank	3	3	2	3	4	2	3	2	3	8	9	8	25
State Bank of India	3	1	1	3	3	2	3	2	3	5	8	8	21
State Bank of Bikaner & Jaipur	1	2	1	3	2	1	3	1	1	4	6	5	15
State Bank of Indore	1	2	1	2	2	2	3	1	1	4	6	5	15
State Bank of Patiala	0	2	1	2	2	2	3	1	1	3	6	5	14
State Bank of Travancore	1	2	2	2	2	2	3	2	1	5	6	6	17
State Bank of Hyderabad	1	2	2	2	2	1	3	1	1	5	5	5	15
State Bank of Mysore	0	2	1	2	2	2	3	1	1	3	6	5	14
Syndicate Bank	2	3	2	3	4	1	3	3	1	7	8	7	22
Union Bank of India	2	3	2	3	4	2	3	3	1	7	9	7	23
UCO Bank	3	3	2	3	3	1	3	2	0	8	7	5	20
United Bank of India	2	3	0	1	3	1	3	2	0	5	5	5	15

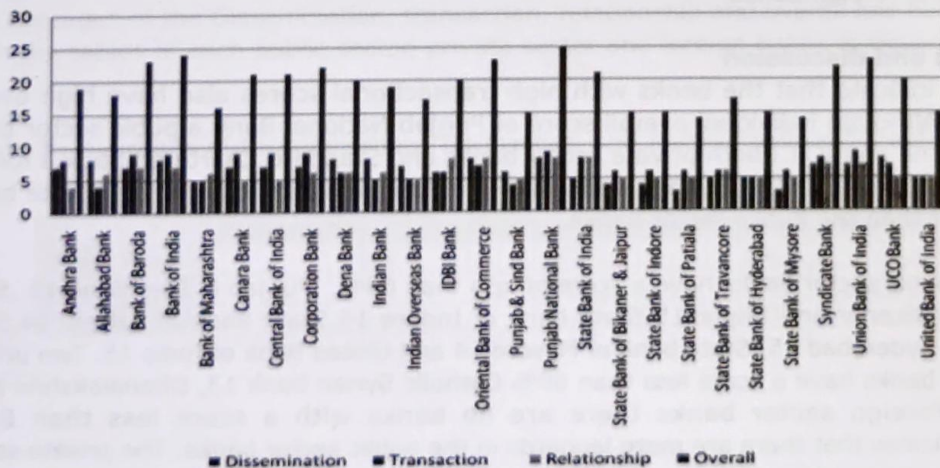


Fig 1: Bar graph showing web banking evaluation scores of public sector banks.

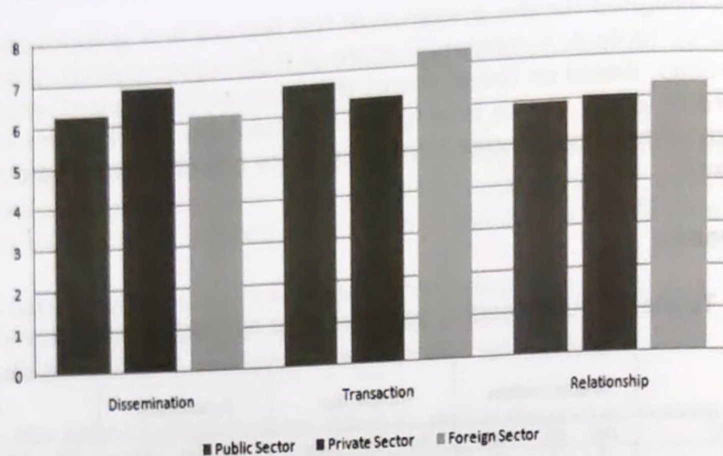


Fig 4: Bar graph showing web banking evaluation scores based on dissemination, transaction and relationship dimension of public sector, private sector and foreign banks.

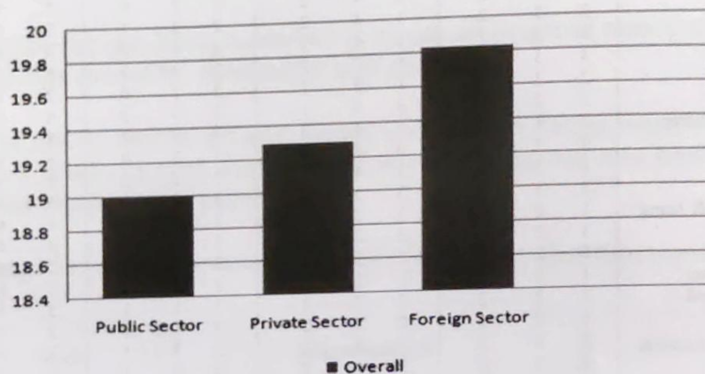


Fig 5: Bar graph showing overall web banking evaluation scores of public sector, private sector and foreign banks.

Results and discussion

Results indicate that the banks with high transactional scores also have high overall scores. Although individual overall score of Punjab National Bank a pubic sector bank, HDFC bank and ICICI both private sector banks and Standard Chartered bank a foreign bank is the highest. The average performance of foreign banks followed by private banks is higher than the Public sector banks.

Seven pubic sector banks have a score of less than 60%. Punjab & Sind Bank 15 ,State bank of Bikaner and Jaipur 15,State bank of Indore 15,State bank of Patiala 14,State bank of Hyderabad 15, State bank of Mysore 14 and United Bank of India 15. Two private sector banks have a score less than 60% Catholic Syrian bank 13, Dhanalakshmi bank 14 In foreign sector banks there are no banks with a score less than 60%. This indicates that there are more laggards in the public sector banks. The private sector banks and foreign banks were the first movers in adopting technologically innovative delivery channels i.e. internet banking and therefore have an advantage over pubic sector banks.

Table 7: Foreign sector bank website evaluation scores

NAME OF THE BANK	Dissemination			Transaction			Relationship			Overall			
	Bas.	Int	Adv	Bas.	Int.	Adv.	Bas	Int	Adv	Dis.	Trans	Rel	Overall
ABN-Amro Bank	3	1	2	2	4	1	2	1	1	6	7	4	17
Barclays Bank	1	2	2	3	4	0	3	2	0	5	7	5	17
Citi Bank	2	2	2	2	4	0	3	3	1	6	6	7	19
Deutsche Bank	2	2	2	2	3	2	3	2	2	6	7	7	20
HSBC	3	3	1	3	4	1	3	3	0	7	8	6	21
Standard Chartered Bank	3	2	2	3	4	2	3	3	3	7	9	9	25

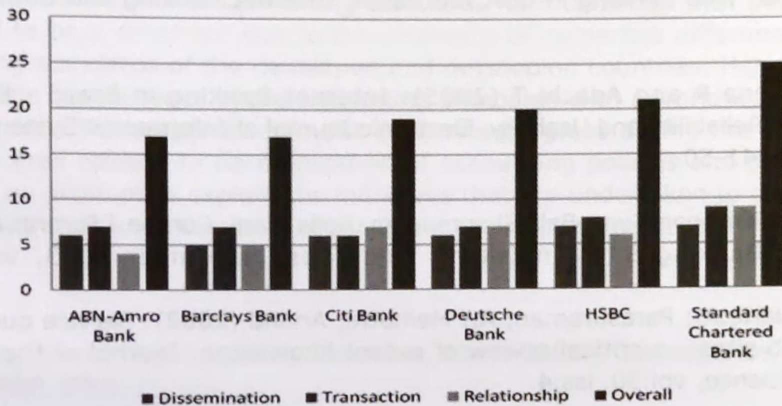


Fig 3: Bar graph showing web banking evaluation scores of foreign sector banks.

Comparison of the web evaluation scores of public sector private sector and foreign banks The averages of the Dissemination, transaction, relationship and overall has been taken from the tables of each public sector, private sector and foreign banks is shown in table 8.

Table 8: Averages of Dissemination, Transaction and Relationship and Overall scores

	Dissemination	Transaction	Relationship	Overall
Public Sector	6.26	6.76	5.96	19
Private Sector	6.9	6.35	6.05	19.3
Foreign Sector	6.16	7.33	6.33	19.83

Conclusion

The new private sector and foreign banks lack a strong branch network in India and they were in the forefront of adopting innovative service delivery channels like internet banking. Public Sector banks recorded significant progress in fully computerizing their branches. The number of fully computerized branches was 93.7 per cent at the end of March 2008. This indicates that public sector banks are not far behind and may soon catch up with the foreign and private sector banks in adopting internet banking However in India a large proportion of population does not understand technology and would be excluded if the human face of the bank totally disappears therefore a judicial mix of both physical and electronic channel of service delivery is recommended

References

Olsina,L., Godoy D,.Lafuente G.J.and Rosi G (1999): Specifying quality characteristics and attributes for websites, First ICSE Workshop on Web Engineering, Los Angeles ,USA

Diniz E (1998) Web banking in USA Journal of Internet Banking and Commerce,Vol.3, No.2, June

Diniz E, Morena R and Adachi T (2005): Internet Banking in Brazil - Evaluation of Functionality, Reliability and Usability, Electronic Journal of Information Systems Evaluation vol 8, no1,pp 41-50

Balachandher Krishnan Guru, Bala Shanmugam, Nafis Alam, Corrine.J.Perera: An Evaluation Of Internet Banking Sites In Islamic Countries, November 2003, vol. 8, no. 2

Zeithaml Valarie.A.; Parasuraman, A.; Malhotra, Arvind (2002): Service quality delivery through Web sites - a critical review of extant knowledge. Journal of the Academy of Marketing Science, vol.30, iss.4.

Buenadicha, M, Chamorro, A., Miranda, F. J. y González, O. R. (2001): A new Web Assessment Index - SpanishUniversities analysis. Internet Research: Electronic Networking Applications and Policy, vol 11, no 3.

Barnes, Stuart I.; Vidgen, Richard. (2001) An Evaluation of Cyber-Bookshops: The WebQual Method. International Journal of Electronic Commerce Vol. 6 Issue 1, Fall

Malhotra, Pooja & Singh, Balwinder (2007) : Determinants of Internet banking adoption by banks in India, Internet Research;Volume 17;Issue 3.

Report on Trend and Progress of Banking in India for the year ended June 30, 2008 submitted to the Central Government in terms of Section 36(2) of the Banking Regulation Act, 1949 http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/88980.pdf (accessed on March 5, 2009)

World internet user's statistics http://www.internetworldstats.com/top20.htm (accessed on March 9, 2009)

India's Corporate Accounting: Journey from Harmonization to Convergence

Joy Chakraborty*

Abstract
The need for regulation and harmonization of corporate accounting practices in India was realized since the post-independence era that manifested the formulation of Indian Companies Act in 1956 and the constitution of Accounting Standards Board (ASB) in 1977. But the move towards accounting standards harmonization with the rest of the world proved to be a deterrent due to the existence of numerous differences between the accounting standards of the developed and developing countries. Hence, the need for a systematic convergence of the accounting standards with a worldwide acceptance was strongly felt. This paper unveils our country's progress during the pre and post liberalization eras related to harmonization of accounting policies and practices. The paper is also an attempt to explore the initiatives that are undertaken to gradually shift from harmonization to convergence of accounting principles and procedures across the World.

Keywords
Harmonization, Accounting, Practices, Standards, Liberalization, Convergence, Corporates, Countries, GAAP, IFRS.

Introduction

The post de-colonization period had witnessed sea changes in accounting processes as well as accounting regulations all over the world. The financial reporting patterns had also gone through drastic changes. India is no exception. In 1947, India became an independent nation breaking her shackles from the colonial British rule. Indian corporate accounting system and framework was developed and evolved over a century by the British Government through their legislation, audit and accounting practices. Prior to the British colonial rule, there were many schools of accounting thought developed by the practitioners in the era of Hindu and Turko-Afghan Muslim rulers. Those accounting systems were meant for sole proprietors, as corporate form of business was conspicuous by its absence in the pre-British era.

In the post independence period, the Government of India took a number of steps to develop its accounting system. The Companies Act was enacted in 1956. The Institute of Chartered Accountants of India (ICAI) also got the recognition through legislation in 1949. In the same year the Indian Banking Act was enacted.

Joy Chakraborty, Lecturer, NSHM Knowledge Campus, Kolkata.
*chakjoy@gmail.com

India followed a growth path with a 5-year plan route and the economy was insulated from any external influences. Foreign companies were not allowed to do business in India. Inputs were restricted and accounting rules and regulations were simpler. Very few accounting standards were developed during this period of time. There was hardly any need for foreign currency translation, segmental reporting, principles of consolidation, reporting of EPS[1] and the like.

From the mid 1980s, Indian Accounting systems were in search of some harmonization principles as European Union and ASEAN was taking a number of steps towards harmonization. In 1984, SAARC[2] was formed and harmonization of accounting was required in a small South Asian sphere. Simultaneously, International Accounting Standards were also becoming more and more stringent and ICAI also started initiatives to bring in new standards.

1992 is the year of great metamorphosis of India. The Government officially announced a policy change. Liberalization and Globalization became the buzzwords in every field of economy and business. No wonder, India had to look for newer models of harmonization in accounting proceeds.

"Harmonization" may be described as a process whereby varied elements of a particular system could be effectively integrated in an organized manner so as to produce a harmonious or satisfactory effect[3]. Going by this interpretation, international accounting harmonization may be described as a procedure of infusing some sort of a unanimous order in the accounting practices among countries. The issue of international accounting harmonization has been the cynosure of accounting professionals and industry experts across the globe since the beginning of the twentieth century. Although the necessity of having a uniform accounting practice was realized much earlier, it is only during the recent years that the movement towards international accounting harmonization has gained enormous significance. The increasing globalization of business operations coupled with the efforts to mitigate cross-border accounting barriers was accounted for the abrupt change towards accepting the path in favor of harmonizing accounting practices among the countries.

Harmonization efforts in accounting were partially successful in some nations. Especially, European Union introduced some pioneering directions to give harmonization of accounting a new shape. A lot of complex financial reporting issues, issues related to valuation, cross-border mergers, foreign currency translation cropped up with the turn of the new millennium. Use of technology, connectivity, and outsourcing brought in more complexities in the accounting process. Several accounting scandals in companies like Enron and WorldCom raised a myriad of questions on the efforts towards harmonization. It was felt that in many cases harmonization efforts were too soft. The concept of convergence of accounting standards and procedure seemed more appropriate. India being an emerging power did not want to jump into the bandwagon. This study endeavours to paint India's journey from accounting harmonization to convergence.

---

1 EPS refers to Earnings Per Share. EPS indicates the portion of a company's profit allocated to each outstanding share of common stock. It serves as an indicator of a company's profitability.

2 SAARC refers to South Asian Association of Regional Cooperation. The South Asian Association for Regional Cooperation (SAARC) was established when its Charter was formally adopted on December 8, 1985 by the Heads of State or Government of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Afghanistan was included as a member at the 14th SAARC summit held in Delhi during April 3-4, 2007.

3 Basu A.K. (1995), "International Accounting Harmonization", DSA in Commerce, University of Calcutta.

India's Journey towards Harmonization: Pre-Liberalization Era

The history of the enactment of the Indian Companies Act, prior to independence, dates back to the year 1857 that officially bestowed upon the legal recognition pertaining to the preparation of balance sheet and profit & loss account[4]. This was soon followed by the successive enactment of the three other Indian Companies Act namely the Indian Companies Act of 1866, 1882 and 1913 respectively. In the independent India, the Indian Companies Act of 1956 was the first to lay down the basic framework relating to the regulation of corporate accounting practices.

It was in February 1967, when the importance of the degree of uniformity in accounting matters was realized that led to the formation of Accountants International Study Group (AISG) by Canada, America and the U.K. During the 10th International Congress of Accountants, held in the autumn of 1972 in Sydney[5], the need for international cooperation in accounting standards was strongly felt by the accounting policymaking bodies across the globe. The proposition of setting up an international body, which would lay down uniform internationally accounting standards, was jointly raised by the developed countries such as the Canada, U.K. & U.S.A at the conference. The three countries had even urged the other nations to join the international body in a bid to support the move towards international accounting harmonization. This was immediately followed by the induction of six other countries namely Australia, France, Germany, Japan, the Netherlands and Mexico in the newly formed international body. The next significant piece of legislation came into effect on 29th June, 1973[6] when the representatives of 16 accounting bodies *(Exhibit-1)* from these 9 nations played a pivotal role in the formation of International Accounting Standards Committee (IASC), with its secretariat headquarters at London.

Exhibit-1

A Brief Profile of the 16 Accounting Bodies

Nations	Accounting Bodies
USA	The American Institute of Certified Public Accountants
Canada	The Canadian Institute of Chartered Accountants
UK & Ireland	The Institute of Chartered Accountants in England and Wales The Institute of Chartered Accountants of Scotland The Institute of Chartered Accountants of Ireland The Association of Certified Accountants The Institute of Cost and Management Accountants The Chartered Institute of Public Finance and Accountancy
Australia	The Institute of Chartered Accountants in Australia Australian Society of Accountants
France	Order des Experts Compatables et des Compatables Agrees
Germany	Institute der Wirtschaftspriifer in Deutschland e.V. Wirtschaftspriiferkammer
Japan	The Japanese Institute of Certified Public Accountants
Mexico	Instituto Mexican de Contadores Publicos, A.C.
Netherlands	Netherlands Institute van Register-account-ants

4 British India included a number of British Protectorates ruled by the local rulers (like the Maharaja of Coochbehar, Maharaja of Jaipur and Bikaner, Nizam of Hyderabad). British India was a huge land mass which included today's Pakistan and Bangladesh.

5 Gupta Das N. (1988), "Accounting Standards: Indian & International", Sultan Chand & Sons.

6 Ibid

Going by the purpose and objectives of IASC, accounting bodies from several countries has evinced their interests in being a part of this global initiative so as to obtain latest information on international accounting matters. Joining the international body was further set to prevent the member countries from unfruitful wastage of time and money in the formulation of their individual accounting standards. As per the report issued by the IASC in July 1986, the total number of members stood at 95 (including the founders) with representations from 32 countries, with more countries being on the pipeline. Even the Institute of Chartered Accountants of India (ICAI), 1949 and the Institute of Cost & Works Accountants of India (ICWAI), 1959 were the associate members of IASC .

India's Journey towards Harmonization of Accounting: Post-Liberalization Era

With a view to harmonize the distinct accounting policies and practices prevailing in India, the ICAI as on 21st April, 1977 constituted the Accounting Standards Board (ASB), an autonomous body that was entrusted to issue accounting standards in collaboration with the International Accounting Standards Board (IASB) and accounting standard-setters from other countries. The ICAI issued its first standard in 1979 and thereafter between 1981 and 2002, 26 other accounting standards were framed. But almost all of the accounting standards issued by ICAI differed with International Accounting Standards (IAS) in many respects. This spurred ICAI to revise and reissue its accounting standards in a bid to harmonize with IAS. For instance, ICAI has revised the Indian Accounting Standard (AS)-3 during the month of March 1997 that dealt with Cash Flow Statement in order to bridge the differences that existed between the Indian accounting system and the IAS.

The IASC Board, a body that has been conducting the role of a harmonizer of worldwide accounting standards, constituted a Strategy Working Party (SWP) during 1997 to look after the future strategy and functioning of the IASC. This ultimately gave birth to the formation of the International Accounting Standards Board (IASB) that came into operation during March 2001.The move was aimed to create a set of uniform accounting standards for all listed and economically significant business organizations around the world besides protecting the interests of the investors globally. Since the primary objective towards harmonization was to facilitate investors across the world, the establishment of the Securities and Exchange Board of India (SEBI) as on April 12, 1992 was believed to be a significant step by the Indian Government post liberalization in a bid to streamline the stock market operations and impose stock market regulations (including accounting regulations).

The necessity of having a uniform set of accounting standards was realized even by the South Asian countries in order to bolster trade and commercial activities between them. Though the establishment of organizations such as SAARC (South Asian Association for Regional Cooperation) and ASEAN (Association of South East Asian Nations) emphasized upon the areas such as agriculture, irrigation, cultural activities, women studies etc., yet it failed to highlight the areas that could bring about economic aspects of mutual cooperation among the South Asian countries. The creation of SAFA (South Asian Federation of Accountants) in 1989 by the professional bodies of all the major member countries of SAARC *(Exhibit-2)* manifested the growing significance of ensuring harmonization in accounting education, standard setting and accounting practices in the region. But the complex accounting reporting practices coupled with the stringent stock market regulations existant among the South Asian countries deterred the accounting process of development too a great extent.

Exhibit-2
Member Countries of SAFA during its inception

Countries	Accounting Bodies
India	Institute of Chartered Accountants of India Institute of Cost and Works Accountants of India
Pakistan	Institute of Chartered Accountants of Pakistan Institute of Cost and Works Accountants of Pakistan
Bangladesh	Institute of Chartered Accountants of Bangladesh Institute of Cost and Management Accountants of Bangladesh
Srilanka	Institute of Chartered Accountants of Srilanka
Nepal	Association of Chartered Accountants of Nepal

Source: Compiled by the author from various sources

Despite a multiplicity of problems, several steps have been initiated in a bid to bridge the gap between the accounting standards prevalent among the countries. The IASC, in congruence with the accounting standard bodies of the South Asian countries, were in the process of framing new accounting standards that could integrate and harmonize the accounting practices in light of the conditions and practices prevailing in the respective countries. The ASB has already issued 28 Accounting Standards with more proposals being on the pipeline that would enhance the ongoing process of harmonization and convergence of accounting standards worldwide. The ASB has started the initiative in developing new accounting standards that would explore the unidentified areas in the accounting standards-setting process in sync with the developed countries of the world.

A significant piece of legislation took place during October 2002 when the IASB in joint collaboration with the FASB issued a memorandum of understanding that officially proclaimed the possible convergence of IFRS and U.S.GAAP. It has been witnessed that the foreign subsidiaries of U.S. multinationals generally abide by the U.S.GAAP in their accounting processes whereas IFRS was basically in vogue with the European countries. This prompted FASB, together with their counterparts at the IASB, to embark on the idea of "international convergence" between IFRS and the U.S.GAAP. If the realization of such an objective came to fruition, it would facilitate the investors in understanding the financial statements of the companies (both national and international before going forth with their investment decisions.

From Harmonization to Convergence: A Paradigm Shift

The IASC, in its initial years of operation, was instrumental in framing accounting standards besides acting as a harmonizer in the global acceptance of the standards. But IASC, which resulted on account of an agreement between the accounting bodies of developed countries such as Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom (U.K.),Ireland and the United States of America (U.S.A), failed to highlight the accounting aspects of the underdeveloped countries. As a result, the developing countries viewed it as an imposition of standards by the economically superior countries under the pretext of harmonization. Moreover, the move towards accounting standards harmonization acted as a deterrent in the functioning of the developing countries as the standards set internationally may not be best-fit solution for the less-developed countries on account of wide range of national circumstances, legal systems, lack of strong professional accounting bodies, stages of economic development, and cultural differences. Due to the existence of numerous differences between the accounting standards of the developed and developing countries, the need

7 IASC was founded in June 1973 as a result of an agreement by accountancy bodies in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom and Ireland and the United States. IASC is the parent body of the International Accounting Standards Board (IASB) which came into being on 1st April, 2001 with the sole objective of undertaking accounting standard-setting responsibilities. (Source:- http://www.iasb.org)

for a systematic convergence of the accounting standards with a worldwide acceptance was strongly felt. Though convergence of the accounting standards was a difficult proposition to achieve, yet the efforts pertaining to this would lead to significant long-term benefits in the form of cost control and more comparable and consistent financial information. In order to accomplish the target of convergence, the developed countries were in a dilemma about the fixation of either U.S.GAAP or the IFRS as a solution to the rising issues of convergence. Since no unanimous decision was being taken to this effect, accounting researchers left the decision up to the companies to enable them to decide which one among the U.S.GAAP or IFRS would turn out to be the best solution for them. But even such an initiative proposed to the business environment could not generate satisfactory results owing to political and socio-economic influences. This spurred the accounting bodies to gravitate to the idea of "international convergence" between the U.S.GAAP and IFRS as being the best solution to curb the growing differences of accounting practices among the countries.

In a bid to narrow down the differences and develop uniformity among the worldwide accounting practices, the European Union (EU) has made it mandatory for all the 8000 listed companies since 2005 to abide by the guidelines of IFRS. The Indian accounting regulatory body was even tinkering with the idea of convergence with IFRS post-2011and make it mandatory for all the listed entities and other public interest entities such as banks, insurance companies and large-sized entities. The ICAI's decision to achieve full convergence with IFRS would enable our country to share the same platform with the other 102 countries which were presently practicing the use of IFRS in the preparation of their financial statements. The adoption of IFRS, as issued by the IASB, would enhance the credibility, transparency and comparability of financial statements leading to greater economic efficiencies. But the path to the development of universally accepted accounting standards is not strewn with flowers rather the presence of several hindrances have thwarted the ongoing attempts of global harmonization. This has been primarily on account of several factors such as resistance to changes, problems of nationalism, lack of uniformity between the market-based and tax-based accounting systems, etc. that has created impediments to the countrywide attempts of harmonization. Unless the regional and countrywide differences in accounting practices are taken care of, the transition from harmonization to convergence would not be a smooth and easy ride for the standard-setting bodies across the world.

In conclusion, a shift from harmonization to convergence of accounting principles and procedures among countries throughout the world is indeed a formidable task to achieve yet efforts are on to turn such a situation into reality. Though there are differences, it was good to find that they are narrowing down at a faster pace than expected. It is expected that the harmonizing initiatives and the pace of progress in the sphere of harmonization would further accelerate in the upcoming years.

References

1. Basu, A.K. (1995): International Accounting Harmonization", DSA in Commerce, University of Calcutta.

Choudhuri, Arup: In Search of Harmonization of Financial Reporting and Regulation Differences in SAARC Nations, The ICFAI Journal of Accounting Research, Vol.3, No.3, July 2004, Pgs. 7-23

Jagannath, K.M. and Nanjegowda, K: The Impact of Mandatory Accounting Standards on the Harmonization of Accounting Practices, The ICFAI Journal of Accounting Research, Vol.7, No.1, January 2008, Pgs.7-23

Chatterjee, Bikram (2005): Global Convergence of Financial Reporting Standards, Indian Accounting Review, Vol.9, No.1, Pgs. 29-54

Diaconu, Paul & Coman, Nicoleta: Accounting Research from the Globalization Perspective, International Journal of Social Sciences, Vol.1, No.1, SSRN Publications, November 2006, Pgs. 25-31

Gupta Das, N. (1988): Accounting Standards: Indian & International, Sultan Chand & Sons.

Business Process Management - A catalyst between Business and IT

Debanjan Banerjee*

Abstract
Business Process Management, a new tool or technique of Management which helps to curtail the gap between the booming business and irresistible IT - Information Technology. The ever rising software industry is sought for better, durable and adaptable software applications. The omnipresence of the above will only help this IT to reach into the zenith. BPM vis-à-vis Business Process Management has come out as a messiah and helping this industry to attain those above mentioned attributes.

BPM, therefore, may be defined as a tool and practice of enhancing the efficiency, effectiveness, and operational dexterity of an organization by automating, optimizing, and managing its business process. It further enables business processes to be planned and designed independently of any solitary application and then leveraged as shared business logic.

Keywords
Business, Process, Management, Information Technology, Software, Automating, Optimizing, Design, Modeling, Execution, Customer, Retention

---

Business Process Management, a new tool or technique of Management which helps to curtail the gap between the booming business and irresistible IT - Information Technology. The article will give a glimpse about the utility of Business Process Management. This is an era of competition, stiff indeed. No duopoly, but a complete full phased oligopoly where the mantra is "survival of the fittest". Organizations across the world are desperately seeking for skills, more flexibility and above all productivity.
The ever rising software industry is sought for better, durable and adaptable software applications. The omnipresence of the above will only help this IT to reach into the zenith. BPM vis-à-vis Business Process Management has come out as a messiah and helping this industry to attain those above mentioned attributes.

BPM, therefore, may be defined as a tool and practice of enhancing the efficiency, effectiveness, and operational dexterity of an organization specially those who are dealing with IT vis-à-vis Information Technology, by automating, optimizing, and managing its business process. It further enables business processes to be planned and designed independently of any solitary application and then leveraged as shared business logic.

Prof. Debanjan Banerjee, Senior Lecturer, NIMC (NSHM Institute of Media and Communication)
*debanjan.mediaguru@gmail.com

Before going for further explanation, let us give a light about Business Process.

Business Process
Before knowing about the Business Process Management, first of all we have to have a little bit of knowledge about Business Process.

According to Wikipedia, "Business Process is a collection of interrelated tasks, which solve a particular issue".

A Business Process can be further decomposed into various sub processes, which possesses their own merits. The analysis of Business Process typically includes the mapping of processes and sub-processes down to activity level.

In the 1990s, US corporations, and many companies all over the world, started the concept of reengineering which is an attempt to re-achieve the competitiveness that they had lost during the previous decade. One of the crucial characteristic of Business Process Reengineering (BPR) is the focus on business processes. Davenport (1993) in this regard defines a (business) process as "a structured, measured set of activities designed to produce a specific output for a particular customer or market. It implies a strong emphasis on how work is done within an organization, in contrast to a product focus's emphasis on what. A process is thus a specific ordering of work activities across time and space, with a beginning and an end, and clearly defined inputs and outputs: a structure for action. ... Taking a process approach implies adopting the customer's point of view. Processes are the structure by which an organization does what is necessary to produce value for its customers."

Apart from Davenport, Rummler & Brache (1995) used another definition that clearly encompasses a focus on the organization's external customers. It states that "a business process is a series of steps designed to produce a product or service. Most processes (...) are cross-functional, spanning the 'white space' between the boxes on the organization chart. Some processes result in a product or service that is received by an organization's external customer. We call these primary processes. Other processes produce products that are invisible to the external customer but essential to the effective management of the business. We call these support processes."

Above all Business Process is one that helps us to define, automate, implement, manage and smoothen business process in an organization.

What exactly Business Process Management is?
Wikipedia says BPM "is a field of knowledge at the intersection between management and information technology, encompassing methods, techniques and tools to design, enact, control, and analyze operational business processes involving humans, organizations, applications, documents and other sources of information".

In nut-shell Business Process Management is nothing but a management model that helps the organizations to manage their processes as any other assets and further manage them over the period of time. In every medium and large scale organizations, a competent Business Process Management System enables business to accommodate day to day activities and changes in business processes because of immensely competitive, regulatory or market challenges in business processes.

Moreover Business Process Management provides governance of a business's process atmosphere to improve agility and operational performance.

The Life-cycle of Business Process Management

The overall activities of BPM can be shortlisted in the following names:

a) Process Design
b) Process Modeling
c) Process Execution
d) Process Monitoring &
e) Process Optimization

Now let us give a glimpse about the above mentioned systematic phase of BPM alias Business Process Management.

Process Design

It is the most important ingredient of BPM. It is basically documentation of design in the forms of Process Map/Flow, Actors, Alerts & Notifications, Escalations, and Standard Operating Procedures etc. For example if somebody plans to construct his/her sweet home, he first goes to the professional architect for drawing the design of the same in a scientific and most rational way. If the design is good, definitely the first lap of the marathon has been run successfully. A good design reduces the number of obstacles over the lifetime of the process.

Process Modeling

Process Modeling is another important step which takes the process design and further introduces different cost, resource, and other constraint scenarios to determine how the process will undergone under various circumstances.

Process Execution

Once the design and modeling part are over then and only then this phase has become due - the process execution. Execution is nothing but to implement the above mentioned parts namely designing and modeling.

Process Monitoring

Monitoring is basically the tracking of individual processes by which the information on their state can be easily visible. For example it helps to determine a consumer or customer order which includes coming of order, delivery notice, invoice, payment option etc. so that anything pertaining to this can be detected easily resolved.

Process Optimization

It is retrieving process performance information from modeling or monitoring phase and identifying the potential of the project. Cost savings and other improvements that can be properly applied in design and modeling, are the key things in this optimization phase.

Advantages of Business Process Management

BPM has got many attributes. These days it has almost become an utmost for the booming IT vis-à-vis software industry. From BPM the organizations derive multifaceted benefits. This includes:

a) Increased customer retention;
b) Reduced process time;
c) Improved regulatory compliance:
d) Improved efficiencies across organizational boundaries;
e) Create new IT assets and further use of those;
f) More personal productivity and satisfaction;
g) Reduced risk;
h) Increased agility

Challenges associated with BPM

A successful BPM requires both short and perfect long term planning and goal setting. And that has to be properly designed, optimized and executed. Without clear alignment on the goals BPM cannot be successful.

Both the business analyst and the IT developer must ensure that the selected BPM system fits with existing systems and is capable of supporting current business practices. One of the primary goals is to integrate processes across people and systems. Moreover the BPM solution should be flexible enough to ensure that integration efforts can meet across the divide that has traditionally separated business and IT, otherwise it will fumble and the whole process will crumble into pieces.

Business Process Management & Information Technology……. Made for each other
An effective Business Process Management can become a boon for IT and IT enabled business. It further helps the Information Technology management as a whole. A proper Information Technology management is an utmost in today's IT industry, and if it is clubbed properly with systematic business process management, then the fruits will flow from the entire fringe.

According to Wikipedia "Information Technology Management is concerned with exploring and understanding Information Technology as a corporate resource that determines both the strategic and operational capabilities of the firm in designing and developing products and services for maximum customer satisfaction, corporate productivity, profitability and competitiveness".

Hence to achieve all the above one has to have a systematic business process management. An effective BPM, therefore, is called the messiah of today's irresistible IT and booming business.

Conclusion

Above all it is crystal clear that the importance and utility of BPM in today's IT industry is unquestionable, and it further acts as a catalyst between business and IT. The only part needs to be taken care of - is proper planning, designing, modeling, implementation and optimization. If these are perfect, success is guaranteed, not warranted.

Reference

Harmon, Paul: Business Process Change (2nd edition)

Jeston, John: Business Process Management (2nd edition)

Khan, Rashid: Business Process Management: A practical guide

Madison, Dan: Process Mapping and Process Improvement

Business process verification - finally a reality! Journal.

Wynn, M.T., Verbeek, H.M.W., van der Aalst, W.M.P., ter Hofstede, A.H.M. and Edmond, D. : Information flows and business process integration, (pp. 74-92)

Berente, Nicholas, Vandenbosch, Betty and Aubert, Benoit (pp. 119-141) Coordination and transformation in business processes: towards an integrated view Göran Goldkuhl, Mikael Lind (pp. 761-777)

Agarwal, Rakesh and Bajaj, Nonika: Managing outsourcing process - applying six sigma (pp. 829-837)

Doomun, Razvi and Jungum, Nevin Vunka : Business process modeling, simulation and reengineering-call centers (pp. 838-848)

Kanjilal, Joydip: Introduction to Software Risk Management, Published 16 May 2007

CSR in SME's: Challenges in Developing Economies

Ruchi Tewari*

Abstract
Existence in a globalized world is the new order in which business activity must flourish and make its way which leads to complexity and holds immense challenges for organizations in the developing economies. Most challenges emanate from the diminishing size of the world due to faster and efficient means of communication. Therefore the order of the developed world applies and holds true equally to the developing economies around the globe irrespective of their unique makeup in terms of history, culture and business traditions. The concept and practice of Corporate Social Responsibility (CSR) by entrepreneurs of several small and medium scale enterprises (SME's) which dominate the business canvass of developing economies like India is one such area. The systematic reasoning about CSR has its roots in the US, (Crane and Mathen, 2007) where it started in the mid 1950's and the present model and state of CSR practice followed by the America and Europe based companies is not feasible for Indian entrepreneurs to match up as they are still struggling with the stiff competition and economies of scale which several companies enjoy. The paper analyses the challenges and opportunities which entrepreneurs face regarding CSR vis-à-vis the Carroll's four-part model of CSR (Carroll, 1991) and exhibits a model titled *'Cluster Social Responsibility'* which fits and suits the condition and position of the SMEs operating in developing countries like India.

Key Words
Corporate Social Responsibility, Small and Medium Enterprises, developing economies.

Introduction
The business world is in a state of flux and there is a clear distinction between the developing and the developed economic structures with the standards and norms being set by the former and the tireless attempts made by the latter to cope up and meet the established norms. Therefore, changes observed in the organizational structure of the modern Western economy and society affects the developed and developing countries alike. There is a growing consensus in management research that the phase since the mid-1970s represents a transition for a new phase of capitalist development. In this new phase, the organization of production is changing from mass consumption to customized products, employment in the services sector is becoming increasingly important, management of firms is becoming less hierarchical, the welfare state is being redefined and national states are increasingly taking decisions in a context of globalization (Amin

---

Ruchi Tewari, Faculty, IBS-A, IBS House, Near GNFC Infotower, S.G. Highway, Bodakdev, Ahmedabad- 380015, India.
*ruchi@ibsindia.org; ruchishuk@gmail.com

1994). The hold of local governing agencies and policies has been decreasing giving way to certain goods and services to business completely. This leads to a number of issues and dilemma which through up challenges and opportunities for business both in the developing and the developed world.

In India, a definite move towards privatization and economic reforms were initiated in 1991 by Dr Manmohan Singh, the then Finance Minster in the Mr. Narsimha Rao government, in a demonstrative way after the assassination of Rajiv Gandhi. The government attempted at deregulation and as a part of the various economic reforms covering industry, trade, the financial sector and agriculture and also involving a program of macro-economic stabilization focused on the federal budget. The government since then has envisaged liberalisation of the various sectors and divestment of the public sector undertakings.

In its assessment of privatization programs, the World Bank (1992) noted, "Most privatization success stories come from high- or middle-income countries. It is harder to privatize in low-income settings, where the process is more difficult to launch", though the study in the same fervor added that, "But even in low-income the results of some privatizations have been highly positive...." A meaningful study by Megginson et al (1994), cited above, when it attempted at finding improvements in profitability in developing countries post-privatization, it also found that increase in efficiency only happened in companies headquartered in OECD countries. Yet another survey done prior to the above study, by Millard (1988), noted quite emphatically: "There is no evidence of a statistically satisfactory kind to suggest that public enterprises in LDCs have a lower level of technical efficiency than private firms operating at the same level of operation." The reason for this is that the economic structure of every nation is unique in which history, culture and tradition play a very significant role.

Indian economic make-up

Post deregulation, India has three broad categories of business establishments - state firms, MNCs and family-managed Indian business and issues of coping up and matching the governance patterns of the three, is of considerable relevance. Among the family-owned business a large segment is occupied by the small and medium scale enterprises (SMEs). SMEs are increasingly playing a significant role in the economic and social development of the nation. The contributions that SMEs are making to the economy include the generation of employment opportunities and income for regional communities. The importance of SME's as compared to Corporate Enterprises with regard to their contribution towards Indian economy can be best understood that they have a share of 40% in terms of volume, 80% in terms of employment, 60% in terms of exports and 92% in terms of number of enterprises. These figures are indicative of the economic significance of SME's.

In India, the micro and small enterprises (MSEs) constitute an important segment of the Indian economy. The Small and Medium Enterprises (SME's) alone contribute to 7% of India's GDP. As per the Third All India Census of Small Scale industries conducted in 2004, the SME's have increased from about 80,000units in the 1940's to about 10.52 million units. Their total employment is about 25million and they produce about 7500 products including high technology products. In the sports goods and garments sector their contribution to exports is as high as 90% to 100%. They constitute 90% of the industrial units in the country and also contribute to about 35% of India's exports (Pandey,

2007). The performance of the Indian small scale sector in terms of critical economic parameters such as number of units, production, employment and export during the last decade is indicated in the table below.

Performance of Small Scale Sector

Year	No of Units (Million Nos)	Production (Billion Rs) (at current prices)	Employment (Million nos)	Exports (Billion Rs) (at current prices)
1993 94	2.38	2416.48	13.93	253.07
1994 95	2.57	2998.86	14.65	290.68
1995 96	2.65	3626.56	15.26	364.7
1996 97	2.8	4118.58	16	392.48
1997 98	2.94	4626.41	16.72	444.42
1998 99	2.08	5206.5	17.15	489.79
1999 2000	3.21	5728.87	17.85	542
2000 01	3.37	6454.96	18.56	599.78
2001 02	3.46	6905.22	19.22	712.44
2002 03	3.67	8243.63	20.07	861.03
2003 04	3.83	9323.54	20.9	N.A.
2004 05	4	10600.87	21.78	N.A.
2005 06	4.18	1213.8	22.78	N.A.
2006 07	4.37	14019.39	22.17	N.A.

(Source: Pandey 2007)

The SME category has a typical competitive advantage in the Indian industry in terms of the market it controls globally and its ability to make customized goods even in a small volume and yet maintain low fixed and overhead costs. The SMEs have thus over a period of time developed a specialization and have evolved as clusters.

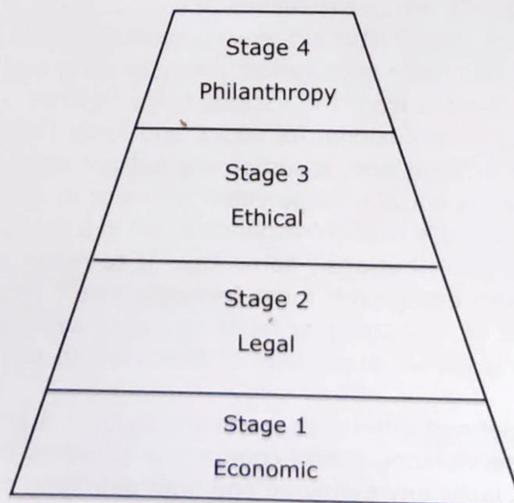
What is CSR?

CSR as a concept has undergone drastic changes in nomenclature to different the varying orientation of the term and has also undergone significant evolutionary development. CSR in theory and practice falls within the realms of various fields of study like sociology, social work, economics public administration, environmental studies and academics, work and literature in this field has been with varied understanding and interpretations. The diverse and prolific contributions from the various fields has not only enriched but has also led to controversies and confusions. As Votaw and Sethi (1973) puts it, "the term (social responsibility) is a brilliant one, it something but not always the same thing, to everybody. To some it means socially responsible behavior in an ethical sense; to still others the meaning transmitted is that of 'responsible for' in a casual mode; many simply equate it with 'charitable contributions', some take it to mean socially conscious or 'aware', many of those who embrace it most fervently see it as a mere synonym for 'legitimacy', in the context of 'belonging' or being proper or valid, a few see it as a sort of fiduciary duty imposing higher standards of behavior on businessmen at large".

The term CSR has been defined differently and variedly over a period of time and has had various shades of understanding across commercial activities in different geographic locations. Therefore, CSR lacks any definitive and tight definition primarily because this

concept has evolved differently and has had varied forms of existence in different places and business activities. Carroll (1999, 1998, 1993, 1991) was a seminal contributor to "modern" CSR theory with later contributors including authors such as Jenkins (2006, 2004), Fuller and Tian (2006), Maignan, Ferrell, and Ferrell (2005), Matten and Crane (2005), Maignan and Ferrell (2001), Garriga and Mele (2004), Lantos (2001) and Thompson, Smith and Hood (1993). The broad understanding is that it is the scope and the kind of social and environmental obligations which corporations may consider while executing and operating their routine business practices (Shamir, 2005).

The following definition by Lord Holme and Richard Watts,is most widely accepted and suits the context of our study most appropriately, "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large", in 'Making Good Business Sense' report at the World Business Council for Sustainable Development website. For the purpose of this study the understanding of the concept of CSR will be based on the Carroll's pyramid of Social Responsibility where he elaborates of four distinct stages of business - Economic, Legal, Ethical and Philanthropy. (Carroll, A. 1991) Economic component included the responsibility that the business should perform in such a manner that it maximizes earning per share and remains as profitable as possible so as to maintain its competitive position and high level of operating efficiency. The legal responsibility demands that the conduct of business be such that it conforms to the expectations of the government and law, comply with the federal, state and local regulations, be a law abiding corporate citizen such it the firm fulfills its legal obligations. The responsibilities at the ethical stage is adherence to normative rules of justice and fairness which may not have been codified as law but are yet expected or prohibited by society. This would include an ethical treatment of the various stakeholders. The philanthropic responsibilities include being a good corporate citizen such that the business gives back to society and the various stakeholders. This incorporates engagement into activities and prgrammes that include and lead to human welfare and goodwill. Philanthropy is the most discretionary function of business though the expectations from society are always there. Through this model, I shall understand the business activities and strategies of the SMEs operating in India and therefore try and propose a model for CSR for the SMEs with a basis in Carroll's explanation of CSR.



(Carroll 1991)

Literature Review

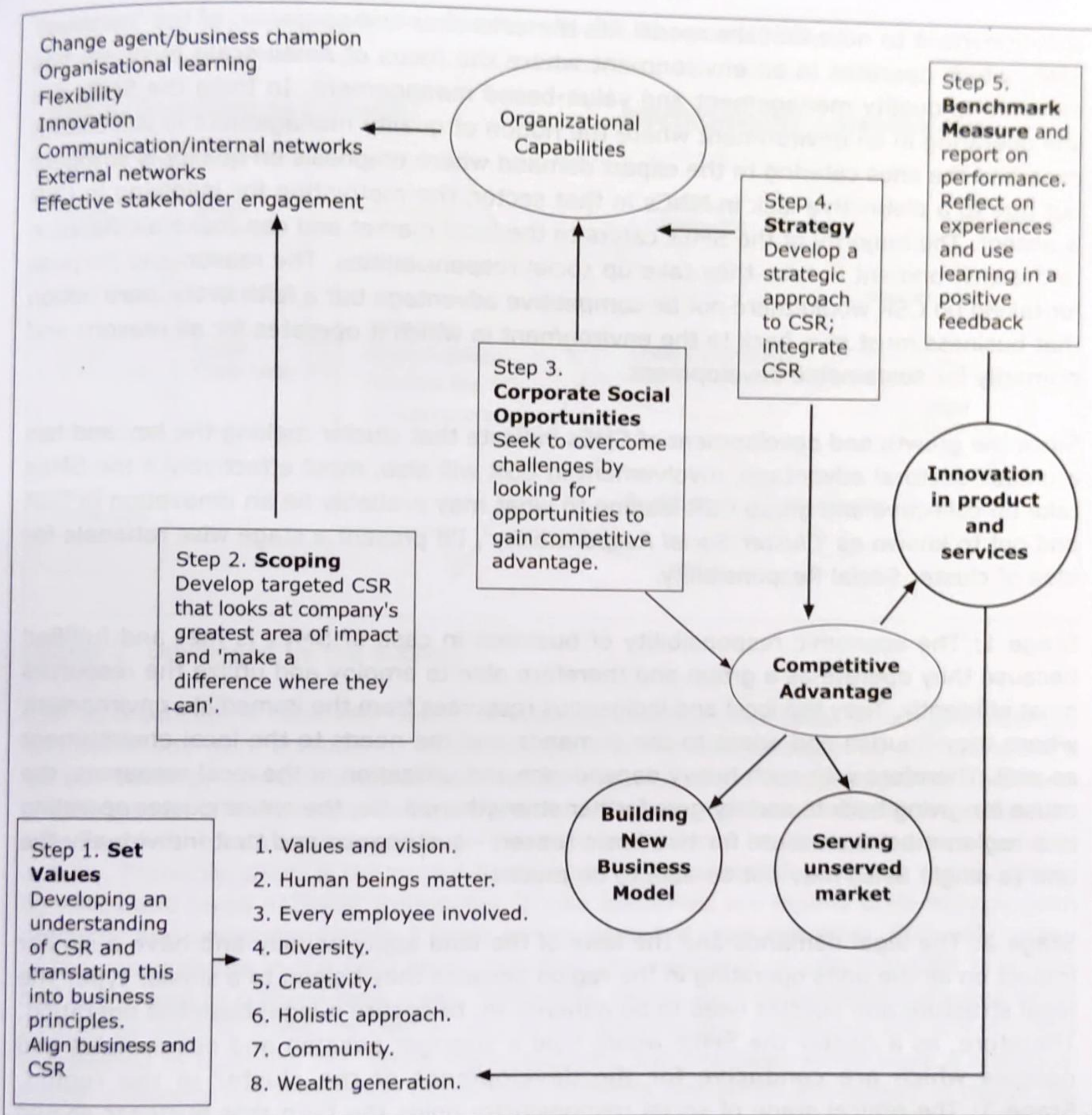
The large body of knowledge on CSR so far developed has improved our understanding of the integration of CSR with other corporate strategies; further necessary work is still being done by both academics and practitioners. In particular, SMEs' CSR has received relatively little attention (Grayson, 2004; Spence, 1999; Spence et al., 2000; Spence and Lozano, 2000; Spence and Rutherfoord, 2003; Spence and Schmidpeter, 2003; Spence et al., 2003; Thompson and Smith, 1991; Tilley, 2000; Vyakarnam et al., 1997) and there is a small body of literature on SME experiences in industrialized countries and a very limited amount of literature in developing countries (Centre for Social Markets, 2003; Luken and Stares, 2005; Raynard and Forstater, 2002; SustainAbility, 2002). Such a knowledge gap is critical, in that small business remains the dominant organizational form within the member countries of the OECD - Organisation for Economic Co operation and Development (Spence and Rutherfoord, 2003, p. 1). According to several authors, research on the relationship between CSR and SMEs differs significantly from the research on enterprises: "Business ethicists must acknowledge that the large multinational firm is not a standard business form against which other types are benchmarked" (Spence and Rutherfoord, 2003, p. 4). Obviously a number of characteristics distinguish SMEs from their larger counterparts. Size represents but one criterion; others include legal form, sector, orientation towards profit, national context, historical development and institutional structures (Spence, 1999; Spence and Rutherfoord, 2003, p. 4). Therefore, given the above differences between large firms and SMEs, further research is required to define whether or not also a different theoretical perspective should be embraced to explain the CSR and SMEs relationship and to address future empirical research. Recent research focuses on social capital. "Whereas physical capital refers to physical objects and human capital refers to the properties of individuals, social capital refers to connections among individuals - social networks and the norms of reciprocity and trustworthiness that arise from them" (Putnam, 2000, p. 19), "that can improve the efficiency of society by facilitating co ordinated actions" (Putnam, 1993, p. 167). Moreover, "stocks of social capital, such as trusts, norms, and networks, tend to be self-reinforcing and cumulative. Virtuous circles result in social equilibria with high levels of co-operation, trust, reciprocity, civic engagement, and collective well-being. These traits define the civic community. Conversely, the absence of these traits in the uncivic community is also self reinforcing" (Putnam, 1993, p. 177). The intangible assets of reputation, trust, legitimacy and consensus are all aspects of social capital (Spence et al., 2003, 2004), the basis of the long-term performance of SMEs and especially SMEs embedded into the local community in which they operate (for a deep review of the social capital concept, see Adler and Kwon, 2002). This literature provides a clear direction for further research in CSR: to provide SMEs with guidance and tools to implement and report on their CSR policies, processes and performance effectively, based on their social capital. Academics have thus assigned new importance to SMEs' CSR. Managers and practitioners are obviously also crucially involved as summarized in a vast array of recent reports highlighting a strong calling for additional interest in socially responsible managerial tools for SMEs (CERFE Group, 2001; CSR Campaign, 2003; DTI, 2002b; Raynard and Forstater, 2002; World Business Council for Sustainable Development, 1999). Practitioners are recognizing the strong influence SMEs have on their surrounding communities, so that specific tools for managing SMEs' social capital are needed. For example, according to Raynard and Forstater (2002, p. 3) the United Nations Industrial Development Organization (UNIDO) recently reported, "CSR represents not just a change to the commercial environment in which individual SMEs operate, but also needs to be considered in terms of its net effect on society. If CSR, as critics believe, introduces social and environmental

clauses resulting in protectionism by the back door, it imposes inappropriate cultural standards or unreasonably bureaucratic monitoring demands on small businesses, and then the net effect on the communities will be a reduction in welfare. On the other hand, CSR offers opportunities for greater market access, cost savings, productivity and innovation to SMEs, as well as broader social benefits such as education and community development''.

Why CSR: understanding the concept vis-à-vis SMEs

With business growing and revenues rising, the pressure from various agencies in the environment in which business operates like society, NGOs, governmental agencies is felt strongly that corporations should take over responsibility on the effects of their business actions in a stakeholder view. It has been categorically understood that business must respond to the development needs because it is a prominent user of resources. To achieve this task, the key activities are Corporate Social Responsibility (CSR) and Corporate Governance. These two concepts reflect the management's view, where the focus of business is not merely on profits but a considerable attention is paid to quality as well. In corporate responsibility the management takes hold of the stakeholders view and integrates also issues such as sustainability, employer-employee relations, supplier relations, supply chain management, environmental practices and as well as labor standards and human rights into the management view.

The core of CSR is managing the triple bottom line and be able to integrate and balance between economic, environmental and social issues going above legal requirements. It is interesting to note that SMEs operate and function with very limited resources and most often have limited vision in terms of organizational goals which is primarily focused upon profit generation. They are generally believed to heavily emphasize economic imperatives rather than social goals mainly because of their survival strategy and their relatively limited financial base. What adds to the complexity is the fact that most SMEs are jostling with limited resources, training, skills sets and knowledge and are competing against the fund-rich well established MNCs making the standing fairly lop-sided and unequal. But today, corporate responsibility is not merely an issue for large MNCs and TNCs but also for SMEs with limited resources and less market power. The reason why CSR becomes pressing for the SMEs is also because it is well accepted as a tool for competitive advantage beyond it being a set of standards to which a company subscribes in order to make its impact on society, has the potential to contribute to sustainable development and poverty reduction in the world. From the management side, the corporate responsibility can be seen as a market requirement and used as a marketing tool for competitive advantage. A strategic approach to corporate responsibility which makes it helpful is the fact that it increases the accountability of positions which is well demanded in SMEs. The idea of corporate responsibility development is demonstrated by a model showing the steps towards an integrated triple bottom line (Jenkins, 2006). Through his study, he provides insight into corporate responsibility in a SME and links it to value-based management and quality management to the process of developing a sustainable business approach.



Model 1. A 'business opportunity' model of CSR for SMEs (Jenkins, 2006)

What needs to be scrutinized closely, is that CSR models developed in the West are the best suited for CSR implementation in all parts of the world? There are studies providing links that the western institutional and management models exported to other regions of the world are not always very successful (Wohlgemuth, Carlsson & Kifle ed, 1998). Research also indicates that the understanding and practice of CSR is socio-culturally framed (Sundar 2000).

At one extreme CSR participation by SMEs has been viewed as an extension of profit-making activities and, at the other extreme, involvement in CSR with community stakeholders, has been understood as a purely altruistic activity. Despite this varying and conflicting conclusions very little of mainstream literature and research focused upon how other regions than regions from the West engage in CSR.

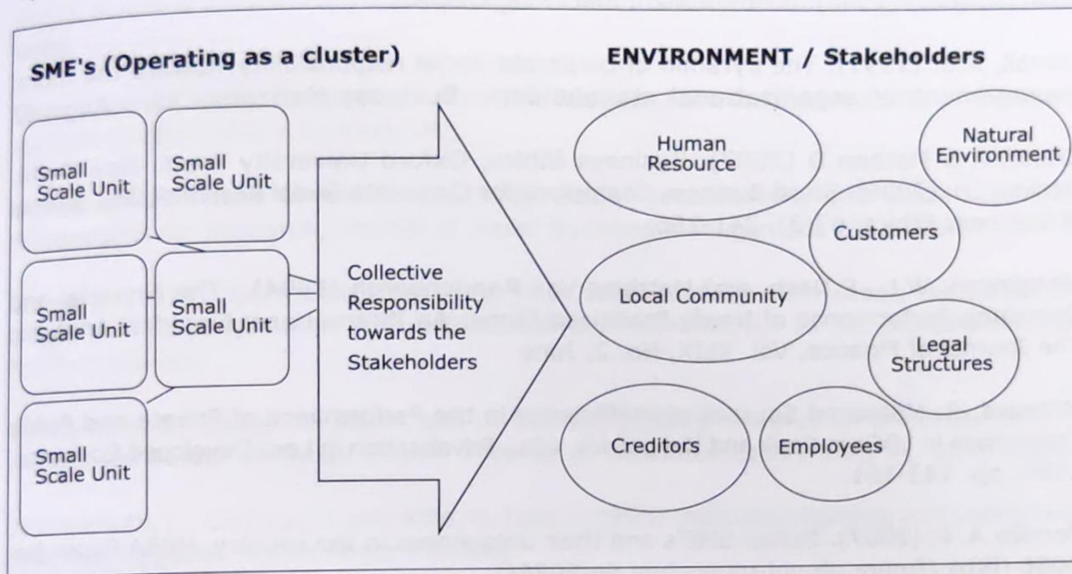
It is important to note that the model fits the existence and operation of the 'northern' SME -which operates in an environment where the focus of small-scale business has elevated to quality management and value-based management. In India the SMEs are still operating in an environment where the notion of quality management is still distant expect to the ones catering to the export demand where emphasis on quality is stringent but due to a distinctive lack in MNCs in that sector, the motivation for involving in CSR is absent. The majority of the SMEs caters to the local market and can make a difference to the environment in case they take up social responsibilities. The reason and purpose for taking up CSR would there not be competitive advantage but a faith in the pure notion that business must give back to the environment in which it operates for all reasons and primarily for sustainable development.

Since the growth and development of SMEs indicate that cluster making the key and has a unique sectoral advantage, involvement in CSR will also, most effectively if the SMEs take up collective and group CSR leading to what may probably be an innovation in CSR and get to known as *'Cluster Social Responsibility'*. I'd present a stage wise rationale for idea of cluster Social Responsibility.

Stage 1: The economic responsibility of business in case of SMEs is met and fulfilled because they operate as a group and therefore able to employ and utilize the resources most efficiently. They tap local and indigenous resources from the immediate environment where they flourish and adapt to the demands and the needs to the local environment as well. Therefore with such heavy dependence and utilization of the local resources, the cause for giving back to society gets further strengthened. So, the entire cluster operating in a region must contribute for two basic reason - sustenance and that individually the unit (a single SME) may not be able to do much.

Stage 2: The legal demands and the laws of the land apply equally and have a similar impact on all the units operating in the region because they belong to a similar type. The legal structure and policies need to be adhered to, to ensure a legal business operation. Therefore, as a cluster the SMEs would hold a stronger position and ensure laws and policies which are conducive for the development of the cluster in the region.
Stage 3: The ethical stage of social responsibility holds the faith that business should be conducted ethically and the policies and codes of the enterprise should be 'fair and just' (Crane and Mathen, 2007). The internal and external CSR aimed at direct stakeholders like employees, suppliers etc. would hold consequence when the entire cluster as a whole evolves and adopts socially responsible behavior. The impact of the stakeholder would be more effective and sustainable because a collective decision to be socially responsible towards direct stakeholders would lead to evolution of an ethical environment which would soon be normative leading to a better and healthy work environment.
Stage 4: An individual small scale unit may find it difficult to turn into a good corporate citizen especially and match the performance by the MNCs. But if all the SMEs operating as a cluster join hands to work for socially beneficial causes which in the long run would result into collective good it will provide growth and development opportunities.

I propose the following model for **Cluster Social Responsibility**



(Model 2: Developed by the author)

CSR as a concept is relatively new in developing countries like India where philanthropy and donations were considered as an extension of the business activity and were not a part of strategy and competitive survival for most business establishments. This form of CSR started off as a response by multinationals to remedy the effects of their extraction activities on the local communities. In the third world it can be understood as a two-fold activity. Primarily, there is the recent development of formal CSR practices mainly driven by MNEs and large national companies. These initiatives are mainly philanthropic with practices and understanding to a large extent imported from the West. Secondly, many of the respondents in the field study manifest the existence of informal CSR practices that are linked to cultural local traits. Traditional values such as people/employees being treated as ends in them, as well as values like sharing and consensus are still strongly manifested in business life. While many systems and practices which have a historical ethical existence are embedded in the daily activities and which are loosely in usage but they have not been consciously evolved due to which the capacity to benchmark them is still at very early stages.

Analysis of the role and positioning that SMEs hold in India and the manner in which CSR is understood and followed internationally by the large corporations around the world, it makes business sense that the multinational companies may hold a stakeholder view while considering and implementing their CSR strategies while the SMEs may consider a social capital view while working on their CSR plans. This would help integrate SMEs in line with the internationally accepted business idea of firms. A dialogue between the SMEs and the MNCs would cultivate better opportunities and environment for furthering the CSR activities in the developing world mitigating challenges both for the corporate which intends to participate in CSR and the stakeholders.

References

Amin, A. (Ed.) (1994). Post-Fordism, Blackwell, Oxford.

Carroll, A.B. (1991). The pyramid of corporate social responsibility: toward the moral management of organizational stakeholders. Business Horizons, Jul - Aug: 42

Crane, A & Mathen D (2007). Business Ethics, Oxford University Press, New Delhi.
Jenkins, H. (2006). Small Business Champions for Corporate Social Responsibility, Journal of Business Ethics, 67(3), 241-256.

Megginson, W.L., R.Nash, and Matthias Van Randenborgh (1994). The Financial and Operating Performance of Newly Privatized Firms: An International Empirical Analysis, The Journal of Finance, Vol. XLIX, No. 2, June

Millward, R. Measured Sources of Inefficiency in the Performance of Private and Public Enterprises in LDCs in Cook and Kirkpatrick, eds., Privatization in Less Developed Countries, 1988, pp. 143-161.

Pandey A. P. (2007). Indian SME's and their uniqueness in the country. MPRA Paper No. 6086 (http://mpra.ub.uni-muenchen.de/6086/)

Putnam, R. (2000). Bowling Alone: The Collapse and Revival of American Community (Simon and Schuster, New York, NY)

Raynard, P. and Forstater, M. (2002). Corporate Social Responsibility. Implications for Small and Medium Enterprises in Developing Countries (United Nations Industrial Development Organization, Vienna, Austria).

Spence, L. J. (1999). Does Size Matter? The State of the Art in Small Business Ethics, Business Ethics: A European Review 8(3), 163-174.

Spence, L. J., Habisch, A. and Schmidpeter, R. (2004). Responsibility and Social Capital: The World of Small and Medium Sized Enterprises. Palgrave Macmillan, Hampshire, England.

Spence, L. J., Jeurissen, R. and Rutherfoord,R. (2000). Small Business and the Environment in the UK and the Netherlands: Toward Stakeholder Cooperation, Business Ethics Quarterly 10(4), 945-965.

Spence, L. J. and Lozano, J. F. (2000). Communicating About Ethics with Small Firms: Experiences from the U.K. and Spain, Journal of Business Ethics 27(1), 43-53.

Spence, L. J. and Rutherfoord, R. (2003), Small Business and Empirical Perspectives in Business Ethics: Editorial, Journal of Business Ethics 47(1), 1-5.

Spence, L. J. and Schmidpeter, R. (2003). SMEs, Social Capital and the Common Good, Journal of Business Ethics 45(1-2), 93-108.

Spence, L. J., Schmidpeter, R. and Habisch, A. (2003). Assessing Social Capital: Small and Medium Sized Enterprises in Germany and the U.K., Journal of Business Ethics 47(1), 17-29.

Sundar, P. (2000) Beyond Business: From Merchant Charity to Corporate Citizenship. Indian Business philanthropy through Ages. Tata-McGraw-Hill Publishing Company, New Delhi.

SustainAbility (2002). Developing Value. The Business Case for Sustainability in Emerging Markets (SustainAbility, London, UK).

Thompson, J. K. and Smith, H. L. (1991). Social Responsibility and Small Business: Suggestions for Research, Journal of Small Business Management 29(January), 30-44.

Votaw, D. (1973). 'Genius Becomes Rare', in D. Votaw and S.P. Sethi (eds), The Corporate Dilemma: Traditional Values versus Contemporary Problems, pp. 11-45. Englewood Cliffs, NJ: Prentice-Hall

Vyakarnam, S., Bailey, A., Myers and D. Burnett. (1997). Towards an Understanding of Ethical Behaviour in Small Firms, Journal of Business Ethics 16(15), 1625-1636.

Wohlgemuth, L., Carlsson, J. and Kifle, H. (eds.) (1998) Institution Building and Leadership in Africa, Uppsala: Nordic Africa Institute.

World Business Council for Sustainable Development (WBCSD). 2000. Corporate Social Responsibility: Making Good Business Sense. (www.wbcsd.org)

World Bank (1992), Privatization- the lessons of experience, Washington D.C.

Book Review

A Hundred Horizons:The Indian Ocean in the Age of Global Empire

Author: Sugata Bose
Publisher: Permanent Black, 2006

Apposite is the opinion of historian E.H. Carr when he said, "History is the dialogue between past and present." Inter-Asian linkages and connections are fascinating subjects for modern day research. Indeed, in the present globalised world, cross-border identities of people and the formation of multiethnic societies, shaped through migrations and commerce, are important issues. While regional politics have imposed national borders, cultural processes and encounters transcend such political boundaries. The book named "*A Hundred Horizons: The Indian Ocean"* in the Age of Global Empire is an excellent study to understand such cultural process which permeates Indian Ocean. It looks at the past of the globalization and takes up Indian Ocean as the test case.

The Indian Ocean has attracted scholarly attention through ages. The Indian Ocean is the third largest body of water in the world, covering about 20% of the Earth's water surface. It is bounded on the north by Southern Asia (including the Indian subcontinent, after which it is named); on the west by the Arabian Peninsula and Africa; on the east by the Malay Peninsula, the Sunda Islands, and Australia; and on the south by the Southern Ocean (or, traditionally, by Antarctica). One component of the all-encompassing World Ocean, the Indian Ocean is delineated from the Atlantic Ocean by the 20° east meridian running south from Cape Agulhas, and from the Pacific by the 147° east meridian. The northernmost extent of the Indian Ocean is approximately 30° north latitude in the Persian Gulf. This ocean is nearly 10,000 kilometers (6,200 miles) wide at the southern tips of Africa and Australia; its area is 73,556,000 square kilometers (28,400,000 mi), including the Red Sea and the Persian Gulf.

Such a vast magnitude of Indian Ocean is not only a geographical expression but is also captive of cultural thrashes. The book by Bose narrates a history of Indian Ocean and its cultural components through ages. It begins with pre-colonial and colonial narratives. A part on Proconsuls, Pirates and Princes talks of many unknown myriads of histories across seas while Sovereignty and Frontiers talks of articulated connections between colonial and imperial frontiers. There are sparkles on information in the book on Curzonian ventures in IO, deportation of Bahadur Shah Zafar the last Emperor along the sea and shows how Indian ocean remained as a thrash hold of superpowers in the pre-colonial and colonial ages.

There is a chapter in the book on capitalists, laborers and commodities across the Indian Ocean. It talks of the paracolonial setting of the western and eastern Indian oceans and very meticulously narrates the dimensions of migrations of capital and labor across the region. Very aptly the author explained the dimensions of commercial connections between India and Middle East and describes the economic components of trading and capitalistic ventures resulting in certain cultural exchanges either in Persia- India sector or in East

-Africa- India part or even in Southeast Asia- India portions. Thus inter regional connectivity was important whether it was pearl or oil or rice or rubber or even the pungent cloves.

When Indian Ocean remained a thrash hold of colonial enterprises, it was also a ground for many anti colonial imaginations. It was the water which carries imprints of Gandhian and Subhas Bose's activities against the *Raj*. It was also a space of pilgrims. Not only the religious pilgrims like Hajis traverse the ocean to reach Mecca and Madina but oceanic voyages of pilgrim poet Tagore in search of Greater India also leaves great cultural impacts through their oceanic voyages.

So taking into grip all the cultural characteristics of Indian Ocean Bose concludes Indian Ocean has a crucial place in the history of globalization. It was much before the America propounded globalization; IO had played a remarkable role in initiating the traits of global connections. Very specifically the book narrated the global context and global linkages of IO in pre-colonial and colonial ages. The book ends with an observation that it is the post colonial space when notions of cosmopolitanism will add new flavour to the successful accomplishment of archaic and modern phases of globalization.

The book is a very lucid and subtle presentation of history. It narrates Indian Ocean as a trans-regional space, looks at its changing characteristics of the Indian Ocean in the age of colonialism and nationalism. It is no doubt a very remarkable addition to the history of Asia.

Reviewed by: Prof. Lipi Ghosh*
Director, Centre for South & S.E Asian Studies
University of Calcutta

*lipighosh@gmail.com

About the Journal and Call for Papers

Mission
As part of its commitment to promote research and publication in all areas of management, the Business Research and Information Centre (BRIC) at NSHM Business School has introduced a bi-annual refereed journal, NSHM Journal of Management Research and Applications (NJMRA). The objective of NJMRA is to present current research and ideas in the field of management in a lucid format accessible to both the academia and industry. The journal is also expected to act as a platform for industry professionals to share their best practices.

NJMRA invites original research-based papers, articles, book reviews and management cases on topics of current concern in the areas of management, development economics and related social sciences. It looks for conceptually sound and methodologically robust articles that harness and extend knowledge on all domains of management through empirical work or by building on existing concepts, and draw out the implication of the research for practitioners. The section on practices on the other hand is expected to extend the knowledge of the academic researchers in this discipline. Consequently, we expect the articles to have the potential to advance both management theory and practice through this bilateral exchange and synthesis of ideas and information.

Frequency
The journal will be published twice a year in the months of June and December.

Readership
This Journal is a forum for academicians, business leaders, policy makers, researchers and students to exchange and discuss ideas, to reflect on experiences and approaches, and to strengthen the spirit of cooperation and collaboration between industry and academia. It will be a perfect portal for presenting and discussing research findings and current practices pertaining to various facets of innovation to achieve competitive advantage.

Content Mix
In view of the broad spectrum of readership, NJMRA invites contributions to any of the various sections of the journal:

- Research Papers
    - Conceptual (These are subcategories of Research Papers Category)
    - Empirical
- Practice
- Perspectives
- Book Reviews
- Case Studies

Some of the suggested themes on which contributions are welcome, are articles in the fields of general management, corporate strategy, policy and governance; finance, control and corporate laws; public policy; IT and systems; marketing; OB/HR; technology and manufacturing; and related areas like economics, sociology and other social sciences. Articles that consist of literature surveys or discussions on practices in industry and reviews of books that have been published within one to two years of the receipt of the review will be also be considered. Industrialists, CEOs and entrepreneurs may submit articles on management practices which enable them to share their experiences in exploring new and under researched areas in management.

Review Process

NSHM Journal of Management Research and Applications is a refereed journal. All manuscripts submitted for publication would be screened by the editorial board for relevance to the Journal. They would then be put through 'double blind review process' that may normally take four to eight months. Manuscripts accepted for publication will have to be edited to suit the Journal's format. The Editorial Board of NJMRA reserves the right to shortlist a paper/article for a particular section of the Journal depending on its suitability.

Wherever possible, reviewer's feedback will be provided. Published manuscripts are exclusive copyrights of NSHM Journal of Management Research and Application. Academicians and practitioners are encouraged to share their work through the various features of the journal described in the section on "Content Mix".

Guidelines for Contributors

1. Papers should not exceed 10,000 words including charts, tables and other annexures.

2. An abstract not exceeding 200 words should be included in the beginning of the paper, followed by key words. The number of keywords should be restricted to a maximum of ten.

3. (a) Manuscripts should have 1.5 line spacing and must be typed and must be submitted in MS Word or PDF format. Times New Roman or Arial font of size 11 will be preferred.

(b) All sections and sub-sections are to be numbered. Example: 1, 1.1, 1.2

(c) All tables, charts and diagrams should be numbered and carry a title and must be mentioned or referred to in the text.
Example: Figure 1: Indicator based relative positions for different country groups; Table 1: Pair-wise correlation coefficients.

4. Author's name, designation, institutional affiliation etc. should be mentioned only on the cover page. Author's identity should not be mentioned anywhere else in the paper. Only those sources that are cited in the text should be mentioned in the reference list. Further all sources cited in the text are to be included in the reference list. *Manuscripts must be complete in every respect including reference list to be considered for reviewing.*

5. References must be arranged in alphabetical order.

6. The prescribed style of citation is as follows:

A. For Articles in Journals:

Mintzberg, H. and Lampel, J. (1999): Reflecting on the Strategy Process, Sloan Management Review, Vol. 40, No. 3, pp. 21-30.

Singh, G., Kala, S.P. and Singh, S. (2006): Impact of Advertising Attitude on Consumer, Amity Business Review, Vol. 7, No. 2, pp. 60-63.

United States Agency for International Development (USAID), (2008): Private Health Insurance in India: Promise & Reality.

World Bank Report (1994): Averting Old Age Crisis

B. For Books:

Manimala, M.J. (1999): Entrepreneural Politics and Strategies - The Innovator's Choice, New Delhi: Sage Publications, pp. 114-123.

C. For Chapters in Books (Edited Volumes):

Bhattacharyya, A.K. (2004): Corporate Financial Reporting in Reed and Mukherjee (Eds), Corporate Governance, Economic Reforms and Development, pp. 94-115

D. For Working Papers and Thesis:

Balasubramanian, N. (1997): Equity Returns in India: An Empirical Study of the Experience of the Nineties, Working Paper No. 5/1997, UTI-IIMB, Centre for Markets education and Research, Indian Institute of Management, Bangalore.

E. For Websites:

Gerwig, K. and Carlson, R. (2001): AT&T & Comcast: Dividing Their Business to Conquer, Current Analysis, http://www.currentanalysis.com/CurrentCompete/Eventview.cfm?reportid=6744&nav=1.

7. When citing sources within text, only the author surname(s) and year should be mentioned as illustrated below.

✓ If the market exists it would help the victims to get assured good quality treatment at low cost through either risk-pooling (Arrow, 1963) or income-pooling (Nyman, 2003).

✓ One unique thing of private health insurance (PHI) in Canada is the coverage of prescription drugs outside of hospitals that is not provided by public coverage (Glied, 2001; Colombo and Tapay, 2004).

✓ This regulation needed well defined and informative materials regarding the future prospect of the insurance products at the time of sale, claims procedure, proper functioning of policyholders services and so on (USAID, 2008).

8. In case of *more than two authors* only the first author surname must appear followed by et al as shown below

✓ This indicates the presence of substitution relation in richer countries between private and public provisioning of healthcare related services; if quality of public service is not up to the mark relatively more affluent people may opt out (Sekhri et al, 2005).

9. If a contribution is accepted for the sections - Conceptual / Empirical Research Papers / Practice / Case Studies then the author will be paid an honorarium of Rs. 3,500. For accepted Book Reviews and articles appearing in "Perspectives" the honorarium will be Rs. 1000. Authors will also receive a complimentary copy of the issue of NJMRA in which the article is published.

Correspondence

Manuscripts in MS Word or PDF format must be e-mailed to the Editor at:

editor.njmra@nshm.com

Manuscripts and all editorial correspondence must be addressed to:

Dr. Rajlakshmi Mallik,
Editor,
NSHM Journal of Management Research and Applications,
Business Research and Information Centre,
NSHM Business School,
60(124) B.L. Saha Road, Kolkata -700 053
West Bengal, India
Phone and Fascimile: 91 33 2403 2300/01

Visit us at: http://www.nshm.com/njmra/journal.php

This page is intentionally left blank.

Subscription Form

I wish to subscribe/ renew my subscription to "NSHM Journal of Management Research and Applications" for 1/2/3 year(s). A bank draft/cheque bearing no.________________ for Rs. / US$ ________________ drawn in favor of "H. C. Garg Charitable Trust" towards subscription for years in enclosed.

Name ....

Address ....

....

City .... Pin ....

Country ....

Phone .... Fax ....

Email ....

Signature with date

Subscription Rates

Category	1yr	2yr	3 yr
Indian (in Rs)			
Institutions	300	550	800
Individuals	200	350	500
Alumni	150	225	350
Students	150	225	350
Foreign (in US$)			
Air-Mail	75	125	175
Sea-Mail	60	100	135

Please send the amount by DD/Crossed account payee cheque favoring "H. C. Garg Charitable Trust" for timely receipt Journal. For outstation cheques, please add Rs. 30 towards bank charges.

For Subscription, Contact:

Mr. Nihar Patra
NSHM Knowledge Campus
60(124) B L Saha Road,
Kolkata 700 053, West Bengal, India