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Kathmandu, Nepal



# Changing Perspectives of Management

## Revisiting the Existing and Explore the Novel Ideas

# CONFERENCE PROCEEDINGS

Volume 1, Number 1, 2011

Editors
**Prof. Dr. Dev Raj Adhikari**
**Dr. Dhruba Kumar Gautam**

Organized by:

Nepalese Academy Of Management

In Association with:

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International Conference - 2011

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**Prof. Dr. Dev Raj Adhikari**
Head, Central Department of Management
Tribhuvan University
and
*President*
Nepalese Academy of Management

**Dr. Dhruba Kumar Gautam**
Tribhuvan University
Facility of Management
and
*Executive Director*
Nepalese Academy of Management

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# Correspondece:




Nepal Academy of Management

**Nepalese Academy of Management –** a not for profit, apex body of academicians and practitioners – designed to encourage management research, education, collaboration, and knowledge dissemination that are of relevant to all issues of management practices contextually as well as globally.

**For details:** www.nam.org.np
P. O. Box: 12719, Kathmandu, Nepal

*President:* **Prof. Dr. Dev Raj Adhikari**
Nepalese_am@yahoo.com; Devraj@enet.com.np
Cell: 98510 52285

*Executive Director:* **Dr. Dhruba Kumar Gautam**
Conference_am@yahoo.com; dhrubakumargautam@yahoo.com
Cell: 9841367451/9813304401

# Editors

**Prof. Dr. Dev Raj Adhikari**
*President*
Nepalese Academy of Management
P. O. Box 12719, Kathmandu, Nepal
*Head*
Central Department of Management and
M. Phil. Program of Management
Tribhuvan Univrsity, Kathmandu, Nepal
devraj@enet.com.np
nepalese_am@yahoo.com

**Dr. Dhruba Kumar Gautam**
*Executive Director* -
Nepalese Academy of Management
P. O. Box 12719, Kathmandu, Nepal
And
Tribhuvan University, Faculty of Management
Kathmandu, Nepal
dhrubakumargautam@yahoo.com
conference_am@yahoo.com

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# Editorial Notes

International society brings variety of practices, beliefs, social roles, norms, expressions, forms of organization and conflicts on various issues like political, legal, economic models, which exhibit various sorts of managing people in organizations. Therefore, even similar strategies are perceived, they are producing different outcomes because of the influence of several contextual variables including industrial relation system, labor market, strategic human resource management practices, organizational strategies, changing business environment etc. Besides these, a number of significant global developments are taking place that have serious implications for organization and workforce management. The increasing level of FDI, cross-border alliances, business process outsourcing, and growth of multinational in this region have raised the question as how best to manage in this turbulent times.

Western society, powerful nation-states, large multinational organizations, global business leaders, and even free market ideologies are being discredited and blamed for the recent global economic crisis that swiftly spread throughout the world and they question the risks and challenges of globalization. The global economic crisis-2008 challenges management researchers to consider whether our research and knowledge provide contribution to the wellbeing of the society at large in which we live and work. This has not only affected organizational live of the globe but also challenged efforts of globalization that started in the 1980s as whole.

Realizing this fact, we all can contribute novel ideas regardless of our specific areas of inquiry since these questions span multi-disciplinary boundaries and reflect the very core of our scholarly mission to inform the field of management in this changing perspective. Firstly, we see necessity to revisit the applicability of our existing theories in the light of the changing perspectives of management, secondly, we need to generate novel theoretical ideas that better reflect the dynamics and provide relevant and timely knowledge. In this context of changing perspective, Nepalese Academy of Management – a not for profit organization dedicated to encourage management research, education, collaboration, and knowledge dissemination that are of relevant to management practices contextually as well as globally.

A large number of papers are received from all over the continents- America; Australia; Europe; Asia; and Africa for this first international conference. These papers are from 30 countries including Canada, Spain, USA, Australia, Austria, Japan, Poland, Czech Republic, UK, UAE, Switzerland, Portugal, Oman, Argentina, Mauritius, Hungary, Saudi Arabia, China, Philippines, Kenya, Iran, Nepal, Bangladesh and most of the part of India like: Tamil Nadu, Mumbai, Hyderabad, West Bengal, Delhi, Karnatak, Jamsedpur, Panjab, Ahmedabad, Assam, Banglore, Lucknow, Manipur, Orissa, Haridwar, Jhashi, Chhandighad, and others.

This first volume (Vol. I) of 1st international conference proceedings-Changing Perspectives of Management: Revisiting existing and explore novel ideas- attempts to bring out the facts, information, experience, knowledge and expertise, simultaneously opinions, mindsets, prejudice, and failure of previous occurrences which are essential to be practiced in various facets of management in all types of organizations. In this first volume (Vol. I), altogether thirty one papers are included. The research paper appeared in beginning on this proceeding titled "A Study on the Relationship between Managerial Effectiveness and Conflict Management Styles" written by Hari Sundar G. Ram, Prof. Dr. Sudharani Ravindran, and Dr. A. B. Unnithan found a positive correlation between managerial effectiveness and conflict management styles. The next research paper on " Context, Governance, Associational Trust and HRM: Diversity

and Commonalities" authored by Prof. Marc Goergen, Prof. Chris Brewster and Prof. Geoffrey Wood reached into the conclusion that countries with high levels of societal trust are generally associated with higher trust work and employment relations. The strongest relationship between associational trust and workplace practice was found in the area of communication. The paper entitled "Enhancing Nepal's Tax Revenue collection through an Innovative Policy Measures" by John Koirala and Ernesto Fuentes Bulayog found a significant positive correlation between GDP growth and tax revenue collection but the actual tax effort has consistently faltered that resulted to the widening budgetary gap. Therefore, they suggest innovative solution of the problems. The next paper "Hierarchy as Predictor of Job Satisfaction: A Study among General Insurance Employees" written by Dr. Sudharanni Ravindran, Hari Sundar G. and S. Soumya reached into the conclusion that Insurance companies should periodically assessed the satisfaction level of their employees and corrective measures should be initiated wherever required.

The fifth paper titled " Changing Perspectives of Managing Human Resources in Nepal" written by Dr. Dhruba Kumar Gautam reached into the conclusion that HR practices in few organizations have action program for minorities, ethnic group, older employees and people with disabilities. Due to centralized organizational structure, most of HR decisions are taken into central office and line managers being involved highly in planning and implementing HR policies. In a nutshell, though HRM practices are not developed like developed countries, Nepalese organizations are realizing the significance of people management at work and changing their practices in the present dynamic environment. The next paper of this proceeding titled "Hindu and Buddhist Business Ethics and Socially Responsible Behaviors of Small Firms" authored by Binod K. Shrestha concluded that the attitudes of owners of small firms were towards pursuing the religious principles of modest consumptions and religiously accepted business practices. However, they were found to be inclined to crave for wealth maximization especially when they grow larger. They were found to strive for wealth maximization through promoting materialistic values on customers which ultimately promote materialistic society. The paper of Shish Pal Sinhmar on " CSR: A Challenge for the corporate World and the State" suggests to the Indian Government to prepare a list of accredited institutions engaged into CSR activities and establish separate ministry to monitor the functioning of NGOs on regular basis with proper audit.

The eighth paper of this proceeding written by Prof. Dr. R. Jagadeesh on "Impact of Reserve Logistics on Supply Chain Profitability- Global Study of Selective Cases" discussed to develop an insight into the entire operational details along with the establishment of various costs involved in various issue of reverse logistics. He tries to develop a mathematical model to facilitate a quantitative assessment of impact on profitability due to reverse logistics. In the next paper of Cristóvão Sá Pimenta and Teresa Poença on "Evaluating Human Assets in Organizations", they discussed how to measure/evaluate HC, considering the needs of the financial accounting system, the need to manage people more effectively, and the need for a proper evaluation and appreciation of organizations in the market highlighting the use of the Social Balance as a source of information with potential interest for measuring the HC. "Do Mentors Learn by Mentoring Others?" written by K. N. Rekha and M. P. Ganesh found the Dornacharya Ekalavya (DNE) program bring in a tremendous change in behaviours in all aspects of adolescents. This program provides an opportunity for the youth to become more aware of self and others and also helps to enhance their communication, leadership and interpersonal skills. In the next paper by Anita Ramgutty – Wong on "It's not just about Productivity: (Un) Changing labour Relations Paradigms and Perspectives in Mauritius"

provides clarification on the state of dialogue and attitudes about unionism in Mauritius. She concluded that some form of structured, formalized, regular and frequent communication mechanism be set up in every enterprise, and employers genuinely adopt a willingness and an open-minded attitude towards the idea of consultation.

In a paper of Binod Shrestha on "Small Firm and Network in the Tourism Sector in Nepal", he described the different ways that the networks operate and affect the tourism experiences and demonstrated how different actors and agencies are correlated to each other and how densely they are in links to the networks. He reached into the conclusion that there are growing business networks in tourism sectors in Nepal due to small area of tourism co-location that bring large number of tourists by developing relationships with each others. Similarly, the paper of Marishkumar and B. Rajnarayanan on "Green Marketing Initiatives of the Indian Corporates: An Empirical Study" found a significant association between the satisfaction levels of the respondents belonging to different income groups and the green marketing practices. However, no significant relationship between the satisfactions levels of the respondents belonging to different gender, age, and education. The paper of Neha Gupta and Dr. Rajeev Kumar on "Academia: An Ideal Practicing Ground for Process Consultation" highlighted the possibility of application of process consultation in academia; traditionally treated as a consulting tool; as an approach to foster the learning and capability building of the students. In the next paper entitled " Globalization and Quality Excellence in Management Education" by Prof. Dr. R. Satya Raju and R. Suneetha interestingly highlighted that the one year MBA Course is slowly gaining momentum like: IIMa, IIMc, IIMb and IIFT New Delhi have already been introduced one year MBA programmes. Authors concluded that the collective efforts of all the managements, state institutions and the global organizations are highly required for quality excellence in management education. The success or excellence depends upon several factors like leadership, management commitment, continuous coverage, recognition and rewards, participation of all the groups in the process of achieving the mission of quality excellence.

The sixteenth paper of this conference proceeding written by Dr. Robita Sorokhaibam, Nandita Laishram, and Sanasam Amarjit Mangang on "Women Entrepreneurship- Challenges to Women Empowerment" highlighted current development of women entrepreneurship in Manipur. They argued that resistance has been minimized to a great extent and degree of male domination has decreased to certain extent. Now parents and husbands are found to have encouraged their daughter and wives to take up entrepreneurship. The paper of Henrique Schneider on "Management Styles: How Different is China from the 'West' critically reviewed the comparison of Eastern and Western management styles. He reached into the conclusion that the concepts of China and the West are far too general to be taken as a basis for the comparison of management styles. They lack homogeneity in the appliance of management techniques as well as in the respective cultural background. In the paper of Dhundi Raj Bhattarai on "Competitive Advantage of Commercial Banks in Nepal", he found that Nepalese commercial banks adopt a cost leadership strategy which enables banks to sustain superior performance more than a differentiation strategy does. He concluded that cost leadership is a source of sustainable performance, increases sustainability of earnings increasing sales growth, ROA and market price per share. However, differentiation cannot be avoided. In the next paper, Dr. Satwinder Singh and Tamer Khalil Darwish on their paper "The Role of a Modern HR Director an empirical Analysis" empirically examined the role of a modern HR director and showed that male HR directors - those longer serving, with higher qualifications, and

those working for companies with lower employee turnover- are more likely to rate as 'high' the importance of most strategic HR functions.

Paper put in serial of twenty number written by Monika Golonka and Prof. Robert Rzadca on "The Impact of Culture and Alliance Strategy on Firms' Performance in the Global ICT Industry" explored relationship between partnering strategy (exploration vs. exploitation) and firms' market performance as well as culture differences impact on firms' partnering strategy and market performance in global ICT industry. This paper showed that exploration strategy in dynamically changing, knowledge and technology-intense, global environment seems to be more successful in short time, and might lead to strength of firm's competitiveness in long perspective. The next paper of Dr. Katarzyna Krot on "Trust in Organizations: study on New Dimensions" defined the level of trust of employees in their employer as an organization (institutional trust), superiors (vertical trust) and co-workers (horizontal trust) and explored new dimensions of trust by survey among employees of enterprises located in Poland. The next paper of Anirudh Prasad Singh titled "An Empirical Study of Indo: Nepal Trade Co-Operation" highlighted the Indo Nepal relations as peculiar of love and hate. Both countries know that they cannot live without each other; there are many subterranean influences which have been acting against a smooth relationship. Similarly, the paper of Dr. H. Ramananda Singh on "Employee's Perceived Quality of Work Life: A Case Study of Banks in Silchar City" measured employees' perceived QWL levels of their respective banks and examined differences in the employees perceived QWL between private and government banks.

The twenty-forth paper "A Case Study on Implication of Change Management Practices at G. Kuppuswamy Naidu Memorial Hospitals, Coimgatore written by Dr. Vimala Sanjeevkumar and Dr. V. Latha studied about the hospital culture, total system, awareness about change and its impact on progressive and effective management practices. The next paper of Dr. Al Rosenbloom on "Global Brands in the Context of Nepal: Understanding Consumer Country-of-Origin and Brand Trust Perceptions" examined the country of origin and brand trust perceptions of Nepali consumers living in Kathmandu. It explored Nepali consumers' perceptions of global brands and reported exceptionally important on buying a global brand in their purchase decisions; the set of global brands most trusted were dominated by brands from the United States and East Asia; and Globalization is eroding clear consumer perceptions of country of origin. The paper also discusses the challenges of market research in Nepal.

The paper of Malathi Sriram and Mohamed Minhaj written on "Socially Relevant Projects @SDMIMD" reviewed B-School and the related course they offer with the case of SDMIMD which offered differentiator- initiative to introduce a two credit course as a part of their PGDM. The conceptual paper of Dr. Poonam Puri "Leading Change: the Winning Edge for Global Competitiveness" highlighted the factors that give the competitive edge to the winning organizations in this era of global competition where right from the employee to the customer to the markets is global. The twenty-eighth paper of the proceedings written by Susanta Mandal on "The Face of CSR at Village level" identified the initiative from a village or a group of villages under the umbrella of a federation in wooing investments from corporate in setting up units, shops and offices by creating policies and providing necessary facilities to the investor. "University/ College/ School research and educational laboratory establishment, maintenance and improvement standardization" written by Abu Ahmad Ashshaaf Zahid Khokhar studied the issues of standardizing educationa and research labs of individual or some institution or of some school/college/university.Last, but not the least, paper written by Burugu W. Rose, Kipsat M. J., Nathan Zingoni, and Thomas B. B. on "Systematic Achievement of Training Outcomes with the benefit of Diagnosis" highlighted the importance of choice of

training methods in achieving the training outcomes and suggested for significant managerial support and adoption of structured training needs analysis action plans.

Without doubt, the authors have achieved their main objectives of filling a much needed gap in our knowledge of changing perspectives of management: revisit the existing and explore the novel ideas providing their papers for the international conference at Kathmandu organized by Nepalese Academy of Management (NAM). Indeed, this proceeding should also prove useful to practitioners, academicians, researchers, post graduate students and well as those who want to prepare themselves and their organizations to work in new and changing perspectives. Moreover, this proceeding will be of interest to cross-national researchers and practitioners.

We would like to thank all contributors and all those who have in various ways helped this international conference and proceedings success. Specially thanks to all our distinguished advisors of Nepalese Academy of Management, key note speakers of the 1st international conference of NAM- Prof. Chris Brewster of Henley University, UK and Prof. Garry Bruton of Neeley School of Business, USA and key resource person Prof. Barbara Gastel of Texas A&M University who devoted considerable time, efforts and continue supports as well as inspire us to make the conference grand success. The family of KFA business school headed by Mr. Resta Jha deserves special thanks for adding high value to make the 1st international conference grand success involving as an associated partner of conference.

**Editors**
**Prof. Dr. Devraj Adhikari**
**Dr. Dhruba Kumar Gautam**

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# A Study on the Relationship between Managerial Effectiveness and Conflict Management Styles


- **Hari Sundar.G.Ram**
  VIT Business School, VIT University, Vellore, Tamilnadu
- **Sudharani Ravindran**
  PSG Institute of Management (PSG College of Technology), Coimbatore, Tamilnadu
- **A. B. Unnithan**
  Indian Institute of Management, Kozhikode, Kerala



## Abstract

In the current era, where globalization and liberalization are the hallmark, management competencies become an inevitable aspect to meet complex challenges. The success of an organization is a reflection of the effectiveness of the senior management team, their vision and leadership, and the combined knowledge and skills of the organization's workforce.

In the past, employees were expected to be efficient in producing the desired results and their efficiency was measured in terms of the outputs delivered relative to the inputs used. Now, the focus has shifted to effectiveness. Effectiveness involves doing the right things, in the right way. Effectiveness is particularly important in the case of managers, as they are responsible for the performance of others. However, effective management starts at a personal level, before moving on to the organizational level. Effective managers are role models for subordinates and they play a vital role in improving the overall effectiveness of the organization.

Managerial effectiveness is very important for the survival and growth of any organization. Managerial Effectiveness brings in productivity enhancement and profitability to the organization, besides greater employee satisfaction, individual development and the contingent rewards for the performance. Thus, certain antecedent factors that affect the effectiveness of managers must necessarily be a priority for the management as well as the individuals themselves (Campbell, Dunnette, Lawler and Weick, 1970).

This is a study conducted to understand the relationship between managerial effectiveness and conflict management style. The study helps to identify the management strategies adopted by managers in combating intrapersonal conflict. The significance of the study stems from the fact that many conflicts in and out of the organizations are due to inappropriate handling. Intrapersonal conflicts are hard to manage because they require people to deal directly with emotional and personal variables. The Objectives of the study were: (i) To assess the managerial effectiveness of managers, (ii) To identify and understand the relationship between managerial effectiveness and conflict management styles, (iii) To understand the influence of age on performance effectiveness and conflict management styles of managers, and (iv) To understand the influence of year of service in the managerial patterns exhibited by Mangers.



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The sample of the present investigation was taken from the employees of one of the leading large Public Sectors organization in Kerala, popularly known as Gods own country, which is situated in the southern tip of India. The sample was restricted to those officers who fall under the category of Class I – Class II officers. These officers were categorized as managers. Attempts were made to derive a representative sample from the population. A sample of 100 officers was taken out of the 412 Class I Class II officers, which roughly constitute 25 per cent of the population.

Data for the present study were collected by administering two standardized questionnaires – Managerial Effectiveness Questionnaire and Conflict Management Style Questionnaire. The scales used for study was of an abridged version. The Managerial Effectiveness Questionnaire (MEQ), which was originally developed and standardized by Gupta (1996), consisting of 45 items and measuring 19 dimensions of managerial effectiveness. The other tool, Conflict Management Style Questionnaire (CMS) originally developed and standardized by Rahim (1983), and consisted of 35 items**.** The CMS questionnaire used for the present study is an abridged version, consisting of 15 items.

## Introduction

In the current era, where globalization and liberalization are the hallmark, management competencies become an inevitable aspect to meet complex challenges. The success of an organization is a reflection of the effectiveness of the senior management team, their vision and leadership, and the combined knowledge and skills of the organization's workforce.

In the past, employees were expected to be efficient in producing the desired results and their efficiency was measured in terms of the outputs delivered relative to the inputs used. Now, the focus has shifted to effectiveness. Effectiveness involves doing the right things, in the right way. Effectiveness is particularly important in the case of managers, as they are responsible for the performance of others. However, effective management starts at a personal level, before moving on to the organizational level. Effective managers are role models for subordinates and they play a vital role in improving the overall effectiveness of the organization.

Managerial effectiveness is very important for the survival and growth of any organization. Managerial Effectiveness brings in productivity enhancement and profitability to the organization, besides greater employee satisfaction, individual development and the contingent rewards for the performance. Thus, certain antecedent factors that affect the effectiveness of managers must necessarily be a priority for the management as well as the individuals themselves (Campbell, Dunnette, Lawler and Weick, 1970).

Several types of managerial behavior have been found to be related to managerial effectiveness. Amsa and Aithal (1989), in a study of regional managers in a commercial bank, found that "more effective" and "less effective" managers differed in terms of the degree to which they displayed communication behaviour, participative behavior, supportive behaviour, positive behaviour and responsive behaviour. Joshi (1992) found that effective managers are more participative than the less effective managers.

There is a general misconception that managerial effectiveness is an inherent quality that cannot be learnt. However, if effectiveness was something innate, we would not see so many successful managers or successful organizations. The reality is that effectiveness can be learnt, and with practice, be perfected. In short, managers can be trained to be effective.

Conflict is a state of opposition, disagreement or incompatibility between two or more people or groups of people. It is like a double edged weapon. It not only evokes an image of fighting,

hostility and painful divisiveness but also of people discussing issues in depth and creating a common ground. Dealing effectively with conflict requires understanding, introspection, reaching out of others and effective management of feelings. When people confront their conflicts, they invigorate their organizations and themselves.

Likert and Likert (1976), defines conflict as … the active striving of one's own preferred outcome which, if attained precludes the attainment by others of their own preferred outcome, thereby producing hostility. However, Mishra et al (1999) puts it as: …a condition of objective incompatibility between values or goals, as the behaviour of deliberately interfering with one another's goal achievement and emotionality in terms of hostility. Conflict is an important and integral part of modern management. The complex influences and experiences that contribute to conflict behavior in organizations have become a topic of lively debate among researchers. Conflict management has gained increasing importance in recent years. In an organizational context, Managers are supposed to resolve conflicts between employees, between themselves and employees, with their own managers and with other managers so as to:

- Reduce stress for interpersonal interactions
- Improve the way conflict are resolved before they affect other parts of the organization
- Minimize the escalation of conflict
- Maintain organizational peace and harmony
- Increase collaborative endeavors

The traditional view is that conflict is so destructive that it needs to be avoided. This assumption is idealistic and harmful. Supervisors and workers get in conflict daily over issues of improving product quality, reducing cost and taking responsibly. Many conflicts in and out of the organizations are due to inappropriate handling.

Conflict, when appropriately managed, add substantial value to organizations. It is the medium by which problems are recognized and solved. Managers who discuss conflicts, disclose information, challenge assumptions and dig into issues make effective decisions. Conflict is essential because diverse options and relevant information facilitate in solving problems and getting things done in organizations.

## The Study

This is a study conducted to understand the relationship between managerial effectiveness and conflict management style. The study helps to identify the management strategies adopted by managers in combating intrapersonal conflict. The significance of the study stems from the fact that many conflicts in and out of the organizations are due to inappropriate handling. Intrapersonal conflicts are hard to manage because they require people to deal directly with emotional and personal variables. The Objectives of the study were:

- To assess the managerial effectiveness of managers.
- To identify and understand the relationship between managerial effectiveness and conflict management styles.
- To understand the influence of age on performance effectiveness and conflict management styles of managers.
- To understand the influence of year of service in the managerial patterns exhibited by Mangers.

## Method

**Sample-** The sample of the present investigation was taken from the employees of one of the leading large Public Sectors organization in Kerala. The sample was restricted to those officers who fall under the category of Class I – Class II officers. These officers were categorized as managers. Attempts were made to derive a representative sample from the population. A sample of 100 officers was taken out of the 412 Class I Class II officers, which roughly constitute 25 per cent of the population.

The sample was selected keeping in mind the aspects like providing due and adequate representations to variables like age, gender, monthly income, and other related demographic factors. Factors like accessibility and availability of the individual managers, co-operation from the representative department heads, etc were also considered. The various classifications of samples based on age, gender, qualification etc are given in tables 1 to 6.

**TABLE 1:** Classification of Samples based on Age

| Sl. No | Age Group (in years) | No. | Per cent |
|---|---|---|---|
| 1 | 21-30 | 4 | 4.00 |
| 2 | 31-40 | 16 | 16.00 |
| 3 | 41-51 | 24 | 24.00 |
| 4 | 51-60 | 56 | 56.00 |
| | Total | 100 | 100 |

**TABLE 2:** Classification of samples based on Gender

| Sl. No | Gender | No. | Per cent |
|---|---|---|---|
| 1 | Male | 65 | 65.00 |
| 2 | Female | 35 | 35.00 |
| | Total | 100 | 100 |

**TABLE 3:** Classification of samples based on Qualification

| Sl. No | Qualification | No. | Per cent |
|---|---|---|---|
| 1 | Non-Graduates | 34 | 34.00 |
| 2 | Graduates | 13 | 13.00 |
| 3 | Professional-Graduates | 29 | 29.00 |
| 4 | Post-Graduates | 8 | 8.00 |
| 5 | Professional Post-Graduates | 16 | 16.00 |
| | Total | 100 | 100.00 |

**TABLE 4:** Classification of samples based on Years of Service

| Sl. No | Category | No. | Per cent |
|---|---|---|---|
| 1 | Less than 10 | 16 | 16.00 |
| 2 | 10-20 | 23 | 23.00 |
| 3 | 20-30 | 24 | 24.00 |
| 4 | 30 and Above | 37 | 37.00 |
| | Total | 100 | 100 |

## Tools

Data for the present study were collected by administering two standardized questionnaires – Managerial Effectiveness Questionnaire and Conflict Management Style Questionnaire. The scales used for study was of an abridged version. The Managerial Effectiveness Questionnaire

(MEQ), which was originally developed and standardized by Gupta (1996), consisting of 45 items and measuring 19 dimensions of managerial effectiveness. The other tool, Conflict Management Style Questionnaire (CMS) originally developed and standardized by Rahim (1983), and consisted of 35 items**.** The CMS questionnaire used for the present study is an abridged version, consisting of 15 items.

MEQ aims to measure an executive's managerial behaviour and process associated with his functions. The questionnaire items, as per Gupta (1996), defined 19 dimensions, and explore the critical attributes of managerial, technical, conceptual, behavioural and human related processes. The respondents are required to answer all the 45 items with five point rating scale (where 1 = Never, 2 = Sometimes, 3 = Doubtful, 4 = Usually and 5 = Always). A high score indicates high effectiveness.

The 19 dimensions defined by Gupta are: 1) Beliefs about subordinates; 2) Dependence; 3) Innovation and Inspiration; 4) Organizational goals / personal goals; 5) Assignment of tasks; 6) Planning / Coordinating; 7) Training and Development; 8) Motivating / Reinforcement; 9) Managing Conflict; 10) Communication; 11) Public Image; 12) Socializing / Politicising; 13) Management of boss; 14) Management of colleagues; 15) Discipline & Example Setting; 16) Client Management ; 17) management of control and market environment; 18) Control Function; 19) Networking. The author has reported test – retest reliability and split – half reliability coefficient of 0**.**73.

Conflict Style Questionnaire aims to identify the way in which officers deal with conflict situations in an organization. An abridged version of scale (Mishra et al., 1999) was used for the study. The instrument, which was originally developed and standardized by Rahim (1983), consisted of 35 items. The CMS questionnaire used for the present study is an abridged version of it consisting of 15 items. There were three items for measuring each of the five intentions, which are arranged randomly. Like MEQ, CSQ also had a five point scale, with choices ranging from Rarely to Always, with assigned scores of One to Five.

Personal Information Schedule like age, sex, material status, qualification, income, period of service, etc., was provided at the end of the tool.

## Results

The total sample was classified into high effective, moderately effective and low effective groups based on the scores obtained by them. The classification was done in the following manner.

1. The mean value of the managerial effectiveness scores for the sample was obtained, which was found to be 157.06.
2. The Standard Deviation with respect to effectiveness was also found out, which was 15.04.
3. The value of Mean plus half of the Standard Deviation was obtained, which was found to be 164.58.
4. Mean minus half of Standard Deviation was obtained, the value of which was 149.54.

Those of the samples having scores above 164.58 were considered to be highly effective. Those having lesser than 149.54 was considered as the low group, and represents less effective category. The others (between 164.58 and 149.54) were considered as the middle group. Out of

the 100 samples under study, 33 samples were found to be highly effective and 29 samples were found to be less effective. The remaining 38 samples of the population were found to be moderately satisfied. The results are presented in the following Table.

**Table 5:** Level of Managerial Effectiveness of the Sample

| No | Particulars | Number of employees | Per cent |
|---|---|---|---|
| 1 | Highly Effective | 33 | 33.00 |
| 2 | Moderately Effective | 38 | 38.00 |
| 3 | Less Effective | 29 | 29.00 |
| | Total | 100 | 100.00 |

It can be found from the above table that 71 per cent of the respondents were fond to be either highly or moderately effective, which is indeed a matter of great value to the organization.

**TABLE 6:** Data and Result of Comparison of various levels of Managerial Effectiveness with Conflict Management Styles

| Source of Variation | Sum of Squares | Df | Mean Squares | F |
|---|---|---|---|---|
| Between Groups | 17611.222 | 2 | 8805.611 | 178.377* |
| With in Groups | 4788.418 | 97 | 49.365 | |
| Total | 22399.640 | | | |

* Significant at 0.01level

The result of ANOVA between the various levels of managerial effectiveness based on the total conflict management score is presented in Table 6. The F value in the comparison between various levels of managerial effectiveness and the total value for conflict management is presented in Table 6. The value (178.377) was found to be significant at 0.01 level. This denotes the existence of significant difference between managerial effectiveness and conflict management styles of executives. It is often observed that a Manager to be effective has to manage the conflict in such a manner it is useful to the organization as a whole.

**TABLE 7:** Data and Result of Comparison of Managerial Effectiveness with Qualification

| Source of Variation | Sum of Squares | Df | Mean Squares | F |
|---|---|---|---|---|
| Between Groups | 3520.256 | 4 | 880.064 | 4.428* |
| With in Groups | 18879.384 | 95 | 198.730 | |
| Total | 22399.640 | | | |

* Significant at 0.05 level

Comparison was also made based on the qualification of the respondents which is presented in Table 7. The F value in the comparison of managerial effectiveness based on the qualifications was found to be 4.428, which is significant at 0.05 level.

The result of ANOVA with respect to qualification of the respondents and conflict management styles is provided in Table 8. It may be observed that there is significant difference only at 0.05 level (3.258) for the variables under study.

**TABLE 8:** Data and Results of Comparison of Conflict Management Styles based on Qualifications.

| Source of Variation | Sum of Squares | Df | Mean Squares | F |
|---|---|---|---|---|
| Between Groups | 606.052 | 4 | 1.513 | 3.258* |
| With in Groups | 4147.338 | 95 | 46.498 | |
| Total | 5023.390 | | | |

* Significant at 0.05 level

No Significant difference was found in the comparison of managerial effectiveness with age of the sample studied. The F value in the comparison between managerial effectiveness and age presented was found to be 2.586, which is not significant. It denotes existence of no significant difference in the age of the respondents with respect to the overall managerial effectiveness. This denotes that the factor age is not having any relationship with managerial effectiveness.

**TABLE 9:** Data and Results of Comparison of Managerial Effectiveness with Age

| Source of Variation | Sum of Squares | Df | Mean Squares | F |
|---|---|---|---|---|
| Between Groups | 1835.092 | 3 | 611.697 | 2.856* |
| With in Groups | 20564.548 | 96 | 214.214 | |
| Total | 22399.640 | | | |

* Not Significant

The result of ANOVA with respect to conflict management styles and age is provided in Table 10. It may be observed that there is no significant difference for the variables under study. It denotes existence of no significant difference in the variable age of the respondents with respect to the overall conflict management style.

**TABLE 10:** Data and result of comparison of Conflict Management Styles with Age

| Source of Variation | Sum of Squares | Df | Mean Squares | F |
|---|---|---|---|---|
| Between Groups | 254.191 | 3 | 84.730 | 1.706* |
| With in Groups | 4769.199 | 96 | 49.679 | |
| Total | 5023.390 | | | |

* Not Significant

**TABLE 11:** Data and Result of Comparison of Managerial Effectiveness with Years of Experience

| Source of Variation | Sum of Squares | Df | Mean Squares | F |
|---|---|---|---|---|
| Between Groups | 2131.733 | 3 | 710.578 | 3.366* |
| With in Groups | 20267.907 | 96 | 211.124 | |
| Total | 22399.640 | | | |

* Significant at 0.05 level

The comparison of managerial effectiveness and the years of experience revealed significant difference at 0.05 level. The F value in the comparison between years of experience and managerial effectiveness presented in Table 11 was found to be significant at 0.05 level (3.366). It denotes existence of difference in the variable years of experience of the respondents with respect to the overall managerial effectiveness.

**TABLE 12:** Data and result of comparison of Conflict Management Styles with Years of Service

| Source of Variation | Sum of Squares | Df | Mean Squares | F |
|---|---|---|---|---|
| Between Groups | 169.572 | 3 | 56.524 | 1.118* |
| With in Groups | 4853.818 | 96 | 50.561 | |
| Total | 5023.390 | | | |

* Not Significant.

The result of ANOVA with respect to years of experience and conflict management styles is provided in Table 12. It reveled that there is no significant difference for the current variables studied. It denotes that the years of experience is in no way related to the variable studied, i.e. the overall conflict management style.

The result of correlation between various factors under study is provided in Table 13.

**TABLE 13:** Correlation Matrix of Various Factors under Study with respect to Managerial Effectiveness

| No | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|
| 1 | () | .477** | .236* | .001 | -.071 | -.096 | .251* | .038 |
| 2 | | () | .066 | .150 | -.103 | .071 | .076 | -.032 |
| 3 | | | () | -.029 | -.197* | -.586** | .823** | .247* |
| 4 | | | | () | -.129 | -.112 | .063 | -.180 |
| 5 | | | | | () | .050 | -.131 | -.213* |
| 6 | | | | | | () | -.639** | .205* |
| 7 | | | | | | | () | .148 |
| 8 | | | | | | | | () |

** Significant at 0.01 level

In the correlation matrix:

1. Managerial Effectiveness Questionnaire
2. Conflict Styles Questionnaire
3. Age
4. Gender
5. Marital Status
6. Qualification
4. Years of Experience
8. Monthly Income

The findings are of importance with respect to the study undertaken, as correlation was observed with respect to various factors studies by the investigator. The overall managerial effectiveness score was found to have significant correlation with conflict management styles adopted by the managerial personnel. This is a finding of great significance, as it is established that a managerial effectiveness has direct and positive correlation to the conflict management styles adopted by the managers.

Significant correlation with certain other factors like age, and years of service in the organization, also are obtained, which is of profound importance to the managerial field This relationship may be due to the fact that with the advancement of age, personnel acquire knowledge, skills and experience whereby the will be in a better position to manage their situation in a more better and desirable manner. This is also true with the case of experience. With more and more years of service, the managers gain wisdom and experience whereby they will be able to manage effectively.

The matrix indicates a clear picture of the existence of correlation between the two variables under study - managerial effectiveness and conflict management styles. A more in depth study into the reasons of the correlation will provided vital clues with respect to the important and inevitable subject termed managerial effectiveness.

## Discussion

The main objective of the study was to understand the relationship between managerial effectiveness and conflict management styles. Other objectives of the present study were to

analyze the influence of age, gender, qualification, experience, etc in managerial effectiveness. The analysis of data collected was carried out using techniques such as ANOVA, t-test and correlation. Findings drawn on the basis of the analysis are follows:

- There is significant and direct relationship between managerial effectiveness and conflict management styles.
- There is no difference between male and female managers in managing conflict as well as the effectiveness. i.e., managerial effectiveness is irrespective of gender.
- The factor age do not have any influence on the effectiveness of the managers.
- Age does no influence the conflict management style of the managers.
- There is significant difference in the conflict management styles adopted by high effective and low effective managers. It can be inferred that managerial effectiveness has an influence over the conflict management styles of managers.

## Conclusion

The overall results of this study have several implications for individual managers and the organization as well. The study has thus established that there is a positive correlation between managerial effectiveness and conflict management styles. On the basis of observation and outcomes drawn from analysis conducted, the following suggestions are provided:

- Since conflict management and managerial effectiveness are variables interlinked, these factor should be given due importance by the management in all spheres.
- Managers must be given awareness regarding the influence of conflict in their effective performance.
- The Training and Development programmes should be designed in such a way as to bring out the importance of these two factors.
- Proper communication in the organization can lead the managers to be effective and make them manage the inevitable conflict in a better manner.

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# Context, Governance, Associational Trust and HRM: Diversity and Commonalities


- **Marc Goergen**
  Cardiff Business School and European Corporate Governance Institute (ECGI)
- **Chris Brewster**
  University of Reading Business School
- **Geoffrey Wood**
  University of Sheffield Management School



## Abstract

This article explores the nature and antecedents of trust at the workplace. Based on the findings of a large scale internationally comparative survey, we conclude that there are important variations on national lines: countries with high levels of societal trust – such as the Scandinavian social democracies – are generally associated with higher trust work and employment relations. At the same time, the picture is a complex one, and variations in high trust HRM practices do not completely match existing country typologies. This is particularly the case with relatively large and diverse categories such as civil law/ continental European capitalism, and countries undergoing long and uneven transitions, such as the Mediterranean economies.


## Introduction

This article explores the relationship between systemic trust and specific firm level HRM practices. As Zak and Knack (2001) note, there are two different aspects of trust relations: in terms of property rights and relationships with government, and what may be referred to as "associational" or intra societal trust. The latter concerns the degree of accumulated social capital and other ties between individuals and groups in society; within the workplace, this is likely to reflect specific work and employment relationships (c.f. Whitley 1999). The management task of creating and sustaining this trust is a key objective of the practice of Human Resource Management (HRM). Whilst it is often argued that trust makes possible certain workplace practices, and in turn, will be reinforced by them (Gomez and Rosen 2001: 56), there is rather less research on the relationship between indices of overall societal trust and specific HRM practices. This article uses a large-scale internationally comparative survey to examine the extent and antecedents of trust at the workplace, exploring variations on national lines and testing propositions that countries with high levels of societal trust – such as the Scandinavian social democracies – are associated with higher trust work and employment relations and assessing the variety of patterns of trust across national contexts.

## Trust and HRM Practice

Trust refers to the expectation by one party that the other will behave reliably and predictably in a cooperative manner (Gomez and Rosen 2001:56; Tomlinson 2005: 1172). Trust deals with situations under asymmetric information: that is, situations where the actions of an agent cannot be directly observed. Trust is not necessarily about attaining organizational strategic goals more effectively, although higher levels of trust may be conducive to organizations working better (c.f. Johnson 2006).

Knack and Keefer (1997: 1252) argue that: '[e]conomic activities that require some agents to rely on the future actions of others are accomplished at lower cost in higher-trust environments.' They provide examples of such activities, which are the provision of goods and services in return for future payments, the carrying out of tasks that are difficult to monitor and investments that may be expropriated by others.

While game theory suggests that cooperation, induced by trust, is not a rational strategy in repeated games (e.g. the prisoner's dilemma), leading to outcomes that are not socially optimal, results from experimental studies suggest that people trust complete strangers and expect a certain degree of cooperative behaviour from them, even if they may never see them again (La Porta et al. 1997). People who deal with each other frequently build up a reputation amongst each other based on past cooperation and are also able to punish each other in the future for opportunistic behavior; but trust is more problematic when interacting with complete strangers or with those dealt with on an infrequent basis. This implies that trust tends to be more of an issue in large organizations, where people only interact infrequently with each other and reputations are less easily built up and penalties enforced.

## Theoretical Perspectives

Rational choice views of trust and HRM discuss the need to trust the other party to cooperate, rather than defect and hence, be committed to the organization (Marsden 1999: 255). However, rational choice perspectives see trust more in terms of incentives than in terms of embedded social relations and have been sceptical about the "disembodied notion of trust floating around in the social ether" (Deakin and Wilkinson 1998: 168). A crucial element is the extent to which property rights are defended, and the extent to which people can take decisions with the confidence that their property rights will be upheld. Hence, legal systems may correct market imperfections and encourage owners to make the "right" choices (Cooter 2000: 243).

In terms of employment practices, rational choice accounts have tended to focus on the importance of measures such as deregulated labour markets and generally weak employee rights to ensure that employees "make the right choices". Rather than working to secure their trust on a voluntary basis, employees are pressured to be committed to the managerial agenda through an inability to counteract it. Recalcitrant employees need to be "exited" and their place taken by effectively operating external labour markets (c.f. Marsden 1999). Specific investment in high trust relationships that create dependency and vulnerability may be prone to opportunistic "hold ups" (Woolthuis et al. 2005: 813)

Reflecting this, "hard" approaches to HRM focus on treating people in a calculative manner, as with any other factor of production (Truss 1999: 40), ignoring any value there may be in organization specific human capital, knowledge and wisdom, which is not easily replaceable on the external labour market, and make an inadequate distinction between positive and negative organizational commitment (c.f. ibid.).

Alternative, "soft" approaches have attempted to develop an understanding of the effects of the institutional environment, focusing on the contractual basis of trust in terms of employment and related social relationships (Marsden 1999). In other words, these approaches have a more multi-facetted basis than hierarchical approaches that would prioritise property rights. Trust is seen in terms of socio-economic outcomes, with societal-specific institutions impacting on its nature and extent (Wood and Brewster 2006: 459). Or, in other words, "trust, and its underpinning norms and values represents both a component and consequence of a specific institutional context providing the basis for accumulation and growth" irrespective of firm type or size (Wood and Brewster 2006: 461; c.f. Lipietz 1986).&8&

Soft approaches to HRM argue that people will be most effective in exerting themselves in directions where they are most committed; in other words, if people positively commit themselves, they will most likely add value (Truss 1999). In turn, such commitment is contingent on employees being trusted, if they have autonomy and control over their work (ibid.).

Here a caveat is in order. Whilst soft HRM is often seen to be a high trust paradigm, based on mutual reciprocation, it remains management driven, and focuses more on allowing workers (limited) voice as a means of enhancing short term productivity. However, the literature on trust and HRM suggests that high trust workplace relations are associated with greater security of tenure and meaningful collective voice (c.f. Harcourt and Wood 2007; Brewster et al. 2007).

## Context and Trust

Sources of trust may lie at the institutional and personal level. The former would be norms, values and rules at the broadest contextual level, incentives being provided by reputations, and opportunism through contracts, and more broadly speaking legal enforcement. The latter concerns specific personal relations, opportunism being controlled by power and hierarchy, and incentives through mutual dependence and swapping costs (Woolthuis et al. 2005). Contemporary institutional theories hold these two as interconnected, with what goes on at the micro level being reinforced through institutions and vice versa (Amable 2003).

Zak and Knack (2001) investigate the link between trust and economic performance and conclude that that low-trust environments result in a lack of investment. Their model predicts that higher trust increases investment and economic growth. Reducing income inequalities increases trust and consequently investment and growth; and vice versa - there is a low-trust poverty trap. They test this based on the World Values Survey (WVS) database.[1] Trust is measured by the percentage of respondents in each country replying that 'most people can be trusted'.[2] They find that there is a positive relationship between growth and trust; and that trust depends positively on their property rights index[3] (which measures the government's attitude towards property rights) and negatively on income inequality and land inequality. Zak and Knack argue that the property rights index is a proxy for the people's trust in their government whereas the trust index is a proxy for the level of trust between individuals.

1. The WVS covers 41 countries. Zak and Knack (2001) obtain another two country observations from the Eurobarometer surveys (Greece and Luxembourg) and another country observation from a government-funded survey in New Zealand.
2. The alternative is that 'you can't be too careful in dealing with people'.
3. The index is based on data from the International Country Risk Guide (ICRG).

Whereas according to Zak and Knack (2001) associational trust and property rights measure trust towards two different types of economic agents (individuals and the government, respectively), Knack and Keefer (1997) argue that trust between citizens can be a substitute for property rights and law enforcement in countries where these are weak; in other words, one form of trust relationship is not necessarily indispensable for others to work. They also predict that high-trust societies will have longer investment horizons than societies where trust is low. In the former, incentives will also be higher for employers to invest in their staff and for employees to acquire firm-specific skills. Citizens will be prevented from opportunistic behavior by norms of civic cooperation and the sanctions imposed for breaking these. These sanctions are internal (such as guilt) and external (such as ostracism and shame).

These results raise the issue of the importance of associational ties, given that very unequal and divided societies perform poorly on the level of societal trust. Putnam (1993) distinguishes between horizontal associations and vertical associations. The difference between the two is that hierarchies are absent from the former whereas the latter incorporate rigid hierarchical structures which tend to engender mistrust. An example of a horizontal association is a tennis club whereas an example of a vertical association is the Catholic or Greek Orthodox Church. Knack and Keefer (1997) test the validity of Putnam's (1993) hypothesis that horizontal associational activity increases growth. This hypothesis is in direct contrast with Olson (1982) who claims that horizontal associations – such as lobbying groups – tend to be self-serving, diverting economic resources into their own pockets at the detriment of the rest of society. Hence, according to Olson, associational activity is likely to hurt rather than to promote economic growth. Knack and Keefer find that the degree of associational activity in a country neither explains economic growth nor investment levels. They interpret this as evidence that the positive effect of horizontal networks (Putnam 1993) is offset by their negative effect (Olson 1982; c.f. La Porta et al. 1997).

## Associational and Hierarchical/Governmental Trust

But, how will context determine trust? From the above, it can be seen that a key issue here is between two approaches. The first accords primary or equal attention to associational relations (in other words, horizontal social ties) as a basis of societal trust and hierarchical approaches. The second suggests that associational ties are likely to make for inefficiency, and that a governmental focus on property rights makes for types of trust more conducive to effective commercial activity – individuals are quite capable of interacting efficiently (without the need for accumulated social capital) as long as the legal basis for contracting is secure; associational based trust is less important and may, indeed, undermine, governmental founded trust. Hence, Botero et al. (2004) argue that legal tradition will shape the degree of attention accorded to rather than the other; property rights are stronger in common law countries and weaker in civil law ones. This means that in the latter, in terms of work and employment relations, less attention will be accorded to the immediate pursuit of profit, and more to shoring up and developing associational ties.

Looking at the effects of electoral systems, Pagano and Volpin (2005) argue that a more proportional electoral system is likely to result in a stronger emphasis on coalition building; in contrast, in a first-past-the-post system, the primary concerns of political parties will be to serve their own narrow constituencies and woo a relatively small pool of swing voters. Central coalition building is likely to be matched through coalitions and accommodations both within and beyond the workplace; hence, countries high on the proportionality scale are likely to be

higher in associational trust, in part secured through appropriate work and employment relations policies.

***Varieties of Capitalism and Trust***

The Varieties of Capitalism (VOC) literature argues that associational trust and governmental/hierarchical trust are not necessary mutually exclusive; different societies may function equally well with different configurations of relations in governance and social ties. It echoes the underlying argument of Knack and Keefer (1997) that societies high in associational trust will have longer investment horizons. The VOC literature is based on a more extensive usage of the concept of complementarities. More precisely, sets of practices may work better together than on their own and for the benefit of more than one set of stakeholders (see e.g. Boyer, 2006). As the VOC literature sees institutions as being embedded within networks of relationships, countries with weak investor rights may still achieve economic outcomes that are comparable to those achieved by countries with strong shareholder protection via different sets of complementarities. This is because, in the former, stronger rights for a cross-section of stakeholders means that it is harder for one side to "go it alone": hence, parties have to make trade offs, and develop long term relations based on trust, rather than short-term adverserialism. This does not mean that any variety of capitalism necessarily works better than others but, rather, that the nature and depth of relationships between key players will facilitate specific sets of practices as adverse to the others.

A common distinction in the VOC literature is made between the liberal market economies (LMEs), such as Britain and the US, and the coordinated market economies (CMEs) of continental Europe and the Far East (Dore 2000; Hall and Soskice 2001). In the LMEs, a focus on shareholder rights and a strong short termism is matched with adversarial competition between firms, and adversarial employment relations, characterised by poor security of tenure, low investment in skills, and weak employee voice; firms compensate for these limitations through low wages and flexible external labour markets (Thelen 2001). In the CMEs, stronger inter firm relations and more patient shareholders allow for a greater long termism, with higher trust relations between firms and their employees (Harcourt and Wood 2007; Thelen 2001). Developments and critiques of the VOC literature have argued that the CME category in particular is a very disparate one (Whitley 1999; Amable 2003).

For example, Amable (2003) draws a distinction between the Nordic social democratic economies, and continental European (or Rhineland) capitalism; these are also distinct from transitional economies of central and Eastern Europe and emerging markets. Amable (2003) argues that the Nordic economies are distinguished by higher levels of state intervention and more dynamic and ultimately more far-reaching manifestations of neo-corporatism. Flexicurity and quasi-flexicurity policies mean that security of tenure is weaker in the former, but this is offset by a more proactive role of the state in skills development, and better unemployment benefits. South European capitalism constitutes a distinct variety in its own right. Whilst sharing the price base competition feature of LMEs, South European capitalism is also characterised by weak shareholder rights, concentrations of ownership, and dualism in labour policies. Workers in large firms enjoy good employment protection, but their counterparts in smaller firms less so; enforcement of labour law is also weaker in the latter. These four varieties of capitalism are in part implicitly distinguished by variations in trust on firm type and national lines, ranging from the low trust adversarialism encountered in LMEs to the high trust social democratic and continental European models. Contrary to Amable, who only deals with trust on an implicit basis, we have used the World Values Survey (WVS) index as a measure of

trust in different social contexts. At the same time, we assess any correspondence between the greater incidence of specific sets of practices and type of capitalism.

## Trust and Key Aspects of HRM Practice

Price (2004: 276) argues that often firms seek to promote trust and commitment without a supporting framework: attempting to win workers over through the argument that the interests of the firm are inevitably beneficial to employees, that "commitment produces positive benefits for both staff and management".

In their classical writings on industrial relations, Flanders (1965) and Fox (1971) drew a distinction between low trust workplace environments characterised by alienation and mutual distrust between managers and workers and more cooperative ones. Fox (1971) suggests that it is relatively easy for organisations to enter low trust cycles (c.f. Marsden 1999). Such low trust spirals could only be deflected by ideology and power: when workers felt managers trusted them – inter alia, through information sharing – and when workers had some autonomy in performing tasks (Marsden 1999). Trust depends on "access to and the sharing of information relating to the organization's operations" (Bratton 2003: 134). In other words, trust is partially about communication and awareness of the other's intentions (Nugent and Abolafia 2006).

If communication is likely to promote trust, what is likely to undermine it? Storey (2007) notes that the converse of high trust HRM is hardline calculative HRM that treats employees strictly as a disposable resource and manages them as such. Hardline calculative HRM encompasses the use of monitoring and performance appraisals (Gooderham et al. 2006). Individual performance based pay is a common mechanism for workplace discipline. It is assumed that workers will police their peers and fight shirking, in order to maximize individual returns that may accrue from their own good performance (Gollan et al. 2006).

The relationship between employee share ownership schemes, option schemes and group based incentives on one side and trust on the other side is more ambivalent. There are different forms of employee share option schemes with different implications (Poutsma 2001) and such schemes may well be heavily influenced by tax regimes and other fiscal arrangements within the state or even in the home territory of a multinational corporation (MNC) (Pendleton et al, 2003; Poutsma et al. 2005). Overall, however, on the one hand, stock ownership schemes seek to move away from secure and rigid contracts, to a situation where, whilst employees may share in any rewards, they shoulder a greater degree of risk, without being given a real say in the manner in which the firm is run (Kato and Morishima 2002). Group based participation may, again, be a means of encouraging individual workers to rein in shirking by their peers (Gollan et al. 2006). Share ownership is well removed from daily working life, and any benefits may appear disconnected from actual effort (c.f. Nyakadym et al. 1994). On the other hand, Conyon and Freeman (2001) found a positive connection between employee financial participation, and the existence of collective voice mechanisms. Unionisation may make workers feel more secure and, hence, more willing to support profit sharing initiatives (Black and Lynch 2004). In other words, there may be complementarities at work: profit sharing may work better when workers trust management more, and, in turn, if such schemes are equitable and fair, they may, in turn, help reinforce trust relations.

Hence, in addition to communication, we focus on the existence of employee share ownership plans and stock options, profit sharing and variable pay, and the extent to which specific

manifestations of these incentives are likely to be encountered as part and parcel of softer types of HRM in higher trust contexts.

Table 1 summarizes key HRM practices within high and low trust environments.

## Statement of Hypotheses

The central aim of this article is to explore the link between the overall level of systemic trust, and the nature and extent of specific high trust HRM practices in the workplace. In other words, we aim to explore the relationship between systemic trust and HRM practices and the relationship between firms and their people. To do this we identify a number of hypotheses.

Firstly, it can be argued that closer monitoring of employees – and their future treatment based on the outcomes thereof – is more likely in a low trust national context.

### Hypothesis 1

*The use of assessments is more likely to be encountered in contexts lower on associational trust.*

Secondly, it can be argued that stock options will be more common in contexts with low associational trust, and profit sharing in contexts high in associational trust. Why would this be the case? In contexts where shareholder power is dominant, the resources of the firm are more directly focused on maximizing shareholder value; directors and managers who do not adhere to this agenda are more easily removed (La Porta et al. 1999). One of the mechanisms by which the shareholder value maximization agenda may be pursued is through more directly linking reward to share options (c.f. Boyer 2009). In contrast, in higher trust environments, firms are more likely to redistribute resources across the firm (c.f. La Porta et al. 1999; Cooney et al. 2009). And, in such contexts, team working is more likely (Wood and Glaister 2008); incentives (including those based on overall organizational performance) linked to group performance are more easy to operationalize, when compared to individual based schemes for simple logistical reasons, and because groups are in such circumstances more likely to take responsibility for the performance of individual members (c.f. Brewster et al. 2010).

### Hypothesis 2

*Stock options will be more common in low associational trust contexts, and profit sharing in higher trust ones.*

Thirdly, it can be argued that more extensive – and effective – communication is likely to be encountered in contexts high in associational trust.

### Hypothesis 3

*High levels of communication are likely to be linked to high levels of associational trust within society at large.*

## Data Sources and Method

Data on HRM practices are taken from the latest, 2003/4 Cranet survey. Cranet is a survey of senior HR managers. The questionnaire contains mainly closed-ended questions to avoid prevarication and/or ambiguous responses. The Cranet survey, which is conducted every 3 to 4 years, has over time covered an increasing number of countries. The 2003/4 survey covers 41 countries from Western and Eastern Europe, developed countries such as the USA and

Australia as well as transitional economies such as South Africa, Turkey and Tunisia. However, given that institutional characteristics are taken from various other sources, which do not cover the same 41 countries, this article focuses on the 26 countries (listed in Table 2) common to all the databases used in this article. While the data from the Cranet survey are company level data, this paper aggregates the data at the national level.

Apart from trust, the other national characteristics that this paper considers are the degree of proportional representation in the electoral system and the type of legal family each country belongs to. Trust is measured by the proportion of respondents in each country replying that 'most people can be trusted'. For most countries, the measure is taken from the World Values Survey (WVS) for 1999, 2000 or 2001. For a few countries not covered by one of these more recent surveys, the measure is from an earlier survey. Table 2 shows that trust ranges from 0.07 in Turkey to 0.67 in Denmark. Generally, trust towards strangers is highest in the Nordic countries (Denmark, Finland, Norway and Sweden) ranging from 0.57 to 0.67. Proportional representation is taken from Djankov et al. (2008). The variable equals 3 if all the seats are allocated via the proportionality rule, 2 if the majority of seats are allocated via this rule, 1 if a minority of seats are allocated proportionally, and 0 if no seats are allocated via the proportionality rule. Djankov et al. source their daya from Beck et al. (2001) and they cover the period of 1975 to 2000. Typically, few or no seats in Anglo-Saxon countries are assigned via the proportionality rule whereas in Continental Europe most or all of the seats are assigned proportionally.

## Findings

### Monitoring

We measured the proportion of employees that are formally assessed; distinguishing between (a) managers, (b) professional/technical employees, (c) clerical employees and (d) manual workers[4]. Except for Iceland, in all other countries the majority of organisations assess their managers. Assessment of managers is particularly important in Anglo-Saxon countries (Australia, Canada, Ireland, New Zealand, and the US). All these countries are common law based liberal market economies; however, two – New Zealand and Ireland – have more proportionality based electoral systems. In general, Nordic economies (Finland, Iceland, Norway and Sweden) are much less likely to assess their managers. All fall into Amable's social democratic category, and all have social democratic civil law systems. Harcourt and Wood (2003) argue that such countries place a particularly strong emphasis on mutually accepted unwritten rules underpinning formal regulation and neo-corporatist accommodations. The only exception to this category is Denmark, a country with a particularly well-developed flexicurity system. Apart from these two categories, it was difficult to identify other consistent clusters of country: both continental European and Mediterranean capitalism incorporated much diversity.

The relative importance of assessment of professional/technical employees is fairly similar to that of managers. Organisations from those countries that attach relatively less importance to assessing their managers also attach less importance to assessing professional/technical employees. Clerical employees exhibit more differences across countries. For example, Austria, where management assessment is not common, seems to attach even less importance to formal

4. Charts based on the appropriate frequency counts would have taken up too much space here, but are available from the authors.

assessments of its clerical employees. Norway is a similar such case. Finally, when it comes down to assessing manual workers, most of the previously observed patterns seem to be much less pronounced. For example, it is no longer the case that organisations from Anglo-Saxon countries figure at the top of the ranking list. They now rank behind some of the smaller European economies, i.e. Belgium, Denmark, the Netherlands and Switzerland. What can account for the latter? Given that in many other respects – for instance, in terms of rights for collective representation (Botero et al. 2004) – these countries have much in common with Scandinavian social democracies and other cooperative market economies, this could reflect variations in individual employment rights, and/or the operation of complementarities. The latter would include the presence of practices seemingly at odds with the general systemic whole, but designed to compensate for other systemic weaknesses and/or impart an element of greater flexibility into the system as a whole (Crouch 2005). Existing research evidence points to the relationship between results orientated appraisals and a strong emphasis on returns on assets amongst white collar workers; in contrast, it appears to be antithetical to high involvement systems of work organization (Wood 2009: 62-64).

In terms of hypothesis 1 – which is partially confirmed - it is evident that, in general, the greater use of assessments amongst the higher job bands is associated with the liberal market/common law context, where a strong emphasis is placed on reining in managers and binding them to a shareholder value maximisation agenda (Botero et al. 2004). In contrast, the evidence among manual employees is very mixed: this would reflect the difficulties of doing complex individual appraisals amongst a large and diverse workplace, or where a strong emphasis is placed on team-based high performance work systems. Indeed, in such contexts, assessments may assume very different forms to the practices associated with appraising white collar workers: it may not be possible to reach conclusions as to the effects of assessments amongst frontline workers on associated trust without a more detailed look at the specific nature of the former and the operation of complementarities.

## Incentives

We then examined the proportion of organisations in each country offering share schemes to each of the same four categories of employees[5]. In general, share schemes are only offered by up to a third of organisations in a given country, partly reflecting the fact that not all of the organisations covered by the Cranet survey are stock corporations and listed on a stock exchange. Contrary to assessment, it is no longer the case that Anglo-Saxon countries figure at the top of the ranking table. For example, the USA has one of the lowest proportions of organisations offering share schemes while the UK has one of the highest proportions, but is no different from other non-Anglo-Saxon countries such as Denmark, France and Norway. This is a somewhat surprising pattern as stock markets are most developed in Anglo-Saxon countries and employee share schemes, *ceteris paribus*, should therefore be more frequent given the higher percentage of listed firms. A similar pattern emerges for the case of professional/technical employees. While the UK ranks at position number 2, Norway comes first and Denmark and France follow close. When it comes to clerical employees and manual workers, as for the two previous categories, the US is close to the bottom of the league. Again, France and Norway or Denmark, France and Norway figure at the top of the league. The UK has the highest proportion of organisations offering share schemes to their clerical employees, but is followed closely by France.

5. Charts based on the appropriate frequency counts would have taken up too much space here, but are available from the authors.

To summarise, there is much more variability across the group of Anglo-Saxon countries in terms of the extent of use of share schemes. This will, as indicated by Pendleton et al. (2003) and Poutsma (2001), be significantly influenced by legal and tax regimes. Surprisingly, France across all four categories of employees is remarkably similar to the UK. Why would this be the case? Brewster et al. (2010) note, in practice, share ownership schemes can supplement a collectively negotiated employment contract, allowing employers to experiment with new ways of managing people, whilst retaining a commitment to the core features of a coordinated system. Meanwhile, in the USA, a particularly large proportion of the workforce is confined to low end jobs, with poor terms and conditions of service: here, little emphasis would be placed on reward systems, other than (and not in all instances) compliance to bare legal minima (Peck 2001).

We also examined the proportion of organisations in each country offering stock options[6]: a generally less common practice. The percentage of organisations offering stock options to their employees ranges from roughly 5% in Turkey to just below 40% in Italy. While the proportion of organisations with stock options is relatively high across the Anglo-Saxon countries, with the exception of New Zealand, it is highest in Iceland and Italy. Still, the proportion of organisations offering employee stock options is comparable to that in Anglo-Saxon countries in a large number of countries. To name just a few, this is the case in Belgium, Denmark, Finland, France and the Netherlands. While in most countries a large minority of organisations offer stock options to their managers, few offer stock options to their professional/technical employees; even fewer offer options to their clerical employees and manual workers. Prominent users of stock options are Bulgarian, Icelandic and US organisations for the category of professional/technical employees, Bulgaria, Greece and Iceland for the case of clerical employees and finally Bulgaria and Iceland for the case of manual workers. There are clearly no visible patterns in this diversity, and it may reflect the marginal role of stock options, which may be used as a limited way of supplementing, and adding an element of flexibility to pre-existing and established rules of the game.

We carried out the same examination for profit sharing schemes[7]. As profit sharing schemes are not conditional on organisations being in the form of stock corporations, this is reflected in a much more pronounced use of such schemes in some countries. France stands out, as virtually all of its organisations offer profit sharing schemes. It is closely followed by Finland, Switzerland, Austria and the Netherlands in each of which a majority of organisations have profit sharing schemes in place. The proportion of organisations from all other countries offering such schemes ranges from just below 20% to 40%. Similar patterns emerge when focusing on professional/technical employees. The same countries also rank at the top of the league when it comes to the proportion of organisations offering share schemes to clerical and manual workers. Concerning the former category of employees, the USA is now among the top 4 countries pushing Switzerland down to rank 5. Again, this would reflect the very different forms profit sharing may assume. On the one hand, employees and their representatives may prefer profit sharing to other forms of performance based pay: "(it) does make for a more immediate payout, and may be more transparent than complex share ownership schemes" (Brewster et al. 2010). This may mean that profit sharing may be encountered in countries where employees and their representatives are relatively strong. On the other hand, profit sharing may encompass crude forms of Taylorist output-based pay that would be favoured in contexts where employees are particularly weak.

6. Charts based on the appropriate frequency counts would have taken up too much space here, but are available from the authors.
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To summarise, no clear clusters along the lines of taxonomies of corporate governance systems emerge when analysing the use of profit sharing schemes across countries.

Further examination was carried out on the extent of use of variable pay based on team/departmental performance, individual performance and company-wide performance, respectively[8]. Such practices are particularly common in Mediterranean and transitional economies, but there is a lack of a clear correlation with electoral systems or legal traditions. This may reflect either a greater willingness to experiment during protracted transitions, or, simply, the use of crude Taylorist output based pay amongst the relatively poorly-regulated SME and/or ad hoc payments linked to firm prosperity amongst family owned and staffed firms (c.f. Amable 2003).

More broadly speaking, hypothesis 3 is disproved. However, the absence of complete "diffuse diversity" would suggest that local rules, conventions and ways of doing things makes for specific patterns of behaviour in particular locales. Profit sharing may mean very different things in a family-owned SME in a Mediterranean economy to that encountered in a major Scandinavian firm. It may be an integral component of the system, or simply an add on, compensating for systemic weaknesses or adding a small element of flexibility in an otherwise relatively inflexible system. However, clearly there is not a direct relationship between an acceptance of the principle of profit sharing or share ownership and societal trust.

### Access to and Sharing of Information

The proportion of organisations that formally brief their staff about business strategy was another key factor in our analysis[9]. As one would expect, virtually all organisations across all countries brief their managers about business strategy. However, the proportion of organisations that brief the other three categories of employees is much lower and is lowest for manual workers. Finland has the highest proportion of organisations briefing their professional/technical employees. Except for Iceland, this proportion is also high in all other Nordic countries. It is also high in the Czech Republic, Belgium and the Netherlands. A similar pattern applies to clerical employees. When it comes to manual workers, the Nordic countries of Denmark, Finland, Norway and Sweden rank alongside the Netherlands at the top of the league. Interestingly, all five countries have the highest levels of trust (see Table 2). They also have the highest value, of 3, for the proportionality index and, apart from the Netherlands, all belong to the Scandinavian legal family.

We then focused on the proportion of organisations briefing their staff about financial performance[10]. As with strategy briefings, virtually all of the organisations from all countries brief their managers about financial performance. A majority of organisations also brief their professional/technical employees. However, there are differences across the countries with Finland, Norway and Sweden, and also the UK, where in excess of 80% of organisations brief their professional/technical employees. When it comes to clerical employees and manual workers, a similar pattern as for strategy briefings emerges. The four Nordic countries of Denmark, Finland, Norway and Sweden (as well as the Netherlands for the case of manual workers) have the highest proportions of organisations briefing on financial performance.

To summarise, the most discernable cluster of countries can be found when analysing the proportion of organisations sharing information with their employees. The countries with the

8. Charts based on the appropriate frequency counts would have taken up too much space here, but are available from the authors.
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highest proportions of organisations briefing their employees about business strategy and financial performance are the four Nordic countries of Denmark, Finland, Norway and Sweden as well as the Netherlands. All five countries have the highest levels of trusts. While they also attribute 100% of their seats via the proportionality rule, there are other countries in that category such as Bulgaria, Israel and Turkey that do not fit the information sharing pattern with a very low proportion of organisations sharing information with their employees.

Tables 3 to 10 investigate this pattern further. In detail, the regressions explore what drives the degree of information sharing, measured by the proportion of organisations that brief their employees on business strategy (Tables 3 to 6) and financial performance (Tables 7 to 10), respectively. The methodology used is OLS regressions using a stepwise procedure to include explanatory variables from a set of variables including the level of trust, the proportionality of the voting system and three dummy variables for the type of legal system. The latter three are set to one if the country is of French law, German law and Scandinavian law, respectively, and set to zero otherwise. A variable enters the model if the significance level of its F-value is less than 5% and is removed if this significance level is greater than 10%. This methodology is used given the high correlation (see Table A.1 in the Appendix) between some of the explanatory variables. For example, the Pearson correlation coefficient between trust and the dummy variable for Scandinavian law is 0.714 and is significant at the 1% level.[11]

Table 3 reports the results for the proportion of organisations briefing their managers about their business strategy[12]. The only variable that is included in the final regression is the level of trust. Its coefficient is significant at the 5% level and the regression explains 0.145 of the cross-country variation. While the R-square is low, this is not surprising as most organisations across the 26 countries brief their managers. Hence, there is very little cross-country variation. Table 4 displays the results for the equivalent regression for professional/technical employees. Similar to the regression for managers, the only variable that is retained by the stepwise procedure is trust. None of the dummies for legal families nor the proportionality index is retained. Again, trust has a positive effect on the proportion of organisations that brief their employees on their business strategy. However, the significance of the variable has now increased and is 1%. Table 5 reports the stepwise regression results for clerical employees. The adjusted R-square is now 0.414. As for the previous two categories of employees, trust has a positive impact on the proportion of organisations briefing their clerical employees on business strategy. The significance level is 1%. Again, none of the legal family dummies nor the proportionality index is included in the regression. Finally, Table 6 shows the results for manual workers. The adjusted R-square is highest across the four categories of employees with a value of 0.496. The coefficient on trust is positive and significant at the 1% level.

Tables 7 to 10 report the regressions for the proportion of organisations that brief their employees about financial performance. The R-squares of these regressions are higher than those for the previous regressions. Table 7 contains the regression results for the proportion of firms per country briefing their managers on financial performance. Similar to the equivalent regression for briefings on business strategy, the coefficient on trust is positive and significant. The significance level is 1%. Again, none of the other variables – the dummies for the legal

11. When all of the variables are included at once in the regression, then some of the variables, that in isolation are not significant, have significant coefficients reflecting the high correlation between the explanatory variables. One such example is the regression explaining the proportion of companies from each country briefing their manual workers on financial performance. The coefficients on all the five explanatory variables are significant. However, apart from the coefficient on trust they do not have the correct sign (e.g. the coefficient on the proportionality index is negative) and magnitude (e.g. the coefficient on the dummy variable for German law is higher than that for French law).
12. Charts based on the appropriate frequency counts would have taken up too much space here, but are available from the authors.

family and the index on proportional representation – has any significance and is retained by the stepwise regression procedure. Table 8 reports the equivalent regression for professional/technical employees. The R-square is even higher. As for managerial employees, trust is the only variable retained by the stepwise regression. Its coefficient is positive and significant at the 1% level. Similarly, Tables 9 and 10 show that the only variable that explains the cross-country variation in information sharing for clerical employees and manual workers, respectively, is trust. It is positive and significant at the 1% level for both categories of employees. The R-squares for both categories are even higher – with 0.771 and 0.816 – than for the categories of managerial and professional/technical employees. Hypothesis 2 is confirmed.

## Conclusion

We found some relationship between associational/societal trust levels and the usage of assessments for white collar, and, especially managerial employees. Within liberal market economies/common law systems, there appeared to be a generally stronger emphasis on the latter, reflecting the greater emphasis on reining in managers and subordinating them to a shareholder value orientated agenda within such contexts. We did, however, find little evidence of a linkage to electoral proportionality. The relationship between financial participation and context appeared a very much more complex one, reflecting the many different forms it may assume, and the degree to which this may supplement, rather than undermine collective contracts (Brewster et al. 2010). However, the strongest relationship between associational trust and workplace practice was found in the area of communication: greater and more frequent communication, particularly towards and with manual workers, was particularly common in the Scandinavian social democracies. In part, this may reflect the effects of a particular legal tradition; however, it is more likely that it would reflect the combination of a range of institutional dimensions that together make for – and are reconstituted by – high levels of societal trust. Why is communication so important? First, existing survey evidence would suggest that communication systems generally supplement – rather than undermine – mechanisms for collective representation (Brewster et al. 2007). Secondly, as Habermas (1984) notes, a culture of communication opens up room for individuals to learn from others, reflect on their own views, and impact back on the other: central to societal trust is communication and communicative action.

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**TABLE 1:** Trust, HRM Type and Practices – Likely Relationships

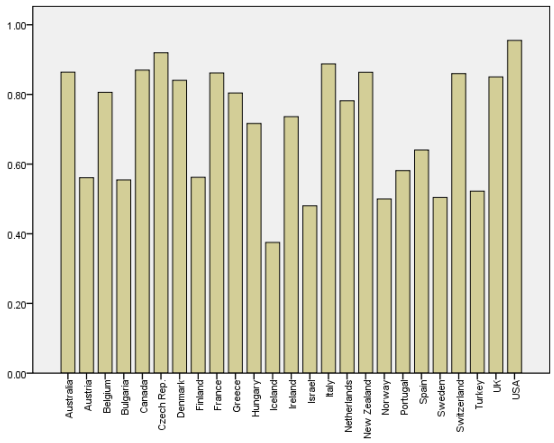
| | High Trust | Low Trust |
|---|---|---|
| Control | Weak | Strong |
| Type of HRM | Soft or Pluralist | Hard |
| Indicators of high trust | Profit sharing<br>Effective communication at all levels of the organization | |
| Indicators of low trust | | Regular appraisals<br>Stock options |

**TABLE 2:** Country characteristics

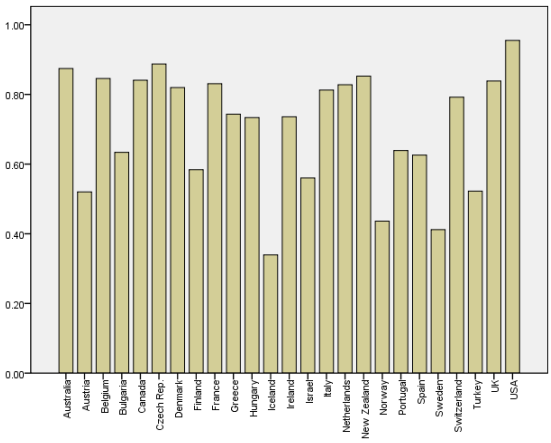
| | Trust | Proportional representation | Legal family (LLSV) |
|---|---|---|---|
| Australia | 0.40 | 1.00 | English |
| Austria | 0.33 | 3.00 | German |
| Belgium | 0.29 | 3.00 | French |
| Bulgaria | 0.27 | 3.00 | German |
| Canada | 0.37 | 0.00 | English |
| Czech Rep. | 0.25 | 2.00 | German |
| Denmark | 0.67 | 3.00 | Scandinavian |
| Finland | 0.57 | 3.00 | Scandinavian |
| France | 0.21 | 0.58 | French |
| Germany | 0.38 | 2.00 | German |
| Greece | 0.24 | 2.00 | French |
| Hungary | 0.22 | 2.00 | German |
| Iceland | 0.41 | 3.00 | Scandinavian |
| Ireland | 0.36 | 3.00 | English |
| Israel | 0.24 | 3.00 | English |
| Italy | 0.33 | 2.46 | French |
| Netherlands | 0.60 | 3.00 | French |
| New Zealand | 0.49 | 0.31 | English |
| Norway | 0.65 | 3.00 | Scandinavian |
| Portugal | 0.12 | 3.00 | French |
| Spain | 0.34 | 2.00 | French |
| Sweden | 0.66 | 3.00 | Scandinavian |
| Switzerland | 0.37 | 2.00 | German |
| Turkey | 0.07 | 3.00 | French |
| UK | 0.29 | 0.00 | English |
| USA | 0.36 | 0.00 | English |

**Notes:** Trust is measured by the proportion of respondents in each country replying that 'most people can be trusted'. The variable is taken from the World Values Survey. Proportional representation is taken from Djankov et al. (2009). The variable equals 3 if 100% of seats are assigned via the proportional rule, 2 if the majority of seats are assigned by this rule, 1 if a minority of seats ar assigned proportionally, and 0 if no seats are assigned in this way. The data are taken from Beck et al. (2001). For those countries that experienced a change to their electoral system during 1975 and 2000 the average for the period is reported. The classification of countries by legal families is taken from La Porta et al. (1998).

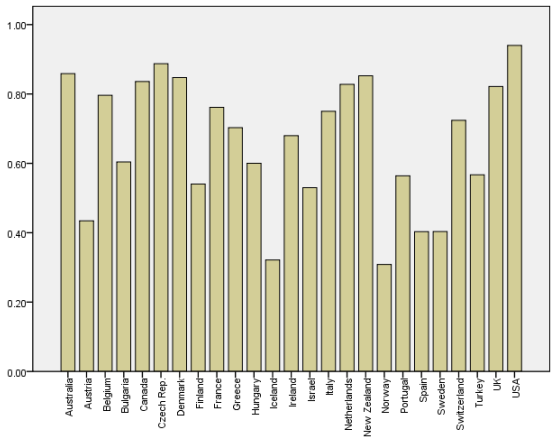
**FIGURE 1:** Proportion of organisations assessing their (a) managers, (b) professional/technical employees, (c) their clerical employees and (d) their manual workers



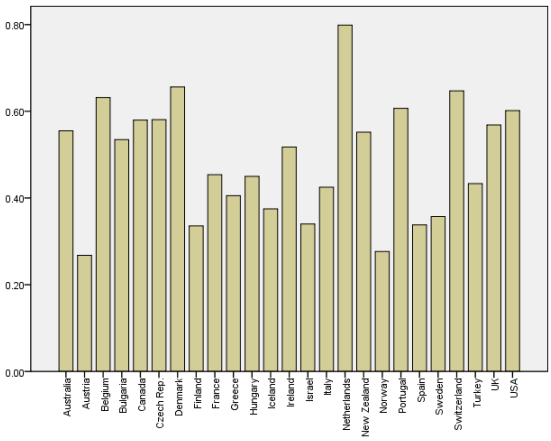

(a)




(b)

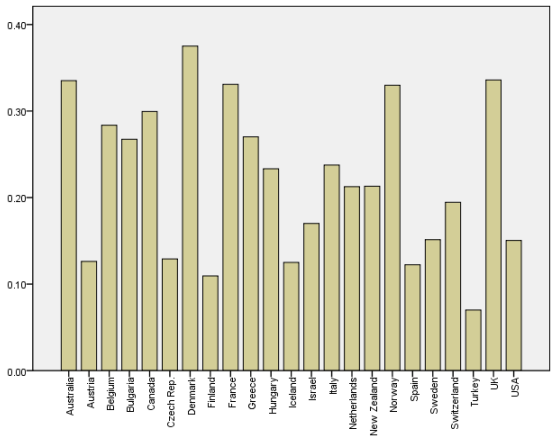



(c)

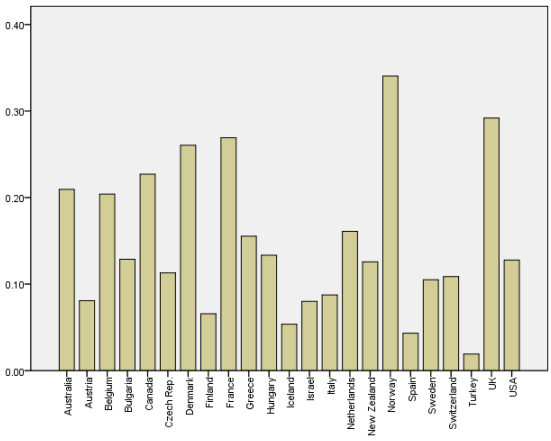



(d)

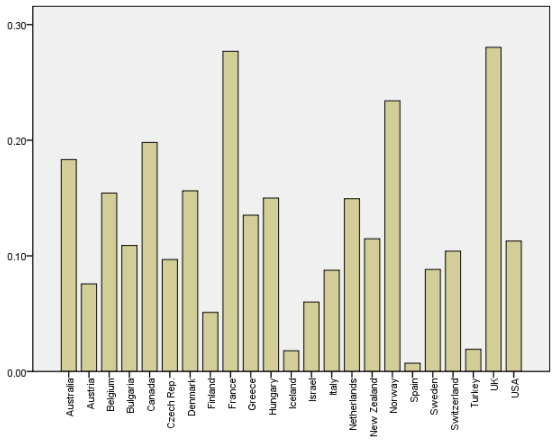
**FIGURE 2:** Proportion of organisations offering an employee share scheme to their (a) managers, (b) professional/technical employees, (c) their clerical employees and (d) their manual workers



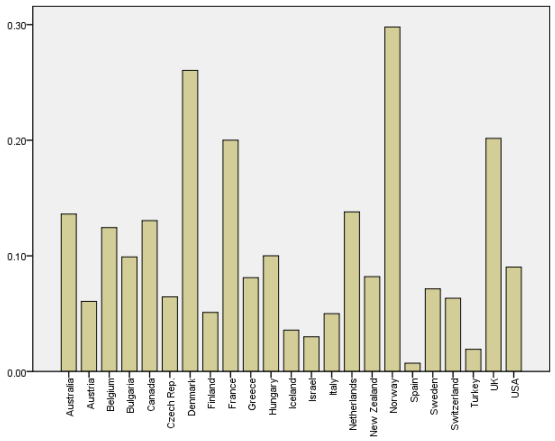

(a)




(b)

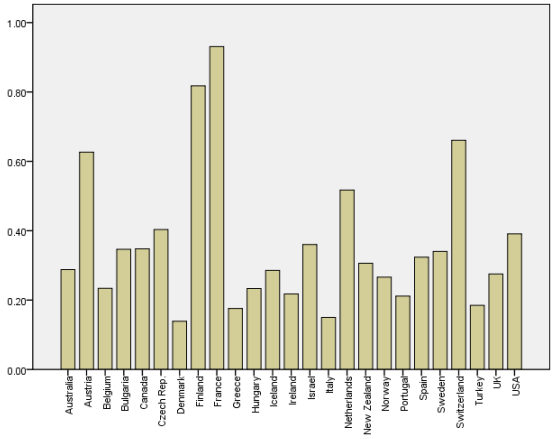



(c)

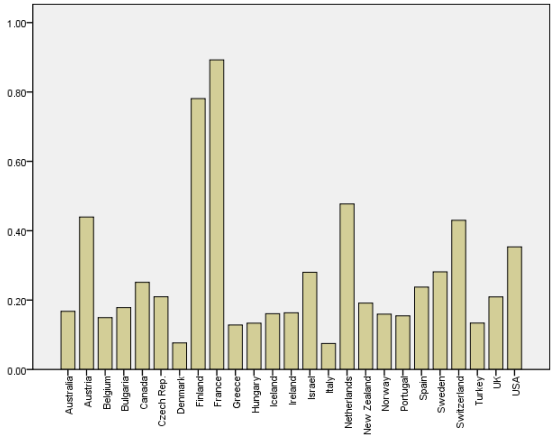



(d)

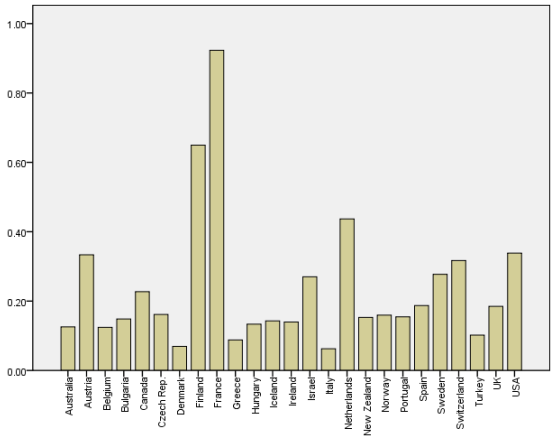
**FIGURE 3:** Proportion of organisations offering a profit sharing scheme to their (a) managers, (b) professional/technical employees, (c) their clerical employees and (d) their manual workers



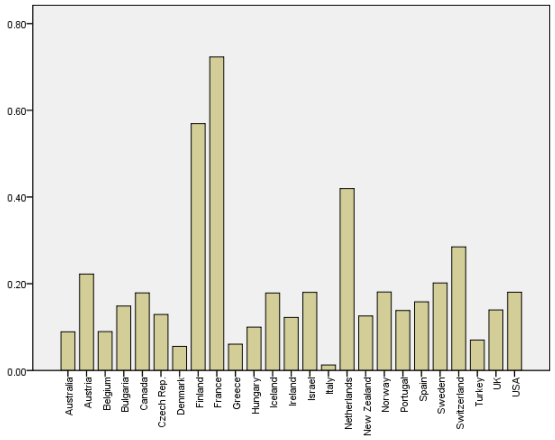

(a)




(b)

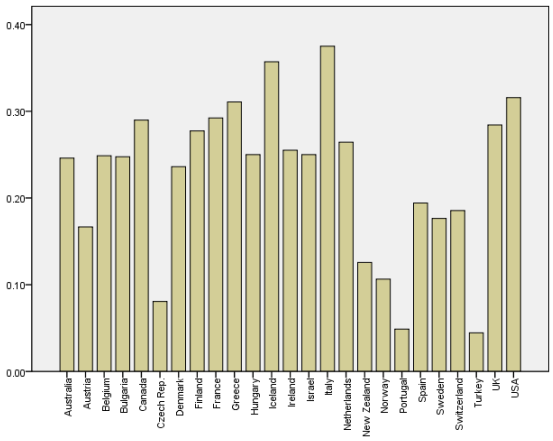



(c)

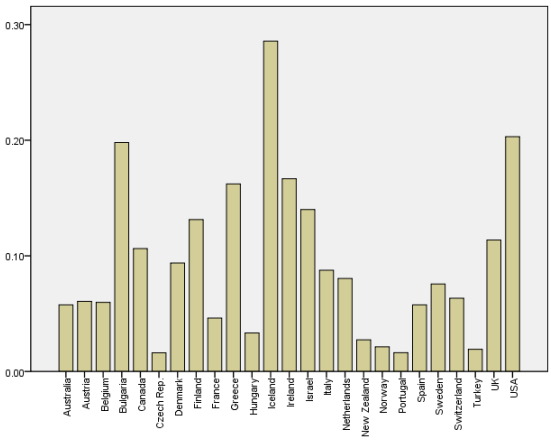



(d)

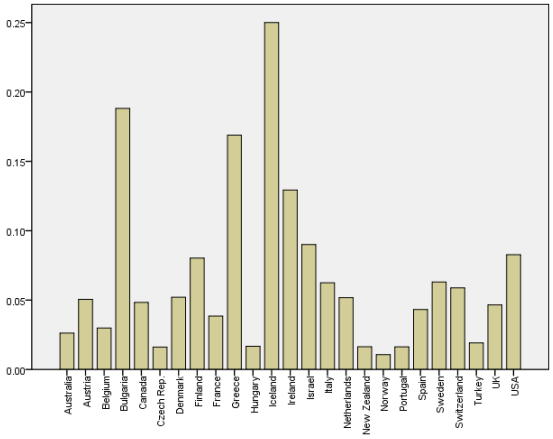
**FIGURE 4:** Proportion of organisations offering stock options to their (a) managers, (b) professional/technical employees, (c) their clerical employees and (d) their manual workers



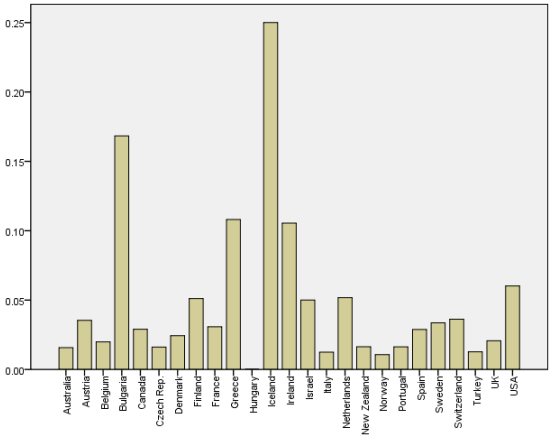

(a)




(b)

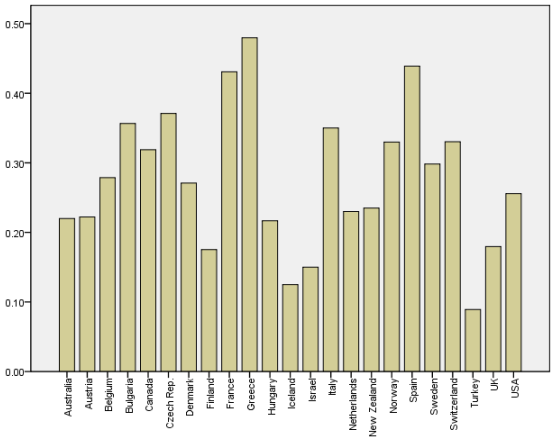



(c)

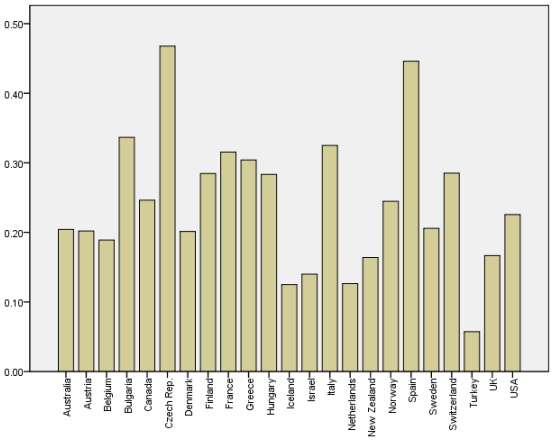



(d)

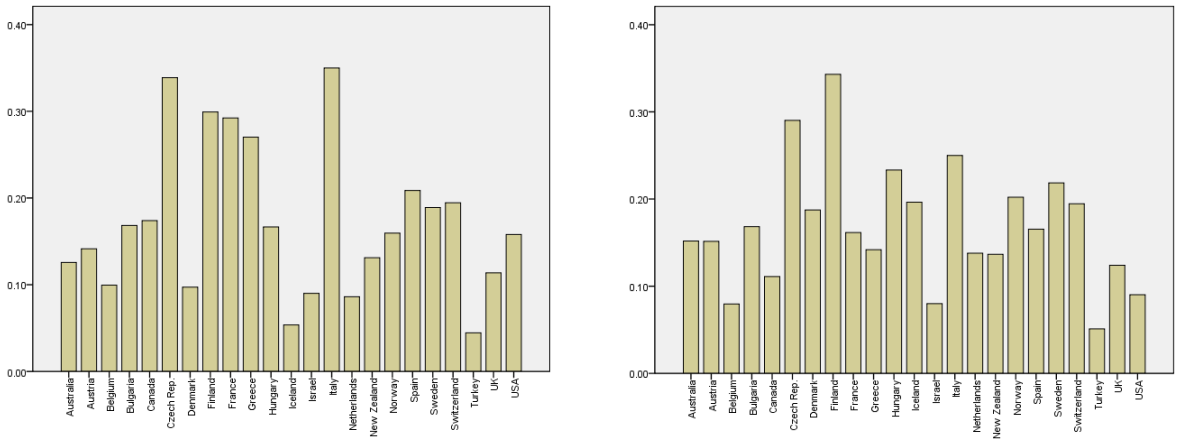
**FIGURE 5:** Proportion of organisations offering variable pay based on team/departmental performance to their (a) managers, (b) professional/technical employees, (c) their clerical employees and (d) their manual workers




(a)

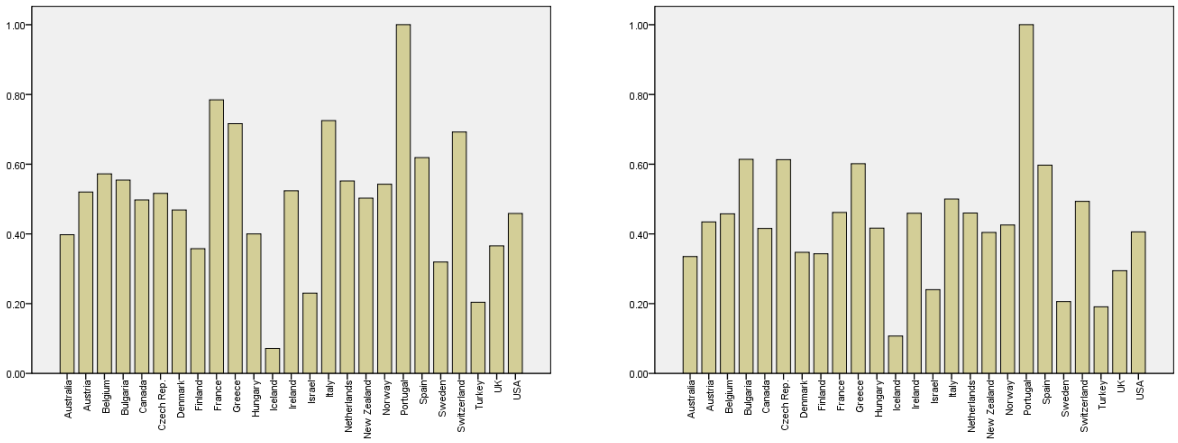



(b)

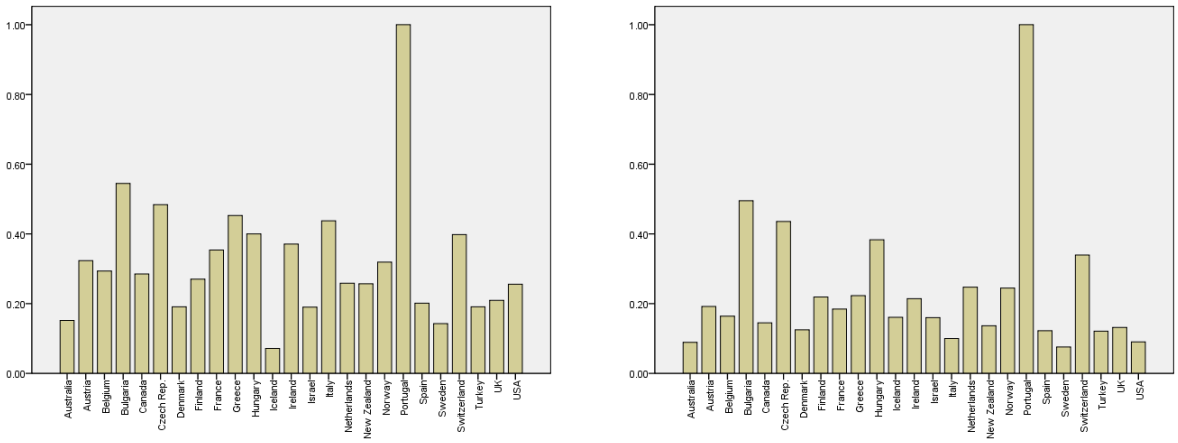



(c) (d)

**FIGURE 6:** Proportion of organisations offering variable pay based on individual performance to their (a) managers, (b) professional/technical employees, (c) their clerical employees and (d) their manual workers




(a) (b)




(c) (d)

**FIGURE 7:** Proportion of organisations offering variable pay based on company-wide performance to their (a) managers, (b) professional/technical employees, (c) their clerical employees and (d) their manual workers

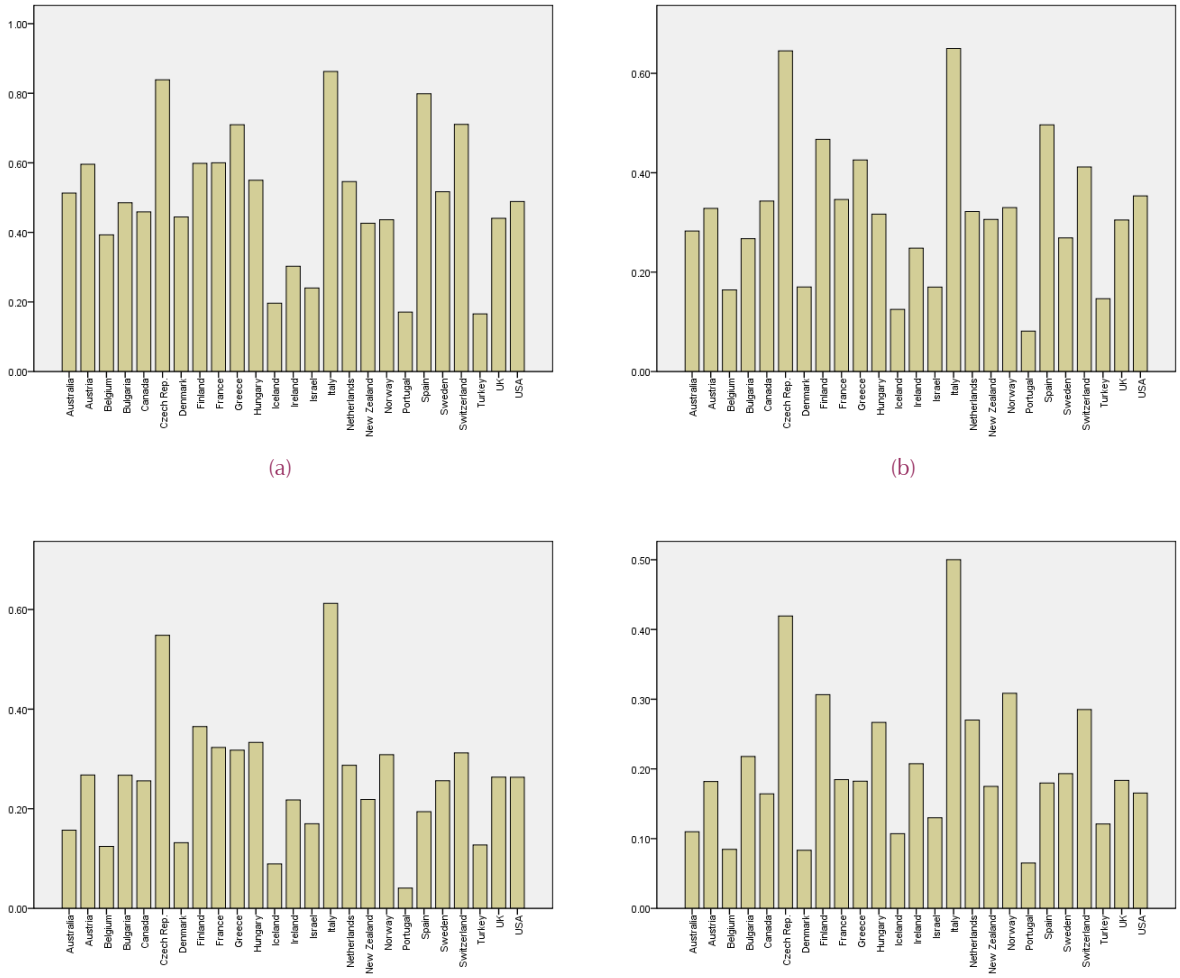
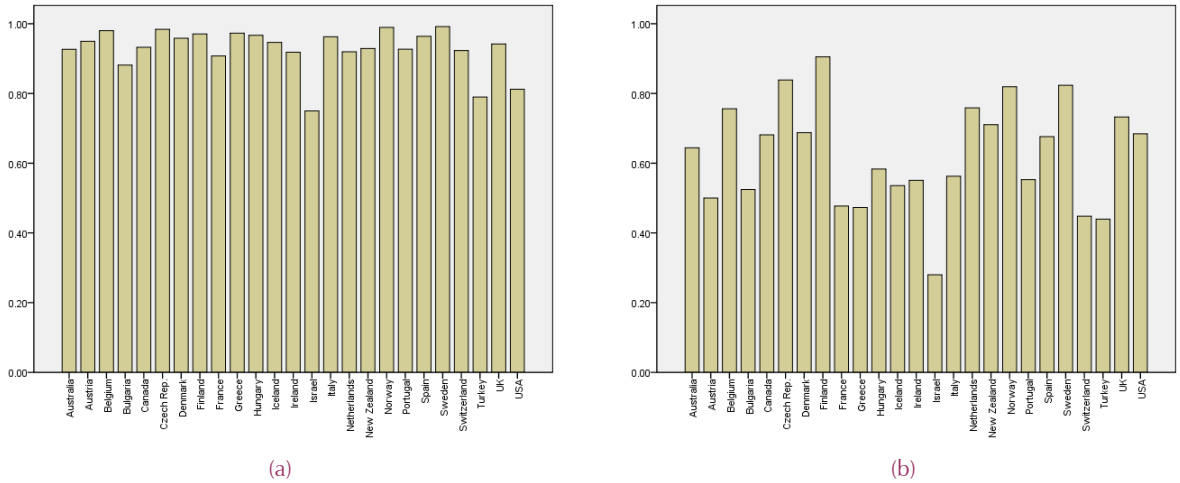
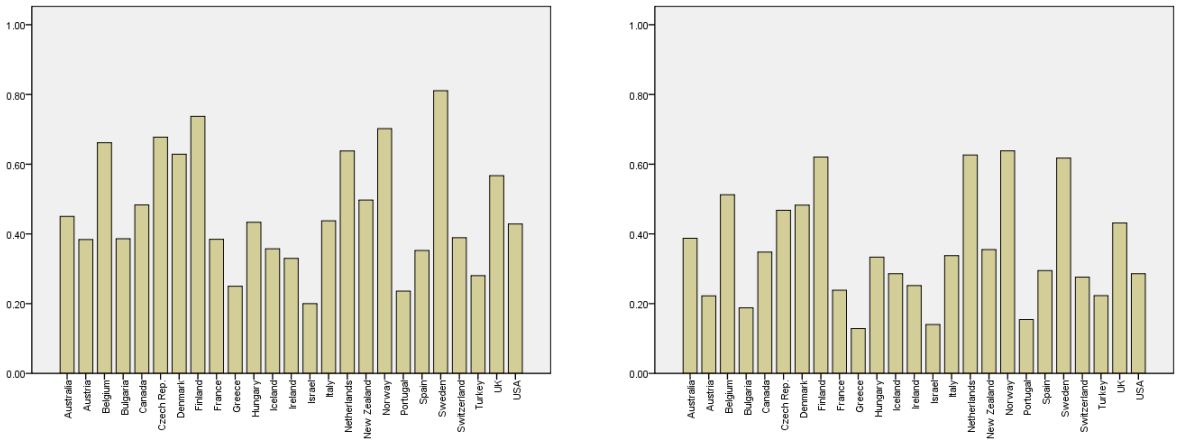


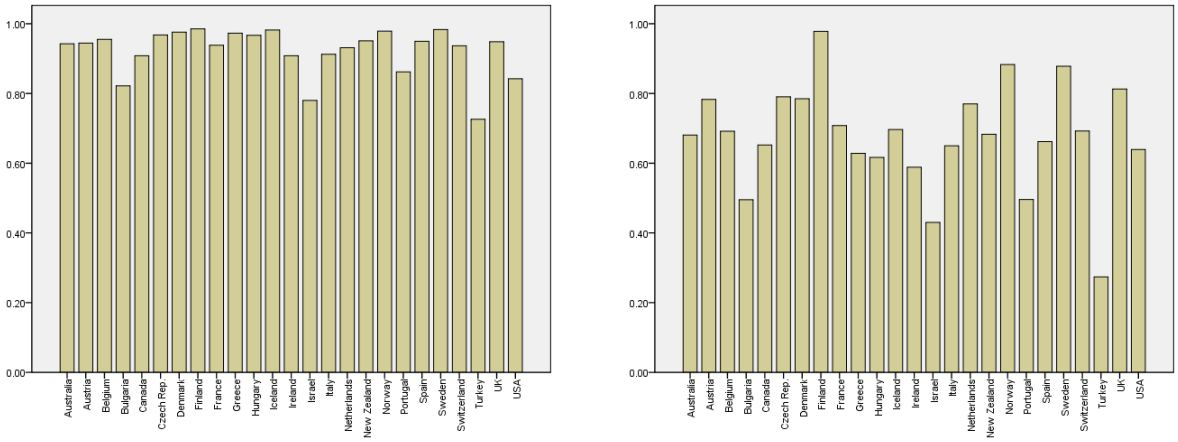

**FIGURE 8:** Proportion of organisations that formally brief their employees about business strategy: (a) managers, (b) professional/technical employees, (c) their clerical employees and (d) their manual workers



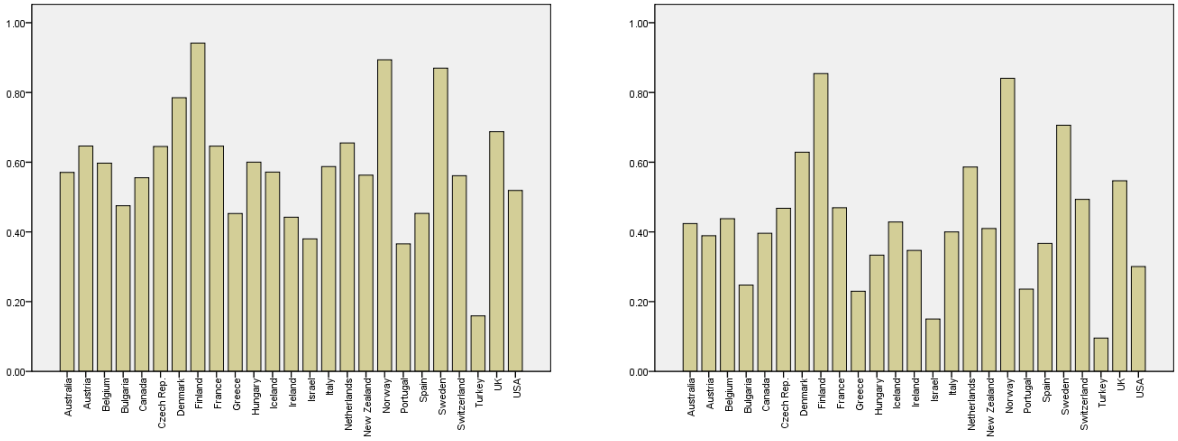



(c) (d)

**FIGURE 9:** Proportion of organisations that formally brief their employees about financial performance: (a) managers, (b) professional/technical employees, (c) their clerical employees and (d) their manual workers




(a) (b)




(c) (d)

**TABLE 3:** Stepwise regression for proportion of organisations briefing managers on business strategy

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .422[a] | .178 | .145 | .054782427409566 |

a. Predictors: (Constant), Trust WVS

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .016 | 1 | .016 | 5.409 | .028[a] |
| | Residual | .075 | 25 | .003 | | |
| | Total | .091 | 26 | | | |

a. Predictors: (Constant), Trust WVS

b. Dependent Variable: M_MGTBSTRAT

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .874 | .025 | | 34.598 | .000 |
| | Trust WVS | .150 | .065 | .422 | 2.326 | .028 |

a. Dependent Variable: M_MGTBSTRAT

**Excluded Variables[b]**

| Model | | Beta In | t | Sig. | Partial Correlation | Collinearity Statistics |
|---|---|---|---|---|---|---|
| | | | | | | Tolerance |
| 1 | Flaw | .194[a] | .963 | .345 | .193 | .809 |
| | Glaw | .197[a] | 1.073 | .294 | .214 | .971 |
| | Slaw | .134[a] | .520 | .608 | .106 | .513 |
| | Proportiol representation | .017[a] | .090 | .929 | .018 | .945 |

a. Predictors in the Model: (Constant), Trust WVS

b. Dependent Variable: M_MGTBSTRAT

**TABLE 4:** Stepwise regression for proportion of organisations briefing professional/technical employees on business strategy

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .523[a] | .273 | .244 | .128970479200589 |

a. Predictors: (Constant), Trust WVS

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .156 | 1 | .156 | 9.398 | .005[a] |
| | Residual | .416 | 25 | .017 | | |
| | Total | .572 | 26 | | | |

a. Predictors: (Constant), Trust WVS

b. Dependent Variable: M_PROFBSTRAT

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .461 | .059 | | 7.748 | .000 |
| | Trust WVS | .467 | .152 | .523 | 3.066 | .005 |

a. Dependent Variable: M_PROFBSTRAT

**Excluded Variables[b]**

| Model | | Beta In | t | Sig. | Partial Correlation | Collinearity Statistics |
|---|---|---|---|---|---|---|
| | | | | | | Tolerance |
| 1 | Flaw | .149[a] | .778 | .444 | .157 | .809 |
| | Glaw | -.122[a] | -.698 | .492 | -.141 | .971 |
| | Slaw | .106[a] | .437 | .666 | .089 | .513 |
| | Proportiol representation | -.283[a] | -1.668 | .108 | -.322 | .945 |

a. Predictors in the Model: (Constant), Trust WVS

b. Dependent Variable: M_PROFBSTRAT

**TABLE 5:** Stepwise regression for proportion of organisations briefing clerical employees on business strategy

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .661[a] | .436 | .414 | .124138905084681 |

a. Predictors: (Constant), Trust WVS

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .298 | 1 | .298 | 19.359 | .000[a] |
| | Residual | .385 | 25 | .015 | | |
| | Total | .684 | 26 | | | |

a. Predictors: (Constant), Trust WVS

b. Dependent Variable: M_CLERBSTRAT

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .237 | .057 | | 4.150 | .000 |
| | Trust WVS | .645 | .147 | .661 | 4.400 | .000 |

a. Dependent Variable: M_CLERBSTRAT

**Excluded Variables[b]**

| Model | | Beta In | t | Sig. | Partial Correlation | Collinearity Statistics |
|---|---|---|---|---|---|---|
| | | | | | | Tolerance |
| 1 | Flaw | .078[a] | .462 | .648 | .094 | .809 |
| | Glaw | .035[a] | .225 | .824 | .046 | .971 |
| | Slaw | .158[a] | .746 | .463 | .151 | .513 |
| | Proportiol representation | -.135[a] | -.872 | .392 | -.175 | .945 |

a. Predictors in the Model: (Constant), Trust WVS

b. Dependent Variable: M_CLERBSTRAT

**TABLE 6:** Stepwise regression for proportion of organisations briefing manual workers on business strategy

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .718[a] | .515 | .496 | .108714690574575 |

a. Predictors: (Constant), Trust WVS

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .314 | 1 | .314 | 26.591 | .000[a] |
| | Residual | .295 | 25 | .012 | | |
| | Total | .610 | 26 | | | |

a. Predictors: (Constant), Trust WVS

b. Dependent Variable: M_MANBSTRAT

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .115 | .050 | | 2.289 | .031 |
| | Trust WVS | .662 | .128 | .718 | 5.157 | .000 |

a. Dependent Variable: M_MANBSTRAT

**Excluded Variables[b]**

| Model | | Beta In | t | Sig. | Partial Correlation | Collinearity Statistics |
|---|---|---|---|---|---|---|
| | | | | | | Tolerance |
| 1 | Flaw | .200[a] | 1.311 | .202 | .258 | .809 |
| | Glaw | -.093[a] | -.652 | .521 | -.132 | .971 |
| | Slaw | .133[a] | .675 | .506 | .137 | .513 |
| | Proportiol representation | -.061[a] | -.416 | .681 | -.085 | .945 |

a. Predictors in the Model: (Constant), Trust WVS

b. Dependent Variable: M_MANBSTRAT

**TABLE 7:** Stepwise regression for proportion of organisations briefing managers on financial performance

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .567[a] | .322 | .295 | .054989924593492 |

a. Predictors: (Constant), Trust WVS

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .036 | 1 | .036 | 11.862 | .002[a] |
| | Residual | .076 | 25 | .003 | | |
| | Total | .111 | 26 | | | |

a. Predictors: (Constant), Trust WVS

b. Dependent Variable: M_MGTBPER

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .843 | .025 | | 33.271 | .000 |
| | Trust WVS | .224 | .065 | .567 | 3.444 | .002 |

a. Dependent Variable: M_MGTBPER

**Excluded Variables[b]**

| Model | | Beta In | t | Sig. | Partial Correlation | Collinearity Statistics |
|---|---|---|---|---|---|---|
| | | | | | | Tolerance |
| 1 | Flaw | .040[a] | .212 | .834 | .043 | .809 |
| | Glaw | .190[a] | 1.146 | .263 | .228 | .971 |
| | Slaw | .072[a] | .308 | .761 | .063 | .513 |
| | Proportiol representation | -.157[a] | -.924 | .365 | -.185 | .945 |

a. Predictors in the Model: (Constant), Trust WVS

b. Dependent Variable: M_MGTBPER

**TABLE 8:** Stepwise regression for proportion of organisations briefing professional/technical employees on financial performance

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .733[a] | .537 | .518 | .104456366309682 |

a. Predictors: (Constant), Trust WVS

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .316 | 1 | .316 | 28.946 | .000[a] |
| | Residual | .273 | 25 | .011 | | |
| | Total | .589 | 26 | | | |

a. Predictors: (Constant), Trust WVS

b. Dependent Variable: M_PROFBPER

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .444 | .048 | | 9.218 | .000 |
| | Trust WVS | .664 | .123 | .733 | 5.380 | .000 |

a. Dependent Variable: M_PROFBPER

**Excluded Variables[b]**

| Model | | Beta In | t | Sig. | Partial Correlation | Collinearity Statistics |
|---|---|---|---|---|---|---|
| | | | | | | Tolerance |
| 1 | Flaw | -.061[a] | -.396 | .695 | -.081 | .809 |
| | Glaw | .215[a] | 1.606 | .121 | .312 | .971 |
| | Slaw | .041[a] | .210 | .836 | .043 | .513 |
| | Proportiol representation | -.180[a] | -1.306 | .204 | -.258 | .945 |

a. Predictors in the Model: (Constant), Trust WVS

b. Dependent Variable: M_PROFBPER

**TABLE 9:** Stepwise regression for proportion of organisations briefing clerical employees on financial performance

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .771[a] | .595 | .578 | .111473523985280 |

a. Predictors: (Constant), Trust WVS

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .456 | 1 | .456 | 36.676 | .000[a] |
| | Residual | .311 | 25 | .012 | | |
| | Total | .766 | 26 | | | |

a. Predictors: (Constant), Trust WVS

b. Dependent Variable: M_CLERBPER

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .303 | .051 | | 5.900 | .000 |
| | Trust WVS | .797 | .132 | .771 | 6.056 | .000 |

a. Dependent Variable: M_CLERBPER

**Excluded Variables[b]**

| Model | | Beta In | t | Sig. | Partial Correlation | Collinearity Statistics |
|---|---|---|---|---|---|---|
| | | | | | | Tolerance |
| 1 | Flaw | -.112[a] | -.786 | .439 | -.158 | .809 |
| | Glaw | .228[a] | 1.850 | .077 | .353 | .971 |
| | Slaw | .199[a] | 1.124 | .272 | .224 | .513 |
| | Proportiol representation | -.105[a] | -.796 | .434 | -.160 | .945 |

a. Predictors in the Model: (Constant), Trust WVS

b. Dependent Variable: M_CLERBPER

**TABLE 10:** Stepwise regression for proportion of organisations briefing manual workers on financial performance

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .816[a] | .666 | .653 | .109797456048195 |

a. Predictors: (Constant), Trust WVS

**ANOVA[b]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .601 | 1 | .601 | 49.862 | .000[a] |
| | Residual | .301 | 25 | .012 | | |
| | Total | .902 | 26 | | | |

a. Predictors: (Constant), Trust WVS

b. Dependent Variable: M_MANBPER

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .106 | .051 | | 2.089 | .047 |
| | Trust WVS | .916 | .130 | .816 | 7.061 | .000 |

a. Dependent Variable: M_MANBPER

**Excluded Variables[b]**

| Model | | Beta In | t | Sig. | Partial Correlation | Collinearity Statistics |
|---|---|---|---|---|---|---|
| | | | | | | Tolerance |
| 1 | Flaw | .019[a] | .147 | .885 | .030 | .809 |
| | Glaw | .107[a] | .912 | .371 | .183 | .971 |
| | Slaw | .216[a] | 1.362 | .186 | .268 | .513 |
| | Proportiol representation | -.059[a] | -.487 | .631 | -.099 | .945 |

a. Predictors in the Model: (Constant), Trust WVS

b. Dependent Variable: M_MANBPER

# Appendix

**TABLE A.1:** Pearson correlation matrix

| | | Trust WVS | Proportional representation | Elaw | Flaw | Glaw | Slaw |
|---|---|---|---|---|---|---|---|
| Trust WVS | Pearson Correlation | 1.000 | .135 | -.024 | -.383 | -.239 | .714** |
| | Sig. (2-tailed) | | .519 | .908 | .058 | .250 | .000 |
| Proportional representation | Pearson Correlation | | 1.000 | -.614** | .152 | .120 | .391 |
| | Sig. (2-tailed) | | | .001 | .467 | .567 | .053 |
| Elaw | Pearson Correlation | | | 1.000 | -.428* | -.312 | -.312 |
| | Sig. (2-tailed) | | | | .033 | .129 | .129 |
| Flaw | Pearson Correlation | | | | 1.000 | -.343 | -.343 |
| | Sig. (2-tailed) | | | | | .093 | .093 |
| Glaw | Pearson Correlation | | | | | 1.000 | -.250 |
| | Sig. (2-tailed) | | | | | | .228 |
| Slaw | Pearson Correlation | | | | | | 1.000 |
| | Sig. (2-tailed) | | | | | | |
| **. Correlation is significant at the 0.01 level (2-tailed). | | | | | | | |
| *. Correlation is significant at the 0.05 level (2-tailed). | | | | | | | |

# Enhancing Nepal's Tax Revenue Collection through an Innovative Policy Measure


- **John Koirala**
  Zhejiang Gongshang University, PR China
- **Ernesto Fuentes Bulayog**
  Visayas State University, Philippines



## Abstract

Nepal's continuing budget deficit is exacerbated by the country's poor tax revenue collection. The authors found a significant positive correlation between GDP growth and tax revenue collection, but the actual tax effort has consistently faltered that resulted to the widening budgetary gap. This paper suggests an innovative solution to the problem. The solution involves a contract that is democratically designed by both the government and its tax collection agency and one that protects the interests of both principal (government or society) and agent (ministry of finance).


**Keywords:** Tax Revenue; Tax Effort; Principal-Agent Theory; Hu Theory.

## Introduction

Balanced budgeting in the third world has always been a difficult task confronting policy makers every year. More often than not, a sizeable portion of a country's national budget is financed by borrowings and aids from foreign sources. Obviously, such dependence is not sustainable knowing that, despite huge efforts exerted by multinational organizations to reduce world poverty, there still remains a big number of poor countries competing for limited financial resources granted by donor countries and international organizations. Therefore external funds remain hard to find, particularly if the recipient countries have no resources or business environment attractive enough for donors to levy, as implicit collaterals, their interests (principal loans or grants-in-aid).

In addition, today's global economic crisis has put immense pressure not only to third world countries but also to donor countries, whose capacity to extend loans has deflated in the face of their own dwindling economic growth. Toward this end, loan- or aid-recipient governments must increasingly rely on their own efforts to generate enough income to provide the necessary social services and avoid conflicts resulting from unmet basic social needs. There have been published and unpublished stories of such social crisis emanating from lack or absence of the basic human freedom – the freedom from hunger.

Nepal, in South Asia, is a small, land-locked country that has been relying on financial aids from external sources. Its tumultuous past political history and present sorry state is but a symptom of the many failures of past and present administrations to meet the growing needs

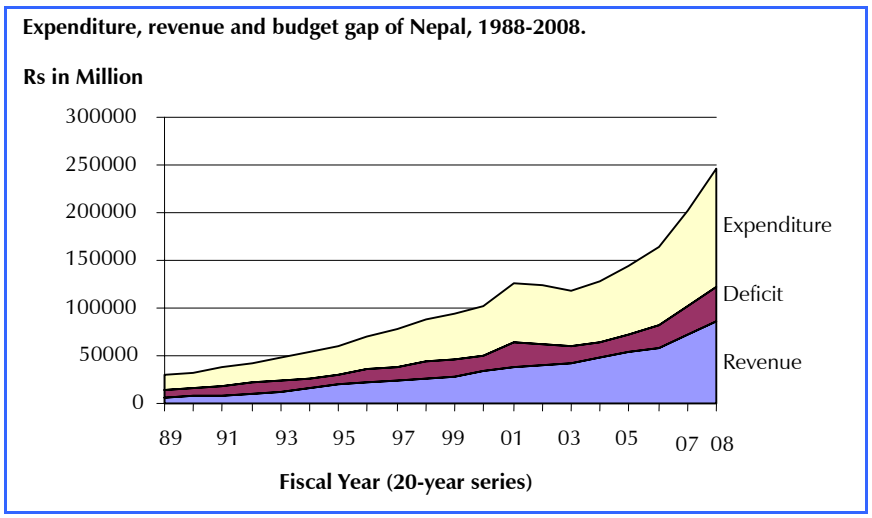
of its populace. The attempt to embrace a Maoist system of government to propel the country's development has failed and resulted to the institution of a democratic system in 2008. In spite of the vagaries and problems inherent to democracy, as experienced by its South Asian neighbors, the country seems to have been left with no other option but to try this system and, hopefully, free its people from the bondage of poverty. But such shift in governance from Monarchy to Maoism to mainstream democratic-capitalism requires adjustments, if not an overhaul, in civil service machinery and capitalist environment. Such changes are necessary for the government to harness the advantages of democracy and market economy, and the expected result of which must be a noticeable improvement in the delivery of basic social services.

Such promotion and improvement of the country's social welfare is, no doubt, dependent on the financial resources of the government. Since Nepal is obviously young in terms of democratic and market reforms, its income generation mechanisms are expected to be inefficient, with old laws ripe for revisions and/or the implementation of any new laws still in transition. Not to be ignored is the fact that the knowledge and skills of the government's human resources also require improvement, including human factors like attitudinal or behavioral adjustments, in order to successfully carry out the numerous responsibilities that come with change. All these changes and adjustments require sufficient financial resources in order for the government to realize the desired level of social welfare and development. Being the lifeblood of the nation, taxation or tax collection is the most significant factor to consider in analyzing the capacity of a country to finance its development goals, sans external support.

The general objective of this paper is to examine Nepal's capacity to finance its development goals from the tax income generated by the country's economy, and to suggest measures and recommend policies to ensure a sustainable national development and social welfare funds. Specifically, this paper (i) examines Nepal's performance in tax revenue collection in proportion to the country's expenditure needs, (ii) measures the tax efforts, (iii) and analyzes its dependence on external funds. The paper suggests the innovative Hu Theory of Compensation, in the context of the Principal-Agent (PA) problem, to improve tax revenue collection of the country.

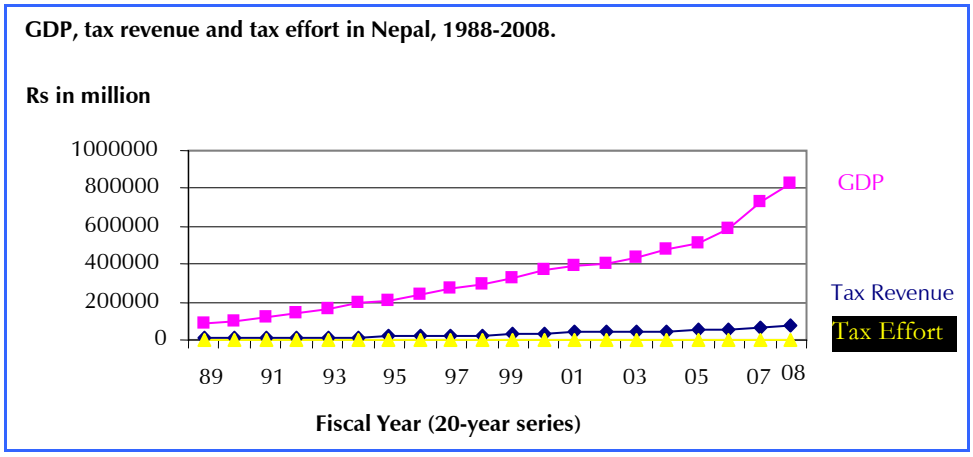
## Nepal's Tax Revenue and Budget Deficit

The country has been on deficit spending for a long time. Data made available to the authors include those of fiscal years 1988 – 2008, which are used in this paper for illustration. The graph below shows tax revenue and deficit (in million Rupees) that Nepal recorded from 1988 – 2008.



It can be noted that the deficit had been on an increasing trend since 1988/89, a trend generally supported by foreign borrowings and grants data (see Annex Table 1). This is, of course, expected when the government has to meet its planned expenditure each year. The graph shows a sharp increase in expenditure, yet tax revenue collection is not increasing as much.

Earlier we have implied an assumption of an inefficient and ineffective tax collection system that contributed to the growing deficit spending and increasing external borrowings. Table 2 (see Annex) shows the efforts spent by the tax collection agents (government units) as measured by tax effort, which is defined as the ratio of tax revenue to gross domestic product (GDP). This set of data is illustrated by the following graph.




In spite of the sharp increase in GDP, tax revenue remains generally the same. This means that the effort of the tax collecting agents is low, hence poor tax collection performance, and an ever increasing budget deficit. Perhaps there is no need to establish a statistically-supported relationship between GDP and tax revenue, as common sense would tell us that these variables are in fact positively related. However, the authors believed that it is important to determine the extent of such relationship, because if the relationship is statistically significant, then there is a strong evidence and motivation to mount a massive campaign to increase the tax effort. This means that there should be policy measures to mitigate the poor collection performance. As written elsewhere in this paper, one such measure is anchored on the principal-agent problem, particularly the use of an innovative solution known as the Hu Theory of Compensation, the application of which herein is more of political economics (budget management) than of product marketing or sales.

## Income Elasticity of Tax Revenue Generation

To give us a concrete idea of the extent of GDP–Tax Revenue (TR) relationship, we ran a regression analysis of the following equation

$$TR = f(GDP)$$

that is $TR = \alpha + \beta GDP + \varepsilon$

where $\partial TR/\partial GDP > 0$.

The result of the regression is as follows:

Dependent Variable: LNTAX
Method: Least Squares
Date: 08/13/09 Time: 09:53
Sample: 1989 2008
Included observations: 20

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 4.094744 | 0.173414 | 23.61259 | 0.0000 |
| LNGDP | 0.835990 | 0.017075 | 48.96075 | 0.0000 |
| R-squared | 0.992547 | Mean dependent var | | 12.56177 |
| Adjusted R-squared | 0.992133 | S.D. dependent var | | 0.649167 |
| S.E. of regression | 0.057579 | Akaike info criterion | | -2.776693 |
| Sum squared resid | 0.059675 | Schwarz criterion | | -2.677120 |
| Log likelihood | 29.76693 | F-statistic | | 2397.155 |
| Durbin-Watson stat | 0.822793 | Prob(F-statistic) | | 0.000000 |

**Note:** Data in Annex Table 2 was used for this regression.

Thus the hypothesis that $\partial TR/\partial GDP > 0$ is proven correct. More importantly, the above equation takes the following structural form:

$$TR = 4.095 + 0.836\ GDP.$$

Given the significant test statistics, with a coefficient of the explanatory variable (GDP) at 0.836, we can deduce that for every percentage increase in GDP, tax revenue will increase by more than 0.8 percent.

So we have established a strong correlation between GDP and tax revenue generation, and yet the actual amount collected always fell short of expectations. What is the root of the problem? From the preceding discussion, the very poor tax effort appears to be the main culprit. Therefore, how can the government make the tax collectors perform better? Should there be incentives to the collecting agents/bureaucrats if the collection is high? But how much is "high"? Who decides how much the revenue target must be? The government (principal), the agents (collecting agencies), or both? These questions are within the purview of the principal-agent theory, with optimum solution provided for by the Hu Theory of Compensation.

## Principal-Agent Theory

A number of problems within the enterprise are characterized by interactions between managers and employers in which there is asymmetry of information. This is part of the more general agency problem, in which one group is unable to fully monitor the efforts of another and so needs to align as much as possible the incentives of both groups. A whole body of work, principal-agent theory, has evolved in order to deal with these problems. This theory examines relationships in which one party -the principal - determines the work, which another party - the agent - undertakes. The theory argues that under conditions of incomplete information and uncertainty, two agency problems arise: adverse selection and moral hazard. Adverse selection is the condition under which the principal cannot ascertain if the agent accurately represents his ability to do the work for which he is being paid. And moral hazard is the situation under which the principal cannot be sure if the agent exerts maximal effort (Chen, et al. in http://www.hpl.hp.com/research/idl/papers/agency).

Although the works of Laffont and Martimort (2002), Bolton and Dewatripont (2005) have theoretically addressed the issue of truthful reporting and proper incentives needed to induce optimal effort levels in many environments, the theories maintain the assumption that the principal is unaware of the type and effort of the agents (a case of information asymmetry), but is knowledgeable about the functional form of the outcome as a function of the agents' type and effort level, that is, the principal knows that agents maximize their expected utility while the principal designs the contracts according to that assumption. Many other earlier works provide literatures that widen the scope and understanding of the seminal agency problem. As cited by Bulayog (2008), these include the works of Camerer et al, 1995; Kagel & Roth, 1995; Berg et al, 1992; Epstein, 1992; Keser and Willinger, 2000 (on the principles of appropriateness, loss avoidance and power sharing) and 2002 (on moral hazards and incentives) as well as the works of Anderhub et al, 2002 and Cabrales and Charness, 2003. A number of works included models that were thought to be optimal solution to agency problems.

The earlier work of Bulayog (2008) considers tax collection problem in the context of management control theory. He cited that management control theory deals in part with the principal-agent problem viewed as a control problem. Control may be *after-the-fact* or *before-the-fact*, that is, the government sets up control measures after the consequences of the agent's actions are known, or prior to the agent taking action. The latter is, of course, traditional budgeting and regulation. As cited by Bulayog (2008), principal-agent problems are common in budgeting (see Smith and Bertozzi, 1998). Control theory, however, suggests that where consequences are homogenous and therefore are easily monitored, after-the-fact controls are more effective. Where consequences are unique and hard to monitor, before-the-fact control is appropriate. By implication, public administrators should employ traditional before-the-fact regulation only in a relatively small subset of activities, but should implement after-the-fact controls in many areas, typically through contractual arrangements which specify consequences desired by the principal and attach related after-the-fact rewards and penalties to the agent. As Thompson (1998) noted, before-the-fact and after-the-fact controls both ultimately rely on incentives and sanctions for their effectiveness. However, after-the-fact controls are demand-revealing mechanisms in that they make incentives clear to the agent and allow the agent to determine how best to satisfy the demand schedule that is presented openly. In contrast, before-the-fact controls often are demand-concealing. Often before-the-fact controls do not allow the agent -- governmental or private -- to gain a full view of the demand schedule, without which information efficient mobilization of resources is impossible, and even more so when before-the-fact controls impose constraints on the type, manner of use, time of use, etc., of resources. In short, after-the-fact controls lay down necessary information about the desired outcome and, as in the case of governmental budgeting and spending, support before-the-fact controls. The question that comes to mind is that, with a clearer view of the control process, would it not be vulnerable to ill-meaning manipulations and illegal dealings between the agents, i.e., tax collectors, and the clients, i.e., tax payers? As Bulayog (2008) aptly asked: Are not these unethical actions implying corruption, which is obviously disadvantageous to the principal (government or society)? Perhaps an equally relevant question *vis a vis* the theories cited is: Aren't these theories so rigged with assumptions that the solution to the problem remains illusive? After all, human behavior does not always match theoretical modeling because such models often assume unrealistic levels of rationality on the part of its players (Camerer et al, 1995 and Kagel & Roth, 1995). In this case, the problem is exacerbated by the fact that, in reality, the principal has more limited information, i.e., the relationship between types of agents, their effort levels and outcomes. To this end, Bulayog (2008) used the Hu Theory of Compensation to mitigate the problem of tax revenue collection in the Philippines.

## The Hu Theory as Applied to Tax Revenue Collection

The core modification of the Hu theory in the work of Bulayog (2008) is that the final tax revenue target is jointly decided by the government (or its representatives, referred to as the principal) and the tax revenue collecting departments (referred to as the agent). For convenience, the revenue target is fixed as an arithmetic average of the target demanded by the principal and the target offered by the agent. This average target will then be the final tax revenue target for the year. Since the principal and the agent independently and separately computed their targets beforehand, no bargaining is required upon meeting to set the target, that is, by simply averaging the two targets, the issue is settled instantaneously. Of course, in the context of PA theory, when the agent exceeds the final revenue target, a certain percentage of the extra revenue will be given as bonus. However, the agent can also be penalized if the offered target is less than the actual tax revenue, implying that the much lower target was intentionally offered in order to ensure surplus revenue and get a big bonus! This is the strong appeal of the Hu theory. Although the agent will get a certain amount of bonus for the extra revenue, the agent will also be penalized for having offered a lower revenue than what can be achieved. This effectively catches scheming tax collection agents! From their experiences, they will eventually offer a target closest, if not exactly equal, to what they can actually realize in the subsequent years. How is this solution put into action? Let us now consider the tax revenue collection in Nepal.

## Carrot-and-Stick Approach

Based on the Hu Theory of Compensation, Bulayog (2008) puts forward the following mechanism to encourage the tax collection agents to increase their efforts without any feeling of remorse or, alternatively, to prod the agents to be honest and reveal the information they have with regards to the maximum possible level of tax revenue that can be collected. Similarly, the principal will not have to bear irrational assumptions about the utility level (or risk aversion) of the agents. In either case, both principal and agents will arrive at an optimum level of outcome.

**The Carrot.** In the context of PA theory, when the agent exceeds the final collection target, a certain percentage of the extra collection will be given as incentive. We may generalize the final collection target by assigning weights ($w$) of the targets set by the government (G) as the principal and offered by the agent (A) as follows:

$$\text{Final Collection Target} = w \text{ Principal Target} + (1- w) \text{ Agent's Offer} \quad \ldots (1)$$

with $w < 1$. If $w = 1$, then the agent has no chance to make an offer. Conversely, if $w = 0$, then the government will not set any target, allowing the agent to freely set the target. But inherent to the PA theory, the principal will always demand a higher target while the agent will offer a lower target to maximize his incentive, which means conflict of interest as both will try to protect their own interests.

**The Stick.** In the Hu Theory of Compensation, the agent will be penalized if his offered target is less than the actual collection, implying that the much lower target was intentionally offered in order to ensure surplus collection and get a big incentive. This penalty component of the model is the strong appeal of the Hu theory. Although the agent will get a certain amount of incentive for surpassed collection target, he will also be penalized for having offered a lower target than what he can truly achieve. Thus, from the experiences of the agent, he will

eventually offer a target closest, if not exactly equal, to what he can actually realize in the subsequent years.

Incorporating the penalty clause of the agreement (contract), let **K** be the actual collection, **A** be the agent's target, **T** be the final collection target, and **R** be the manager's reward/bonus. This means that if the incentive is set at a certain coefficient (*i*), the reward will be

$$R = i\,(K - T) \qquad \ldots (2)$$

*where* $i < 1$ and $K > T$, giving incentive to the agent, when actual collection is greater than the agreed collection target. On the other hand, the Hu theory's punishment (for a lower agent's target than the actual collection) implies a penalty (**P**) at coefficient ***q***, hence,

$$P = q\,(K - A) \qquad \ldots (3)$$

where $q < 1$ and $K > A$, establishing fines for offering "too low".

Thus, the manager's net incentive (**N**) would then be $N = R - P$, that is

$$N = [i\,(K - T)] - [q\,(K - A)] \qquad \ldots (4)$$

But if $A > K$, that is, agent's offered target is more than the actual collection, there will be no penalty. This implies that the agent is honest and shows his resolve to do his best for the country (Bulayog, 2008).

Thus, allowing a democratic process of setting a collection target will not only promote harmonious relationship but also a transparent win-win measure to maximize collections and promotion of social welfare (budget allocation to education, public health and sanitation, infrastructure, etc).

To illustrate, let us assume different scenarios into which we follow how an agent will eventually decide how much collection target to offer, given the information available to him, his abilities to realize certain targets, and the conditions set under a Hu theory contract.

**Hypothetical collection targets and agent's rewards, in million rupees**

| If | Case 1 | Case 2 | Case 3 | Case 4 | Case 5 | Case 6 |
|---|---|---|---|---|---|---|
| a) Government's Target (G) | 250 | 250 | 250 | 250 | 250 | 250 |
| b) Agent's Offer (A) | 0 | 200 | 250 | 300 | 350 | 400 |
| c) Final Target [(a+b)/2] = T | 125 | 225 | 250 | 275 | 300 | 325 |
| d) Actual Collection (K) | 300 | 300 | 300 | 300 | 300 | 300 |
| e) Reward [R = 0.08 (K – T)] | 14 | 6 | 4 | 2 | 0 | -2 |
| f) Penalty [P = 0.06 (K – A)] | 18 | 6 | 3 | 0 | 0 | 0 |
| g) Net Reward [N = R – P] | -4 | 0 | 1 | 2 | 0 | -2 |

Adopted from Hu (2007) and Bulayog (2009); $w = 0.5$, $i = 8\%$, $q = 6\%$

The hypothetical example above shows that the agent has the freedom to offer targets, given a fixed government's demand. Knowing the consequences of a Hu-based contract, the agent will try all possible amounts of collection target that will give him the highest possible benefit (net reward). Simply put, under the classical PA theory, the manager may not offer any target collection so that the average (final target) would be the least, from which he will get the highest reward (Case 1). However, under Hu theory, his penalty will be more than his reward! He is also expected not to offer more than his actual ability to collect because it obviously results to zero (Case 5) or even negative rewards (Case 6). Therefore, the agent will offer an

amount that will approximate the amount of revenue that he expects to collect for that year from which he will be able to get the maximum net benefit. That is, N is at maximum when A = K, i.e., Case 4. This is a win-win solution for both the agents and the government, and the society as a whole.

## Conclusion

This paper provides a more realistic and democratic approach to setting and achieving a revenue target (contract). The variables *w*, *i* and *q* are policy instruments that can provide management flexibility on the part of the government. Being both *ex ante* and *ex post* measure, all parties involved in the contract will be able to learn, adjust and revise the contract *vis a vis* actual experiences with the policy measure as well as economic realities in each year of implementation. Needless to say, supporting directives should accompany the implementation of this measure to totally arrest the problem of poor tax collection performance and its ill effects – continuing budget deficit and deepening dependence on foreign borrowings.

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# Annex Tables

**TABLE 1:** Tax revenue, budget deficit, and foreign borrowings of Nepal, 1988–2008 (Rs in Million).

| Fiscal Year | Tax Revenue | Deficit | External Loans | Foreign Grants |
|---|---|---|---|---|
| 1988 – 1989 | 6287.1 | 8547.5 | 5666.4 | 1478.2 |
| 1989 – 1990 | 7283.9 | 8406.4 | 5959.6 | 1798.8 |
| 1990 – 1991 | 8175.8 | 10655.1 | 62567 | 1630.0 |
| 1991 – 1992 | 9875.6 | 11261.7 | 6816.9 | 1531.0 |
| 1992 – 1993 | 11662.5 | 11956.0 | 6920.9 | 3273.9 |
| 1993 – 1994 | 15371.5 | 11623.0 | 9163.6 | 2393.6 |
| 1994 – 1995 | 19660.0 | 10547.7 | 7312.3 | 3937.1 |
| 1995 – 1996 | 21668.0 | 13824.2 | 9463.9 | 4825.1 |
| 1996 – 1997 | 24424.2 | 14361.9 | 9043.6 | 5988.3 |
| 1997 – 1998 | 25939.8 | 17777.8 | 11054.5 | 5402.6 |
| 1998– 1999 | 28753 | 17991 | 11852.4 | 4336.6 |
| 1999– 2000 | 33152 | 17667 | 11812.2 | 5711.7 |
| 2000– 2001 | 38865 | 24188.1 | 12044.0 | 6753.4 |
| 2001– 2002 | 39331 | 22940.6 | 7679.0 | 6686.2 |
| 2002– 2003 | 42587 | 16437.2 | 4546.4 | 11339.1 |
| 2003– 2004 | 48173 | 15828.2 | 7629.0 | 11283.4 |
| 2004– 2005 | 54105 | 18046.5 | 9266.1 | 14391.2 |
| 2005– 2006 | 57427 | 24779.6 | 8214.3 | 13828 |
| 2006– 2007 | 71127 | 30091.7 | 10054 | 15801 |
| 2007– 2008 | 85025 | 37867.4 | 11326 | 22735 |

**Source:** Ministry of Finance; Nepal Rasta Bank.

**TABLE 2:** Tax efforts of Nepal, 1988 – 2008.

| Fiscal Year | Tax Revenue | GDP | Tax Effort |
|---|---|---|---|
| 1988 – 1989 | 6287 | 85831 | 7.32 |
| 1989 – 1990 | 7284 | 99702 | 7.31 |
| 1990 – 1991 | 8176 | 116127 | 7.04 |
| 1991 – 1992 | 9876 | 144933 | 6.81 |
| 1992 – 1993 | 11662 | 165350 | 7.05 |
| 1993 – 1994 | 15371 | 191596 | 8.02 |
| 1994 – 1995 | 19660 | 209976 | 9.36 |
| 1995 – 1996 | 21668 | 239388 | 9.05 |
| 1996 – 1997 | 24424 | 269570 | 9.06 |
| 1997 – 1998 | 25940 | 289798 | 8.95 |
| 1998– 1999 | 28753 | 330018 | 8.71 |
| 1999– 2000 | 33152 | 366251 | 9.05 |
| 2000– 2001 | 38865 | 394052 | 10.61 |
| 2001– 2002 | 39331 | 406138 | 9.68 |
| 2002– 2003 | 42587 | 437546 | 9.73 |
| 2003– 2004 | 48173 | 474919 | 10.14 |
| 2004– 2005 | 53827 | 508651 | 10.58 |
| 2005– 2006 | 57427 | 589412 | 9.74 |
| 2006– 2007 | 70046 | 727089 | 9.63 |
| 2007– 2008 | 80962 | 820814 | 9.86 |

**Note:** Tax Effort in percent (%).

**Source:** Ministry of Finance; Nepal Rasta Bank.

# Hierarchy as Predictior of Job Satisfaction: A Study among General Insurance Employees


- **Sudharani Ravindran**
  PSG Institute of Management, Coimbatore
- **Hari Sundar.G**
  VIT Business School, VIT University, Vellore, Tamil Nadu
- **S. Soumya**
  VIT Business School, VIT University, Tamil Nadu



## Abstract

Employee's satisfaction and growth of organisation are inter-linked. Satisfied employees are indispensable for the growth and development of any organisation. In the current scenario which is represented by severe competition and demand for better customer service, organisations are badly in need of employees who are highly dedicated, motivated and satisfied. General Insurance industry is not an exception to this. Insurance companies should periodically assess the satisfaction level of their employees and corrective measures should be initiated wherever required. A comprehensive and serious study to assess the satisfaction levels of General Insurance employees is found to be lacking. The present study attempts to measure and compare the satisfaction levels of various classes of employees.


## Introduction

Research about Job Satisfaction started in early 20th Century and it had received focus during the Hawthorne Studies at Western Electric. Ever since, a number of studies have been done in this area and presently we are having volumes of data about job satisfaction.

Employee satisfaction is one of the most researched topics of in India (Ganesh, 1990; Khandwalla, 1988; Sinha,1981; Sinha & Singh, 1995) Studies have revealed job satisfaction to be of great significance for the effective functioning of any organisation. It has been found to be intimately related to morale, is often a factor in worker productivity, influences his attendance and stability, and has a spillover effect on employee relations and accidents (Bhattacharya & Gosh, 1984; Srivastava &Roy, 1996; Prakasam, 1982; Mowday, 1981; Scarpello & Campbell, 1983).

The reason for the popularity of the subject job satisfaction is not hard to explain. Most individuals spend a large part of their working lives at the work. So an understanding of factors involved in job satisfaction is relevant to improving the well being of a large number of individuals in an important aspect of their lives. Another important reason for investigating job satisfaction is the belief that increasing job satisfaction will increase productivity and hence the profitability of organisations (Gruneberg, 1979).

Robbins (2005) defines job satisfaction as "collection of feelings that an individual holds toward his or her". There is no dearth of definitions for the term and Social Scientists who have attempted to define job satisfaction have brought forth varying definitions for the term. DuBrins (1988) on the other hand define job satisfaction as:

> *… Job satisfaction is the amount of pleasure or contentment associated with a job. If you like your job intensely, you will experience high job satisfaction. If you dislike your intensely, you will experience job dissatisfaction.*

According to Keith Davis (1981) "Job satisfaction is the favourableness or unfavourableness with which employees view their work". Employee attitude, job satisfaction and industrial morale are often used synonymously but they are not the same. A favourable attitude may contribute to job satisfaction because job satisfaction is the result of so many attitudes. Likewise job satisfaction and morale do not carry the same meaning, though job satisfaction is the result of so many attitudes

Job satisfaction plays an important role for an organisation in terms of its productivity, efficiency and employee relation (Locke, 1976), and for an employee in terms of health and well being (Khleque, 1984). The concept is central to many aspects of industrial and organizational behaviour (Joshi & Sharma, 1977) and is believed to be a good predictor of employee behaviour (Ganguli, 1994). Job satisfaction is widely researched and there is no dearth of literature about the topic. Certain researchers have attempted to study the relationship between job satisfaction and demographic variables.

The results have been inconclusive and a number of studies have established diametrically opposite results. For instance, Krishnan and Krishnan (1984) and Lindstrom (1988) established positive and linear relationships between age and job satisfaction, however, Kacmar & Ferris (1989) and Snyder (1988) found the opposite. Khaleque and Rahman (1987) in their study of job satisfaction of workers of jute industries found that older, married and more educated workers were more satisfied than younger, unmarried and more educated workers.

Sinha and Sing (1995) found no significance between employees' job satisfaction and demographic variables like age, educational level, family size, level in the organization and years of service. However, they established that the more educated the workers or the higher their position, the more dissatisfied they were. Some other studies have established certain association between age and sources of satisfaction (De, 1977; Glenn & Taylor, 1977). Hunt and Saul (1975) examined the relationship between ages, tenure and job satisfaction among male and female white-collar workers. Age was found to have stronger relationship with job satisfaction that tenure among males. Reverse relationship was found among females.

In their study of white-collar employees, Glenn and Taylor found a moderate but consistent positive correlation between age and job satisfaction (Glenn & Taylor, 1977). Similar trends have been observed among blue-collar workers. De (1977) found a positive correlation between age and job satisfaction for top-level employees; a negative correlation for middle level employees; and insignificant correlation for lower level employees. While job satisfaction of top-level employees increased with age, it decreased with age among middle-level employees. The study highlighted the intervening influence of levels of organizational hierarchy in the relationship between job satisfaction and age.

Promila Kumari and Elawadhi (1986) examine the relationship between job satisfaction and locus of control and to see the effect of interaction between job level and locus of control upon job satisfaction. Findings indicated that job satisfaction is not related to a brief in internal control. It was indicated that high and low internal officers and clerks do not differ significantly with respect to their overall job satisfaction.

Bhatt (1993) studied job satisfaction of college teachers in relation to demographic variables like physical appearance, place of work and transfer. Findings reveal that job satisfaction among college teachers was not differentiated by physical appearance, job location and college transfers.

Several Indian and Western studies have also shown that wages continues to be perceived as a major factor constituting job satisfaction (e.g., Monga; 1978; Prakasam, 1982. Srivastava (1985) collected data on 100 employees of HAL, Kanpur. His results showed that as many as 76.3 per cent affirmed that higher wages would induce them to put in extra work, while 9.4 per cent said that such increase would have no effect. The rest were neutral to the issue.

Some Western studies on job satisfaction also support the point that pay remains most important in terms of satisfaction to most of the employees. For example, Porter (1961) found that managers attached more importance to the amount of pay they received than to the amount of autonomy, esteem, or social need fulfillment they received. Lawler and Porter (1968) found that "although presidents and vice presidents attached slightly less importance to pay, for both groups it was rated as very important. Khaleque et al (1992) measures the overall job satisfaction, mental health, fatigue and performance of the subjects. The results reveal that significant number of the respondents are satisfied with their present job. The results further indicate that there is significant influence of job satisfaction on mental health, fatigue and performance of industrial workers.

Financial institutions play a vital role in the economic and industrial growth of any country. Development and prosperity of any country be it developing or developed is fully dependent on their financial institutions like banks, insurance etc. While financial institutions provide the needed credit to the economy, it is insurance industry that provides protection against misfortunes that the economy is likely to face. India is no exception to this. Ever since the independence Indian banks have played a vital role in providing the much required and often needed credit. The Indian insurance industry, be it Life or General, also played its due and positive role in this sphere. The protection provided by the insurance companies help the economy in general and the industries in particular to concentrate in their respective areas of operation. It has acted as a tool for security to the industry as a whole. This has indeed a boon as regard the industries are concerned.

The Insurance sector in general and General Insurance sector in particular has been showing consistent growth and profitability over a period of time. Consequently the success of general insurance companies deserves a critical appraisal from various view points. In any organisation the quality of the work force is a major factor, especially in service sector. The satisfaction of the various categories of employees thus becomes a natural subject of investigation. Such an investigation in any organisation assumes greater importance when the working of that organisation has not previously been investigated.

Employee's satisfaction and growth of organisation are inter-linked. Satisfied employees are indispensable for the growth and development of any organisation. The present scenario which is represented by severe competition and demand for better customer service, organisations require employees who are highly dedicated, motivated and satisfied. General Insurance industry is not an exception to this. Insurance companies should periodically assess the satisfaction level of their employees and corrective measures should be initiated wherever required. A comprehensive and serious study to assess the satisfaction levels of General Insurance employees is found to be lacking. The present study attempts to measure and compare the satisfaction levels of various classes of employees.

Based on the review of literature and previous studies on the topic, the following hypothesis has been formulated by the present investigator, for verification through empirical investigation.

- There is substantial difference between the job satisfaction levels of the two different classes of employees viz. Officers and Subordinates staff, under study.
- The Officers will have higher levels of job satisfaction as compared to that of the other Subordinate Staff.

## Sampling

The sample comprises all categories of employees working in general insurance companies. The details of the total number of employees working in General Insurance companies in Cochin during 2007-2008 were taken from the records of the respective offices in Cochin. Out of 176 employees, 81 were selected at random for primary data collection. Further the respondents were post stratified into two groups viz., (1) Officers and (2) Subordinate Staff. Out of 81 respondents, 42 come under the category of (1) and 39 belong to the (2) category.

Purposive Random Sampling method has been used in the present investigation to select the sample for study. A random sample from a population is a sample which is formed in such a way that every number of the population has equal chance of being selected and the selection of an individual does not influence the selection of the other.

The sample was selected keeping in mind the aspects like providing due and adequate representation to variables like age, sex, cadre, locale, and other relevant details. Factors like accessibility to the organization, co-operation from the respective managements, etc were also considered while choosing the sample for study. The samples were drawn from the middle and lover levels of management. The study was conducted over a period of three months. The various classifications of samples based on age, sex, income, etc, are given in table 1 to 9.

## Tool Used

The tool used for the present study was Job Satisfaction inventory developed by Indresan (1999)· The tool consisted of 25 items. The items belonged to variables like Nature of Job, Nature of Supervision, Working Condition, Equitable Reward, Opportunities for Promotion, Work Group, Employee Morale, etc. The tool has a five point scale, viz. "Very much less than what it should be", "Less than what it should be", "Just what it should be", "More than what it should be" and "very much more than what it should be".

The demographic details were collected by way of Personal Data Form. The Personal Data Form elicited details like Sex, Age, Residence, Number of family members, Qualification, Designation, Monthly Income, Name of the Company, Completed years of Service, Number of Promotions received, etc.

## Analysis

The data collected for the study were analysed using various statistical techniques. The various techniques used were ANOVA, t-test and Correlation.

The total sample was classified as highly satisfied, moderately satisfied and dissatisfied based on the scores obtained by them. The classification was done in the following manner. The mean value of the job satisfaction scores for the sample was found to be 75.59 and Standard Deviation as 16.63. Considering mean plus half of the Standard Deviation, to be highly satisfied category, it was found to be 83.91 whereas the mean minus half Standard Deviation the score value was found to be 67.27. Out of the 81 samples under study, 16 samples were found to be highly satisfied and 17 samples were found to be dissatisfied. The remaining samples of the population were found above the score value of 83.91 score value was taken as moderately satisfied. The results are presented in Table 10.

## Results of ANOVA

The result of ANOVA between the various age groups based on the total job satisfaction score is presented in Table 11. The F value in the comparison between Age and the total value for Job Satisfaction, presented in Table 11 was found to be significant at 0.05 level (1.323). It denotes existence of significant difference in the variable age of the respondents with respect to the overall job satisfaction. Studies in this area have provided inconclusive and diametrically opposite results. Krishnan and Krishnan (1994) and Lindstrom (1988) while established positive relationship between the factors under study, Kacmar and Ferries (1989) established the opposite. Further it was also established that age factor is having strong relationship with job satisfaction (Hunt and Saul, 1975). The result of the comparison between designation and job satisfaction was found to be significant at 0.01 level (5.690). The results are provided in Table 12.

The result of ANOVA with respect to Income and Job satisfaction is provided in Table 13. It is found that there is significant difference at 0.01 level (11.794) for the variables under study. This is in line with the findings of Porter (1961) who established relationship between pay and job satisfaction. Further, several other studies have also shown that wages are perceived to be a major factor that leads to job satisfaction.

Significant difference at 0.01 level was found in the comparison of the number promotions received and the job satisfaction of the sample studied. The F value is 7.292 (Table 14). The results of ANOVA for the comparison between completed years of service and Job satisfaction is presented in Table 15. As in the earlier case it is observed that there is significant difference at 0.01 level with respect to the completed years of service and Job satisfaction.

## Results of t-Test

The result of t-test comparing Male and Female respondents with respect to Job Satisfaction is shown in the Table 16. The t-value of 3.757 shows that it is very significant. It is also observed that mean value of male respondents is 80.3191 and that of female respondents of 70.5000. Further the Standard Deviation of Male respondents is 12.7877 whereas that of Female respondents is 9.7305. It clearly indicates that the job satisfaction of male respondents is higher than that of female.

This difference may be due to the house-hold work of female respondents in addition to their routine office work. To and fro journeys by females are very difficult due to the lack of adequate and prompt public transport system. The female employees have to commute solely depending on the public transport systems which may be the reason for their low level of job satisfaction.

This finding is in line with the studies conducted by De (1977). They established certain relationship between age and job satisfaction among male and female white collar workers. Further, age was also found to have stronger relationship with job satisfaction among males. Reverse relationship was also found among females.

The result of the t-test for the comparison of officers and subordinate employees is presented in Table 17. It is observed that the t-value is significant at 0.05 level thereby denoting difference in the satisfaction level of the classes under study. Further it is observed that the mean value of officers is 77.857 and that of subordinate staff 74.4872. This indicates that the officers are more satisfied that the subordinate staff. This may be due to the higher responsibility, decision making power, status and better salary and perquisites enjoyed by the officer as compared to the subordinate staff.

The result of t-test with respect to locale is shown in Table 18. The t-value is found to be not significant (0.637). It may be observed that the mean value of people resident in rural area was 74.47 and that of urban area 76.65. The Standard Deviation is 11.4898 and 12.8313 for rural and urban respectively. There is found to be only marginal difference in the mean value and standard deviation. This denotes nil or marginal significant difference between the respondents under study. It may be due to the reduction on difference between rural and urban areas, as the place of residence of the respondents are in the capital district. The places near the capital city may also get more advantage of the state capital and hence not much difference is noticed between rural and urban areas. Further, the rural urban differentiation is also getting increasingly narrowed or blurred with the facilities and opportunities available in both areas showing not much difference as it used to be in the past.

## Result of Correlation

The result of correlation between various factors under study is provided in Table 20. The findings are of importance with respect to the study undertaken, as correlation was observed with respect to various factors studies by the investigator. The overall job satisfaction score was found to be correlated significantly with factors like sex, locale, qualification, designation and number of promotions received. The correlation scores are.471,.218,.413,.220, and.219 as provided in the correlation matrix presented below. No correlation was observed in factors like Class of respondents, Age, Members in the family and income. A more in depth study into the reasons of the correlation will provided vital clues with respect to the fascinated subject termed 'job satisfaction'.

## Findings of the Study

ANOVA test was done to make comparison between the total job satisfaction score and various factors like sex, age, locale, income, qualification, etc. The comparison between Age and the total value for Job Satisfaction, presented were found to be significant. It denotes existence of significant difference in the variable age of the respondents with respect to the overall job satisfaction.

The result of the comparison between designation and job satisfaction was also found to be significant. The result of ANOVA with respect to Income and Job satisfaction also observed that there is significant difference. Significant difference was found in the comparison of the number promotions received and the job satisfaction of the sample studied. The results of ANOVA for the comparison between completed years of service and Job satisfaction observed

that there is significant difference at with respect to the completed years of service and Job satisfaction.

The result of t-test comparing Male and Female respondents with respect to Job Satisfaction observed that there is significant difference among male and female respondents whereas the t-test conducted to compare the locale viz. rural and urban areas, the result showed insignificance.

The result of the t-test with respect to officers and subordinate staff were also obtained, that revealed significant difference.

The correlation of the job satisfaction score with the various factors of study was also made.

The results throw adequate light on the hypotheses formulated for the study. The details of the test of tenability of the hypotheses are given below:

The hypotheses formulated for the study that "There is substantial difference between the job satisfaction levels of the two different classes of employees viz. Officers and Subordinates staff, under study" **– is accepted**.

The second hypotheses formulated for the study that "The Officers will have higher levels of job satisfaction as compared to that of the other Subordinate Staff"**- is accepted.**

## Conclusion

The results of the study have certain important implications on the general insurance industry. The general belief is that all the employees working in public sector undertakings are having better salary and perquisites and hence all are satisfied. This belief was also prevalent in the general insurance companies. But the present study revealed that so many factors like sex, age, income, promotions received, years of service etc, will also attribute to the job satisfaction as a whole. Job Satisfaction depends on several factors in addition to the intrinsic factors mentioned above. Better working atmosphere may lead to higher productivity and thus focus to higher satisfaction on the job performed.

The present study examined only a few factors, such as is acknowledged to be of limited scope. A wide range of multi dimensional and directional variables including demographic, personality, job and organization related variables are known to influence job satisfaction. There is need to conduct an in depth study covering larger sample size and broader area of investigation. However, the findings of this study being in general agreement with the findings of previous studies, and the theoretical significance of the study is noteworthy. The finding that only 19.75 per cent of the sample is highly satisfied and 17 per cent being dissatisfied does not augment well for any financial institutions. As far as service sector organisations like general insurance sector is concerned, it is the primary responsibility of the management to make cent percent satisfaction among the employees and thus derive full productivity from its officers and employees which in turn lead to growth of the organisation.

The general insurance companies should initiate steps to identify the reasons for the dissatisfaction of its employees and take remedial measures for the growth of the insurance sector in long run, especially considering the stiff competition from the private multi-national private general insurance companies who have registered their presence in the Indian insurance market and shown accretion in premium income.

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# Tables

**TABLE 1:** Classification of sample based on Age

| Sl. No | Category | Number of employees | Per cent |
|---|---|---|---|
| 1 | 20-30 | 02 | 2.46 |
| 2 | 30-40 | 19 | 23.46 |
| 3 | 40-50 | 52 | 64.20 |
| 4 | 50-60 | 08 | 9.88 |
| | Total | 81 | 100 |

**TABLE 2:** Classification of sample based on Cadres

| Sl No | Category | Number of employees | Per cent |
|---|---|---|---|
| 1 | Cl. I and II | 42 | 51.85 |
| 2 | Cl. III and IV | 39 | 48.15 |
| | Total | 81 | 100 |

**TABLE 3:** Classification of sample based on Sex

| Sl.No. | Category | Number of employees | Per cent |
|---|---|---|---|
| 1 | Male | 47 | 58.02 |
| 2 | Female | 34 | 41.98 |
| | Total | 81 | 100 |

**TABLE 4:** Classification based on Locale

| Sl No | Category | Number of employees | Per cent |
|---|---|---|---|
| 1 | Rural | 17 | 21 |
| 2 | Urban | 64 | 79 |
| | Total | 81 | 100 |

**TABLE 5:** Classification of sample based on family size

| Sl. No | Category | Number of employees | Per cent |
|---|---|---|---|
| 1 | 2 Members | 02 | 2.47 |
| 2 | 3 Members | 10 | 12.35 |
| 3 | 4 Members | 40 | 49.38 |
| 4 | 5 Members | 23 | 28.40 |
| 5 | Above 5 Members | 06 | 7.40 |
| | Total | 81 | 100 |

**TABLE 6:** Classification of sample based on Qualification

| Sl No | Category | Number of employees | Per cent |
|---|---|---|---|
| 1 | Below SSLC | 01 | 01.23 |
| 2 | SSLC | 09 | 11.11 |
| 3 | Pre-Degree | 00 | 0 |
| 4 | Graduate | 53 | 65.43 |
| 5 | Post-graduate | 17 | 21.00 |
| 6 | Doctorate | 01 | 01.23 |
| | Total | | 100 |

**TABLE 7:** Classification of sample based on Salary

| Sl No | Category | Number of employees | Per cent |
|---|---|---|---|
| 1 | Less than 5000 | 4 | 4.94 |
| 2 | 5000-10000 | 9 | 11.11 |
| 3 | 10000-15000 | 28 | 34.57 |
| 4 | 15000-20000 | 18 | 22.22 |
| 5 | 20000-25000 | 22 | 27.16 |
| | Total | | 100 |

**TABLE 8:** Classification of sample based on Companies

| Sl No | Name of the Co. | Number of employees | Per cent |
|---|---|---|---|
| 1 | New India | 22 | 27.16 |
| 2 | Oriental | 24 | 29.63 |
| 3 | National | 19 | 23.46 |
| 4 | United India | 16 | 19.75 |
| | Total | 81 | 100 |

**TABLE 9:** Classification of sample based on Years of Service

| Sl No | Category | Number of employees | Per cent |
|---|---|---|---|
| 1 | 0-5 | 00 | 0 |
| 2 | 5-10 | 03 | 03.70 |
| 3 | 10-15 | 15 | 18.52 |
| 4 | 15-20 | 40 | 49.38 |
| 5 | 20-25 | 21 | 25.93 |
| 6 | 25-30 | 02 | 02.47 |
| | Total | 81 | 100 |

**TABLE 10:** Level of Job Satisfaction of the Sample

| Sl No | Particulars | Number of employees | Per cent |
|---|---|---|---|
| 1 | Highly Satisfied | 16 | 19.75 |
| 2 | Moderately Satisfied | 48 | 59.27 |
| 3 | Dissatisfied | 17 | 20.98 |
| | Total | 81 | 100.00 |

**TABLE 11:** Data and Result of Comparison of Age with Job Satisfaction

| Source of Variation | Sum of Squares | Df | Mean Squares | F |
|---|---|---|---|---|
| Between Groups | 728.397 | 3 | 242.799 | 1.323* |
| With in Groups | 14309.506 | 78 | 183.455 | |
| Total | 15037.902 | | | |

* Significant at 0.05 level

**TABLE 12:** Data and Result of Comparison of Designation with Job Satisfaction

| Source of Variation | Sum of Squares | Df | Mean Squares | F |
|---|---|---|---|---|
| Between Groups | 3430.931 | 4 | 857.733 | 5.690* |
| With in Groups | 11606.971 | 77 | 150.740 | |
| Total | 15037.902 | | | |

* Significant at 0.1 level

**TABLE 13:** Data and Result of comparison of Income with Job Satisfaction

| Source of Variation | Sum of Squares | Df | Mean Squares | F |
|---|---|---|---|---|
| Between Groups | 6570.133 | 5 | 1314.027 | 11.794* |
| With in Groups | 8467.769 | 76 | 111.418 | |
| Total | 15037.902 | | | |

* Significant at 0.01 level

**TABLE 14:** Data and Result of comparison of Promotions with Job Satisfaction

| Source of Variation | Sum of Squares | Df | Mean Squares | F |
|---|---|---|---|---|
| Between Groups | 4875.486 | 5 | 975.097 | 7.292* |
| With in Groups | 10162.417 | 76 | 133.716 | |
| Total | 15031.902 | | | |

* Significant at 0.01 level

**TABLE 15:** Data and result of comparison of completed years with Job Satisfaction

| Source of Variation | Sum of Squares | Df | Mean Squares | F |
|---|---|---|---|---|
| Between Groups | 5635.499 | 5 | 1127.100 | 9.110* |
| With in Groups | 9402.404 | 76. | 123.716 | |
| Total | 15031.902 | | | |

* Significant at 0.1 level.

**TABLE 16:** Data and result of t-test for Comparing Male and Female Respondents with respect to Job Satisfaction

| Classification | Number of Respondents | Mean | Standard Deviation | t-value |
|---|---|---|---|---|
| Male | 47 | 80.3191 | 12.7877 | 3.757* |
| Female | 34 | 70.5000 | 9.7305 | |

* Significant at 0.05 level

**TABLE 17:** Data and result of t-test for Comparing Officers and Subordinates with respect to Job Satisfaction

| Classification | Number of Respondents | Mean | Standard Deviation | t-value |
|---|---|---|---|---|
| Officers | 42 | 77.857 | 13.9293 | 1.187* |
| Subordinate | 39 | 74.4872 | 10.7284 | |

* Significant at 0.05 level

**TABLE 18:** Data and result of t-test for Comparing Place of Residence of Respondents with respect to Job Satisfaction

| Classification | Number of Respondents | Mean | Standard Deviation | t-value |
|---|---|---|---|---|
| Rural | 17 | 74.47 | 11.4898 | |
| Urban | 64 | 76.65 | 12.8313 | .637* |

* Not Significant.

**Table 19:** Correlation Matrix of Various Factors under Study with respect to Job Satisfaction

| No | Factors | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Class | () | .066 | -.178 | -.286* | -.073 | -.387* | .838* | -.550* | -.346* | -.483* | -.024 |
| 2 | Sex | | () | -.240* | .312* | .220* | .190 | .252* | -.007 | .120 | .249* | -.471* |
| 3 | Age | | | () | .140 | -.180 | .006 | -.040 | .264* | .514* | .445* | .167 |
| 4 | Residence | | | | () | .153 | .485* | .105 | .596* | .652* | .527* | -.218* |
| 5 | Members | | | | | () | .222* | .126 | .179 | .248* | .044 | -.198 |
| 6 | Qualificn. | | | | | | () | -.084 | .539* | .499* | .369* | -.431* |
| 7 | Design | | | | | | | () | -.212 | .086 | -.061 | -.220* |
| 8 | Income | | | | | | | | () | .778* | .498* | -.063 |
| 9 | Service | | | | | | | | | () | .673* | -.204 |
| 10 | Promotin. | | | | | | | | | | () | -.219* |
| 11 | Total | | | | | | | | | | | () |

* Significant at 0.05 level

# Changing Perspective of Managing Human Resources in Nepal

❑ **Dhruba Kumar Gautam**
Tribhuvan University, Faculty of Management, P. O. Box 12719, Kathmandu, Nepal

## Abstract

Achieving sustainable competitive advantage depends on formulation and implementation of appropriate people management strategies and deployment of their competencies effectively in dynamic and complex environment. Managing their competencies is an approach to make decisions on the intentions and plans of organization concerning employment relationship and its recruitment, training, development, performance appraisal, reward and employee relations policies and practice. The improvement of organizational effectiveness is an overall objective of people management in organizations. In light of these, this study explores the present practices of HRM like: HR departments, HR policies and strategies, HR planning, recruitment selection and placement, training and development, performance appraisal, compensation and benefit, employee relations and communications. Based on the survey in 204 Nepalese organizations as a unit of analysis, the study concludes that HR practices in few organizations have action program for minorities, ethnic group, older employees and people with disabilities. Due to centralized organizational structure, most of HR decisions are taken into central office and line managers being involved highly in planning and implementing HR policies. In a nutshell, though HRM practices are not developed like developed countries, Nepalese organizations are realizing the significance of people management at work and changing their practices in the present dynamic environment.

## Background

The interest of managing human resource is based around the notion that people at work are key sources of sustained competitive advantages of all types of organizations. This belief is based on four main aspects: firstly, people can make the difference because of their capabilities and commitment which are rare, non- substitutable, add the values, and inimitable (Barney, 1991). Secondly, managing human resource is the matter of truly strategic importance which distinguishes successful organizations from the others (Huselid, 1995). Thirdly, managing human resource is too importance because it is recognizing an activity which is owned by all managers (Cunningham & Hyman, 1999). Fourthly, the key levers must be internally integrated with each other and externally integrated with the business strategy (Brewster and Soderstrom, 1994; Mabey, et al., 1998).

The knowledge and skills required to perform jobs at a high level of performance vary within and across the companies. It is well understood that employees are not perfectly substitutes. Individuals are likely to differ with respect to the knowledge, skills and other job related attitudes possessed within any given labour market. Several human resource practices like

selection, development, motivation, compensation, benefits and their systems, sold by consulting firms can be purchased and simply installed. But it is the requirement that these systems work as an integrated unit that makes them difficult to copy. There is a strong influence of social, cultural, economic and political factors on HRM policies and practices in organizations (Budhwar & Khatri, 2001). This view-point is further supported by other researchers (e.g. Budhwar & Sparrow, 1997; Krishna & Monappa, 1994; Sparrow & Budhwar, 1997; Venkataratnam, 1995).

Various scholars have indicated that the diversity of culture and subculture make HR practices unique (Sinha, 1995). Studies clearly indicate that the basic functions of HR management are given different weights in different countries and they are carried differently (Gaugler, 1988). Pieper (1990) concluded that single universal HRM concept does not exist. Therefore, literature has underlined that among other management related issues, practices of HRM need a greater and in-depth survey and analysis due to its context specificity (Gooderham et al., 2004). Thus, this study is an small attempt to explore the HRM practices in Nepalese organizations so that practitioners and decision makers can formulate appropriate policies and strategies in people management rather than copy solutions form quite divergent cultural practices.

## Human Resource Management

Managing human resource is the science and practice that deals with the nature, decisions, actions, and issues relating to the employment relationship. In practice, it involves an organization's acquisition, development and utilization of employees as well as employee's relation to organization and its performance (Ferris et al. 1999), and concerns with the broad range of important company function including the recruitment, selection, training and development, compensation, retention, evaluation, and promotion of personnel within the organization (Bernardin and Russell, 1998). HR practices of an organization are intended to recruit, develop, deploy and retain suitable employees to achieve organizational objectives. Organizations invest in HR practices to increase role effectiveness of employees which intern, increases organizational efficacy (Guthrie, 2001). Studies indicate that the objective of HR practices is to select and employ people who can contribute towards the broader objective of positive organizational performance (Paul & Anantharaman, 2003).

Human Resource Management practices involve all management decisions and actions that affect the nature of the relationship between the organization and its human resources (Beer et al., 1984). It affects many constituencies and is intended to influence the effectiveness of employees and employers (Milkovich and Boudreau, 1997). Price (1997) classified HRM under two heads: the *hard approach* which includes scientific management and strategic management. Scientific management laid emphasis on practices and strategic management focuses on long term thinking, mission and objectives. The *soft approach* includes human relations where people matter and consultative management, working conditions, motivation and other than pay, team working, informal organization, peer pressure are discussed.

Management of people in organizations has witnessed a great deal of change in the last two decades. These changes can be discussed in terms of two major developments: first, the shift from old personnel administration to HRM. This change is based on the belief that people are the important asset in organizations that can be managed systematically by coordinating the shape and substance of the several traditional personnel policies and practices (Storey, 2001). Second, the reorientation of the generic strategic model of HRM to the more modern concept of strategic HRM, based on the philosophy that in addition to coordinating HR policies and practices with each other, they needed to be coordinated, or linked with the needs of the organization (Schuler and Jackson, 1989).

## Review of HRM Practice in Nepal

Before 1990, Human resource management in the majority of the enterprises of Nepal was not satisfactory because there was no training and transfer policies and strategies in public enterprises (Upadhyaya, 1981), poor state of employee participation (Koirala, 1989), failed proper communication system between employees and mangers (Agrawal, 1983), lacked systematic HR planning (Tiwari, 1984), low prioritized to planning, recruitment, development, compensation and maintenance of workforce (Shrestha, 1991 'a'), new employees selected through friends, relatives and influential persons (Shrestha, 1991), centralized in decisions (Paudel, 1992), and practiced of unchallenged responsibility and traditional reward system (Adhikari, 1992). It was found that Nepalese manpower had not been able to take full advantages of the raw jabs created by development activities because they had not sufficient opportunities to learn the requisite skills (Panta, 1993).

After the 1990, when multiparty democracy restored, the practices of human resource management in Nepal needed gradual changed. Salary of employees of joint venture banks became highly competitive; employee's performance is valued in the organization, recognized training and development as means to achieve competitive advantages (Adhikari, 2000). In order to fulfil the need of skilled human capital in corporations, higher education with business course has been expanded (Adhikari, 2004). Though, there is low integration of human resource policies and practices with business strategies (Adhikari and Gautam, 2006) and not recruited the HR specialist in HR department (Cranet, 2006), organizations are realizing the significance of integration, assignment and congruence of HR practices with organizational policies and practices (Gautam, 2008; Adhikari and Gautam, 2008; 2009). To be competitive, organizations initiated to execute low cost strategy (Gautam, 2008), begun to share HR responsibility between line management and HR department (Gautam and Davis, 2007), and became conscious to maintain quality of work life (Adhikari and Gautam, 2010), and placed bigger priority for fighting against favouritism (Gautam, 2008). Therefore, it can be argued that since 1990, Nepalese organizations moved from traditional human resource management practices to modern practices realizing to adopt in changing perspective.

## Objectives of the Study

The main objective of this study is to present a picture of human resource management practices in Nepalese organizations and to examine the positions of human resource managers in organizational decision making levels. The study assesses the different strategies and policies of the organization with primary responsibilities for their execution. Further, it also establishes hard data on organizational HRM practice across all economic sectors in Nepal to examine the Nepalese HRM scenario. The collected and analyzed data will be helpful to compare Nepalese HRM system with other countries and will provide a basis for future HRM studies in Nepal.

## Methodology

### Sample

This survey has been undertaken for the first time in 204 Nepalese organizations considering organizations as a unit of analysis. Responses have been collected from 96 private, 90 public, 5 mixed and 13 other types of organizations. It has covered a wide variety of sectors including manufacturing, services and others. Twenty percent of organizations represent the

manufacturing sector, fourteen percent from banking, finance, insurance and business services. Educational institutes are also surveyed. Forty six percent of organizations are having more than 201 employees. Thirty one per-cents of the respondent have more than 50 but less than 100 staffs. This is the second largest group. Similarly, 13 per-cents respond organizations have less than 150 employees but more than 100 followed by 7 percent organizations which have more than 150 but less than 200 staffs. Sixteen percent of organizations had indicated that they are well in excess of costs. However, 65 percent of organizations had rated their performance as profit of 10 percent category.

### Respondents

In 50 percent of the respondent organizations the most senior personnel/HR manager completed the questionnaires. Of the people who filled in the questionnaire 97 percent were male. The organizations were established from 1892 to 2002. In 34 percent of organizations personnel specialists had been working in an HR specialist role for 1-10 years, in 12 percent they had been working for 11- 20 years and in 4 percent of organizations they had been working for the last 21 years or more.

### Survey Method

Since postal and email data collection proved ineffective in Nepal (Adhikari and Gautam, 2006), trained researchers were appointed to visit and interview organizations to collect data face to face. Interviews were held with the owners, chief executives and HR managers (depending on availability) within each organization.

## Findings

### Human Resource Department

Human resources are organised in different ways depending on the need of specific organisations to compete in the market or to deliver services properly. The size of organisation is one of the determining factors to have or not to have a HR department in Nepalese organisations. In Nepal, sixty nine percent of the organisations have HR departments which are also quite similar in publicly listed companies (Adhikari and Gautam, 2009, Gautam, 2008). Of the organisations with HR departments, twenty eight percent have a HR director who has a place in the Board of Directors or equivalent. A large percentage of organisations have appointed a HR director from within the organization. Turning to the personnel detail of an HR department, ninety percent organisations have a male employee to look HR responsibility. The average number of years in experience as a personnel specialist is 13.6 years. Eighty four percent of those who responded to the survey had a university degree. Among them 45 per-cent personnel manager had first degree of Business Studies, followed by 12 per-cents Economics, 10 per-cents Humanities. At least 50 percent of organizations had a HR manager, most of them being male. The average number of years experience as a personnel specialist is 13.6 years.

### HRM Policies and Strategies

Every organization runs with a special mission, business strategy, personnel strategy and corporate value statement. Moving to Nepalese enterprises, seventy percent of them reported a written mission statement and thirteen percent had an unwritten mission statement. Fifty six percent organizations indicated that they had a written business strategy and thirty percent indicated that they had a personnel strategy. Some organizations had corporate value

statements. From these statistical analyses, it appears that still many organizations are not having an explicit people management strategy.

Decentralisation of decision-making and responsibility is one of the core characteristics of new organisational forms. In HRM too, this is regarded as one of the essentials of a "modern" version of managing human resources. The result shows clearly that, in case of a part of a larger group of company or institution, such decisions are taken largely in the national head office (headquarters).

**TABLE 1:** Decentralization in decisions on different issues of HRM (% of organizations)

| Different issues of HRM | National Head office | Department/division | Site/Establishment |
|---|---|---|---|
| Pay and benefits | 32 | 2 | 5 |
| Recruitment and selection | 31 | 2 | 5 |
| Training and development | 27 | 4 | 6 |
| Industrial relations | 24 | 3 | 7 |
| Workforce expansion/reduction | 29 | 2 | 7 |
| Management development | 30 | 4 | 7 |

Table 1 shows the overall picture of centralization of HR policies and strategies in Nepalese larger group of companies and supports the findings of Adhikari and Muller (2001) that top management of Nepalese organization believes to hold more power than decentralize it. As far as the involvement of HR departments in the development of business strategy in Nepal is concerned, only fifteen percent of organizations are involving the HR department from the outset. In twenty four percent of the organizations, the HR department is involved only in the implementation of business strategy. From the above analysis it seems that although some organisations are having business and corporate strategies, the involvement of the HR department in the formulation of such strategies is very low.

## Human Resource Planning

Different organisations follow their own way to predict manpower needs for years to come. Whereas in public sector organisations such prediction is made on an annual basis; in private organisations the manpower requirement is based on the expansion of their business activities. In large organisations manpower planning is a centralised activity. It appears that head office is involved in major HR policy decisions including workforce expansion/reduction. Although in a limited number of organisations, the new form of manpower planning is emerging like support of external service providers. They have begun to hire these external service providers in order to manage payroll, pension, benefits, training and development, workforce outplacement/reduction, HR information systems and other. The reason might be that some of these organisations are facing intense domestic competition. In order to compete, they are trying to bring down personnel overhead as low as possible by outsourcing some of the HR activities.

There has been an increasing use of computerised human resource information system in many countries to record HR-related information. The use of computerised human resource information system (HRIS) has not only changed the prevailing role of HR departments but is also becoming very cost effective. Instead of spending valuable time in clerical works, HR departments are contributing by developing HR strategy to compete in the market. As far as HRIS in Nepalese organisations is concerned, 62 percent organisations do not have such a system. The data reveals that only 34 percent of organisations have a computerised HRIS. With this computerised information system, 32 percent organisations meet their current needs.

**TABLE 2**: Computerized information system used (% of organizations)

| HRM areas | Yes | No | HRM areas | Yes | No |
|---|---|---|---|---|---|
| Individual personnel records | 28 | 4 | Payroll | 30 | 1 |
| Benefits | 26 | 4 | Time registration & attendance | 14 | 13 |
| Recruitment and selection | 14 | 14 | Training and development | 19 | 11 |
| Performance management | 13 | 13 | Career plan /success planning | 10 | 14 |
| Work scheduling | 20 | 7 | Health and safety | 4 | 16 |

In sum, the prevailing system of manpower planning is changing. Nepalese organisations are looking for more cost- and time-effective approaches to manpower planning. The new trend of using external service providers and computerised HRIS supports this view.

## Recruitment, Selection and Placement

Hiring new employee needs certain processes that have to be completed by all types of organisations. The processes include attracting, collecting, short-listing, examining, and interviewing of candidates. Enterprises, both in the public and private sectors, are having certain recruitment rules or procedures developed by their head offices. As per the rules, of the total vacancies in the officer and non-officer level posts, 50 percent are filled by open competition and the remaining by an internal promotion system. But this ratio varies sector-wise and industry-wise. The selection decision of a fresh candidate is largely based on credentials, written examination and interview whereas for internal promotion job experience and the results of job evaluation play a dominant role. Once the selection process is completed and candidates are finally selected for particular assignments, they are appointed for a six-month probation period (for non-officers) to one year (for officers). The probation period for the new recruits will be 6 months to one year depending upon the organisation's rule.

The recent trend in industrialised world is toward decentralisation of recruitment and selection decisions. From the recent survey, it is revealed that major recruitment policy decisions are made differently in different organisations. For example, in 29 percent organisations, it is done by line management, in 17 percent organisations it is done by HR departments in consultation with line management, in 21 percent organisations it is done by line management in consultation with HR departments and in 10 percent of organisations it is done by HR departments alone. With this result, what is important to note is that the role of line management is increasing in making policy decisions regarding recruitment and selection.

A large number of positions in organizations within all staff categories are filled most frequently either internally or with advertisements. A few organizations reported using recruitment agencies/consultancies and word-of-mouth mode to recruit staff.

**TABLE 3:** Methods to fill positions under each staff category (% of organizations)

| Methods applied to fill positions | Management | Technical | Clerical | Manual |
|---|---|---|---|---|
| Internally Selection | 39 | 20 | 25 | 23 |
| Recruitment agencies/ consultancies | 5 | 7 | 3 | 3 |
| Advertisement-External | 28 | 37 | 33 | 19 |
| Word of Mouth | 3 | 4 | 7 | 14 |
| Vacancy page on company website | - | 1 | - | 0 |
| Vacancies on commercial job websites | 1 | - | - | - |
| Direct from educational institution | - | 1 | 0 | - |

The most widely used selection methods in Nepalese organizations are interview panel, one-to-one interview, application forms and references to recruit different staff categories. References remain a commonly used method for selecting manual workers in Nepalese organizations.

**TABLE 4:** Selection methods for each staff category (% of organizations)

| Selection methods | Professional/management | Technical | Clerical | Manual |
|---|---|---|---|---|
| Interview panel | 35 | 30 | 26 | 15 |
| One-to-one interviews | 54 | 57 | 46 | 32 |
| Application forms | 50 | 56 | 55 | 31 |
| References | 25 | 24 | 22 | 34 |
| Other, please specify | 9 | 9 | 5 | 7 |

Nepal is a country with different ethnic groups and minorities. Similarly, for aged employees who are 50 plus, for disabled employees and women, special care is required in the organisations. In other words, in the new form of employment practices it is important to have action programmes covering minorities, ethnic groups, older workers (aged 50 plus), people with disabilities and women. In this survey, respondents were asked about action programmes that they are offering to cover these types of groups.

**TABLE 5:** Action programmes of the given Groups (% of organisations)

| Protection programs to : | Yes | No | Null |
|---|---|---|---|
| Minority/ ethnic groups | 0 | 55 | 34 |
| Older workers (aged 50 plus) | 9 | 56 | 35 |
| People with disabilities | 10 | 55 | 35 |
| Women employees | 21 | 47 | 33 |

In summary, there is no uniform staffing practice among organisations. Depending on their needs and requirements, manpower is recruited following certain processes of recruitment. The system of using company website and commercial job website is in increasing trend from the zero levels. Moreover, few organisations are recruiting employees directly from educational institutes. Organisations still have to do a lot for the improvement of conditions of minorities, ethnic groups, older workers, disabled people and women. In fact, in Nepalese enterprises there has been changing in the staffing practices in the last 10 years.

## Training and Development

There are few in-house training facilities in public sector organisations and few numbers of training institutes are established by private entrepreneurs to provide vocational skills. Organisations, both in public and private sectors, are sending their staff to train in India and some other overseas countries. The system of training needs identification hardly exists in general. In public sector organisations, training needs are identified from the suggestions of line managers. The system of dissemination of the knowledge acquired through attending the programmes is not made properly. The post-evaluation system of trainees does not exist; thus, it is difficult to assess how successfully training delivered knowledge and skills to work in certain jobs or assignments. In private sector organisations, short-term on-the-job training is provided to the new recruits to impart work skills. Private sector organisations prefer to hire mid-career or experienced workforce on whom the organisation does not need to spend time and money to train further.

The proportion of the annual payroll currently spent on training is regarded as an indicator of the organisation's willingness to invest in its human capital. The money spent on training and development is very little. In Europe, such investment is 3.1 percent in an average (Brewster and Soderstrom, 2004), in India the percentage is 2 in an average (Budhwar, 2000) but in Nepal, such investment is 0.5 percent in an average. This ratio of annual payroll is invested to provide both internal (using in-house facility) and external (outside training) including other countries. As described earlier, decisions relating to training and development policy are centralised. Once decisions are made centrally, line managers play the most influential role in defining training needs and designing training activities. Moving towards managerial career development, managers involved to a small extent in special tasks/projects and in cross-organizational/disciplinary/functional tasks to stimulate learning. Internal and external movement of managers has been seen in above 40 percent of the organizations.

**TABLE 6:** Methods for managerial career development used (% of organizations).

| Methods of managerial career development | Not at all | To a small extent | To a large extent | Entirely |
|---|---|---|---|---|
| Special tasks/projects to stimulate learning | 30 | 39 | 9 | 0 |
| Involvement in cross-organizational disciplinary/ functional tasks | 33 | 42 | 7 | 0 |
| Participation in project team work | 23 | 30 | 20 | 0 |
| Networking | 42 | 18 | 9 | 1 |
| Formal career plans | 32 | 27 | 8 | 2 |
| Succession plans | 33 | 23 | 9 | 1 |
| Planned job rotation | 30 | 30 | 7 | 1 |
| High flier schemes | 49 | 9 | 3 | 0 |
| Experience schemes (internal movement to another department) | 44 | 43 | 14 | 1 |
| Secondments to other organizations (external movement to another organization for a temporary period of time | 45 | 13 | 2 | 0 |

## Performance Appraisal

A larger number of organisations are making formal as well as informal performance appraisal of their employees. Since a performance appraisal system is mandatory according to employees' rules, organisations in the public and private sector are, somehow, making evaluation of their employees. In the evaluation process, immediate supervisors are responsible for providing input. Moreover, organisations are also involving others in the evaluation process e.g., the supervisor's superior, the employee himself etc. A few organisations have also received inputs from subordinates, peers and customers for the purpose of performance appraisal. However, it is also important to note that in 17 percent organisations, managers are not appraised with a formal appraisal system.

**TABLE 7:** Person for the appraisal process in organizations (%)

| Categories of personnel | Yes | No | Categories of personnel | Yes | No |
|---|---|---|---|---|---|
| Immediate supervisor | 77 | 3 | Subordinates | 7 | 31 |
| Supervisor's superior | 59 | 14 | Peers | 5 | 33 |
| The employee himself/herself | 22 | 26 | Customers | 4 | 30 |

In the previous studies, it was mentioned that the result of performance appraisal neither used to inform career development, reward management and employee training and development, nor used to decide promotion of employees (Shrestha, 1991), this study depicts that the appraisal system is used to inform the followings:

**TABLE 8:** Appraisal system used to in the followings (% of organizations)

| Performance appraisal for: | Yes | No | Performance appraisal for: | Yes | No |
|---|---|---|---|---|---|
| HR planning | 38 | 27 | Career | 64 | 11 |
| Analysis of training and dev. | 48 | 20 | Pay determination | 31 | 30 |
| Organization of work | 39 | 22 | | | |

Although there has been substantial progress in the use of the result of performance evaluation in different HR/personnel decisions, there are still a significant number of different categories of employees excluded from regular performance appraisal. The reasons may be that either there is no system or it is completely managed or instigated at the employees' whim.

## Compensation and Benefits

The Government of Nepal makes an announcement for any pay rise and other benefits for employees. All other firms have to comply with the minimum salary and wages as fixed by the government. However, individual firms can pay more than the government rate depending on workforce productivity and profits. Although it is understood that rewards have an important effect on factors like productivity and commitment, not much effort have been made to satisfy employees in the organisations. Past studies show that one of the most dissatisfying factors for Nepalese employees is the current level of salary and wages (Adhikari, 2008 Adhikari and Gautam, 2010). The current salary and wage level is the lowest in South Asia. This might be attributed to declining productivity at the industry level and meagre economic growth of the nation in the last few years.

**TABLE 9:** Level(s) at which basic pay is determined (%)

| | Management/ technical | Professional/ Administrative | Clerical/ Administrative | Manual |
|---|---|---|---|---|
| National-wide collective bargaining | 24 | 22 | 17 | 18 |
| Regional collective bargaining | 5 | 4 | 4 | 3 |
| Company/division, | 33 | 29 | 31 | 25 |
| Establishment/site | 9 | 5 | 6 | 8 |
| Individual | 8 | 6 | 5 | 7 |
| Other, please specify | 39 | 0 | 0 | 0 |

In a competitive society, there has been an increasing use of performance-based and variable incentive system. In this study, respondents were asked about different incentive schemes offered by them. The survey noticed some new forms of incentive practices in Nepalese organisations. Normally, these forms of incentive systems are used to motivate and increase the commitment of employees in the competitive society to increase productivity. Although on a limited scale, performance-based and variable incentive systems have been introduced by some of the organisations.

**TABLE 10:** Organisations offering different forms of incentive systems (% of organisations)

| | Management | Professional/ Technical | Clerical/ Administrative | Manual |
|---|---|---|---|---|
| Employee share schemes | 11 | 10 | 6 | 3 |
| Profit sharing | 27 | 23 | 25 | 20 |
| Stock options | 3 | 3 | – | – |
| Team/department performance | 14 | 9 | 8 | 7 |
| Individual performance | 19 | 21 | 17 | 13 |
| Company-wide performance | 8 | 5 | 6 | 5 |

## Employee Relations and Communication

Anecdotal evidences reveal that the situation of employee relations is not encouraging. The main barriers prevailing in the employee relations system are, for example, over-centralisation of power, lack of trustful relation of top management with line management, feeling of seniority and status, lack of budget for training and development, and lack of performance management (Adhikari, 1992). There were cases of conflicts due to poor level of employee relations resulting from communication breakdown, personality clashes, status and role inconsistencies and unclear relations in various Nepalese organisations (Agrawal, 2001). In some cases, management also tried to promote rival worker groups and then the policy of divide and rule was prevailed. Due to the absence of good communication system and democratic norms in the work place, there was a massive wave of shop floor tension (Pant, 1993). Superiors trusted their own capacity neglecting the importance of delegation of power and responsibility to their subordinates (Koirala, 1989). In a few private sector organisations, established under joint venture agreement, employees directly ventilated their grievances to line managers or to General Managers or to Executive Directors. The situation of employee relations in these organisations was strengthened by regular staff meetings, management committee meetings and inter- and intra-departmental meetings. Information on business and HR related matters were freely communicated. Managers were less hierarchy-conscious. Most of the line managers agreed that employee conflict at work was minimised due to a free flow of communication and information.

What are the revealing changes in the way of communication of major issues to employees during the last three years? In the survey, this question was asked to know the situation of employee relations and communication. The result shows some positive developments. Organisations have indicated that in the last three years there has been an increasing use of representative staff bodies, verbal, electronic, written and team briefings to communicate issues to employees. However, still 21 percent organisations are not using representative staff bodies for the communication of different issues.

**TABLE 11:** Changes in the way of communication during the last three years

| Way of Communication | Increased | Same | Decreased | Not used |
|---|---|---|---|---|
| Through representative staff bodies (e.g. Trade unions) | 27 | 21 | 1 | 21 |
| Verbally, directly to employees | 41 | 31 | 7 | 1 |
| Written, directly to employees | 33 | 37 | 5 | 5 |
| Electronic communication | 24 | 30 | 1 | 19 |
| Team briefings | 40 | 26 | 0 | 3 |

The increase in the use of electronic communication tools such as telephone, e-mail and fax will certainly change the prevailing patterns of employee relations and facilitate the communication system in the organisations. Communication on different issues such as business strategy, financial performance and organisation of work is important to increase employee participation at work and thus to strengthen employee relations in organisations. In Nepalese organisations, such issues are formally briefed form the following category of employees:

**TABLE 12:** Different category of employees in the communication of issues (% of organisations)

| Employees Category | Business strategy | Financial performance | Organization of work |
|---|---|---|---|
| Management | 51 | 52 | 67 |
| Professional/technical | 22 | 35 | 70 |
| Clerical | 5 | 10 | 74 |
| Manual | 1 | 2 | 55 |

It shows that there has been a wide use of management and professional category of employees to communicate issues and organisation of work. There has also been a change in the way of communicating views to management by the employees in the last three years. What is interesting to note is that employees prefer to communicate directly to senior managers to using trade unions and work council channel.

**TABLE 13:** Changes in the way of communication in the last three years (% of organisations)

| | Increased | Same | Decreased | Not used |
|---|---|---|---|---|
| Direct to senior managers | 41 | 40 | 4 | 6 |
| Through immediate superior | 47 | 41 | 1 | 3 |
| Through trade union representatives | 29 | 20 | 4 | 28 |
| Through works council | 2 | 15 | 1 | 54 |
| Through regular workforce meetings | 32 | 35 | 1 | 9 |
| Team briefings | 39 | 34 | 1 | 8 |
| Suggestion schemes | 18 | 40 | 1 | 23 |
| Attitude surveys | 8 | 22 | 0 | 47 |
| Electronic communication | 22 | 31 | 0 | 27 |

It is the fact that the way employees communicated in the past has also been changing. Employees prefer to make communication through their supervisors and senior managers. This result, however, shows a positive improvement in building cooperation and trust between employers and employees. Evidences are emerging on new patterns of employee relations and communication. With an increasing need for competition in the market or to deliver services to the people, the prevailing organisational structures, that normally used to be hierarchical and difficult for the communication, are changing. The new developments in communication and employee relations, to some extent, challenge the anecdotal evidences described above. Instead of using union representatives to communicate on different issues by both management and workers, they rather prefer to communicate directly or through immediate supervisors. Team briefing and electronic communication systems are also in use.

## Conclusion

The concept of HRM has still not developed and been practiced in Nepalese organizations in the way it has developed and been practiced in some developed countries. However, things are changing recently. Organizations are having separate HR departments, deploying managers to manage HR activities, involved in making business and HR strategies. Due to centralized organizational structures, HR decisions are taken in the central offices. But HR departments and line managers are now being involved in implementing these policies.

Still estimation of manpower needs is done in a very traditional way. But some developments have been seen in the management of HR information and the use of such information for managing HR activities. In fact, employers are looking for cost-effective measures to plan their human resources. There are no substantial changes in the way employees are recruited and selected. Very few organizations are offering action programmes for minorities, ethnic groups, older employees and people with disabilities. Investment in HR development is very dismal and there is a need to understand why employers are hesitating to invest in training and development although they are indicating that training is immediately required in the areas,

such as, communication and interpersonal skills, professional and vocational development and leadership competencies.

Some sort of performance appraisal system is widely practiced. The result of performance evaluation is mostly used in deciding about career planning and determination of training needs. A few organizations are also using appraisal results for pay determination. However, the study of job design shows that one of the most dissatisfying factors in Nepalese shop floor is the pay level. There has been improvement in the situation of employee relations and communication in the past few years. The emerging employee relation patterns clearly show that the understanding between employers and employees is positively improving.

The most fundamental belief and assumption of the human resource practice is the idea that among all factors of production, human resource makes the difference. It is human capability and commitment which in the final analysis distinguishes successful organizations from the rest. People management practices can enhance motivation and encourage employees to work both harder and smarter which support to influence firm performance. It follows logically from this idea that the human resource ought to be treated with great care. It is a special resource which requires and deserves managerial time and attention. Therefore, the human resource ought to be nurtured as a valued asset, and not be regarded as an incidental cost.

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# Hindu and Buddhist Business Ethics and Socially Responsible Behaviors of Small Firms

❑ **Binod K. Shrestha**
Kathmandu University School of Management (KUSOM), Lalitpur, Nepal

## Abstract

The importance of business ethics has increased significantly in addressing different problems such as narrowing down economic and social development gaps between rich and poor people across the world and within the nation states, reducing rate of environmental degradations and global warming and many other. Growing adaptation of materialistic views and practices among entrepreneurs and managers resulting to growing emphasis on economic performance of the business organizations threaten environmental, social and economic harmony. Therefore, exploration on moral or ethical managerial behavior has become imperative to generate discussion on solving social and economic problems of the society while encouraging business people to make profit from their businesses.

Research suggests that religion has vital role in shaping moral business conduct which take care of society and environment. This study explored the extent of fulfillment of responsibilities as prescribed by religious values in the consumptions, business practices and uses of wealth. This study used Hindu's and Buddhist's principles of business ethics to investigate whether small firm owners have attitudes towards work which is free from single mindedly focused on profit maximization and materialistic consumptions.

The research began with review of literature on Hindu (Vedic) and Buddhist principles on personal consumptions, business conducts and social responsibility. A survey instrument was developed based on the religious principles. A survey was conducted on 300 small firms in Nepal in order to assess their attitudes towards consumptions, business practices, business motives and uses of wealth.

The study found that the attitudes of owners of small firms were towards pursuing the religious principles of modest consumptions and religiously accepted business practices. However, they were found to be inclined to crave for wealth maximization especially when they grow larger. They were found to strive for wealth maximization through promoting materialistic values on customers which ultimately promote materialistic society.

The small firms do not have attitudes towards following religious principles fully in fulfilling their social responsibilities. They use their wealth to nurture self and their family, but give fewer priorities in contributing to employee welfare and environment conservation. It appeared that they are not selfish individually but their interests are confined to support their family and communities. This research has managerial implications on promotion of business ethics and social responsibilities in Nepal. This study recommends more research on larger firms for establishing validity of the instruments and the findings.

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# Hindu and Buddhist Business Ethics and Socially Responsible Behaviors of Small Firms

Growing concerns about business scandals and selfish actions around the world put pressure on business firms to develop policies, standards and behaviors that demonstrate their sensitivity to social and environmental responsibility. In addition, the importance of business ethics has also increased in narrowing down economic and social development gaps between rich and poor people across the world and within the nation states. There are plenty of research on corporate social responsibility and business ethics, and their implications in addressing the issues of narrowing income disparities and improving environmental conservation in developing countries (e.g. Prahalad & Hammond, 2002, Frynas, 2006). This study explored the attitudes of managers and owners towards business ethics and social responsibility in Nepal.

Research shows that religion and enterprise enjoy a complex, multi-level, and interdependent relationship (Drakopoulou-Dodd & Seaman1998). Consequently religiosity contributes to entrepreneurial success by moderating the relationship between the pursuit of material wealth and resulting personal satisfaction (Bellu & Fiume, 2004) and the personal satisfaction in business is influenced by the belief on the religious values that they follow. Brammer, Williams and Zinkin (2007) in a study of the relationship between religious denomination and individual attitudes toward corporate social responsibility (CSR) found that in general religious individuals tend to hold broader conceptions of the social responsibilities of businesses than non-religious individuals, and moral values are influenced by the religions of individual. This study assessed attitudes of owners and managers of small firms in adhering to ethical behavior as prescribed by Hinduism and Buddhism - predominant religions in Nepal.

## Purpose

Following the concept of influences of religious value on pursuit of material wealth and personal satisfaction this study investigated whether small firm owners choose work free from a single minded focus on profit maximization and economic efficiency (Mccormick, 1994). The study attempts to answer the following questions: 1) Are business owners driven by selfish motive of profit maximizations and materialistic consumptions? 2) Do they tend to use their wealth to support social obligations?

In this paper a number of principles that serve as guidelines for business ethics from the religious perspective were explored in a questionnaire constructed on the basis of literature reviews. The attitudes of managers and owners of small firms were assessed through self administered questionnaires given to business owners of different religious backgrounds, castes, ethnicities, place of origin, age, business size and years of involvement in businesses in Nepal.

## Literature Review

### Business Ethics and Human Virtue

Moral codes are the comprehensive and abstract principles that govern conduct in a given culture (Wines & Napier, 1992) and ethics are the application of moral principles. Similarly, normative ethics are concerned with moral obligations and intrinsic values in the behavior and

character of human beings (Double, 1999) against which their day to day practices are evaluated (Dees & Starr, 1992).

Moral philosophies have been categorized in the business literature into two major types: deontological and teleological (Murphy & Laczniak, 1981). They are similar to the concepts of idealism and relativism, respectively according to Schlenker and Forsyth (1997). Deontology focuses on the specific actions of an individual, which are evaluated through the inherent rightness or wrongness of behavior in accordance with some predisposed set of ideas. Consequently, idealistic individuals following a deontological route believe that morally right behavior leads to good consequences; they also value positive relationships with others, like being well respected, have a sense of belonging and self-respect, and have strong ethical beliefs (Singapakdi & Vitell, 1993). In contrast, showing reluctance in adhering to these idealistic norms for the sake of establishing a competitive advantage in a situation will result in a relativistic ideology. This is similar to teleology, where the evaluation process considers the perceived consequences of each alternative, the probability of occurrence, the desirability of consequences and the importance to each stakeholder group. Thus relativistic individuals reject the idea of moral universality and have weaker ethical beliefs (Rawwas, Patzer & Vitell, 1995).

The moral characteristics of individuals are related to human virtue. Human virtue is a relatively stable character aspect that disposes a person to act in a benevolent way (Alexandra & Miller 1996). Therefore, virtues refer to good habits and virtue ethics are essentially about cultivating ethical excellence in every thing that one does (Boylan 2000). The ultimate goal of virtuous person is not to derive happiness of individual, but the happiness of society (Rossouw 2002).

## Hinduism and Business Ethics

Hinduism based on Vedic philosophy which is considered to be the basic principle of the universe - describes business ethics as application of principles of right social behavior. These were based on four ideals or goals of life: prosperity, the satisfaction of desires, moral duty, and spiritual perfection by liberating from a finite existence. These four ideals emphasize on certain virtues: honesty, righteousness, non-violence, modesty, and purity of heart (Nath, 2008). Prominent concept of *Dharma,* as enshrined in Hindu S*hastras,* has been explained to be that which helps the long-term 'upliftment' of all living beings and "welfare of society". They include righteousness: the right path to uphold the family, organizational, and the social fabric; work is not just for private gain, but also for public good, and judicious use of resources and preserving the resources for future generations (Bashin, 2010).

Sharma, (2002) based on Veda proposes that individuals and corporate actions should be driven by 'welfare of all' and 'survival of all'. Wealth generation should be driven by dharma or the ethical ways. Detached action without longing for the immediate results and 'work is worship' are some of the principles. Avoidance of the extremes as in Buddha's middle path implies balancing and steering through the middle or alternative approaches to the extreme solutions.

Vedic principle is superior value system which drives the right objectives. Vedas supports the concept of accumulation of wealth through right path and serve the needs of the society. Similarly, the Vedic philosophy proposed the right action on the use of wealth – on self, commotion and donation for the welfare of others. Disorder in business practices is expected to follow the law of karma- action and antecedent result (Muniapan & Dass, 2008).

Sharma and Talwar (2005) based on literature review, states that Veda advocates for minimum accumulation, mutual cooperation and maintenance of natural harmony. The principal role of money (Artha) is to serve the needs of the society: the best use of the money is donation for the welfare of others. Veda implies that money should not cause any adverse impact on any living being, and it should be earned through our own efforts through legitimate virtuous means, and the earning process should not impede learning process. In this line Vedic economy emphasizes on the following four concepts to be observed by the business organization for its growth and prosperity: sacrificing individual desires in favor of community benefits, preferring of long-term benefits over short-term gains, sharing the business prosperity with all the stakeholders of the business, and non-disturbance of any thing in the environment.

## Buddhism and Business Ethics

According to Buddhism, right livelihood provides moral guidelines for business conduct. Right livelihood is defined as earning a living responsibly and in a righteous way by accepting the consequences of one's actions. Wealth is acquired only by legal means and taking only a fair share of the earth's resources; peacefully, without coercion or violence; honestly, not by trickery or deceit. Acquiring wealth through such practice do not entail harm and suffering for others (Right Livelihood Association, 2005).

From the Buddhist perspective, the work of an entrepreneur is to achieve moral objectives through economic means. In contrast the entrepreneurs who have greater attachment to material phenomena as propagated in individualistic and materialistic economics will create pervasive suffering *(dukka)*. Therefore, according to Buddhism, entrepreneurs should adhere to a lifestyle, where material well-being is necessary only up to the point of basic human need fulfillment. This type of life style refers to "middle way". This explanation was mentioned in ethical qualities derived from the Second Noble Truth (that suffering derives from ignorance, craving, and the quest for private fulfillment via attachment to the material universe) (Payutto, 1994). Therefore, ethical qualities are based on loving, kindness, compassion and altruistic joy through the welfare of others.

Uses of Buddhist principles in business have been found in the studies of Buddhist economics (Alexandrin, 1993; Schumacher, 1991). Buddhist economics focuses on moral imperatives such as earning rightfully, use of resources correctly and market appropriately. It views the function of work as a chance to utilize and develop ones' and others' faculties and to bring needed goods and services into existence. The value of goods are not considered simply for the immediate satisfaction of consumers' desires which economics posit as infinite but as short and long-term individual and social well-being resulting from consumption. Similarly production is not only the creation of new goods, but the active conversion of one state of the world into another. Therefore, production is justifiable only when the value of the thing produced exceeds the value of the thing destroyed (Payutto, 1994).

The karmic laws of Buddhism support aversion of conflict and provide and guide to behavior by not offending others through promoting compassion-based collectivism and strong moral maxims. Applications of this law encourage unselfish individual behavior that will benefit the community as a whole (Caldarola, 1982) and promote action in favor of the welfare of the community and prevent the loss of market incentives, inefficiencies, and other development constraints from the formation of corrupt and exploitative power elites (Evers, 1973).

# Method

## Instrument

Similar to Vedic philosophy of right living, Payutto (1994) based on Buddhism mentioned about two different kinds of drive for economic decisions for earning and uses of wealth: 1) Tanha, (*trisna* in Sanskrit) the desire for pleasure objects consists of greed and self centered materialistic attitude, results in blind craving and ambition leading to restlessness or thirst. The desire of Tanha is detrimental to the quality of life. For example, consumptions of food due to overwhelming Tanha in search of deliciousness for sensory pleasure result in over consumption, indigestions, obesity, depletion of natural resources, crime and corruption. 2. Chanda, (a pali word to denote desire to do and wish to make spiritual progress) the desire for well being through right life style, is directed towards benefits which results to effort and action, and is founded on intelligent reflection. Consumption of food with the intentions of Chanda contributes to nutrition and health to obtain the physical and mental energy necessary for intellectual and spiritual growth. Similarly, Tanha driven economic decisions result in destruction of true well being, because they create artificial value such as fashion, luxury and status symbol. In contrast, Chanda creates true value which leads to achievement of real purpose. Similarly, works done from the desire for true well being (Chanda) result in satisfaction from the performance and progress. In contrary, works carried out due to Tanha will be considered as compulsions for fulfillment of desire to consume. As a result, works itself will not satisfy the person but by the consumption which are possible only after its accomplishment. In such situation, people may find alternative means to be able to consume rather than complete the tasks willfully and skillfully. Besides not being obsessed with consumption for oneself, business person should not emphasize and promote extravagant values in consumers through advertising because tendency to consume extravagantly for artificial value (Tanha) also lead to wastage of natural resources which is detrimental to quality of life.

Part I of instrument was developed with nine items in semantic differential scales to measure attitudes towards Tanha versus Chanda driven consumptions, business conducts and business motives. The semantic difference scales were anchored on seven point scale. Five statements were placed in reversed scales indicated by (R). One extreme reflects completely Tanha (craving, greed and self centered materialistic attitudes) versus Chanda (true well being through right life style) in other extreme scales. The followings were items and phrases:

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | |
|---|---|---|---|---|---|---|---|---|
| 1. I like delicious food | - | - | - | - | - | - | - | I like nutritious food(R) |
| 2. I wear clothes for protection | - | - | - | - | - | - | - | I wear clothes for fashion |
| 3. I use automobile for mobility | - | - | - | - | - | - | - | I use automobile for luxury |
| 4. I want to live a comfortable life | - | - | - | - | - | - | - | I want to live with social show off |
| 5. I want to earn just enough | - | - | - | - | - | - | - | I want to earn as much wealth as possible(R) |
| 6. I want to be free from blame and shame | - | - | - | - | - | - | - | No matter what, earning is my goal (R) |
| 7. Work is a development | - | - | - | - | - | - | - | Work is a compulsion (R) |
| 8. My business does not harm any | - | - | - | - | - | - | - | No business without harming others |
| 9. I influence customers to buy goods for social show off | - | - | - | - | - | - | - | I never influence customers to buy goods for social show off (R) |

In addition, Buddhism stresses four areas of skills relating to use of wealth (Numkanison, 2002; & Payutto, 1994). The people following dharma secure wealth rightfully without exploitation but through effort and intelligent action in morally sound way. They save, use and protect wealth as an investment for the further development of livelihood and as an insurance against future adversity. When the wealth saved after meeting these two needs, the wealth may be used for creating social benefits by supporting community works. Thus, they should use the wealth to support one self first and then one's family and then to support the interest of fellowship and social harmony such as community welfare projects. In other words one should produce one's own benefit first in order to self reliantly lead a simple life by supporting dwelling, clothing, and medicine to relieve from physical discomfort and painful feelings such as hunger, and to live comfortably enough to practice higher level of self development. This practice will not burden others but the person will be able to look after the people dependent on them such as their families, participate in social services, and help support the dissemination of Dharma for a better life. However, they should not be obsessed with wealth by causing it as source of worry and anxiety. These principles were similar to Vedic economics and Hindu way of earning and using wealth (Sharma & Talwar, 2005; Muniapan & Dass, 2008).

Based on these principles, the following ten statements were developed for II part of the instrument. These items reflect where and how to use wealth formatted on rank order scale. The respondents ranked these statements in order of their preferences.

1. *I spend for being individually self reliant with food, shelter, safety and security*
2. *I spend for providing food, shelter, safety and security to sons and daughters*
3. *I spend for providing food, shelter, safety and security to father and mother*
4. *I spent for providing food, shelter, safety and security to other family members*
5. *I spend for providing food, shelter, safety and security to servants and workers*
6. *I spend for providing food, shelter, safety and security to friends and associates*
7. *I pay tax as per law of the states to contribute in development programs of government*
8. *I spend for contributing in community development activities*
9. *I never spend more than my income by taking loan*
10. *I spend in contributing in the activities of conservation of natural and cultural heritage*

Along with two parts of the questionnaire, demographic factors (sex, age, ethnicity and castes, religion, place of origin, years of business operation, and number of employees in the business) were also included in the questionnaire.

The instrument was tested in a survey of 10 small business owners. After a minor changes in the statements based on their feedback, the questionnaire was finalized for a survey. Then survey was conducted on 300 business owners in their business locations or offices who seem to operate small firms. The questionnaire was in Nepali.

## Survey

Six MBA students surveyed 50 respondents each. The most of questionnaires were administered in different places in the Kathmandu Valley. Twenty-two questionnaires were administered outside Kathmandu valley.

### The participants

The profile of respondents was presented in Table 1. A majority of them were male (86.1%). The majority of the respondents (71.6%) were between 19 to 40 years of age. They were Brahmins (25.7%) and Chhetris (19%) and Newars (39%). Most of the respondents (77.%) were Hindu by religion, and Buddhist represented only 20%. Almost 50% of the respondents were residing in Kathmandu valley as their place of origin and the rests were recently migrated from other districts to the current business locations. Majority of businesses (62.5%) had a maximum of five employees. About 47% of these businesses were younger (up to five years of operation).

### Data Analysis

The responses to the first nine items measuring attitudes towards chanda vs. tanha placed in two extremes in semantic differential scales anchoring 1 to 7 were analyzed through mean. Five items placed in reversed side were recoded into right orders. The mean scores of four and less than the four were considered Chanda life style, and those exceeding four indicate materialistic life style (Tanha). One-way ANOVAs were used to determine the significance of mean differences of identified factors across sex, age groups, ethnicity and castes, religions, places of origin, years of business operation, and number of employees in the business. Significant mean differences were presented and discussed in this paper.

The II part of the questionnaire was on rank order scale. Friedman tests were run to determine the rank orders of the ten items and then the ranks were compared with the religious principles. Kruskal Wallis tests were carried out to determine the differences in the mean rankings of 10 items across demographic and business categories. The results with significant differences were presented and discussed in the following sections.

## Findings

Mean scores of nine items were calculated to determine whether the business owners' attitudes were towards Chanda or Tanha in their consumptions, business conducts and business objectives. Table 2 and Figure 1 indicated the results. The mean score of seven items were less than mid point 4 which indicated that the respondents have positive attitudes towards Chanda life style. However, higher than 4 mean scores in item 5 and 9 indicated that the respondents have craving attitude towards earning unlimited wealth, and promoting the products with materialistic values. Overall mean score of the nine items combined entitled Chanda vs Tanha was also below mid point (3.25). The results indicated that the entrepreneurs have positive attitudes towards adhering to right life style as prescribed by religious moral imperatives than materialistic well being but they crave for wealth maximizations mainly through promoting materialistic values on consumers.

One-way ANOVAs were used to explore the mean differences of these nine items across different respondents. None of the means differ significantly across sex, age, ethnicity and caste, religion, and places of origin of the business owners. The mean scores of wealth maximization were significantly high among the firms having more than five employees ($F=3.006$, $p=.032$), and the means were progressively higher when number of employees in the businesses increases. Similarly, mean scores of marketing of materialistic values on customers were also significantly high among the larger firms ($F=4.301$ $p=.006$). Therefore, the larger the size of businesses in terms of number of employees, the higher were the extent of craving for wealth maximization and indulging in marketing promotion of materialist values (Table 3).

The study results indicated that Nepalese small firms are ethical in their business conducts because they did not intend to harm others, wanted to be free from blame and shame, and considered work as development. They also considered owning a luxury automobile is extravagant. This negative attitude towards owning automobile for luxury may be attributed to the fact that owning such type of cars is out of reach for many small firm owners. Similarly, the small firm owners are not materialistic and extravagant in their consumptions.

Nevertheless, the small firm owners have slight craving for earning unlimited amount of wealth in contrary to religious principles of accumulating minimum wealth just enough to meet basic human needs. The business owners prefer to promote materialist value to consumers for marketing promotion. The motives of earning unlimited wealth were high especially among the firms having larger number of employees as supported by the fact that the larger firms tend to be materialistic and focus on economic rationalization (Reche, Morales, & Manzanaces, 2008). This may be because entrepreneurs need to make profit for survival and growth (Longnecker, McKinney & Moore, 1998). The firms demonstrated religious ethics as prescribed by Hinduism and Buddhism in their attitudes towards right life style and ethical business conducts to gain the wealth maximization objectives.

The second part of the questionnaire was in rank order scale for 10 items for the uses of wealth. The mean ranks were calculated using Friedman test for the non parametric scale. The respondents prefer to follow religious principles while using wealth: first preference was on nurturing self, followed by nurturing their children, parents and family members respectively. The next preferred mode of using wealth was to be free from debt by not spending more than what they earn. However, they have less preference to take care of their employees and friends. Instead they preferred to pay tax and contribute in community development activities. The table No. 4 indicated that the business owners give last priority to spend for conservation of natural and cultural heritage. These findings indicated that the small firms have less priority in fulfilling their responsibility towards their employees, their friends, and cultural and environmental protections.

Kruskal Wallis tests were run to determine differences in the mean rankings across demographic groups and business size. Significant differences in the mean rankings were not found except in the following items: The business owners from Kathmandu valley as their place of origin supported their employees more than migrants as indicated by the corresponding mean ranks which were significantly different (Chi square = 6.343, df= 1, p =.012). Similarly, Newars followed by Chhetris preferred more to make contributions in community development than rest of the groups (Chi square = 9.538, df= 3, p =.023).

Mean ranks of nurturing parents differed significantly among ethnic and caste groups (Chi square = 9.553, df= 3, p =.023). Chettris and other ethnic groups care their dependent parents more than Brahmins and Newars do. Similarly preferences on caring family members were the highest among other ethnic communities than the elite caste groups and Newars (Chi square = 15.059, df= 3, p =.002).

In short, this study indicated that the small firm owners prefer to use their wealth as prescribed in religious principles. They like to spend their wealth for self nourishment in order to be capable to nurture dependent family members. However as against the religious principles of contributing to progress of all and social welfare, they have less priority in nurturing their servants, employees, friends and associates. They have the least priority in contributing to conservation of natural and cultural heritage. They prefer to be free from debt by not spending more than what they earn. This behavior will make them free from anxiety of

paying loan. They preferred to pay tax to help the government to comply the law. They prefer to spend on philanthropic activities for community development.

There are slight variations in their priorities to support their family members across different castes and ethnic groups. Overall the respondents indicated higher preference to support their family members and but less priority to support people outside their family such as employees, and neighborhood, and culture and environment conservation. This type of behavior may foster hostility and mistrustful atmosphere in the society, widen gap between elites and poorer people, and deteriorate natural environment and culture heritage. These behaviors are contrary to the religious principle of welfare of all.

## Implication for Management and Further Research

The findings of research indicated that small firm owners and managers have intention to follow ethical norms in their business conducts by not being deceitful and harmful to others. They appeared to be following middle path life style in consumptions. But they seem to have craving attitudes towards wealth maximization by indulging into promotion of materialistic values to the customers especially among larger firms. Less priority given to supporting employees, and friends and associates, and conserving natural and cultural heritage by these small firm owners indicated their poor inclination to serve the society. Such attitudes may increase injustice to the weaker sections of the society and is against spirit of progress for all. Therefore this study has implication to ethical human resource management, marketing promotion and environmental protection.

However, being benevolent to stakeholders and society may erode the competitiveness and financial performance of the firms. Striking a balance between these two aspects demands an innovation in order to create good economic and social returns (Martin, 2002). For this purpose managers should be aware of value of being socially responsible and be able to apply corresponding business policy, plans and process in the business.

This research has several limitations. This study indicated that larger firms tend to have more craving attitudes for wealth maximization and promotion of extravagant values among customers. Therefore replicating this study in larger business firms and corporate sector is recommended to confirm whether larger firms indeed are selfish and less ethical. The instruments developed for this study need to be replicated to establish its construct and content validity. In this study ethics were measured using idealistic principles. A study of business ethics using relativists approach is necessary to improve validity of the findings of this study.

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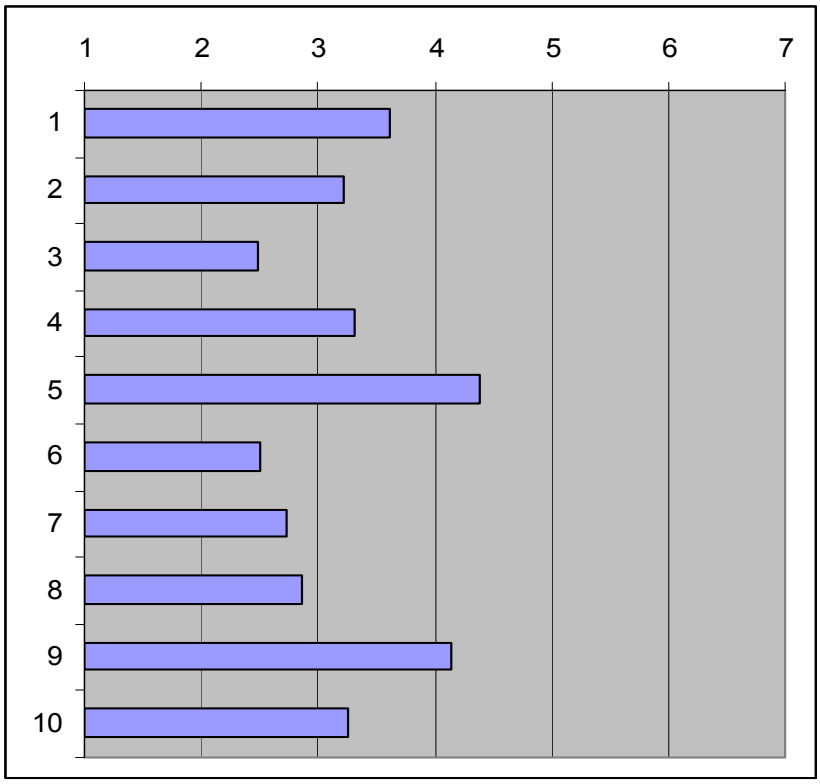
**TABLE 1:** Profile of Respondents

| Demographics | Profile | Number | Percentage |
|---|---|---|---|
| Sex | Male | 258 | 86.1 |
| | Female | 42 | 13.9 |
| Age | 19 - 30 | 110 | 36.8 |
| | 31 to 40 | 104 | 34.8 |
| | 41 to 50 | 66 | 21.9 |
| | 51 to 65 | 20 | 6.5 |
| Ethnicity and castes | Brahmins | 77 | 25.7 |
| | Chhettris | 59 | 19.7 |
| | Newars | 117 | 39.0 |
| | Others | 47 | 15.6 |
| Religion | Hindu | 233 | 77.7 |
| | Buddhist | 60 | 20.0 |
| | Others | 7 | 2.3 |
| Place of origin | Kathmandu | 143 | 47.7 |
| | Outside Kathmandu | 157 | 52.3 |
| Number of employees in business | Less than 6 employees | 125 | 62.5 |
| | 6 to 10 | 36 | 18.0 |
| | 11 to 50 | 33 | 16.5 |
| | More than 50 | 6 | 3.0 |
| Number of years of business operation | 1-3 | 55 | 27.4 |
| | 1 to 5 | 39 | 19.4 |
| | 6 to 10 | 49 | 24.4 |
| | 11 to 20 | 42 | 20.9 |
| | 21 to 45 | 15 | 8.0 |

**TABLE 2:** Mean scores and standard deviation of nine items and chanda vs tanha

| Items and factor | Mean | Std. Deviation |
|---|---|---|
| 1. Nutrition vs. Delicious food | 3.61 | 1.95 |
| 2. Clothes for protection vs. fashion | 3.22 | 1.95 |
| 3. Automobile for mobility vs. luxury | 2.48 | 1.82 |
| 4. Life for comfort vs. social status | 3.31 | 2.11 |
| 5. Strive for limited vs. unlimited wealth | 4.38 | 2.19 |
| 6. Blameless life vs. no matter what | 2.50 | 1.97 |
| 7. Work for development vs. as compulsion | 2.73 | 1.96 |
| 8. Business without harming others vs. no harm no business | 2.86 | 2.02 |
| 9. No influence to customers for social status through promotion vs. other wise | 4.14 | 2.17 |
| 10. Chanda vs. Tanha | 3.25 | 1.06 |

**FIGURE 1:** Mean scores of 9 items and Chanda vs Tanha




**Note:** Extreme left side indicates purely Chanda and extreme right side indicates purely Tanha.

**TABLE 3:** One Way ANOVAs and mean scores of different factors

| | | Mean | F | Sig. |
|---|---|---|---|---|
| Strive for limited vs. unlimited wealth | Less than 6 employees | 3.98 | | |
| | 6 to 10 | 4.69 | | |
| | 11 to 50 | 4.76 | | |
| | More than 50 | 6.17 | | |
| | | | 3.006 | .032 |
| No influence to customers for social status through promotion vs. other wise | Less than 6 employees | 3.74 | | |
| | 6 to 10 | 4.19 | | |
| | 11 to 50 | 4.94 | | |
| | More than 50 | 5.17 | | |
| | | | 4.301 | .006 |
| Chanda vs Tanha | Less than 6 employees | 2.92 | | |
| | 6 to 10 | 3.19 | | |
| | 11 to 50 | 3.21 | | |
| | More than 50 | 3.55 | | |
| | | | 1.688 | .171 |

**TABLE 4:** Friedman test ranks

| Statements | Mean Rank | Observed Rank |
|---|---|---|
| Nurturing self | 3.26 | 1 |
| Nurturing own children | 3.41 | 2 |
| Nurturing own parents | 3.60 | 3 |
| Nurturing other family members | 4.77 | 4 |
| Nurturing servants and employees | 6.86 | 8 |
| Nurturing friends and associates | 7.07 | 9 |
| Paying tax to serve the country | 6.15 | 6 |
| Contribute in community welfare | 6.66 | 7 |
| Free from debt by not spending more than income | 5.68 | 5 |
| Conserve natural and cultural heritage | 7.55 | 10 |

Chi-Square =781.673, df=9, Asymp. Sig.=.000

**TABLE 5:** Kruskal Wallis Tests

| Items | Particulars | Mean Rank | Chi square | df | p |
|---|---|---|---|---|---|
| Nurturing own parents | Brahmins | 160.76 | | | |
| | Chhetris | 140.70 | | | |
| | Newars | 150.56 | | | |
| | Others | 145.86 | | | |
| | Kruskal Wallis test results | | 9.553 | 3 | .023 |
| Nurturing other family members | Brahmins | 181.48 | | | |
| | Chhetris | 143.55 | | | |
| | Newars | 143.34 | | | |
| | Others | 126.30 | | | |
| | Kruskal Wallis test results | | 15.053 | 3 | .002 |
| Nurturing servants and employees | Kathmandu | 137.41 | | | |
| | Outside Kathmandu | 162.43 | | | |
| | Kruskal Wallis test results | | 6.343 | 2 | .012 |
| Contribute in community welfare | Brahmins | 165.12 | | | |
| | Chhetris | 142.64 | | | |
| | Newars | 135.68 | | | |
| | Others | 173.29 | | | |
| | Kruskal Wallis test results | | 9.538 | 3 | .023 |

# "CSR: A Challenge for the Corporate World and the State"

❑ **Shish Pal Sinhmar**
Department of Commerce, Dyal Singh College (Day), University of Delhi

## Abstract

The Friedman's formulation that "*the business of business is business*" has outlived its utility, social responsibility and being a good corporate citizen are the buzzwords today. In the long run, organizations who do not exercise power and conduct business which society considers responsible will tend to lose. Therefore, an organization needs to operate a business in a manner that meets or excels the ethical, legal, commercial and public expectations that a society has from the business.

The concept of corporate social responsibility has gained prominence from all avenues. Corporate Social Responsibility is an evolving concept that currently does not have a universally accepted definition. The emerging concept of Corporate Social Responsibility (CSR) for businesses goes beyond charity; it requires the company to act beyond its legal obligations; to integrate economic, social, environmental, ethical and other concerns to company's business model. CSR practiced by companies can become one of the important drivers of inclusive development. What may be needed is refocusing CSR as a strategy to promote overall human development. The practice of CSR is subject to much debate and criticism to harmonize the business concerns of earning profit and to allocate resources to CSR, therefore it is a challenge for the corporates and the state (*which includes community*) at large to see that the interest of the society are protected.

Though it is the primary responsibility of the government to ensure inclusive and sustainable development, it is simply impossible not to look at supplementary efforts by other players. But the government can play a pro-active role in inspiring other players including industries and the corporate sector to fulfill their social commitments. The government needs to fine-tune its economic policies and incentive schemes for industry and trade to persuade, motivate and make to behave as a responsible corporate citizen. The objective of the paper is to see why CSR still remains a challenge for the corporate world, for the state and what more needs to be done for inclusive as well as sustainable development.

As Abraham Lincoln said, "*You cannot escape the responsibility of tomorrow by evading it today.*" The future of the business lies in doing a responsible business.

## Introduction

Corporate social responsibility (CSR) has become a worldwide concept. It is one of the most important global issues and has gained prominence from all avenues with serious challenges

and implications on almost all sectors. Surging economies, including India, are coping with issues related to poverty, education, child rights, health, environment protection, employment, community welfare etc. and are a hotbed for an innovative CSR scenario, which is still shaping up. Corporate social responsibility is not a new concept in India. However, what is new is the shift in focus from making profits to meeting societal challenges. The emerging concept of Corporate Social Responsibility (CSR) for businesses goes beyond charity; it requires the company to act beyond its legal obligations; to integrate economic, social, environmental, ethical and other concerns to company's business model. CSR practiced by companies can become one of the important drivers of inclusive development. What may be needed is refocusing CSR as a strategy to promote overall development. The practice of CSR is subject to much debate and criticism, to harmonize the business concerns of earning profit and to allocate resources to CSR.

The role of corporates has been understood in terms of a commercial business paradigm of thinking that focuses purely on economic parameters of success. As corporates have been regarded as institutions that cater to the market demand by providing products and services, and have the onus for creating wealth and jobs, their market position has traditionally been a function of financial performance and profitability. However, over the past few years, as a consequence of rising globalization and pressing ecological issues, the perception of the role of corporates in the broader societal context within which it operates, has been altered. Stakeholders (employees, community, suppliers and shareholders) today are redefining the role of corporates taking into account the corporates broader responsibility towards society and environment, beyond economic performance, and are evaluating whether they are conducting their role in an ethical and socially responsible manner. The aim of CSR is active social development, higher economic growth and social engineering to reduce social inequalities. There's another reason why companies are investing in CSR. It creates a sense of pride in employees and shareholders. Motivation also comes from the fact that companies with CSR schemes in place are highly regarded in their local communities, by the government, the media and public. Though it is the primary responsibility of the government to ensure inclusive and sustainable development, it is simply impossible not to look at supplementary efforts by other players. But the government can play a pro-active role in inspiring other players including industries and the corporate sector to fulfill their social commitments. The government needs to fine-tune its economic policies and incentive schemes for industry and trade to persuade, motivate and make to behave as a responsible corporate citizen.

## History of CSR

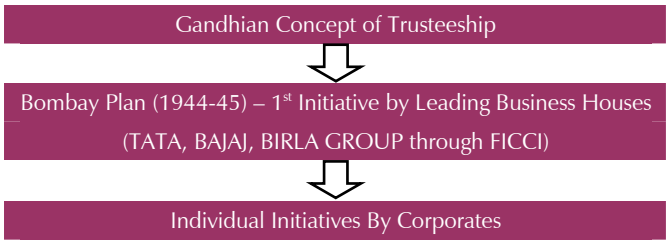
"The phrase Corporate Social Responsibility was coined in 1953 with the Publication of Bowen's Social Responsibility of Businessmen" (*Corporate Watch Report, 2006*). The evolution of CSR is as old as trade and business for any corporation. Industrialization and impact of business on the society led to completely new vision. By 80's and 90's academic CSR was taken into discussion. The first company to implement CSR was shell in 1998 (*Corporate Watch Report, 2006*).

## CSR in India – The Initial Steps

CSR in India evolved through the concept of "Giving" – An Integral Part of Indian Culture. CSR initiatives by the corporates traditionally were in the form of: -

- Philanthropy
- Religious Donations

In Modern Connotations CSR history can be divided into 3 stages: -




CSR is not a new concept in India. Corporates like the Tata, Birla, Bajaj, to name a few, have been involved in serving the community ever since their inception. Many other organizations have been doing their part for the society through donations and charity events. Today, CSR in India has gone beyond merely charity and donations, and is approached in a more organized fashion. It has become an integral part of the corporate strategy and programs related to CSR range from overall development of a community to supporting specific causes like education, poverty, old age, healthcare, environment etc.

On the basis of initiatives taken by the companies over the period of time, we can divide the focus area of CSR into two types: -

### Traditional

- Education
- Health

### Contemporary

- Capacity Building- Skill development, training
- Sustainable Development – Environment Protection
- Community Development – Education, Health, Poverty etc.
- Social Challenges – Women empowerment, Girl Child.

## Definitions

Many definitions of CSR exist within the business community, and CSR continues to be an evolving concept, with no single definition that is universally accepted. Given below are three key definitions that have garnered wide acceptance and favour amongst business circles:

**Philip Kotler** and **Nancy Lee** (2005) define CSR as "*a commitment to improve community well being through discretionary business practices and contributions of corporate resources*" whereas Mallen Baker refers to CSR as "*a way companies manage the business processes to produce an overall positive impact on society.*"

According to **World Business Council for Sustainable Development** "*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*".

According to **Archie Carroll** in 1991 describes, "*CSR as a multi layered concept that can be differentiated into four interrelated aspects – economic, legal, ethical and philanthropic responsibilities*". Carroll presents these different responsibilities as consecutive layers within a pyramid, such

that "true" social responsibility requires the meeting of all four levels consecutively. The model probably is the most accepted and established.

Generally, CSR is understood to be the way firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society.

Corporate Social Responsibility can be explained as:

*Corporate* – means organized business

*Social* – means everything dealing with the people

*Responsibility* – means accountability between the two

## Rationale for CSR

The rationale for CSR can be articulated in number of ways. In essence, it is about building relationship between community and sustainable business. The major reasons for CSR can be outlined as: -

1. **Globalization:** As a consequence of cross-border trade, there is an increased awareness on CSR. Reporting on CSR activities by corporates is becoming norm now days.
2. **Governments and intergovernmental bodies:** Such as UN, OECD and ILO have developed certain indicators, principles and guidelines that outline social norms for acceptable conduct. For ex: - AA 1000, a framework developed by the Institute of Social and Ethical Accounting which provides a standard for social and ethical accounting, auditing and reporting.
3. **Changing Public Expectations:** Globally consumers and investors are showing increasing interest in supporting responsible business practices and expect more from the companies in the form of transparency, support to social and environmental issues etc, no matter where they operate.
4. **Corporate Brand:** In a market where competition is so tough, adopting an effective CSR approach enables the corporates to build an effective brand and enhance its reputation. It also makes corporates feel proud and gives a feeling of satisfaction.
5. **Advances in communication Technology:** Such as Internet, cellular phones are making it easier to track corporate activities and disseminate information about them.

## Current Status of CSR in India

Indian companies are now expected to discharge their stakeholder responsibilities and societal obligations, along with their shareholder – wealth maximization goal.

Nearly all leading corporate in India are involved in corporate social responsibility (CSR) programmes in area like education, health, livelihood creation, skill development and empowerment of weaker sections of the society. Notable efforts have come from the TATA, Infosys, Bharti Enterprises, NTPC, ONGC, SAIL, ITC welcome Group, IOC among others.

According to a study Undertaken by an Industry body in June 2009, the 2010 list of Forbes Asia' s 48 Hero's of Philanthropy contains four Indians. The 2009 list also featured four Indians. India has been named among the top ten Asian countries paying increasing importance towards corporate social responsibility (CSR) disclosure norms. India was ranked *4th* in the list, according to social enterprise CSR Asia's Asian Sustainability Ranking (ASR), released in October 2009. The ASR country/region ranking for the year 2010 are as follows: -

| Ranking | Country | Average ASR |
|---|---|---|
| 1. | South Korea | 44% |
| 2. | India | 43% |
| 3. | Malaysia | 42% |
| 4. | Thailand | 40% |
| 5. | Singapore | 39% |
| 6. | Indonesia | 38% |
| 7. | Taiwan | 34% |
| 8. | Hong Kong | 33% |
| 9. | Philippines | 29% |
| 10. | Mainland China | 20% |

India has spread its CSR activities across *20* states and Union territories, with Maharashtra gaining the most from them. About *36%* of the CSR activities are concentrated in the state, followed by about *12%* in Gujrat, *10%* in Delhi and *9%* in Tamil Nadu.

Further, according to a study by financial paper, The Economic Times, donations by listed companies grew 8% during the fiscal ended *March 2009*. The study of disclosures made by companies showed that *760 companies* donated *US$ 170* million in *FY09*, up from *US$ 156* million in the year –ago period. As many 108 companies donated over *US$ 216,199* up *20%* over the previous year.

The trend suggest, that *'the better the CSR policy, the more the sales*.' The trend affects most product categories that are brought on a daily basis, with consumers making a purchase decision almost every day. This could be one of the major reasons why Indian FMCG companies are most actively engaged in responsible activities and rank in the latest Associated Chambers of Commerce and Industry of India (ASSOCHAM) report in Q1 2010-2011 on CSR by Indian Corporates. Some excerpts from Report are:

- The report says that 175 companies studied, 52 companies in the FMCG sector have taken the maximum of CSR initiatives. (13.11%) This is followed by the chemical sector (11.71%) and then the IT sector with 39 companies. (9.65%)
- Most of the initiatives taken by the companies primarily focus on welfare of the community (Out of the total 26 activities)
- Community welfare ranks on the top in the priority list. (19.83%)
- The second most sort CSR initiative followed by companies is towards providing education and enlightening rural youth of the country.
- Environment is the third most prioritized area undertaken in CSR activities with a share of 12.72 %.
- The fourth most popular area, that corporate sector get involve is in the health care. Companies are offering mobile medical services with medical help along with organizing regular medical camps to eradicate diseases, creating awareness on preventing health care

Best Practices followed by companies related to CSR in YEAR 2009- 2010 are as follows:

### ONGC (Oil and Natural Gas Corporation)

Skill Bases Vocational Computer Training

Focus Area: Vocational Training.

Beneficiary: Children of economically weaker sections around work centres.

### Ashadeep – "Shiksha Ki Jyoti"

Focus Area: Girl Children Education

Beneficiary: - Started with 997 girls students of economically weaker sections around 25 work centres. Projected children in 2010-11 are around 15000.

### "HEAT" – Education support to HFI

Focus Area: - Healthcare

Beneficiary: - 1000 children suffering from Hemophilia belonging to BPL families.

### ASMITA: - Rediscovery Pride in India's Heritage

Focus Area: - Heritage Protection.

Beneficiary: - Pan India (Particularly Youth).

### Varishtajan Swastha Sewa Abhiyaan.

Focus Area: Healthcare

Beneficiary: 20 Lakh elderly persons approx. from the weaker sections of society in need of Medicare.

### Project Saraswati

Focus Area: Water

Beneficiary: People of Rajasthan. The company will spend 26 crore to explore water resources in the deserts of Rajasthan.

### NTPC (National Thermal Power Corporation)

1. It has adopted 16 ITIs, identified in the area of weakness and turned them into seats of excellence.
2. **NTPC Foundation:** It is engaged in serving and empowering the physically challenged and economically weaker sections of the society. The Information and Communication Technology (ICT) Centre set up jointly by NTPC Foundation and University of Delhi enabled approximately 1000 physically challenged students to learn IT skills and help them move along with the mainstream society. The Foundation is also extending similar ICT facilities to the existing blind schools in Lucknow, Ajmer, Thiruvanathapuram and Mysore.
3. **Clean Development Mechanism (CDM):** The company has decided to set aside 1% of its distributable profit for research and development including 0.5% for research activities related to 'clean coal' and climate change initiatives.

### BAJAJ Group

1. **Affirmative Action:** The company recruited 1182 new employees, of which 161(13.62%) belong to weaker sections, in line with the affirmative action planned by the company. In the previous year, the same was 6.58%.
2. **Health:** The Anti- Retroviral Treatment Centre (ART) Centre was set up by the company at Yeshwantrao Chavan Municipal Hospital.
3. **Education:** Under the Public Private Partnership Programme (PPP), the company has undertaken to upgrade 2 ITI s in Pune and one in Pantnagar.

### Maruti

Exercising Social Responsibility India's leading car-maker donated Rs1 crore towards relief and rehabilitation of Leh cloudbursts victims.

### Tata Indicom (2009)

TATA INDICOM has adopted a white tiger (Bhagat) an inhabitant of the Van Vihar National Park in Bhopal. The adoption is an attempt by the Tata Indicom CSR under the 'Save the Tiger' initiative.

### Infosys

**Infosys Foundation**

Infosys Foundation is a public charitable trust founded in 1996. The main activities of the foundation are:

- Healthcare
- Social Rehabilitation and Rural Unpliftment
- Learning, Education & Art.
- Infosys Foundation commits 1% of its profits to social causes.

### RANBAXY

Ranbaxy, one of the India's major pharmaceutical firms operates 7 mobile healthcare vans and urban welfare centres that reach over a lakh people in various parts of northern and central India as part of its corporate social responsibility initiative.

Alongwith schemes, corporations have worked hard at integrating corporate social responsibility into their core practices. There is now greater evaluation and stricter accountability and transparency norms for social initiatives along the lines of norm set for mainstream projects and ventures.

## Measures Taken by the Government

Although corporate India is involved in CSR activities, the government is working on a framework for quantifying the CSR initiatives of companies to promote them further. The government can play a pro-active role in inspiring other players including industries and the corporate sector to fulfill their social commitments. The government needs to fine-tune its economic policies and incentive schemes for industry and trade to persuade, motivate and make to behave as a responsible corporate citizen. According to Minister for Corporate Affairs,

Mr Salman Khurshid, one of the ways to attract companies towards CSR work is to develop a system of CSR credits, similar to the system of carbon credits which are given to companies for green initiatives.

Moreover, in 2009, the government made it mandatory for all public sector oil companies to spend 2 per cent of their net profits on corporate social responsibility. Besides the private sector, the government is also ensuring that the public sector companies participate actively in CSR initiatives. The Department of Public Enterprises (DPE) has prepared guidelines for central public sector enterprises to take up important corporate social responsibility projects to be funded by 2-5 per cent of the company's net profits.

## Voluntary Guidelines for CSR in India

(Issued by Ministry of Corporate Affairs March 16, 2010)

Fundamental Principle (To be updated annually)

### Core Elements

Each business entity should formulate a CSR policy to guide its strategic planning and provide a roadmap for its CSR initiatives, which should be an integral part of overall business policy and aligned with its business goals. The policy should be framed with the participation of various level executives and should be approved by the Board.

The CSR Policy should normally cover the following core elements:

1. **Care for all Stakeholders:** The companies should respect the interests of, and be responsive towards all stakeholders, including shareholders, employees, customers, suppliers, project affected people, society at large etc. and create value for all of them. They should develop mechanism to actively engage with all stakeholders, inform them of inherent risks and mitigate them where they occur.

2. **Ethical functioning:** Their governance systems should be underpinned by Ethics, Transparency and Accountability. They should not engage in business practices that are abusive, unfair, corrupt or anti-competitive.

3. **Respect for Workers' Rights and Welfare:** Companies should provide a workplace environment that is safe, hygienic and humane and which upholds the dignity of employees. They should provide all employees with access to training and development of necessary skills for career advancement, on an equal and non-discriminatory basis. They should uphold the freedom of association and the effective recognition of the right to collective bargaining of labour, have an effective grievance redressal system, should not employ child or forced labour and provide and maintain equality of opportunities without any discrimination on any grounds in recruitment and during employment.

4. **Respect for Human Rights:** Companies should respect human rights for all and avoid complicity with human rights abuses by them or by third party.

5. **Respect for Environment:** Companies should take measures to check and prevent pollution; recycle, manage and reduce waste, should manage natural resources in a sustainable manner and ensure optimal use of resources like land and water, should proactively respond to the challenges of climate change by adopting cleaner production methods, promoting efficient use of energy and environment friendly technologies.

6. **Activities for Social and Inclusive Development:** Depending upon their core competency and business interest, companies should undertake activities for economic and social development of communities and geographical areas, particularly in the vicinity of their operations. These could include: education, skill building for livelihood of people, health, cultural and social welfare etc., particularly targeting at disadvantaged sections of society.

## Challenges for the Corporates and the State

- *Differentiating CSR from Philanthropy:* Initiatives taken by companies should not just be philanthropic activities; it should involve the right combination of enhancing long –term shareholders value and protecting the interests of various other stakeholders (such as employees, consumers, creditors and the society in general.)
- *Increase in Public expectations:* There is an increase in public expectations from the companies whose product or services are used by them. It becomes the moral responsibility of the companies to stand up to their expectations.
- *Companies skeptical about what CSR can actually deliver*
- *Transparency:* Very few companies state how much they spend on CSR. There is no mention of the amount spent in any of their balance sheets or annual reports. A recent KPMG study among 27 companies showed that a mere 8% mentioned their social expenditures in their annual reports and only 25% filed CSR reports at all. Most companies just list and describe their CSR activities and seem to be spending minimal amount on CSR. Companies seem to be having an inherent "Mental Block" in reporting development programmes.
- *Issue of Reporting:* Indian companies have made little progress in reporting development projects. And only *48* companies have so far given their commitment to support the United Nation Global Compact, a charter for improving the global business environment through standards such as labour right and fighting corruption.
- *Companies are reluctant to fulfill their CSR obligations unless it is mandatory by law.*
- *Channels of Implementing CSR:* There is non-availability of well-organized organizations that can assess and identify real needs of the community and work along with companies to ensure successful implementation of CSR activities.
- *Informal Sector:* The application of CSR in informal sector is rare, where approximately majority of the Indian workforce is employed. This is one of the major challenges for the government that needs to be looked into immediately.
- There is a lack of Interest on behalf of the general public in participating and contributing to CSR activities of companies. This is because of the non-availability of CSR information and communication from the companies involved in CSR.
- *Narrow perception towards CSR initiatives:* Non-governmental organizations and government usually possess a narrow outlook towards the CSR initiatives of companies, often defining CSR initiatives more as donor-driven. As a result, corporates find it hard to decide whether they should participate in such activities at all in the medium and long run.
- *Non-availability of clear CSR guidelines:* There are no clear statutory guidelines or policy directives to give a definitive direction to CSR initiatives of companies. The scale of CSR

initiatives of companies depends upon their business size and profile. In other words, the bigger the company, the larger its CSR programme.

- *Lack of Consensus on implementing CSR issues:* There is a lack of consensus amongst implementing agencies such as NGO's regarding CSR projects. This leads to duplication of activities by corporate houses and also results in a competition between implementing agencies, rather than building collaborative approaches on the issues.
- *Companies relying on different models:* Companies are relying on different models to earmark its social expenditure, making it difficult to measure the overall impact.

## Taking CSR Further - A Road Ahead

CSR has become increasingly prominent in the Indian Corporate scenario because organizations have realized that besides growing their businesses, it is also vital to build trustworthy and sustainable relationships with the community at large. CSR till date is limited to the big players and if the small players are doing it, there is not enough publicity. Unless more visibility is given to these initiatives, it would be difficult to make them popular.

Although Indian Companies have started taking steps in the direction of CSR; they still have a long way to go. The prevailing socio-economic situation, where still around 1/3rd of population does not have access to basic necessities of life, is a clear indication of development challenges ahead. If corporate social responsibility has to become the soul and DNA of a company, it has to break away from employee welfare mindset and encompass sustainable development. Here are some suggestions that will help taking CSR further ahead: -

- The Government of India may prepare a list of accredited institutions engaged into CSR activities and donations made to them should qualify for weighted deductions under the Income-tax act.
- At present there is no proper monitoring and audit of donations received and income & expenditure of the NGO's, which has been criticized by the CAG office also for corruption. It is suggested that government of India may consider having a separate ministry or a separate wing in the social welfare ministry to monitor the functioning of NGO's on regular basis and ensure proper audit.
- Income tax exemption granted to NGO's must be subject to periodical review for extension thereof by the Income Tax department depending upon their functioning and achievement of designated objectives.
- Industry Associations such as ASSOCHAM, FICCI may be used to suggest CSR policies, incentives, schemes and channels for implementation.
- Companies may be asked to give a separate annexure in there annual report. It should be made a mandatory provision.
- Making CSR a law.
- Having one universally acceptable definition for CSR.
- Linking CSR Initiatives to profits and size of the company.
- A synergistic effort by all stakeholders.
- Creating awareness, communicating involvement and achievements widely and effectively.

Last, but not the least "*Much of our progress is not whether we add more to the abundance of those who have, but whether we provide enough for those who have too little.*" **- FD Roosevelt.**

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# Impact of Reverse Logistics on Supply Chain Profitability – Global Study of Selective Cases

❑ **R. Jagadeesh**
SDM Institute for Management Development, Mysore, India

## Abstract

Supply chain profitability is a hot topic in the global business and its assessment under various conditions is always challenging and intriguing. As the global scenario changes rapidly because of new products, new markets and intensified competition, the operations managers constantly look for improving the profitability of supply chain operations. The traditional costing of forward flow of goods is very well understood and appropriately accounted. But the reverse logistics that occur due to the movement of goods in the opposite direction due to various reasons demands its own independent study. While refilling and recycling are the main reasons for reverse flow, recall of products has now become a major issue in calculating the cost of reverse logistics. Most recent example is that of Toyota Primus cars that involved massive recall in many countries. In this paper, the issue of reverse logistics is carefully discussed to develop an insight into the entire operational details along with the establishment of various costs involved. Besides, the paper tries to develop a mathematical model to facilitate a quantitative assessment of impact on profitability due to reverse logistics. The model also considers contingencies to account for unexpected recalls and the possible implications. Further, the objective is to provide a perspective of the entire reverse flow to enable better decision making. Data from actual cases are used to demonstrate the usefulness of the proposed model.

**Key Words**: Recall, Reverse logistics, Supply chain profitability

## Introduction

Supply Chain Management (SCM) has evolved into a strong discipline and has its position firmly seated in academic domain and in industry circles. The growth and expansion of SCM has naturally attracted the attention of researchers and practitioners who have examined or investigated many interesting facets along the supply chain. One such keenly studied and debated subtopic but a crucial issue under SCM is supply chain profitability. This term is basically an aggregation of all profits accrued along the entire supply chain and shared by the constituent members of the chain in various proportions. In longer supply chains profitability becomes a major challenge because of more number of stages or players or logistics problems. It is very well stated that any attempt to optimize only one or few parts of the supply chain will not result in proper benefits and in some cases may not be successful at all. Thus it is said that the entire supply chain need to be monitored, regulated and optimized to reap benefits to all the people involved. Secondly localizing the profit function will not help to sustain the supply chain.

This paper proceeds like this. First the concepts of logistics, reverse logistics, and supply chain profitability are illustrated to build a foundation for the main topic namely the impact of reverse logistics on the supply chain profitability. Then the supply chain profitability is discussed along with the impact caused by reverse logistics. Later select global cases are discussed followed by relevant conclusions.

## Logistics and Reverse Logistics

Logistics is said to be the backbone of supply chain as it enables physical distribution of products from the producer or seller to the retailer or end user. The primary responsibility of logistics is to ensure that the right products are delivered to right customers in right time in right condition, at the right price and in required quantity. In the recent times the logistics industry has grown into a big sector and with advances in transportation and packing technology almost any item can be shipped and distributed across any geographical area. Logistics plans, implements and controls the efficient, effective forward, reverse flow and storage of goods and services. Logistics manages the flow of information between the point of origin and the point of consumption in order to meet customers' requirements.

Logistics involves the entire supply chain and effective logistics is becoming a key to winning and keeping customers. At the same time, logistics is a major cost element for most companies and the explosion in product variety has created a need for improved logistics management. However information technology has created many opportunities for major gains in transportation and distribution functions.

The main functions of Logistics include:

- Anticipation: Understanding the customers' requirements
- Integration: Integration of operations with other aspects of supply chain
- Continuity: Ensuring that an operation is not affected by a lapse in support
- Responsiveness: Meeting changing requirements on short notice
- Improvisation: Seeking new, innovative solutions to problems

Traditionally logistics involved transporting and distributing goods from the manufacturer or supplier to the end users. However another equally important chain has been developed to take care of the flow in the opposite direction. Termed as reverse logistics, this involves collecting and transporting items from the end users to the manufacturers. The item used to be empty bottles or containers usually for refilling as in the case of cooking gas, and soft drinks wherein the containers need to be recycled for filling the fresh content. Reverse flow also occurs due to faulty products returned by individuals for repairs and replacements. This happens commonly during guarantee periods and later only few such cases may occur. But the biggest reverse flow happens when product recalls become necessary.

Reverse logistics is now a well organized separate chain established for handling and transporting the products from the users to the sellers or manufacturers. Repairs and replacements which occur less frequently are usually tackled on a limited scale and separate chains are not necessarily created as they would be uneconomical. But the logistics operation set up for product recalls operates under severe pressure and attains a kind of notoriety. Considering the product's characteristics and the quantity proper logistics need to be established for the safe and fast retrieval of the products from the users' premises and

delivering it to the manufacturers. The product recalls are different from the regular reverse logistics: They occur due to public or government pressure, court verdicts, complaints from the customers, or voluntarily withdrawals by the manufacturers once certain safety related or hazardous characteristics are discovered in the product. The pressure to take back the product from the market usually mounts once the media reports about the faulty product or malfunctioning of the product leading to health and safety hazards. Further the government or any other statutory agency will impose a ban on the use of the product and insists that the company takes back the product from the user system within a stipulated time. All these reasons put additional strain on the logistics function. In this paper the impact of reverse logistics due to product recalls only is taken up for analysis. Reverse logistics due to other legitimate reasons like refilling or replacement are considered normal and some resources may be set aside for handling those cases. But product recalls are of much bigger dimension and hence may have to be dealt with in greater detail.

## Product Recalls - Select Global Case Studies

Recalls have occurred in many of the product categories (www.usrecalls.com) and surprisingly even well known companies have faced the ignominy of recalls. More surprisingly the number of recalls has increased despite the conscious application of quality management principles. Product recalls are not new phenomena and in the recent times there seems to be a significant rise. Recalls have occurred in many of the product categories (www.usrecalls.com) and surprisingly even well known companies have faced the ignominy of recalls. More surprisingly the number of recalls has increased despite the conscious application of quality management principles. Considering the scope of the paper a few "famous" cases are considered in this paper.

For reasons of brevity and conserving space only recalls in the last five years are illustrated here. Examples are taken from www.usrecalls.com..

In 2005 Disney recalled 12,900 pairs of children's sunglasses because they contained high levels of lead paint. In the year 2006, 205 confirmed illnesses and three deaths from e.coli are traced to spinach from Natural Selection Foods, according to the FDA. The Nunes Company recalled lettuce contaminated with e.coli. Dell recalled 4 million laptops, and Apple 1.1 million, that are running fire-prone Sony batteries. In 2007 Nokia recalled 46 million cell phone batteries for manufacturing defects that could cause them to short-circuit, overheat and dislodge. United Food Group recalled 5.7 million pounds of ground beef that could be contaminated. Mattel recalled 21 million Chinese-made toys due to lead-paint and choking hazards. In all these cases it is observed that the companies decided to withdraw the product from the customers and unsold items from the market based on several reports that appeared in media and also due to complaints from the customers. In some cases there could be a public outcry against deaths and other calamities attributed to the use of the product. In the typical quality management concept these are the cases of "external failure" and as such be accounted as cost of bad quality. In India too several product recalls have been reported, the most publicized being Maruti Suzuki Motor's recalling of Omni cars due to steering column defect.

Recalls seem to be the regular happenings in the global automotive industry. Top automakers of USA, Japan, and European countries have frequently encountered the issue of recalls. Ford company has a history of recalls. Recently Toyota suffered a major block because of its "prius" brand cars withdrawn in large quantity.

## Issues and Challenges in Product Recalls

In all these cases the challenges are taking back the product from the end users and returning them to the manufacturers. The issues can be listed as follows:

- Collecting the sold items from the customers' and the unsold items from the retailers or distributors'
- Transporting to the collection centers
- Aggregating the collected items at major places
- Storing the recalls from various destinations
- Transporting the recalls back to the suppliers or manufacturers
- Deciding the course of action about the recalled products

An excellent summary of research into product recalls is available in XL Associates and Heyden Associates (2003). This report gives a detailed process view as well as the compliance and procedures to be followed in product recalls. It is to be noted that while the supply chains are predesigned to take care of costs involved with recycling or refilling situations they are not designed to handle the additional burden in case of recalls. It is in this context the recalls need to be addressed as they represent unplanned and unanticipated burden along the supply chain leading to erosion of profits across the entire chain. Another crucial factor is the possible erosion of accumulated profits due to massive recalls. Considering the thin margins under which supply chains are presently operating, recalls can be devastating and may lead to disastrous consequences. Hence it necessary to build defensive mechanisms to safely face product recalls.

## Towards Solution

The first step in preventing "recalls" is to ensure good design to preclude the possibility of a poor or defective product reaching the customers. This translates to improving product quality and calls for rigorous attention to all aspects of design and production. Product quality can be improved by considering what constitutes good quality and a model based on Garvin (1987, 1988) can be studied. This model being comprehensive tries to look at product quality from various angles and thus offers potential for quality improvement. This obviously increases the cost of design which needs to be discounted in supply chain profitability.

Another point of relevance is the cost of quality. Traditionally cost of quality consists of cost attributed to prevention, appraisal, internal failure and external failure. Detailed analysis can be found in Schiffauerova and Thomson (2006), and in Porter and Rayner (1992). It is very well noticed that to minimize recalls, which contributes to external failures, the companies will have spend more on prevention and appraisal costs. This additional investment is another element for reducing supply chain profitability.

However recalls offer scope for partial recovery of investment. Though this requires and calls for detailed planning, it is worth the efforts because a part of investment recovered is certainly helpful in minimizing the losses. The recovery process involves salvaging, recycling, remanufacturing, and refurbishing activities that needs a detailed plan and arranging for separate engineering section either set up in-house or outsourced. To illustrate the partial recovery of investment a mathematical model is presented here, which uses some of the practices discussed by Kulkarni, Parlikad, and McFarlane.

Let the total supply chain profitability be represented by SCP which represents the aggregate profit raised by constituent functional areas like transportation, distribution, and retailing. This profit will be decreased by various costs associated with recalls and improved by recovery operations as indicated further.

Let CR = Costs associated with recalls which includes cost of logistics, storage, consolidation, sorting, accounting, documentation, legal expenses, refunds, litigation, compensating for damages and losses, disposal, media announcements, hiring of additional personnel, outsourcing expenses if any.

Let AR = Amount recovered by

- Salvaging – extracting good parts or materials that are reusable,
- Remanufacturing – Cleaning, reconditioning, and rebuilding
- Refurbishing – Bringing a returned product to pres-specified quality level, by repairs, upgrades
- Recycling – Taken back for next manufacturing cycle
- Reselling as "degraded" items (popularly known as 'seconds sale')
- Scrapping – Disposing the items for a substantially low value

In simple terms SCP = Total profit from the entire quantity – [(CR + AR) with respect to quantity recalled]

It is to be noted that

- All the costs and recoveries do not exist always
- All the costs are not deterministic
- Precise values may not be available and some guesswork may be required
- If the entire quantity is recalled, supply chain profitability becomes zero and even negative in extreme cases.

The model presented here has scope for further refinement and rigor and is not discussed in such details as it beyond the scope of this paper.

## Handling Logistics of Product Recalls

As stated by Kator (2007) retailers have procedures in place for moving expired or out-of-season merchandise off their shelves and manufacturers have procedures for picking up those products and disposing of them. When a recall occurs, the companies simply add the recalled items to the stream of products already flowing back through the supply chain. It is further stated that these days, most public companies do have reliable procedures for processing returns, thanks to the Sarbanes-Oxley Act of 2002, which requires companies to keep meticulous inventory records. But no matter how organized a company is, recalling products that have already reached individual consumers is a serious challenge.

Another challenge is to monitor the flow of goods in the reverse direction. Both the procedure and the documentation should be taken care of as customers will feel the heat in returning their products. Companies try to create as much visibility as they can. When Dell recalled laptop batteries, the company provided a web site where laptop owners registered their

recalled batteries before sending them back. Similarly Mattel provided pre-paid mailing labels that should help predict the timing and volume of toys it's receiving from consumers.

Safely disposing defective products is the final step of most recalls, and it is an important part of the process. Sometimes the recalled products may have to be taken directly to land filling sites. It is also necessary to take the required permits from the local governments to dispose using land. In such cases the additional cost involved in this exercise will have to be included in the total cost.

### Building Recall-Logistics into Supply Chain Risk Management

Another important and effective strategy to deal with logistics of product recalls is to build a contingency plan into supply chain risk management. This automatically covers all the related issues like additional packing, transportation, and disposal activities. Besides it will also provide the necessary insurance cover and required documentation support. Nowadays having observed the difficulties in handling product recalls many supply chain managers are building a clause in their contractual letter itself so that in case of product recalls the matter is routinely handled. This no doubt increases the actual operational expenses but is considered a well prepared strategy to handle an unforeseen recalls.

## Conclusion

Reverse logistics is a carefully done assessment and unless properly accounted will not give a correct picture of supply chain profitability. Though most of the reverse logistics components have been identified, evaluated and built in to the profitability function, product recalls poses a major challenge. Because of probabilistic nature of occurrence of product recalls both the quantity involved and the costs associated are not precisely calculable. In addition timing and timescales also pose further complexity for the entire episode. This paper has attempted to ascertain the supply chain profitability by looking at the various issues involved and developing a workable model. The model needs further refinement and offers scope for further research. It is hoped that the proposed model helps the supply chain mangers to effectively plan the reverse logistics in general and recalls in particular to minimize the losses and improve the supply chain profitability.

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# Evaluating Human Assets in Organisations


- **Cristóvão Sá Pimenta**
  Faculty of Economics, University of Porto, Portugal
- **Teresa Poença**
  Researcher at CEGE, Catholic University – Porto, Portugal
  Faculty of Economics, University of Porto, Portugal



## Abstract

Human Capital (HC) has been recognised as a decisive factor in the performance of organisations, influencing the results obtained and even the market value of organisations. However, it remains open to discussion how this intangible asset can be demonstrated and highlighted. If highlighted in the financial statements of organisations, one could safely and accurately say that people are an organisation's greatest asset. It is therefore necessary to confirm or not the thesis defended by personnel managers and scholars in this field of research that creating and sustaining the value of organisations is influenced by the performance of individuals. However, the desirable accounting treatment of both HC and Intellectual Capital (IC) must cross the path of affirmation, which implies the need to change the paradigm of accounting regarding the treatment of intangible assets.

Furthermore, the need to measure IC and HC has been profusely discussed. If, on the one hand, a consensus on the acceptability of the measurement has not been difficult to achieve, on the other a consensus about what to measure and how to measure it is not a straightforward task. Researchers in the area of accounting and management control have made contributions related to the irreversibility of financial statements, including information on the value of HC. Moreover, the market value of the organisations does not correspond to reality, either it is excessive or defective, because information about HC does not exist.

In this paper, we intend to discuss how to measure/evaluate HC, considering the needs of the financial accounting system, the need to manage people more effectively, and the need for a proper evaluation and appreciation of organisations in the market. We seek to highlight the use of the Social Balance as a source of information with potential interest for measuring the HC.


**Keywords:** Intellectual Capital, Human Capital, Measurement, People, Value

## Introduction

To evaluate is the action through which something is weighed up according to a quality or a value. It corresponds to a critical judgement made by someone about something material or immaterial. While it is true that there may be critical and evaluation judgements based on mere value perceptions, it is also true that many of these can only be assumed, as far as quality and quantity are concerned, when a certain relative positioning, expressed numerically, is applied to the situations, facts and/or phenomena under analysis, within a reasonably accepted scale. Thus, it appears that evaluating something implies an act of measurement, based not only on

pre-defined and generally accepted indicators/metrics, but also on new ones which become evident given the purposes of their use.

The measuring act allows the situation/fact/phenomenon to be translated quantitatively. It also enables comparisons of similar situations/facts/phenomena within different time, social, environmental and organisational contexts.

As far as people are concerned, apart from some prejudice (mere reduction to numbers), the act of measuring dimensions in which they are explicitly or implicitly involved is important if we want to have an objective and comparative idea of their value to the life of organisations.

Part of this paper is dedicated to the analysis of the literature about HC, within the large category of the IC frame, covering the contributions of the classical economy, authors in the field of Intellectual Capital and in the field of Organisational Behaviour and Strategic Human Resources Management.

Next, the paper covers the issues related to HC measurement. Not only do we highlight the interest in measuring HC, but also its difficulties, such as the lack of consensus on what and how to measure HC and for what purpose. Based on authors' work on these issues - such as Davenport (1999), Baron and Armstrong (2007) and Mayo (2006) - an attempt is made to identify what and how to measure HC, as well as to understand the interest in measuring it. We argue that the act of measuring HC is important for people management purposes, because it highlights people's contributions to the creation of value within organisations. Finally, we stress HC accounting issues as an important endeavour to succeed in the measurement of HC. The Social Balance (SB) is presented in this paper as a source of information with potential use to help measure HC.

## From Intellectual Capital (IC) to Human Capital (HC)

### Intellectual Capital (IC)

IC can be considered the composite of HC with Structural Capital (SC). Edvinsson (1997) presents the following equation to relate these three concepts:

$$\mathbf{IC = HC + EC}$$

The literature (Edvinsson and Malone 1999, Swart *et al* 2003; Cabrita, 2009), has considered three categories integrating IC: HC, Organisational Capital (OC) and Relational or Social Capital (RC). The last two can be referred to as Structural Capital and Customer Capital, respectively.

OC is related to the structural component of the organisation, to the procedures, routines, culture, systems and organisational structure. Brands and other intangible assets are not relevant to accounting measures, even though they are important for attaining the organisation's goals and will, desirably, ensure its sustained existence over time. It is also defended that the free commitment of its employees in adopting and developing *software* to support HR processes should be considered as added value to the organisation. Even if some employees leave the organisation, OC will be maintained.

Different from the previously described concept, and based on an internal vision of the organisation, RC must be understood as the set of relationships established between the organisation and its surrounding partners, starting with its customers and suppliers, as well as

the knowledge exchange with and between them. Other business partners that are essential to the sustainability of the organisation, such as banking and other finance institutions as well as central and local authorities, can also be integrated into the RC. It is defended that privileged and preferential relationships with these partners comprise a value in themselves, probably difficult to quantify monetarily, but which, in some specific situations, could be subject to valuation. To illustrate, let us think about the possible losses resulting from the delayed supply of a certain product/item which is essential to fulfil an order/service. Privileged relationships with the banking system may result in better financial terms for the everyday transactions essential for business within the organisation. It can also be said that a customer portfolio has a value in itself. If no other is considered, let us consider the financial investments that need to be made in order to obtain new customers. On the other hand, there are businesses where the mere existence of a customer portfolio generates value; take the example of insurance mediation, for instance. This capital or knowledge resulting from relations within the organisations is also included (Swart *et al*, 2003).

The literature has also referred to a fourth component of IC, Competitive Capital, in the assertion of Rothberg and Erickson (2002), or Social Capital, according to Nahapiet and Ghoshal (1998). The focus of Competitive Capital is knowledge about the competitors, the knowledge that comes through the organisation's employees. Nahapiet and Ghoshal (1998, in Cabrita, 2009) defend that the exchange and combination of knowledge come *"…from social relationships within an organisation and allow an organisational advantage through the complex and dynamic inter-relations between the social capital and the intellectual capital"(p. 104-105).*

According to Baron and Armstrong (2007) IC integrates the stock and the flow of knowledge available inside an organisation. Intangible resources, by their nature, interacting with tangible resources, determine the market value of an organisation. Recognising the intangibility of IC, Bontis *et al* (1999) consider it to be a factor that contributes to the process of value generation in an organisation, which is under its control but is not its property.

## Human Capital (HC) from an Economic Perspective

References to HC go back a long way and it is important to emphasise that they were firstly made by scholars in Economics. The recognition that people are a part of the production system and that they are themselves agents capable of influencing the development and/or the decay of that system is not new. Additionally, and as a result, they also represent factors of growth and development for the economy. Adam Smith (1776) already stated that work inputs are not merely quantitative. They include qualitative dimensions involving the acquired qualifications of all members of society. They also reflect the capability and ability of the procedures used to accomplish their final goal; the acquirement of skills through education, training and learning is a fixed and real cost involving people. Stuart Mill (1848) recognises the need for a market to set the value of human capital, a combination of genius, virtue and skill thus determining people's contribution to the creation of wealth. Alfred Marshall (1890), states that personal wealth is translated into the energy, ability and habits which directly contribute to people's efficiency. In this sense, personal wealth is equivalent to intellectual capital, and therefore an input to consider in wealth estimation. All these references highlight the qualitative nature of the human factor, but its quantitative translation and the possibility of comparing economic agents at their full scale remains unsolved. Even in Marshall's time, the difficulty of quantifying the inputs deriving from people was mentioned and their importance to the creation and generation of wealth was recognised. However, a lot is still ignored about the influence of HC on wealth creation and generation, especially at the micro-economic level.

Important authors in the field of the Human Capital Theory - Jacob Mincer (1958), Solomon Fabricant (1959), Gary Becker (1960) and Theodore Schultz (1961) – gave their contribution to the understanding of HC. However, it is at the macro-economic level that their contributions are recognised and become relevant. Thus:

- Mincer (1958) stated that training and skills – human capital – significantly affect the dispersion of personal income and consequently they accentuate inequality. One of the results to be asserted from his studies is that the more skills/capabilities that are acquired over time, the more income increases. This conclusion, with great micro- economic scope, is highly important at the macro-economic level because of what it potentially represents for the creation and generation of wealth for society.
- Becker (1960) studied the personal incomes achieved by college students in the United States after finishing their studies. He tried to determine whether national expenditure on higher education was adequate and whether there was room for improvement in the quality of the American college student. He developed a methodology which compared the personal income of college graduates with that of high-school graduates. The income differences between the two groups were then related to the costs of attending college. Thus, he was able to derive a rate of return of investments in college education. His hypothesis stated that *"if this rate of return was significantly higher than the rate earned on tangible capital, there would be evidence of underinvestment in college education" (p. 347)*. On the contrary, if the rate of return was lower than the rate of return of investments in tangible capital, this was evidence of overinvestment in college education.

  Addressing the quality of the American college student – in terms of intelligence quotients and grades – Becker (1960) theorised that many exceptional students did not attend college because of personal financial problems. Supported by shorthand calculations, he stated that *"It appears that an increase in the fraction of intelligent persons going to college would raise the average return from college" (p. 354).* Although Becker (1960) was unable to directly support his hypothesis – the evident underinvestment in college education – the methodology he used provided an important tool for the analysis of investments in human capital through national expenditure.
- In the same vein, Schultz (1961) questioned whether investments in education are a source of capitalisation, in the way that is expected from investments in capital, that is, whether they are reproductive. This continues to be an important issue as it is still not clear whether people's skills/capabilities and knowledge are a form of capital. Western societies have invested intensely and increasingly in education, but the related return in the economy has not shown the same level of growth. Schultz (1961), emphasising the relation between education and training and valuation of human capital, amplifies the nature of investments in human capital which favour human skills. He adds investments in healthcare and services, training in the work place, and seeking to acquire traditional apprenticeships set up by the organisations. He advances the need to allocate financial resources to the formal educational organisation, from the basic level up to the highest.

Any of the above mentioned approaches to HC has a macro-economic emphasis. However, in Schultz (1961) there are some themes which may impact at a micro-economic level, such as the attempt to understand and rationalise on the role each organisation plays, by directly achieving a better performance, through its policies of investment in HC, which are also factors of development for societies.

## Human Capital (CH) from a Management Perspective

For Davenport (1999), most authors agree that HC comprises skill, experience and knowledge. Others, such as Becker (1960), added personality, appearance, reputation and credentials, that is, he considers human capital to be "*educated people and skills*". Davenport (1999) improves the definition of HC by making a distinction between skill, behaviour and commitment as components to be considered for the definition of HC, adding to them the component time. Thus:

1. **Skill (SKL):** Skill is divided into:
    - Knowledge (KNOW) – the qualifications or intellectual context that allow the knowledge of a set of facts and procedures to perform a task;
    - Ability (ABL) – the way one acts for the performance of a given task, using specific means and methods. What is important here is the way of performing – ability and strength, for example – and not the reason and purpose for the performance;
    - Talent (TAL) – inborn capacity for the performance and fulfilment of a specific task.
2. **Behaviour (BHV):** In the performance of tasks there are a set of actions that can be observed. Davenport (1999) calls this way of acting behaviour, resulting from a combination between inborn and/or acquired skills and circumstantial stimulation. The way we behave within an organisational environment, as well as the way we react to its surroundings, translates our values, ethics and beliefs.
3. **Commitment (COM):** The attitude we take when we need to perform a given task. Aware of the individual inner mental and physical resources, commitment is the best translation for the ethic positioning at work. Commitment induces ability, knowledge and talent itself.
4. **Time (TIME):** Davenport (1999) considers this to be the most basic resource under the control of the individual. He may be the most talented, the most able and committed person, but if he does not dedicate time to the performance of tasks, he will not produce anything.

From these components, Davenport (1999) offers an equation for evaluating the Total Investment in Human Capital (TIHC), thus translated:

$$TIHC = (SKL + BHV) \times COM \times TIME$$

Since he also considers Skill (SKL) to be the sum of Ability (ABL), Knowledge (KNOW) and Talent (TAL) that equation can be presented as follows:

$$TIHC = [(ABL + KNOW + TAL) + BHV] \times COM \times TIME$$

Davenport (1999) puts the focus on the multiplying effects of Commitment and Time over the other components. That is, the additional investment in any of the other components has significant effects on the total investment in HC. One may say – with some caution, of course, given the qualitative nature of commitment itself in combination with the other components – that a higher commitment corresponds to more time dedicated to the task. The emphasis placed by Davenport (1999) on the person as subject and agent of investment may mean, from the organisational point of view, that organisations should better identify the dimensions that need to be reinforced in order to induce better results. Looking at the TIHC equation, it appears that all its components can be "developed". Even talent (or a given talent) may result from the growth and development process within a certain organisational reality.

For Bontis *et al*. (1999), HC represents the human factor in the organisation and in that sense he talks of a composite in which intelligence, qualifications and expertise is intertwined and interacts, and when they are conveyed and put into operation within the organisation, they give it a distinctive character. People have the capability to learn, change, innovate and trigger the creative impulse that adds value. According to Ehrenberg and Smith (1997), employees are people with a set of qualifications which they place at the service of organisations. Given the idiosyncratic nature of each employee, organisations cannot be considered as being equal to each other. In an organisational context, Baron and Armstrong (2007) state that HC encases knowledge, qualifications, skills and the capability to develop and innovate, held by people. Also, Baron (2003) recognises the HC of an organisation as something very valuable, but also most volatile and highly movable. The key to materialising the potential value of employees lies in the ability to motivate them to share their talents in a free way with the organisations of which they are a part.

Following Cabrita (2009), HC can be understood as a repository of individual skills and capabilities at the service of organisations, whose ownership they may not claim. However, this HC is essential to the existence of the organisation. The proximity to other assets within the organisation may, then, be recognised. However, while these assets can be translated into money, and therefore subjects/objects of immediate economic and financial treatment, HC falls into the class of intangible capitals. As such, it is difficult to measure (Mayo, 2006, Baron and Armstrong, 2007) and irrelevant from the normalisation/accounting point of view (Jones, 1973, Johnson and Kleiner, 1987, Brás, 2007 and Kouhy, 2009), circumstances that contribute to the devaluation of the importance of people within organisations.

The issue of the "property" of HC is stated in the contributions of several authors. It appears clear that HC does not belong to organisations. For example, Davenport (1999) states that employees "bring" to the organisation their inborn skills, behaviour and personal energy and it is they who decide when, where and how to contribute. Work takes the form of a value exchange between employees and employers. Organisations invest in HC through the people they integrate. Baron and Armstrong (2007) refer to HC as an intangible resource that employees supply to their employers. The expression "supply" in this context must be understood in its economic sense, not only as the opposite to demand, but also as something that is traded on the market as well. These same authors are right in emphasising that, although HC may not be the property of organisations, it is guaranteed by a contractual relationship.

## Measuring HC

Inside an organisational environment, it seems acceptable that managing should require knowledge about the factors that converge to a desired outcome. Thus, it is important to have all the information about tangible and intangible capitals incorporated in an organisation in order to achieve excellence and efficient allocation of resources that will ensure its sustainability. The act of measuring helps the management task, as better conditions will exist for planning, budgeting, controlling and directing. Based on the same instruments and metrics, measuring is also useful for establishing comparisons both between departments and between organisations, operating in the same activity or not. In the business model of franchising, for example, the usefulness of comparison cannot be ignored in order to check the allocation of resources

The difficulty in translating monetarily intangible assets is presented as an explanation for not measuring HC (Mayo, 2006 and Brás, 2007). There are financial indicators in organisations which implicitly hold information about people in organisations. For example: productivity, training cost per person and costs with personnel. However, this information has neither been used nor elaborated with the intention of measuring HC. Mayo (2006) says that human resource managers do not feel very comfortable with the need for measurement. They even consider that treating people as numbers is inappropriate. However, and in a personal perspective, it seems that this prejudice does not help those who defend that people are the biggest and best assets of organisations.

The difficulty in drawing conclusions about the causal relationship between HC contributions and organisational performance is also recognised as an obstacle for measuring HC (Mayo, 2006). It seems easy to agree that the performance of people in the organisation depends on other factors and dimensions of an organisational nature which are not instrumental variables and/or subject to instrumentation. There are a combination of factors, market conditions and process effectiveness and internal systems.

## Why Measure HC?

Baron (2003) considers that 75% of the market value of organisations is based on intangible assets, notably on HC. However, he recognises that their contribution to the creation of that value is still not fully proven. The same author states that the majority of the organisations' reports make little or even no reference at all to HC and it seems that investors and analysts are not particularly concerned with this. In spite of recognising the difficulty in measuring HC, this must not be a reason to ignore its importance. The author defends that this ignorance must not prevail when there is overwhelming evidence – namely in the UK and in Singapore – that in an environment with high performance levels, the Human Resource practices are the main explanation for competitive success. Some of the benefits of measurement, according to Baron (2003), based on the studies of the *Chartered Institute of Personnel and Development (CIPD*), enable:

- a better evaluation of the organisation's goals;
- the knowledge and correct placement of peoples' skills;
- the identification of competence gaps;
- the improvement of recruitment and selection;
- the definition of retention policies;
- the improvement of reward management.

Ordóñez (2005) finds it particularly important to measure HC because he considers that HC management is at the core of value generation in business. He reinforces that managing implies measuring, therefore it is necessary to have tools at our disposal for measuring the impacts of HC on business results. According to Baron and Armstrong (2007), Becker et al. (2001) and Scarborough and Elias (2002), developing a measuring system which may convincingly and sustainably prove the contribution of HC to the performance of organisations is the most effective action that managers can undertake and be committed to, in order to guarantee the recognition of the strategic value of people. Furthermore, besides the difficulties of taking measurements, the process of measuring itself is of crucial importance. From this, we may assume that it could be questionable to construct an optimal set of metrics if it is not

combined with an appropriate system that ensures the proficient management of the measuring process, i.e., how the information will be collected.

According to Schiemann (2008), the best motive for measuring HC is to consider the risks that organisations take by not measuring it. Problems related to the unsuitable assignment of tasks to people, talent escaping to competitors and productivity levels below the desired levels, are examples that prove that the lack of measurement may lead to the loss of competitiveness. These eventual losses can be reduced by anticipating decision-making practices in HRM aimed at improving people's performances and consequently contributing to organisational success.

## What should be Measured?

Baron (2003) proposes measurements that can capture the value that people bring to organisations, such as productivity and profit per person, and information on investments made by the organisation in training, development and performance management systems. Information may also be included concerning the demographic composition of people in organisations, information on active and passive mobility, absence rate, costs of recruitment and selection procedures.

Ordóñez (2005) suggests four essential issues for measuring the impact over the business outcome resulting from HC management. Thus:

- Correlation between HC management practices and the financial outcome of organisations.
- Measurement of HC strategic contribution to the organisation and/or business unit strategy. The value of HC depends on the strategy of the organisation. In that sense, people must be strategically driven so that the organisation, by enhancing their talent, their knowledge, their abilities, attitudes and behaviour, may offer a differentiated value to its customers.
- Measurement of the impact of specific HC interventions or programmes through measuring procedures that can be linked to the business outcome and may quantify its economic benefits from those causes.
- Measurement of economic impact of HC in the organisation, through financial indicators of productivity and HC value generation.

Schiemann (2008) refers to People Equity as an instrument that allows predictive information to be acquired about people retention, operational effectiveness, customer satisfaction, quality, internal service and performance level. The essential components of the model for the present and potential HC value estimate are:

- Alignment: of people with the strategy of the organisation and its business, with customers and with the brand,;
- Skills: in order to meet customer requirements, the organisation creates talent and offers information and resources;
- Commitment: measures the person's satisfaction with the organisation, but also the extent to which the employee assumes that the organisation is an excellent working place, and even to buy from or invest in.

Paauwe (2009) focuses on the need to establish a consensual position about the valid and reliable measures through which HRM practices and their impact may be evaluated. Janssens

and Steyaert (2009) highlight the need for adequate representation of HRM practices when developing studies. They add that representation does not stem from a measurement issue but, instead, must be a conceptual challenge where the representation of the human at work is combined with their own meaning, speech, and images of members of society with underlying ethical values. This assertion clearly extends the analysis of the role of HR in organisations to a broader circle in society, introducing more entropy to the search for consensus regarding the valid and reliable measures referred to by Paauwe (2009).

### How should it be Measured?

Mayo (2006) offered a *"checklist for good measures"* to help in the construction of HC metrics. Although some of them are simple, and even common sense, the utility of the said *"checklist for good measures"* cannot be neglected as a reminder of how to perform well. As an example:

- They must be easy to understand
- The resources/costs allocated to information acquisition must be proportional to the usefulness/benefits resulting from it
- Measures are not a result of peoples' judgement
- Must make sense within the context of other measurements

Mayo (2006) dedicates a part of the book quoted in this paper to the presentation of a set of indexes of good HR practices. A set of metrics are present in the construction of these indexes, which may become precious raw material for the construction of new formulations, with a focus on HC measurement. The *Human Capital Index (HCI)*, devised by Watson Wyatt, can be pointed out as an example, which contains dimensions such as: recruitment of excellence, communication integrity, careful resource use, shared, collegial and flexible working place and transparent and responsible rewards. He also presents the *European Business Excellence Model* assuming three vectors: always improve the value to the customer, improve the organisational effectiveness and improve personnel and organisational training. As far as people are concerned, and having the above mentioned vectors as goals, focus is put on: work systems and processes aimed at high performances, school qualifications, training and development of people and welfare and satisfaction of employees (focus on the work environment). Other models, contributions and metrics are presented by the author that give greater emphasis to the evaluation of HR practices than to their impact on the organisation's economic and financial performance.

## The Purpose of Measurement

Even though we believe this paper has already presented good reasons for justifying the interest in measuring HC, it is undeniable that the measuring act is only of interest if any benefit can be taken from it. These benefits include managing the business, increasing its potential and making it more valuable, according to the usefulness of the information, but also evaluating and comparing organisations when mergers and acquisitions take place. Unquestionably, measuring reduces the degree of ignorance over the recognition of the impact of people in organisations, in order to defend their continuity and their sustainable development.

## Measurement for Accounting Purposes

The problem involving the accounting of human assets has been approached by many authors. Although the list is not complete, the following may be referred to as examples: Jones (1973), Johnson and Kleiner (1987), Dawson (1994), Oliveira (2000), Flamholtz *et al* (2002), Flamholtz *et al* (2004), Brás (2007), Theeke and Mitchell (2008), Kouhy *et al* (2009). In a recent publication, Bullen and Eyler (2010) discuss the international developments on the field of human resource accounting which proves the timeliness of the topic.

Through the official and/or unofficial nature of the information given, we are convinced that the effective accounting of human assets would allow, in a transparent, reliable and authorised way, the claims about the value of people in organisations to be beyond mere rhetoric, beyond the beliefs and/or non-normalised and even non-consensual metrics used by the various economic agents. Thus, the need for the financial report of the organisations to contain information on their human component has been asserted and defended.

We recognise that there are difficulties in translating that reality into money. Prosaically, if people are assets they should be treated as such and therefore their acquisition should be included in the investment category. Investments are liable to use and to obsolescence. Accounting norms deal well with this value loss. But, how could accounting norms deal with the HC issue? A machine is subject to maintenance in order to sustain its production level. But, to which category should costs be allocated when people are the subject and object of training actions? Should they be allocated to investment expenses – perhaps because they may be training actions to ensure knew competences – or to exercise costs? And what is the lifespan of a human asset in an organisation? A number of questions thus concern the experts. However, as Jones said back in 1973, the real value of people to organisations has to be understood and recognised. Jones (1973) also assumes the difficulties in isolating and measuring the costs/expenses/investment in HC, but he does not believe they cannot be overcome. Overcoming the obstacles will require the efforts of the whole community if what is intended is, in fact, the real recognition of the value and the contribution of people in and for organisations. Let us note what Costa and Leitão (2002) said: *"The accounting system has demonstrated an inability to adequately reflect intangibles and, consequently, there is a growing difference between the accounting value of a company and its value on the stock market. Similarly, financial statements have lost importance, as the financial information is becoming more and more useless for decision-making by its users. Therefore, regulating authorities face the urgent need to develop new ways of recognising, measuring and presenting information on intangibles which will supply information that is not only reliable, but above all pertinent"*. Following the same thought, Oliveira (2000) referring to IC and therefore to HC, states that "*… this strategic intangible has progressively posed challenges to accounting....and financial accounting has not been able to give a proper response to them…"*.

Flamholtz *et al* (2002) mention Microsoft, Amgen and Intel as new age organisations which rely exclusively on IC for their survival and profit. They add that the competitive advantage and success of these organisations depend significantly on the way HC and IC are strategically managed. Hence, organisations must be aware of the need to ensure an accounting management for their IC and especially for their HC. HR professionals and the defenders of their value to organisations must question and offer a joint reflection envisaging a change in the accounting paradigm as far as intangible accounting is concerned.

## Measurement for Management Purposes

By defending a strategic HRM and by valuating the role of people in the creation and reproduction of the value of organisations, it seems that best practices can only be identified and applied if information exists that is based on believable, reliable and consensual metrics.

Delaney and Huselid (1996) give methodological contributions for an improved understanding of the relation between HRM and organisational performance, showing evidence of the perceived impact of HRM practices over performance. Delaney and Huselid (1996) reinforce the need for scholars to establish a consensus about the method that will allow the results of HRM practices and systems to be measured in a valid and reliable way, in order to evaluate their effects over organizational performance from different perspectives. Additionally, they urge scholars to look for consensus as to the operational measurements in organisations. The authors also conclude that researchers have pointed out that people are a distinguished resource within organisations; they even consider that people are key to exceptional performance. However, according to the authors, this assertion was more a profession of faith until Delaney and Huselid's research (1996). One of their results is related to the process of selection, training and the incentive system. These are practices which influence and favour the perception of improved performances in the future.

## Measurement for Evaluation, Comparison and Acquiring/Selling

Assuming that the intent to measure HC will be generally fulfilled, organisations will be able to use measuring instruments that allow reliable evaluations of their business to be established in order to facilitate *benchmarking* operations with organisations in the same sector, or even between different sectors, or between different autonomous business units or divisions within the organisation itself. The use of information containing data on human structure may also be useful to the *franchising* business model for better understanding of different performance between establishments when similar performance would be expected since the installed capacity in each of them and all the management principles and practices are comparable. The business market and mergers or acquisitions may also benefit from fairer evaluations if they incorporated credible estimations of the value of the human structure into the organisation. It seems that "*goodwill*" (the difference between the transaction value and the market value), often taking into account the value of people, would probably be lower. Curiously, in accounting terms, this *goodwill* is treated as an intangible asset.

## The Social Balance (SB) as information source for measuring HC

According to our experience, we believe that the Social Balance (SB) is fulfilled by organisations merely as part of a legal obligation, without there being any intention of using it as an important instrument of HRM, or even as a provider of raw material for measuring HC. Following the contribution of several authors, for example Schultz (1961), we argue that this document may contain information which can help to measure HC, according to the literature constructs. Schultz (1961) defended that, besides investments in education, organisations should allocate financial resources to HC aiming to increase human skills. As examples, he points out investments in healthcare and services, training in the workplace, and acquisition of traditional apprenticeships set up by the organisations. As far as this particular issue is concerned, it appears then that the Social Balance contains information which allows the

contributions of Schultz (1961) to materialise. We think that SB can be considered an analysis instrument for HC investments which add value to organisations.

## The Origin and Theoretical Conception of the SB

The need to regulate labour relationships inside organisations and their social and environmental surroundings, associated with an increased demand for the social responsibility of organisations, stressed that an analytical instrument was required (Carvalho, 1990). This instrument would shape and inform about a whole set of variables in an organisation's social performance, with the aim of pursuing its goals more effectively in defence of its continuity and sustainability. The SB serves that purpose and at the same time responds to "*«accountability»: giving information that may allow us to know to what extent the organisation is capable of fulfilling and modifying the economic interests of individuals, their quality of life, cultural values and wishes of the community member" (Carvalho, 1990, p.61).*

According to Carvalho (1990) the social responsibility of organisations develops in three stages and the SB helps to define its limits. The "*political stage*" when the SB emerges as a public relations instrument; the "*technical stage*", as a response to a need for social information and therefore the SB becomes a communication instrument; and, finally, the "*management stage*" where the SB also integrates economic information at the same level as social information. At this stage, the SB is assumed as a management instrument surpassing the mere role of information-communication.

Carvalho (1990) indicates the United States as the birthplace of the SB, in the second half of the last century, "… as an entrepreneurial response to a progressively contestant movement and related to the values of American life, which questions the value of organisations regarding their contribution to the environment"(p.63). Afterwards, research and efforts on the SB are recorded in Europe, initially in the Netherlands, in the 1970's, and later in Belgium, Germany, Sweden and England. France brings forward a SB model as a "global method of social investigation", which culminated in the publication of a law in 1977. Also in Spain, after 1978, the SB becomes a subject of interest and research for the academy and practitioners. As a consequence, three currents of thought/philosophies on the SB are recognised (Carvalho, 1990):

- "*Social Audit*" the North-American matrix: quantification of social advantages and losses, in financial terms. It serves to defend a certain organisational image;
- "*Bilan Social*" following the works directed by *Alain Chevalier*, under the "*Institut de l'Entrepise*". Philosophy based on the idea of labour concertation;
- "*Die Sozialbilanz*" of German origin, but was also developed in Spain and sought to make a combined synthesis of the two previous models/visions (American and French).

It might be said that in all the models there is a strong determination to clearly show the social function of the organisation. The social and political aspects are revealed, but so is the *"…organisation structure itself integrated into an ever-changing social context and more and more demanding in terms of information, quality of life and participation"(p.63)*

## The SB in Portugal

In 1985, Law 141, of 14th November, introduced the obligation for all publicly-owned companies and those with at least 33.5% public capital to draw up a SB. Later, this obligation was extended to all companies with more than 100 employees, regardless of the nature or ownership of the capital.

Law 141/85, of 14th November, was the culmination of a set of initiatives started in 1977, with a study developed by SEMAP, and repeated in 1978 and 1979, of the 100 largest Portuguese companies. According to Carvalho (1990), from the beginning of the 1980's, "*…the elaboration of the SB had been rehearsed by approximately 20 companies, mainly public, located in the Lisbon area"(p.91)*. Following the work developed in 1984 by a group of companies supported by the Human Resource Managers and Technicians Association, a SB matrix was presented which came into use in the companies of that group.

## HC indicators to be obtained from the SB

The SB contains demographic information on the human component of organisations as well as information of an economic and financial nature related to this human component. It also contains data on training, healthcare, social protection and hygiene and safety expenses. Structured information can be collected from most of the dimensions, according to gender, age level, school level and even qualification levels. Below, and as an example, a table is given summarising the type of indicators that can be a source of measuring HC.

| Dimension | Name of Indicator | Function |
|---|---|---|
| Age | Age level | Sum of ages: Total no. of people |
| | Age range | Older person: Younger person |
| | Aging index | No. of people > 55: Total no. of people |
| | Young employment rate | No. of people < 25: Total no. of people |
| | Employment rate by age group | No. of people by age group: Total no. of people |
| Seniority Management | Average seniority | Seniority sums: Total no. of people |
| | Seniority employment rate | No. of people by seniority: Total no. of people |
| Employment and Mobility Management | Evolution of the tenured staff | No. of people 1/1: No. of people 31/12 |
| | Replacement rate | No. of admissions: No. of exits |
| | Exit rate | Total exits: Total no. of people |
| | Promotion rate | No. of promoted people: Total no. of people |
| | Promotion rate by qualification level | No. of people promoted by qualification level<br>No. of promoted people |
| | Foreign employee index | No. of foreigners : Total no. of people |
| | Framing Index | No. of Directors : Total No. of people |
| Time and Work Management | Absenteeism rate | No. of absent hours (except vacation): No. of working potential hours |
| | Overtime work rate | Annual no. of overtime hours: No. of working potential hours |
| Salary Management | Gross salary range | Bigger salary: Smaller salary |
| | Annual average salary | Costs with salaries: Annual Average total no. of people |
| | Share of costs with personnel in VAB | Cost with personnel: VAB. |
| Contract Management | Rate of tenured employees | No. of People w/ tenured contract: Total no. of people |
| | Rate of Contracts under termination | No. of people w/ contract under term: Total no. of people |
| | Rate of Contracts under defined termination | No. of people w/ contract under defined termination: Total no. of people |
| Training Management | Training participation rate | No. of participants: Annual average total no. of people |
| | Training cost share in costs with personnel | Training costs: Costs with personnel |
| | Average cost with training actions | Training costs: No. of training actions |
| Qualification Management | School disqualification rate | No. of people < 6 years of basic school level: Total no. of people |
| | Qualification rate by school level | No. of people by school level: Total no. of people |
| | Average and high qualification rate | No. of people w/ average/high qualification: Total no. of people |

## Conclusions and Limitations

From the statements above, the following can be clearly shown:

- The need for a consensual synthesis on what HC is considered. It seems that this synthesis must contain: skills [Smith (1776), Mill (1848), Becker (1960), Davenport (1999), Baron and Armstrong (2007), Cabrita (2009)], competence and/or expertise, qualifications, ability [Smith (1776), Mill (1848), Bontis et al. (1999), Baron and Armstrong (2007), Cabrita (2009)];
- It is necessary to deepen the research into HRM practices which, as shown earlier, influence the performance of organisations and contribute to the creation of value in an added and sustainable way;
- Recurrently, and as studies are deepened, it will be necessary to identify which set of indicators/metrics might be reliable and valid in translating the value of HC, according to the contributions of Schultz (1961); the Social Balance as an incalculable source of information, which makes it easier to characterise/measure the HC of organisations; while recognising that it will not answer every issue, there is an intention to raise the contribution of the SB to understand the value of HC.

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# Do Mentors Learn by Mentoring Others?


- **K. N. Rekha**
  Centre for Leadership, Innovation and Change, ISB, Hyderabad
- **M. P. Ganesh**
  DoMS, IITM


## Purpose

Youth Mentoring is characterized by a personal relationship in which a caring individual provides consistent companionship, support, and guidance aimed at developing the competence and character of a child or adolescent (MENTOR, 2003).

The relationship between youth and adolescents typically involve assistance in meeting the adolescent's academic, social, career and / or personal goals. This paper is based on a study in which adolescents from the slums are mentored by young men and women studying in colleges or who has recently joined employment. BHUMI, a non-profit organization located at Hyderabad in Andhra Pradesh is fuelled by a vision to create an equitable and strife free society. It offers a unique leadership development program called Dronacharya Ekalavya (DNE) Mentoring program which pairs needy children from underprivileged backgrounds in city slums and rural villages with university students and working professionals who act as their mentors, role models and tutors.

It is not easy for the mentors to bring in the difference in the life of the adolescent but they learn by experience. This organization provides an excellent opportunity for the young graduates or professionals to groom the youth who are really in need of psychosocial and career guidance support. This program provides an opportunity for the youth to become more aware of self and others and also helps to enhance their communication, leadership and interpersonal skills.

## Methodology

This paper presents the findings of a study of the DNE program of BHUMI through a qualitative and quantitative survey. We developed an online survey consisting of both quantitative and qualitative questions and administered to 59 mentors to measure the effectiveness of the mentoring program. The survey helped us to understand a) what mentors learn through mentoring others.

## Findings

It is really interesting and surprising to note that out of 59 mentors who have participated in the survey almost 86.4 % of them felt that the DNE program did bring in a tremendous change in their behaviours in all aspects. 91.05% of the mentors mentioned that the program enhanced their self awareness which is very imperative and which is the first step towards individual development. Good communication skills, ability to inspire others, motivating others, facing challenges seem to be developed through the DNE program.

## Limitations

Since sample size (59 (23.6%) out of 250) is small, generalisability is not possible. We have used unstandardised questionnaires (tools) for collecting the data. There might be social desirability effect where mentors want to say only positive things about the program. Data is highly subjective, hence can't be justified or evaluated.

## Introduction

### Mentoring and Learning

Mentoring is a powerful and popular way for people to learn a variety of personal and professional skills. Mentoring is defined as "*a supportive relationship (short & long term) and partnership, initiated either by the mentor/mentee, either formal/informal between a skilled and learner person which focuses on developing common expectation, mutual learning and development*".

Mentoring is a process wherein the older experienced individual act as a guide, counsellor and a friend to a younger, inexperienced individual. It is a two way learning process wherein both the individuals (mentor and mentee) learn throughout the mentoring process and become enriched individuals at the end of the program. Thus mentoring, in short could be described as teaching – learning relationship, which facilitates towards achieving short term and long-term goals. Mentoring relationships can be basically classified broadly in to two forms of relationships; Informal and formal mentoring.

**Informal mentoring** is defined as a relationship that is created spontaneously or informally without any assistance from the organization. The relationship may just happen, or be initiated by special interest being taken in the mentee by the mentor, perhaps as a result of the mentee being identified as a high potential employee in a succession planning initiative.

**Formal mentoring** is when the relationship is facilitated and supported by the organization so that more participants can benefit. The degree of structure varies from one organization to another but the organization makes tools available to participants to facilitate the creation and maintenance of the relationship: program coordinator, orientation session for participants, pool of mentors, mentees, etc.

The central role that learning plays in mentoring relationships has been raised in several studies, but has received limited empirical attention. (Allen and Eby, 2003). Kolb (1984) defines learning as 'the process whereby knowledge is created through the transformation of experience'. What people learn (know-how) and how they understand and apply that learning (know-why) is very vital.

The organization which we have selected for the study has individuals who volunteered to be mentors to the adolescents from the underprivileged background. The individuals will be given a brief introduction about the mentoring program and its benefits. Research consistently indicates that during the early stages of relationship formation (e.g., acquaintance and exploration) the key process linking individuals is perceived similarity in personality, social characteristics, and personal attitudes (e.g., values and interests) (Graziano and Musser, 1982; Levinger, 1979; Scanzoni, 1979).

In our study, in our telephonic conversation with mentors opined that the mentees did not open up and were of closed nature. Once the mentors started sharing the personal interests and various other things, mentees started relating them that "He / She is like me only" and

then started opening up and sharing things. In order to start any relationship, similar interests and values will indeed play a critical role.

### Youth Mentoring

Youth Mentoring is characterized by a personal relationship in which a caring individual provides consistent companionship, support, and guidance aimed at developing the competence and character of a child or adolescent (MENTOR, 2003). The relationship between youth and adolescents typically involve assistance in meeting the adolescent's academic, social, career and / or personal goals.

It is not easy for the mentors to bring in the difference in the life of the adolescents but they learn by experience. Philip and Hendry (2000) identified four general explanations for why adults mentor a youth: a) to make sense of their own past experiences; b) gaining insights into another person's life; c) to establish a different type of relationship; and d) building skills in providing a helping relationship.

Adolescents from underprivileged background have limited contact with the positive role models outside the immediate family and believe that their opportunities for success are restricted. And moreover, they have limited or no knowledge of the level of education that is needed for the chosen profession. Thus, the notion of "imagined self" proposed by Levinson (1978) becomes very appropriate here where in the individual internalizes the attitudes, behaviors, and the traits of the individuals they wish to emulate. Thus mentees identify these mentors as role models. It is obvious that the mentees do learn from the mentors and one can see visible changes in them.

Mentoring relationships may contribute to the cognitive development of youth through several mechanisms, including exposure to new opportunities for learning, provision of intellectual challenge and guidance. Mentors by providing assistance in school projects or home work, encouraging scholastic efforts, and promoting positive attitudes towards school, he or she is directly or indirectly contributing towards the mentee's success in the school.

## Importance of the Study

Organizations require individuals who possess communication skills, leadership skills, listening skills, etc… The colleges or universities provide them theoretical knowledge of those skills. Whereas programs like mentoring helps the youth to practice those skills and learn by experience. When they are with the same group of crowd in the college / university, they will not realise their potential and will have a complacent attitude. But when they get in to the floor, they will start realising that there are lot many things which they have to learn which they are not aware of. Research has extensively been done in the areas of what mentees learn but there are certain gaps in the research of what mentors actually learn. Hence, we initiated this study at an organization called Bhumi to study the learnings of mentors by mentoring others.

## About the Organization

BHUMI, a non-profit organization located at Hyderabad in Andhra Pradesh has a vision to create an equitable and strife free society. It offers a unique leadership development program called Dronacharya Ekalavya (DNE) Mentoring program which pairs needy children (who are in class 8, 9 and 10) from underprivileged backgrounds in city slums and rural villages with

Under Graduate / Post Graduate students and working professionals who act as their mentors, role models and tutors. The care, personal attention and encouragement which the children receive from their mentors help them realize their potential and take responsibility for their own lives.

Mentors meet their mentees every week for a day for two hours. Mostly, their meeting place is their respective schools of mentees and it will be on Sunday. It is upto the mentors and mentees to decide a location and timings to meet. A mentor will be allotted only one mentee. A male mentor will be allotted a male mentee and female mentor will be allotted a female mentee. Initial few days will be the ice breaking session wherein the co-ordinators organize games for the mentors and mentees through which they will get to know about each other and become closer.

After the ice breaking session, the real interaction between mentor and mentee starts. The mentor slowly tries to find out the interests and likes of the mentees and tries to build the rapport.

Good communication skills, ability to inspire others, motivating others, facing challenges are the essential characteristics for an individual to be employable in the competitive environment. These characteristics seem to be developed through the DNE program. The results in the Table 2 and 4 clearly validate this point. Moreover, the program provides hands-on experience for the individuals to face challenges.

The mentors are students who are pursuing either their graduation or post-graduation or just entered in to the organizations. They may not have the experience of guiding others or grooming others. Through this DNE program they face challenges in building relationship, gaining trust and confidence of mentee.

This organization provides an excellent opportunity for the young graduates or professionals to groom the youth who are really in need of psychosocial and career guidance support. This program provides an opportunity for the youth to become more aware of self and others and also helps to enhance their communication, leadership and interpersonal skills.

In a telephonic interview with one of the mentors, the mentor opined as "Initially, mentee was very shy, not ready to talk. It took long time for me to break the ice with him. I tried several things to build the rapport like, sharing personal things, interests, etc… And slowly, he started opening up." Even though the mentors are provided with basic training on how to be a mentor through a workshop, they have to identify their own ways to break the ice. Individuals are different. They have to identify a way suitable to the concerned individual. Through this process the individual learns to take initiatives and invests efforts in developing ideas for building the relationship.

It is imperative for the individuals to be competent and skilled in communication, leadership, interpersonal relationship, etc... to become eligible for employment in organizations. This program provides the youth a practical experience in all these areas and prepares them as employable individuals. We found that the adolescents' behaviour and skills have changed through mentoring by youth. Similarly, in organizational settings or in any individual's life, mentor plays a key role in bringing a difference in mentees' life thereby mentor also learns a lot through the process. A meta-analytical review of the literature on the effectiveness of mentoring programs in corporate settings found that mentoring does infact provide numerous benefits to those receiving it, thereby, leaving those not mentored at a disadvantage in their career success (Underhill, 2005).

Mentors interviewed by Allen et al. (1997a) cited personal growth and learning as a benefit of mentoring. In sum, there has been considerable work suggesting mentoring others may serve as a source of mentor learning, but research has yet to empirically examine this issue (Allen et al, 2003). Hence, the study to understand the insights or learnings of mentors by mentoring others.

The impact of mentoring program for the mentees has been measured by the organization called Bhumi and found the following:

- Increased self esteem among adolescents
- Increased awareness in adolescents and their parents about the importance of studies and the importance of continuing education after 10th class.
- Awareness and knowledge in adolescents and their parents about the academic and vocational options available to students after they complete 10th class through mentoring and career counselling sessions.

## Method

### Sample

The study included sample from the organization Bhumi. 59 (23.6%) respondents out of 250 mentors participated in the survey. Among them 35 (59.3 %) are male and (24) 40.7% are female. The individuals are either students who were doing Under Graduate or Post Graduate or working professionals. Majority (66.1%) of them belong to the age group of 18-20. The individuals chosen were volunteered by themselves to mentor an adolescent from underprivileged background. Hence the commitment would be higher to the program. We chose individuals who have an experience of mentoring atleast one individual and had an experience of one year.

### Procedure

An online survey was administered to all the mentors. It consists of 13 quantitative questions and 3 open ended questions which were used to measure the effectiveness of mentors and learnings of mentors respectively. We also conducted telephonic interviews with the mentors to understand the process and also to understand their learnings.

### Measures Used

***Mentoring Effectiveness***: Participants responded to 13 statements which measure the effectiveness of mentoring others on a scale of '5' being Strongly Agree to '1' being Strongly Disagree. To mention a few: Statements such as "Mentoring enhanced my awareness in the areas of my strengths and weaknesses.", "Being a part of mentoring program, I gained more clarity on my goals / objectives.", "Involvement in the mentoring program helped me improve my confidence in doing things."

***Learnings of Mentor***: Participants responded to 3 open ended questions like, "What have you gained through this mentoring program?", "What methods did you chose to build rapport and trust with the mentees?" and "Please share us your insights during the seven months of DNE mentoring program." We also conducted telephonic interview with 10 mentors to understand what do they do during the mentoring sessions and what are some of the insights / learnings gained through mentoring others.

***Mentorship Duration***: Mentors reported the length of their mentorship in years and we converted the same into months while calculation. Majority (49.2%) of them had one year of mentoring experience.

### Statistics Used

Mean and cumulative percentages were used for analyzing the data.

## Discussion

To be a good mentor, first he or she should be knowledgeable before imparting the confidence or providing suggestions to the mentee. In one of the telephonic interviews with the mentee, the mentor stated that "The mentee was afraid of Maths. So, I mentioned her not to be afraid of anything. I happened to visit her house once. They had a puppy in their house wherein I am very afraid of them. So, I was hesitating to enter the house. My mentee said, 'Sister, you only advised me that we should not be afraid of anything. Then why are you afraid of small puppy.' I realized that I should be very careful before giving any suggestions." Mentors should be aware of what to share and how to share with the mentees. It is not that easy as we say about things.

Mentors should first get prepared themselves. Before guiding them through this process, they get acquired to the knowledge which otherwise they never bother to learn. They also obtain a different perspective of the world and get to know about the other side of the world. Few of mentors also opined that they feel very satisfied when they see the changes in their mentee.

It is really interesting and surprising to note that out of 59 mentors who have participated in the survey almost 86.4 % of them felt that the DNE program did bring in a tremendous change in their behaviours in all aspects. (Refer Table 2)

91.05% of the mentors mentioned that the program enhanced their self awareness which is very imperative and which is the first step towards individual development. Awareness of one's own strengths and areas of improvement helps the individual to capitalise on the strengths and invest efforts on areas for improvement. Infact, the fundamental objective of 360 degree feedback in the organizations itself is increasing the self awareness of individuals.

Good communication skills, ability to inspire others, motivating others, facing challenges are the essential characteristics for an individual to be employable in the competitive environment. These characteristics seem to be developed through the DNE program. The results in the Table 2 clearly validate this point. Moreover, the program provides hands-on experience for the individuals to face challenges. The mentors are students either pursuing their graduation or post-graduation or just entered in to the organizations. They may not have the experience of guiding others or grooming others. Through this DNE program they face challenges in building relationship, gaining trust and confidence of mentee.

Even though the mentors are provided with basic training on how to be a mentor through a workshop, they have to identify their own ways to break the ice, to build rapport and trust and also to develop the individual in both academic and personal. Individuals are different. They have to identify a way which is suitable to the concerned individual. Through this process the individual learns to take initiatives and invests efforts in developing ideas for building the relationship.

The first step towards building any relationship is building rapport and building trust. The mentee should feel secured and feel that the mentor can be approachable at any point in time. He / she should feel confidence in the mentor. To the question on "What methods did you choose to build the trust and rapport with the mentee? Explain with examples." the mentees responded the following. Around 23 mentors opined that they built rapport by sharing personal interests, likings, etc. In one of our telephonic interview with the mentors, he opined that "In a telephonic interview with one of the mentors, the mentor opined as "Initially mentee was very shy, not ready to talk. It took long time for me to break the ice with him. I tried several things to build the rapport like, sharing personal things, interests, etc… And slowly, he started opening up."

Frequent visits to the mentees home, constantly in touch with the mentee over phone, interacting with his or her parents, showing care on them and putting oneself on others shoes, providing assurance, approaching him / her like a friend, providing suggestions / guidance, and speaking to them in their language are some of the other methods mentors have chosen to build the relationship. (Refer Table 3 for more information)

Once you have started to mentor an individual, some of the mentees might approach them very frequently for queries, suggestions, etc. We posed a question on how do they perceive the same as. It is very interesting and surprising to note that the mentors only 16.9 % of the mentors felt that mentoring others has created an undue pressures for them. This result shows that the mentors are very much approachable and also do not bother by their frequent contacts with them.

## Insights / Learnings of Mentors by Mentoring Others

Mentors have shared their experience in their own words on what they have gained through the mentoring program at BHUMI. The results are presented in Table 4 which also validates some of the findings mentioned above.

The qualitative survey results again threw us interesting insights. We coded the information very carefully and categorized the statements based on our brainstorming session with few faculty members and researchers. We broadly classified the insights in to Emotional Intelligence, Leadership qualities, and other skills such as self confidence, interpersonal relationship, self growth, sense of accomplishment, perseverance, etc.

### Increase in Self Confidence

The program though provides basic training on how to mentor others, the mentors have to face lots of challenges since they have no prior experience of guiding or mentoring an individual. The first step of building rapport with mentees itself is a huge success for the mentor. Once the mentor builds the trust and rapport with the mentee, he or she attain confidence in doing things at their own pace. It is interesting to see that the self confidence has been increased through mentoring others. It is a very important skill in this rapidly shifting and competitive environment. The organizations look for individuals who have confidence in oneself and who can do things of their own. Table 2 results show that 96.6% (57 out of 59) mentors felt that through mentoring others, self confidence has been increased.

### Communication Skills

The program provides an opportunity to improve their communication skills. The Bhumi organizes personal mastery workshops for self development. Apart from that they organize

learning circles every week after the mentoring session is over wherein the mentors are asked to share their challenges and learnings. Through this session, mentors get an opportunity to share their insights publicly. This is one and the most important skills organizations look for in an individual while recruiting. It is the first and foremost eligibility criteria for an individual to get entry in to an organization. Table 2 shows that 89.8 % of the mentors felt that their communication skills have increased tremendously.

### Leadership Qualities

It is one other skill that the organizations look for in an individual. The program provides an opportunity to hone the leadership skills of the individuals. The mentors are given the freedom to take initiatives in organizing various games or events for the mentees. Thus mentors take initiatives in organizing the events. They also are left with facing challenges. One of the problems faced by a mentor is that the mentee never shows up and is not interested in the mentoring session. The mentor concerned has to solve the problem by himself / herself though some sort of guidance will be provided. The mentor tries to choose a solution for the same. one of the mentors mentioned that she consistently kept on visiting here mentee and made her understand the importance of the mentoring session and also the benefits that she would gain through this program. She went and met her parents and explained them about the advantage and thus mentee started turning up. Being perseverant is very important.

### Emotional Intelligence

Organizations are now filled with individuals who are from diverse background and with diverse values, and culture. It is very important for an individual to be patient, show empathy (putting oneself into others' shows), be a good listener, be aware of oneself and sensitive to others' needs. Through this program the individuals gain all the above. Listening to mentee is very important and critical since they are from different world and hence the mentor tries to understand the mentees' perspective by carefully listening to them and understanding them. Sometimes the mentees may not understand what mentors speak. During those times, the mentors should be patient and should try to make them understand what do they really meant. The mentees are from underprivileged background, hence are from totally different background. The Mentors should go down to the mentees' level and interact and help them grow.

### Other Skills

The mentors felt sense of accomplishment when they saw mentees improving and when the behaviors started changing. Their attitude of looking at the life has changed. One of the mentor opined that "Mentoring changed my attitude from you should be the change to I should be the change".

Another interesting insight has been shared by one of the mentors. She opined that her mentee called her during her birthday and wished her. This made her feel that mentee is showing so much of care and she should also do the same. She did not even remember her mentees birthday and did not wish her. That kind of created a self realization for the mentor. The one of the most challenging assignment for the mentor is that he / she should be clear on what he or she wants to convey to the mentees. For example, if the mentor has to guide his / her mentee in aiming for career, first the mentor should clear what he / she wants to become. Here, practice what you preach is very important.

## Limitations

Since sample size (59 (23.6%) out of 250) is small, generalisability is not possible. We have used unstandardised questionnaires (tools) for collecting the data. There might be social desirability effect where mentors want to say only positive things about the program. Data is highly subjective, hence can't be justified or evaluated.

## Conclusion

It can be concluded that the mentors do change through this program and enhance their interpersonal skills, leadership skills, communication skills, etc…It is evident from both the qualitative and quantitative data. Since the mentors volunteer themselves to guide an individual, the commitment and sincerity in bringing in a change in one's life will be greater. Once the mentors see the changes in the mentees, they kind of feel self satisfaction and feel a sense of accomplishment. Through this program, individual's employability increases more than that the self realization happens and also get to see the other side of the life which will in turn bring them kind of social responsibility. Do mentors learn through mentoring others? Yes, they do learn by mentoring others. Not only learning but also attain individual development and also become eligible to be employable by the organizations.

**TABLE 1:** Demographic Information

| | | Freq | Percent |
|---|---|---|---|
| **Gender** | Male | 35 | 59.3 |
| | Female | 24 | 40.7 |
| | Total | 59 | 100.0 |
| **Age in years** | 18-20 | 39 | 66.1 |
| | 2.00 | 16 | 27.1 |
| | 3.00 | 4 | 6.8 |
| | Total | 59 | 100 |
| **Educational Qualification** | UG | 56 | 44.9 |
| | PG | 3 | 5.1 |
| | Total | 59 | 100.0 |

The below table represents the consolidated ratings given by mentors who has given the rating as either agree or strongly agree.

**TABLE 2:** Measuring Mentoring Effectiveness of Mentors

| Q.No | | Strongly Agree & Agree | Cumulative % | Mean |
|---|---|---|---|---|
| 3 | Increase in self confidence | 57 | 96.60 | 4.59 |
| 1 | Enhanced self awareness | 54 | 91.05 | 4.15 |
| 12 | Improved my communication skills | 53 | 89.80 | 4.39 |
| 4 | Self retrospection and Change in behaviours | 51 | 86.4 | 4.07 |
| 6 | Increase in self satisfaction | 50 | 84.70 | 4.29 |
| 4 | Being more perseverant | 47 | 79.7 | 4.07 |
| 8 | Ability to inspire others | 47 | 79.7 | 4.08 |
| 10 | Hands on experience in facing challenges | 46 | 78.00 | 4.03 |
| 7 | Learnt to face challenges | 46 | 78.00 | 3.98 |
| 9 | Learnt to motivate others | 45 | 76.30 | 3.95 |
| 2 | Clarity on my goals / objectives | 44 | 74.60 | 4.03 |
| 13 | Making my mentee more comfortable | 42 | 71.2 | 3.86 |
| 11 | Create undue pressures | 10 | 16.9 | 2.75 |

**TABLE 3:** Methods chosen to build rapport

| S.No | Methods chosen to build rapport |
|---|---|
| 1 | Sharing personal things |
| 2 | Interacting with parents |
| 3 | Be open and friendly |
| 4 | Maintain constant relationship |
| 5 | Frequent visits to her home |
| 6 | Giving assurance |
| 7 | I am like you |
| 8 | Care for them |
| 9 | Empathy |
| 10 | Being one of them |
| 11 | Approached him like a friend |
| 12 | Mentee chose me as her mentor |
| 13 | Start conversation on an interesting topic |
| 14 | Providing suggestions |
| 15 | Provide small wins |
| 16 | Speak to them in their language |

**TABLE 4:** Insights / Learnings from Mentoring others

| S No | Insights / Learnings | | Freq | In Mentor's own words (Sample Statements) |
|---|---|---|---|---|
| 1 | | Increase in self confidence | 25 | – Learnt to stand strong in hard times<br>– Made me stronger as an individual |
| 2 | | Communication skills | 21 | – Learnt how to communicate with different people<br>– Way of expressing things... whatever may be the persons thoughts they are understood by others only when you have the boldness to put them forward & a right way to express them.<br>– Ability to explain<br>– Ability to put my point across effectively<br>– Presentation skills<br>– Ability to speak in front of a large gathering<br>– Comfortable in addressing a gathering<br>– Overcame stage fear |
| 3 | | Leadership qualities | 17 | – Event management<br>– Organizing skills<br>– Inspiring others<br>– Taking initiatives<br>– Learnt to capitalise opportunities<br>– Exposure to facing the challenges |
| 4 | Emotional Intelligence | Self awareness | 9 | – Discover myself<br>– Came to know positive and negative shades in me<br>– Came to know more about my inner self<br>– Learnt about my negatives and how to work on it<br>– Know thyself and rest follows I started believing in myself started loving myself, I seriously felt that and then rest of the things started improving automatically<br>– Helped us a lot to know ourselves and others.<br>– Identifying ones' strengths and weaknesses<br>– Retrospection<br>– Realised my potential<br>– Believing in oneself |

| | | | | |
|---|---|---|---|---|
| | | Being patient | 7 | |
| | | Empathy | 4 | – Understanding others' problems<br>– Acknowledge the viewpoints and problems of other people<br>– Understand people<br>– Walk a mile in others shoes before coming to conclusions<br>– Sensitive to others' needs<br>– I understand the other realities of life |
| | | Self control | 3 | – Controlling temper |
| | | Self satisfaction | 6 | – Great sense of satisfaction |
| | Other Insights | Listening skills | 3 | |
| | | Knowledge on other world | 2 | – Gained knowledge on what the other side of world is like. |
| | | Sense of accomplishment | 2 | |
| | | Time management | 2 | – Punctuality |
| | | Thinking abilities | 1 | |
| | | Change of attitude | 1 | – You should be the change to I should be the change |
| | | Fearlessness | 1 | |
| | | Self growth | 1 | |
| | | Perseverance | 1 | |
| | | Interpersonal skills | 1 | – Interacting with others |

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# It's not just about Productivity: (UN) Changing Labour Relations Paradigms and Perspectives in Mauritius

**Anita Ramgutty - Wong**
Faculty of Law and Management, University of Mauritius, Réduit, Mauritius

## Abstract

### Purpose

Traditional concerns about the use and potential abuse of management power and about a new role for trade unions within a context of intense global competition continue to be important, in Mauritius as well as elsewhere.

### Methodology

The National Productivity and Competitiveness Council (NPCC) set up a project in 2009 aiming at bringing together labour and management, on the stated premise that the dynamic between productivity and labour-management relations is critical for the survival of enterprises. Using the recent nation-wide study on unionism in Mauritius as a starting point of debate, a series of consultations were held with representatives of employers and representatives of employees with a view to "change attitudes."

This paper seeks to provide clarification on the state of dialogue and attitudes about unionism in Mauritius. Mauritius is known for its remarkable economic growth and resilience and for its democratic practices since its independence from Britain in 1968, but the state of labour relations in the country has always hung somewhere between the adversarial and the indifferent. The basic ingredients of sound organization-level labour relations being inseparable from the essentials of managing in today's business environment, it was deemed necessary to establish (a) current attitudes and paradigms and (b) gauge the potential for a change in perspective by the different actors of the industrial relations scene. Selected empirical findings from the national survey of unions and of management were used as a backdrop and to "feed" the debates during two full-day workshops held separately with union leaders and with employers. The overall objective of these consultations was to provide participants with an opportunity to review the build-up of strained employment relations and to arrive at a renegotiated, mutually-beneficial role for each. Each group had the task of drawing up an agenda for action. While the national study used a mix of interviews and questionnaire surveys, the approach used for the consultative workshops was of the problem-solving, reframing type, and included Role Analysis Technique.

### Findings

Both parties are agreed on the desirability of increased, and more open, communications. Although the management group asks that unions make an extra effort at embracing the

organisation's mission and objectives within their agenda, and although the unions express some doubt as to the good will of managers towards open communication, consensus is clear on two main commitments: (a) that some form of structured, formalized, regular and frequent communication mechanism be set up in every enterprise, with clear guidelines regarding the agenda and the orientation of such communications, and (b) employers genuinely adopt a willingness and an open-minded attitude towards the idea of consultation, that they commit to aligning employee needs with needs of the organization, share information, issues, problems, plans and strategy.

### Research Implications

In this research we propose a new conceptual framework to assist in the transition of labour relations from the traditional role based on "management prerogative" to one that promises more valuable outcomes for individuals, organizations and the country.

## Introduction

Even if one were to argue on a reductive 'survival' or 'competitiveness' front, there would be sufficient basis to show that the development of a more people-oriented style of management correlates positively with increased competitive pressures and that there exist factors which push firms to focus attention on sources of sustainable competitive advantage. One such source is now well-established as being investment in human capital, and Mauritius, a newly-industrialised island economy, is attempting to respond to this harsh reality in its own way. As its economic policy has moved from sugar and textiles to a diversified services economy, employers and policy makers are calling for a nation-wide human resource development strategy that would ensure a ready provision of educated, skilled workers. At the same time, however, the shift in workplace policies and practices for the management and development of people does not seem to be recognized as a necessary condition. In a nationwide survey of human resource management (HRM) practices in Mauritius, Ramgutty-Wong (2004) found that the critical mass of HRM-trained individuals is not yet reached, such that the shift to a human capital (people) style of managing organisations appears a challenge, within which modernisations in workplace policies and practices are going to be difficult. The same study found that much anti-union feeling was expressed, especially in certain sectors. Research on unionisation (University of Mauritius, 2002) shows that, although the State professes a caring orientation, it is tied up in an intricate web of mutual advantage with the employer group which insists on restructurings, right-sizings, flexibility in hiring and firing, and a generalized perception of unions (really, their leaders) as being backward and unconstructive. It is common knowledge that employer responses to globalization in Mauritius have increasingly included the following: local investors moving production overseas; foreign investors opening quasi- sweatshop operations in Mauritius; increased contracting out and out-sourcing; more part-time and temporary work; introduction of new technology; pushing for a more deregulated and flexible labour market; downsizing the workforce; more emphasis on labour productivity and product quality; shifting the focus of collective bargaining from the federation/industry level to the organisation level; work re-organizations such as flexible working hours and contractual arrangements, and pay only for performance and skills.

Ramgutty-Wong in 2004 concluded that the "current framework of industrial relations in Mauritius is neither adequately enabling nor particularly repressive."(p.65). Now, the sort of global competitiveness environment Mauritius finds itself in, makes it problematic to view organizations as effectively making optimum use of their human resources for achieving

desirable organizational outcomes of product and process innovation, high worker productivity, profit and growth. This is because of the internal environment of under-developed or undervalued labour relations and of HRM generally. It is well-known that global managers cannot afford to ignore or neglect employment relations within their overall managerial work or duties, and so they must learn to promote trust, engagement, consultation and communication with their workers. Indeed, the modern, sustainable, management paradigm involves a 'partnering' mentality, whereby internal and external stakeholders – including employees – are recognized as important and towards who the organization bears a continuing commitment. This implies a serious attempt to communicate, negotiate, motivate, employees, and manage respectful, harmonious relationships as equal partners (Webb & Webb, 1920). Elkington (1994) too decried the old-school autocratic, profit-centred management model and showed that the legitimacy of an enterprise through an attention paid to its "triple bottom line", that is, to objectives of profit (transparency about financial performance), of environment (greater attention and budgets to environmental issues) and to society (policies and practices to improve quality of work life, wellness, safety, community development, decent work, and others).

Mauritius has a long and intense history of Industrial Relations, owing much to the trade union movement of early days, well before independence, often against many odds. Within this acknowledgement is the historically determined position of the employer in what was formerly termed the "master and servant" relationship, which prevented labour from enjoying rights. The causes of labour problems were nevertheless addressed, at least with good intentions, by the State, through new labour laws and dispute settlement mechanisms, and by the actions of unions who sought to increase the bargaining strength of workers.

The historical (im)balance of power, for instance, between the worker and employer group, generally and persistently operates against the interests of the worker, and traditional hierarchical management systems based on Tayloristic management methods are of course inconsistent with consultation, two-way communication, and negotiation. Traditionally, unions are criticized for their supposed ignorance of business realities, of global pressures for efficiency and productivity, and refusal to accept flexibility of employment practices. This backdrop suggests that would be foolish and naïve to assume that most employers and managers welcome with open arms the idea of shared decision-making, communicating financial and strategic information, negotiating the employment relationship, and caring equally for employees' and the organisation's needs and interests. At the same time, employers complain that workers – and their unions – are un-co-operative, resistant to adapt to changes, stuck in old paradigms and generally a hindrance to business improvement.

A perpetuation of such 'passé' paradigms, leading to practices characterized by autocracy, confrontation, and impoverished communication leads inevitably to 'Bleak Houses', as are termed those workplaces where neither modern HRM nor a developed industrial relations climate of strong employee representation and participation exist. Evidently, an enterprise culture based on trust and co-operation can be the key to ensuring survival and competitiveness in an increasingly difficult environment. Yet, is there reasonable scope for the rise of a serious commitment on all sides for people-oriented management which includes open communications, positive attitudes, humble ego-free sharing of problems and solutions, mutual respect, human growth, and organizational improvement? As an spin-off to a recent national survey of the union movement, the NPCC ran a consultation programme to probe the potential for setting a new agenda for improved labour-management relations in a perspective of survival and growth of Mauritian enterprises. The NPCC's aim was to gauge the reactions of the two main parties – employers and unions – to the findings of the national study and

provide an opportunity to both parties to re-negotiate their respective roles in the new environment.

## Methodology

Through the first national survey of employers and unions, funded by the Mauritius Research Council, conducted over one year in (Mauritius Research Council, 2008), the question of attitudes towards industrial relations generally and towards unions in particular was addressed.

The coverage of the survey is shown by the following table.

**TABLE 1:** National Survey coverage

| Informant group | Method employed |
|---|---|
| Federations and Confederations of unions | Personal interviews of all Presidents |
| Non-affiliated unions | Questionnaire survey using list from Registrar of Associations |
| Private sector business organizations' CEOs | Questionnaire survey of Top 100 list |
| Human Resource Managers | Questionnaire survey of AHRP list |
| Public and Parastatal organisations | Questionnaire survey |
| Rodrigues unions | On-site personal interviews with union presidents |
| Women in unions | Workshop with female unionists, held at the University of Mauritius |
| International comparision of Industrial Relations systems | Desk research using literature on IR India, South Africa, UK and Phillipines. |

The NPCC consultation programme was developed along a selection of issues for discussion and debate:

a. Establishing a greater mutual understanding of perspectives;

b. Establishing a mechanism for moving towards a culture of consultation, trust, two-way communication, and participation;

c. Ways to establish a common commitment to the enterprise and the economy's success;

d. Ways to move away from the 'old' management style;

e. Ways to move away from the 'old' unionism model, and

f. How to ensure that the enterprise does not turn into Bleak Houses.

The workshops brought together representatives of employers on the first day and union leaders on the second day. For both workshops, the Role Analysis technique enabled the participants to express their thoughts and feelings on the current employment relations situation as well as to make a commitment to re-assess their respective roles and responsibilities in creating an agenda for change along the dimensions listed above. The Role Analysis technique was used to examine the role of each partner in promoting sound employment relations, and the issues aforementioned were used to structure the discussions.

### For each Issue Participants have Two Cards

First: They express a single, concrete role behavior per card on their part (as employers/management)

Then : On the same card, they write what they think could be one concrete role behavior of the other partner.

Cards are affixed by the participants themselves on a master board, explained and commented on. This continued in an iterative fashion as cards of similar idea were grouped together across the board to form themes which would then be discussed at policy level.

## Findings

This research has shown that management views the motives of employees to join a union as being limited to issues of better pay and conditions of work. Some respondents also mentioned that it has historically been "like that", suggesting a very restrictive perspective to the role of unions in the total workplace environment. On the subject of the potency of unions in their respective sector, approximately half of all managers stated that potency was low in their sector, As concerns collective bargaining, over half of the managers in each of the sectors stated that there was simply no collective agreement of any form at all. Of those who claimed that they had such a document, probing revealed that the same restrictive, traditional items were on the agenda of most, namely: grievance procedures, salary and conditions of service, meetings, check-off, discipline, safety and welfare. In the Textile sector, several managers declared that unions have no role to play at all, and managers of the Retail and Trade sector believe the role of unions to be only "discreet", given that management always exceeds workers' expectations. The picture in the public sector is much more consistent, however, with most managers across ministries describing a consultative style where unions and employees work "in collaboration" with management.

Overall, in the private sector unions were viewed by management as hardly evolving to embrace issues other than pay and working conditions, with 44 percent believing that unions are only "somewhat" knowledgeable or sensitive about the changing economic and business environment, and that they "live[d] in the past". At the same time, however, the majority (86%) admit to be aware that many unions in Mauritius have been generally active in a wide range of national issues such as job security, health and safety, education, economic policy, and others, which is to say the least, an outstanding inconsistency in views.

As far as their relations with unions are concerned, this was overall construed as "uneasy" and sometimes conflictual, with 35% admitting to using a union-substitution strategy of sorts by developing strong relationships with employees directly (54% of these were managers from the private sector); whereas more than half of all public service managers said to espouse a partnership strategy with unions. At the same time, the majority of all managers, claimed that they endeavoured to foster a co-operative culture (79%). The small percentage that accounts for responses admitting to adversarial employer-union relations is exclusively from the private sector. Interesting is the general drift of responses that appear politically-correct, whereby an ideal state of relations is claimed to exist, with union leaders is seen to characterized by cordiality, respect, honesty, based on trust, collaborative, harmonious, professional, and so on, which largely contradicts views on more specific issues. As a testing method, the research aimed to find out how the relationship was operationalised, by asking about out the frequency and agenda of meetings that management had with the union(s). And so, the frequency of meetings was much higher in the public and parastatal organisations, while these were either "ad hoc" or on an average of six-monthly intervals in the private sector. Respondents from Catering and Tourism firms participating in the survey stated that meetings were only held in crisis situations. The most common response for firms of the Construction sector was "rarely".

The parastatal sector states its respect for the Joint Negotiating Council, and so meetings are held as prescribed, monthly. The seemingly scant communications reported generally is likely the result of a poor communication/interpersonal relations/participation policy. When one realizes the importance of strengthening consultation, information sharing and two-way communication as a means for formulating strategies for improved competitiveness, one can readily conclude to a path strewn with difficulties for Mauritian organizations. For instance, in order to achieve product and process innovation, it will be necessary to move quickly to introducing a range of employee involvement schemes and increasing labour-management co-operation at all levels as well as engaging in collective consultation on strategy issues. Indeed, "flexibility" will depend on trust between workers and management, otherwise workers will not be willing to make that effort to accept the work rules for allocating work, taking responsibility, sharing information and knowledge, and generally being innovative and co-operative. This very important question actually formed the very crux of all discussions during the workshops: In terms of increasing mutual understanding, upon which either compromise or conflict is grounded, it would appear that both parties are agreed on the desirability of more, and more open, communications within the enterprise. This, clearly, is a new culture that can be established through structures and mechanisms at enterprise level and perhaps even reinforced by institutional measures enacted and enforced by the State. As such, although the management group asked that unions make an extra effort at embracing the organisation's mission and objectives within their agenda, and although the unions expressed some doubt as to the good will and attitude of managers towards open communication, consensus was clear on two main commitments: (a) that some form of structured, formalized, regular and frequent communication mechanism be set up in every enterprise, with clear guidelines regarding the agenda and the orientation of such communications, and (b) employers genuinely adopt a willingness and an open-minded attitude towards the idea of consultation, that they commit to aligning employee needs with needs of the organization, share information, issues, problems, plans and strategy with the new conviction that such sharing adds value to the management of the organisation's business.

The employer group says that they expect unions to adopt a wider agenda, show a proactive, problem-solving attitude, and a sense of reasonableness and responsibility in their role as employee representatives. The magical turn of phrase is clearly Good Faith, and so it can reasonably be expected that, with a marked increase and frequency, in meetings for discussions around emergent issues as well as around strategic planning, greater opportunity will be afforded for the cultivation of such good faith and so-called positive and open attitudes on the part of both partners.

Notwithstanding the necessity for unions to move away from their traditional servicing role in order to make this happen, it is evident that the first step towards establishing consultative rapport must come from the employer.

A the same time, however, such a situation will not materialize if it is set up in isolation from the wider organizational culture of the enterprise. Indeed, open-mindedness and good faith in employment relations can only develop in a culture of trust and democratic leadership style. In the survey, union leaders interviewed almost universally viewed managers as being of the "old school", or traditional autocratic command-and-control styles, as well as their anti-union attitudes, to the point at times of outright repression and intimidation of both employees and union leaders. The general view is that managers are not "playing the game" as bona fide partners alongside the workforce (and unions) in the success of their organization. Such a bizarre deaf men's dialogue on the part of both managers and unions is indicative of

conflicting worldviews and paradigms, no doubt entrenched in history and habit, which only perpetuates itself in a culture of impoverished communication.

Many unions, for example, express skepticism about management's application or implementation of decisions taken consultatively, in the absence of a positive climate and genuine democratic style and culture within the enterprise. Similarly, a well-developed people-management (or HRM) culture will enable unions to embrace a wider range of issues, and a more global business/organizational perspective, instead of fixating on the basics of employment such as pay, annual compensation, working conditions, and the resolution of grievances. What is a well-development people-management system? Clearly, one that demonstrates the organisation's commitment to being people-focused; modern hiring methods, geared at finding the most appropriate candidates; training and development for skills, knowledge, but also for personal development and fulfillment; the development of habits, competencies and commitment levels not easily copied by competing firms, and finally an ever-improving performance and satisfaction programme for employees. Employers in such a culture expect the union to assist management in the dissemination of company information about strategy, issues, challenges, and also to help in finding solutions to address such questions, to participate in good faith in the management of the enterprise by rallying employees around the overarching mission of the company, what it entails in terms of performance and behavior, and also at times, sacrifice and effort.

All in all, the fostering of commitment and sense of pride in employees is both a union and an employer duty, but in a catch-22 situation, it is more than evident that commitment, diligence and superior performance can really only result from a patiently and consciously built culture of trust, openness, and a modern HRM system. It will neither happen by magic nor overnight. Many managers in the study and during the workshops have themselves recognised that the old 'scientific management' style of command and control and tight supervision in a tall hierarchical structure only breeds confrontation and mistrust, and yet few are taking measures to move to a style characterized by empowerment, democracy, and growth for employees.

Unions, for their part, accept that their chance is perhaps now come, where they will be able to demonstrate their true role, but that the opportunity could easily be lost unless they quickly empower themselves with new skills and knowledge (for example, in strategy, in laws, in employment relations, in collective bargaining, in financial management, conflict management, and so on) to prove their ability to participate constructively and add value to the enterprise. By 'working smarter', revisiting their own approaches and strategies, focusing on their contributive value, and helping workers adopt a new culture of responsibility and commitment to organizational improvement, unions can well grow into the enlightened partner in helping either save or grow the enterprise.

All in all, in spite of the relatively traditional – and strained – type of management-union relationship, data seems to converge to establish two things : firstly, that although the evolution in people management has been both slow and patchy, with pockets of sophistication here and there, the change is clearly in the direction of increased employee services, more strategic managing of the function, and a more individual, direct type of employment relationship, and secondly, notwithstanding the aforementioned trend, the view of unions and of their role in the future is not as condemning, cynical nor dismissive as one could fear in the state of market liberalization that Mauritius finds itself. Of course, this could change in the future, but the (seemingly inevitable) quest to evolve to more strategic and developed HRM does not seem to exclude unions from the picture. Indeed, most managers

repeatedly stated their hopes that unions and their leaders will become more business sensitive, "professionalise" themselves and take on board issues such as quality, flexible working, lifelong learning, and other such HR practices, all the while stating that they too (the managers) are adopting increasingly democratic and participative styles in order to be line with global practices of 'putting people first'.

## Research Implications

What seems to be under threat in the Mauritian Industrial Relations landscape is the very ideology and philosophy of industrial relations. Since the climate of pessimism in the union movement, and loss of faith on the part of many unionists in the country's institutions does not bode well for a partnership model of growth and competitiveness, many would say that Mauritius is about to come full circle back to another type of colonialism, dictated by the so-called imperatives of liberalization and globalization. However, such a climate of pessimism must be allowed to persist, because the country owes it to itself and to the entire world that its remarkable achievements on the economic and social front be held up as a model of sustainable development with a human face. All our findings point to an unfortunate revival of autocratic and even repressive methods in enterprises, tied to which are trends in contractual and other forms of unprotected employment practices, a climate within which unions must find a new place to operate (Waterman, 1993). To allow this to continue is to allow a dangerous game to proceed, for, if democracy, growth, and social and human peace and development are to happen, checks and balances are undisputedly necessary in a globalization-oriented economic policy based on the enterprise system. Yet unions are being made to feel responsible for their declining popularity as if it were of no concern to other stakeholders in the long-term and continued national development of Mauritius. As a rejoinder to criticism that the union movement has remained entrenched in traditional 'bread-and-butter' battles, one could propose Social Movement Unionism as the most recent road into a modernization of the service model, for, in addition to organizing, unions of today and tomorrow must also shape the labour movement. Social movement unionism is a type of trade unionism that differs from the traditional unionism, emerging in the 1970s in countries such as Brazil, South Africa, Korea and Poland (Van Holdt, 2000; Lopez, 2000; Lambert,1990) This form of unionism goes beyond workplace struggles over wages and conditions to encompass campaigns about the living conditions of the working class as a whole, for example, housing and health, education, transport, and so on. Workplace structures are linked to the communities in which the workers and their families live, challenging governments as well as employers. A re-emphasis on the social movement characteristic of unionism came with the realization that traditional trade unionism was losing ground and that sticking to the traditional objectives gained no benefit. This type sees workers' struggles as merely one of many efforts to qualitatively change the whole society.

This world may well be heading towards over-production of goods, food shortages, breakdown of social cohesion and environmental degradation, and so, before we dispense with institutions or systems which have contributed to social stability, it is worthwhile to assess their continued relevance. Industrial relations is one such institution.

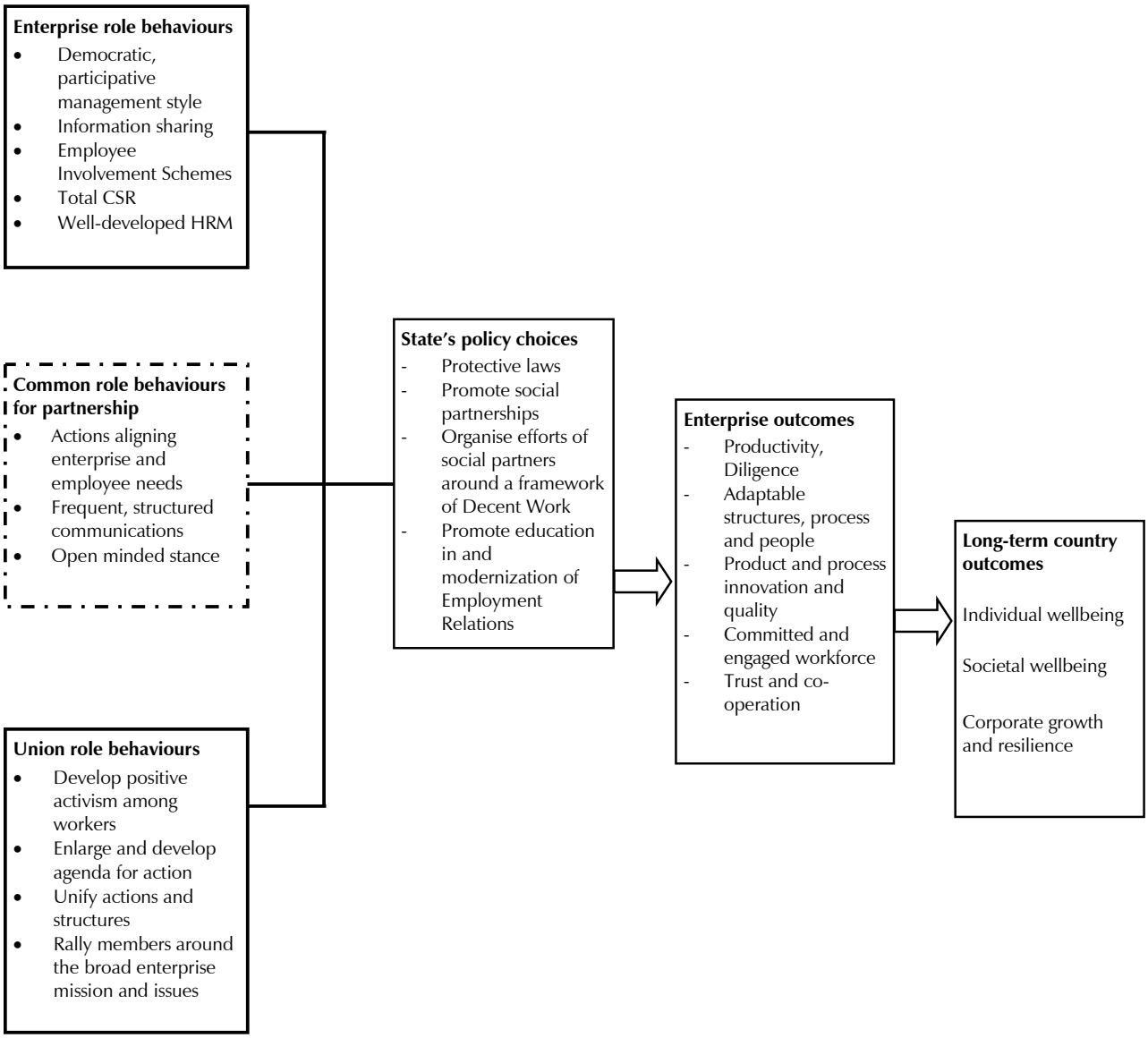
If management's perception of unions as being potential obstacles to a particular direction of economic development is maintained, this will lead to a relative neglect of IR as a management activity within the total management system geared for competitiveness through productivity gains. It will equally lead to an impoverished national labour relations landscape, with little

consultation and gradual cut back on democratic principles and practices. Ambiguous stances of Government aiding, this is a dangerous trend for the future of democracy and social justice in Mauritius.

The case study of Mauritius is an interesting perspective on the interface between poorly-developed management systems and relatively traditional labour relations. In discussing the potential for a harmonious (and modern) interface, managers can challenge the existing paradigm with regard to imperatives of globalization and competitiveness and look for another way that would ensure an integrated application of an evolved style of people management and the employment relations values that have been proven to maintain social justice and peace, so cherished by Mauritians. In the same formula, the State must cast off its traditional ambiguous role and step in decisively to demonstrate its commitment to a new culture, where unionists, and working people generally, are valued, accepted and promoted. (Webster, (1998). If unions as key partners in the development of Mauritius are to modernize and innovate, this can only be achieved in an environment where they are promoted as being valuable, where their ideas and contributions are welcomed and where they are always being consulted in major decisions of the country. For this to happen, unions must be valued, accepted and promoted, and not systematically patronized or worse, humiliated and publicised as uneducated, backward and irrelevant. Public Service International, and international confederation of unions, declares: "Trade unions (…) must demand to be treated as genuine social partners in all major social and economic planning and decision-making, nothing less. This demand applies to the workplace as well as to the corridors of power (…).Governments have to choose: either they want workers and their unions as part of the deal or they want them in united opposition". If government is hostile to these principles, it must be made clear that the government has chosen to throw away a chance for a redesigned society and has asked for conflict."

The picture we have painted in this paper here is not necessarily totally bleak. It suggests some respect by the employer group for the historical contributions made by unions and the latter's role in improving worker-employer relations. It also suggest an unease, however, with regard to a possible enlarged role: that is, if unions were to keep to the so-called traditional agenda and understand the perspective of management, they would have their place, but if they were to get so educated and knowledgeable as to seek a place in more strategic spheres of the business, they would not exactly be welcomed. This tradition of the management prerogative holding its ground by all means represents a considerable challenge to the kind of evolution that we have expounded in this paper. Management today is more an activity than a badge of status or prerogative, and this paradigm change provides managers with a wider professional base. That is, corporate Mauritius, to follow the trend of successful, competitive companies elsewhere, must place greater emphasis on employee involvement, be less concerned with controlling and commanding and instead foster harmonious employer-employee relations, develop employees' capabilities, (Webster, 2009), stress on practices which promote strong partnership-based industrial relations, such as a vast and qualitative communication investment, and share strategic and operational information, problems and solutions. If this operates within a legal and institutional framework that equally facilitates the development of openness and trust, then the future may actually hold some promise for mature and progressive labour-management relations in Mauritius. This may be operationalised through the following proposed framework:

**FIGURE 1:** A Framework for Partnership-based Employment Relations

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# Small Firm and Network in the Tourism Sector in Nepal

❑ **Binod Shrestha**
The open university, Walton Hall, Milton, UK

## Abstract

This paper describes the different ways that the networks operate and affect the tourism experiences in the Pokhara region of Nepal. Nepal has tremendous opportunity to attract tourists to its various destinations due to its natural beauty and biodiversity. However the businesses are recently facing difficult situations due to lack of network and not engaging on development of relationships. To understand the structural dimension of such networks and their characteristics and the benefits from such networks, this paper describes a qualitative approach which was used because it helps to provide an in-depth perspective on the ways the networks operate and affect the tourism performance. For this purpose personal open –ended interviews were conducted with the managers and key informants of the tourism sector. The study was able to explore the manager's views on business networks and their understanding about networking

## Aims and Objectives of the Research

### Nepal and the Tourism Sector

For a country like Nepal, which lacks conventional economic resources, the tourism sector is expected to continue to play an important role in the country's development. The uniqueness of Nepal with its panoramic natural beauty and its rich cultural heritage has attracted many people to this country.

An appraisal of the tourism sector reveals that is has been an important source of foreign exchange earnings in Nepal. Foreign exchange earnings are shown to be dependent on the number of tourist arrivals, as fluctuations in the number of tourists correlate to the fluctuations in the amount to revenue earned tourism. The gross foreign exchange earnings during 1990 were US $152,000 and it increased to US $ 351,968 in 2008.

### Tourism related agencies in Nepal

The data on hotels published by the Ministry of Tourism show that there were 168 hotels of different standards opening in Nepal in 1990. Ninety-seven hotels of different standards operating in the Kathmandu Valley, of which 46 are star category hotels, compared to 11 located outside Kathmandu. Till 2008 the number of the hotels has increased to 669, out of which 362 are within the Kathmandu Valley. The Star quality hotels inside the Kathmandu Valley are 74 and outside the Kathmandu Valley are 22.

## Context of Pokhara

Pokhara has been the most visited city of Nepal by Tourists for its natural gift and its attractive places such as the Annapurna Trekking Area, Muktinath Holy Temple, Lake Side, caves and more. Therefore, it is a key city that provides much employment and business related to tourism.

Though it has grown in economic terms so have issues arising from the tourism sector. According to study done by Sanjay Nepal, 2007 the tourism business have brought some cultural, religious and fundamental shifts on the daily lives of rural people. The modernisation of dress has shifted away from traditional Gurung clothes, people has moved from agricultural fields to searching job in urban areas, pottering and few on businesses.

On the other hand, the modernisation in house buildings have begun, environment and villages have improved sanitation, and there is more job generation (Neupane & Thapa, 2006). This study is trying to see the overall effects of tourism as a whole on business communities which are related to tourism, because the growth of businesses in the area is already highlighted above. Pokhara has seen the transformation of travel sector businesses in some decades and the business community has been huge and has captured the whole segment of business from services to production.

Due to its natural beauty and bio-diversity, it has the potential of being a unique tourist attraction. Its advantage is that it is not affected by mass tourism due to distance and isolation from the major tourist hubs of the world. These advantages could be explored through doing research in the field, so that Nepal can be used as a model for others. Most of the tourist oriented businesses are small and medium firms, which play a catalytic role in poverty alleviation in Nepal.

In the long run, small firms are suffering not only from financial factors but also from other large industries in the region and FDI in the tourism sector. The role of finance in stimulating growth in the SME sector has, for example, received a great deal of attention in policy and development programming. In the literature however, this explanation in terms of finance factor has met with some criticism. The weak financial position in most small businesses could be a manifestation of serious management problems, which may include weak capacity to build networks (Pyakuryal and Sainju, 2007). In the entrepreneurship literature networks have been identified as one of the solutions to problems faced by SMEs, especially at the start-up stage (Malla, 2004). A research focus on this line of enquiry at the SME level in developing country such as Nepal is important and relevant to various reasons.

This paper describes research which investigated the ways the networks operate and affect the tourism experience and the business performance of Pokhara region of Nepal.

The research objectives were:

- To lay out the dimensional structure of networks among the tourism sector from the firms' perspective
- To identify characteristics of such networks
- To identify perceived benefits of such networks

Three *research questions* were applied:

- How a network is understood by the small firms?
- How are the ties connected to each other?
- Why do they associate with different organisations?

## Relevant Research Literature

First, the literature has pointed out that many problems small business face are related to their liabilities of smallness, newness and therefore isolation (K'Obonyo, 1999). Because of their relationship within small business they are more volatile in nature than larger and older ones. Therefore, it has been argued that because of the flexible nature of SMEs, they should be able to deal with their liabilities of smallness and newness through engaging in linkages or networks. Second reason to focus on SMEs networks is to verify them because most of them are first generation entrepreneurs. Networks, which serve as channel for technological exchange, should lead to accumulation of capabilities on the part of the partners. The assumption here is that linkages allow firms to rely on capabilities from within. Networks should therefore enable SMEs to overcome isolation.

### The Emergence of Network Theory

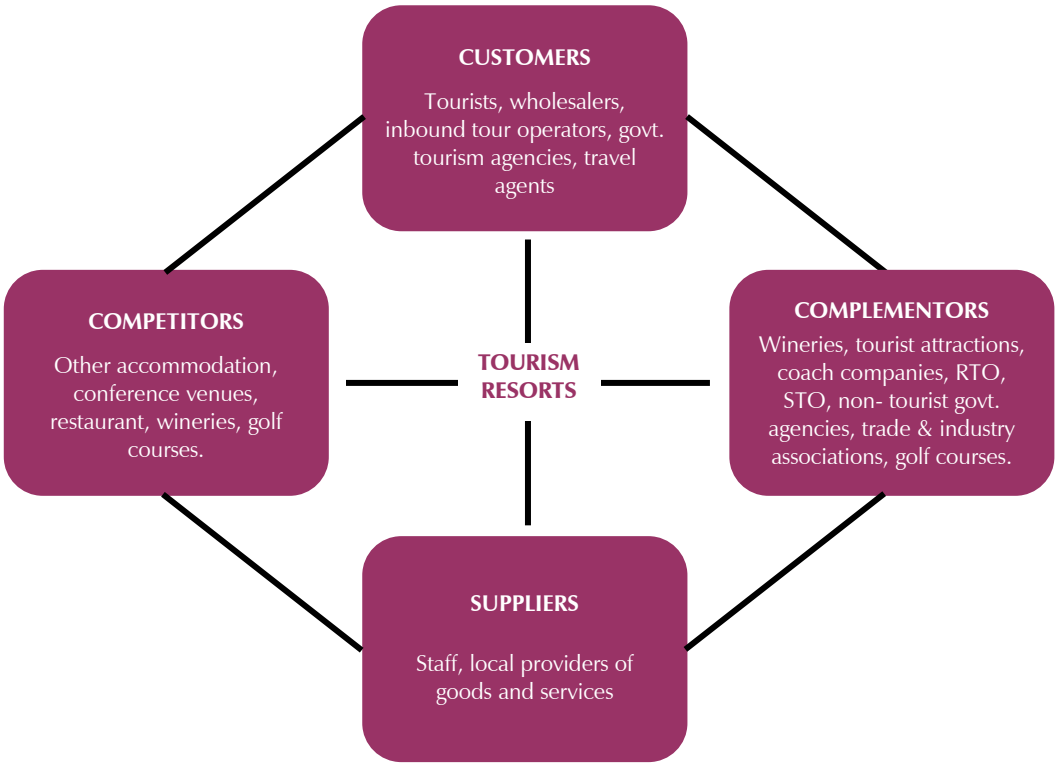
Business networks are not generally under the control of an individual firm but are self-organising systems, in which order emerges in a bottom-up fashion from the local interactions taking place among firms in the relationships in which they are involved (Wilkinson and Young, 2003). Recognition of the important role of relations and networks in business and marketing is growing fast. While the study of relationships and networks in manufacturing business have a long history (Wilkinson, 2001), their role and importance in value creation and delivery in tourism is the subject of increasing attention in the marketing and business literature.

### Importance of networking in tourism sector and different approaches

The study will be conducted with the perspective from social networking theory, which incorporates various views on networking of small firms. Firstly, networks have a role in lowering transaction costs and exploiting the external economies of scale and scope in various activities (Tremblay, 1998) by way of pooling and spreading risk, and by developing access to complementary resources (Kumar and Van Dissel, 1996). From a transaction cost theory point of view (Williamson, 1985, 1999), this network allows participants to benefit from the advantages of vertical integration. March and Wilkinson, 2008 describe the importance of vertical relationships between customers and suppliers. They have identified those aspects of vertical relationship where customers are as important to small firms as suppliers, explaining this relationship as a value chain and integrated within Value Net.

They further states that, ''these interactions may be depicted in terms of their *value nets*. Value Nets involve four generic interaction types in which a focal tourist actor is involved: *competitors* whose outputs reduce the value of the focal actor's output (other tourism actors, intra and interregional competitors, indirect competitors); *Complementors* who enhance the value of the focal actor's outputs (other tourism actors, support services, governmental organisations, trade and industry organisations); *suppliers* (of staff, provisions, materials, technology, finance, services and other component inputs); and *customers* (tourists, and channel intermediaries linking a tourist operator with actual and potential tourists)''. This framework has been able to explain and clarify that the importance and significance of each of them within the network. This value net was found in the Hunter region of Australia. See Fig. 1 for example of this model using a tourism resort as the core actor.

**FIGURE 1:** Value Net: The example of a Hunter Valley tourism resort (Source: March & Wilkinson, 2008).




Horizontal networking is central to the creation of businesses and products, while vertical is necessary to source external support and attract tourists. To enhance the competitiveness of small firms by adding value to the end products the firms should develop the stronger relations with suppliers. Symmetry also exists on the horizontal dimensions. Within this value net, the competitors and Complementors those are from horizontal dimension should equally contribute to success of small firm.

Secondly, sharing ideas and creation among partners within small firms encourage them to share learning process and knowledge management (Chaston and Mangles, 2000; Kelliher and Reinl, 2009). Learning based innovative collaborative networks are important for increasing the capabilities of firms through rules that guide the behaviour of interacting entities (Kogut, 2000 and Erkus, 2009).

Thirdly, because of their need for resource sharing and tech-know how exchange, they enable a large number of small actors with few resources to become part of the sustainable development in isolation (a view supported by O'Dwyer and Ryan, 2000).

Lastly, networks allow small firms to share their knowledge skill base and information flows to get achieve innovation by offering unique services to its customer. The partners can then implement new activities and engage in joint researches, co-development and joint marketing, and thereby gain competitive advantage while avoiding size-related problems (Scaraffiotti and Gentet, 2006; Porter, 1990).

Due to the nature of the tourism sector, the different stakeholders are interrelated to each others for services, accommodation and travel plans according to customer's needs. Each has to cooperate and support to fulfil the demand of customers. There are hotels, accommodations, travel agents, trekking agents, local regional organizations, support organizations like

chambers and associations within tourist areas. These are complementary to each other for the final products and services. Individuals, organizations and firms are not isolated, independent actors separately contributing their piece to total value created for customers; they are parts of value chains and networks through which value is co-created and co-delivered (March and Wilkinson, 2009).

There are two approaches in network study in tourism sector. First quantitative approaches have been used extensively in tourism network studies because of their structural dimension and mapping and graphical distribution is appropriate to represent them. This approach has identified measures for density, direction and intensity of networks in the tourism sector but lacks the explanation of in-depth analysis of groups and individuals involved in those networks. Therefore, qualitative research approaches has recently been used to conduct study on tourism network. This study will take the value-net approaches used by March and Wilkinson, 2008 while they conducted research in the Hunter Valley tourism region and have developed an analysis approach to look into the value chains of tourism businesses in the area.

### Research Issues on business networks and tourism industries

There is curiosity among academicians and practical field peoples to understand the effect of business relationships in their performance. This situation has helped to create a greater interest in management to understand the relation within networks. This creates a considerable challenge to the firms and its supportive organisations.

In Nepal, different studies have been conducted while policy initiation takes place which encourages economic activities in the region but has ignored tourism. Neupane & Thapa, 2006 states the important of industry cluster without mentioning tourism clusters and their economic impacts on Pokhara region. Tourism destinations lend themselves well to network analysis, since they comprise multiple suppliers from a range of businesses and sectors. At the regional level, the typical tourism network is a nexus between state tourism organisations, the regional tourism organisations, the local government, local tourist associations and tourism operators. Here the nexus is just used to justify their co-location and co-existence in a similar region. That does not tell that they are already in network or not. If there are networks among small firms and other agencies, these networks operate more efficiently and effectively in some regions than others. Erkus's study from Turkey indicated a minimum impact of networks on the performance of small firms but this might be because of presence of larger industries in the area as explained by the author. However there are other views that explain that small firms are greatly inter-connected to each other. These differences may be due to stage of development of the businesses in the area or the regional development and cultural settings.

Drawing on the above discussion and previous studies, the purposed study tried to explore and describe the networks mapping of tourism businesses in the Pokhara region of Nepal. This study is not trying to compare the results of networks development with the findings of Turkey and Hunter Valley as they both are in different stage of development in tourism businesses. Nepal being in the phase of tourism development can learn from those studies and this study has tried to utilise the framework and networks development theoretical perspectives from such studies.

## Methodology and Methods

Different hotels, associations, chambers, travel agencies, regional tourism board and trekking agents can be found within the region. The study will be of case study nature. The unit of

analysis will be small firms, so that the detail study could be done between firms and other supportive agencies in tourism sector. This study will focus on small firms to identify the relationships with other agencies in the Pokhara region of Nepal.

Tourism industry is a highly connected industry so networking approaches is frequently used for the study purposed with quantitative methods where the emphasis is on collecting data concerning relationships between different stakeholders. These are mapped using mathematical techniques with the results displayed visually in network diagrams and network attributes quantitatively measured. Firstly, this type of the study provides information on structural properties of the network as a whole but lacks the views of the different players within the structure. Secondly, it does not define groups and structure within the destination and lacks the representation of the groups and cluster of the region. Therefore, this study has chosen the qualitative approach so that each of the groups of different entities can reflect them in such network dimension.

The use of qualitative approach to quantitative approach does not mean that quantitative approach cannot be used to study networks in tourism sector. The size and stage of development of tourism industry in Pokhara have not been investigated much so the data needed for quantitative measures is impossible due to scope of the research.

This study uses the qualitative interviewing method because it aims to describe how the small firm understand the network and how they describe the network from different groups and this will be evaluated by using Value net analysis framework explained by March and Wilkinson for effectiveness of their business–to-business relationships and partnerships. This will help to identify the importance of each supporting agencies within the network, which contributes for service delivery and value creation. This advantages or contributions of the collaboration will be further investigated during Ph D research, where the focus of study will be innovation process in value chain to influence the small firm's performance.

## Ethical and Political Issues

The most important ethical issue in the purposed research is confidentiality of the information provided by respondents. Easterby-Smith et al (2002) states that confidentiality means not to disclose raw data about an individual to anyone else inside or outside the organization. To overcome this problem written assurance was given to the respondents, that the information they provided would not be disclosed to anyone else. At the same time to make sure that the information received remain confidential, names of individuals and companies will not be used anywhere in the study and all the responses received will be recorded and stored in a safe and protected place.

## Data Collection and Analysis

From various small firms related to the tourism sector, 5 small firms covering different business sectors were chosen to give an overview of networking. These businesses were all locally owned and run by managers/owners and, due to time and resource factors, they were approached though the recommendation of the supporting organisations and recommendations from each other. Two Key informants were contacted through emails for their views on networking in the region. These diversified views from different people helped to gather rich data.

### Interviews

Five in-depth telephone interviews were carried out with the SME managers/ Owners in July-August 2010. Each interviews lasted approximately 30-45 minutes and those interviews were digitally audio recorded (if permitted) and transcribed. Snowballing techniques were used whereby at the completion of each interview, the respondents were asked to provide the researchers with further contacts who were likely to have different perspective on tourism industry or they play other roles in the network.

After each interview, the researcher sat down and transcribed the interviews and translated them so that they can be organized within the key four areas. Manager's transcripts were re-read again and the important words were coded and some sentences and paragraphs were highlighted so that they are related to the four main areas of relationships, types of relationships, benefits from those relationships and strength of the ties. Those interviews were conducted in local language (Nepali) so that the feelings and intended meanings could be expressed by the interviewees.

## Interpretation and Findings

**Section One: Interviews of Key Informants**

- Networks and agency roles

  They highlighted the effect of different actors/ agency within the network and emphasized that each of them have important role to play.

  > *K1 stated, ''any of them should have important relationship with the supplier and other service providers if they want to improve their image and market.'' This is supported by another K2 by stating that, '' The firms who provide important services and raw materials to any firm within this network plays a pivotal role for the overall success of the network they are in, so we cannot undermine each of their role.''*

  K1 was adamant that the role of a support organization is vital within the network as the success of the network formation depends highly on these organizations bringing different players together but fails to justify the reason for such bigger organization's aim for such action. This clearly shows the misunderstandings between such organizations which take the credit and lack the vision to share.

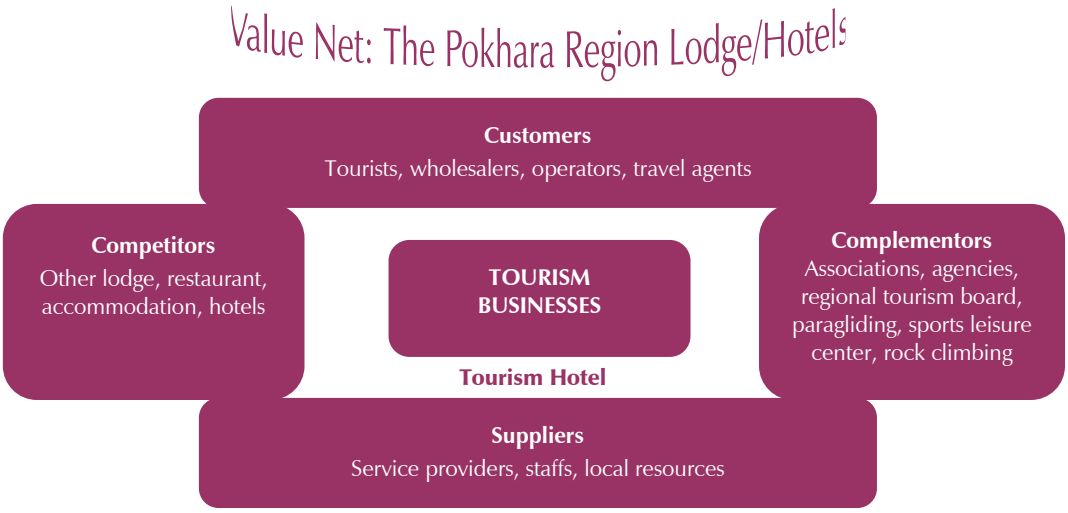
  K1 and K2 are in the same path for the role of network in knowledge sharing and learning within the businesses and support organization in the region. K2 says if there was no relationships within the businesses in Pokhara, **the speed of tourism growth could be like the three wheelers of Nepal,** it would not have moved from old Pokhara to modern and dynamic Pokhara. The people in Pokhara are very keen on learning and sharing ideas so we have been successful in terms of the number of visitors increasing year after year in Pokhara (K2). He further says we have **open our mind and horizon like the Machhapuchre (Fishtail) mountain** and we welcome any suggestions from any person which helps us to grow and diverse our wisdom. All these activities have helped us to increase our innovative marketing approaches and open to explore new things for our customers. This view is not supported as such by Erkus, 2009 as he describes how large firm plays innovative character in the network due to their linkage with international relationships and demand, though Kogut, 2000 supports the idea of collaboration in tourism business which increasing the capabilities and innovation character of firms. As

for the Pokhara region very few large businesses have their international channels to attract tourists but small firms have made relationships with tourists due to their services, hospitality and spreading through word of mouth.

- Agency and small firms dynamic value chain

The discussions below have been explained on the basis of the approach of Value Net (March and Wilkinson, 2009). The figure shows how the different stakeholders of tourism sector are interrelated to each other. This discussion will explain the importance of each stakes role for the development of overall Net that turns into value for the whole tourism industry.

**FIGURE 2:** Value Net: The partnership in the region




The central actors for the region are tourism hotels for the tourism value chain as the tourists visit Pokhara with the connections from Kathmandu, due to only one international airport in Kathmandu, Nepal. These hotels play an important role within this value chain of tourism network (K1). Therefore, there are lots of accommodations in Pokhara who makes links with other actors to fulfill the demand of the tourists visiting Pokhara. These hotels/lodges are first point of contact for all other actors within the chain. There are travel agents and trekking organization that provides business services for the tourists by providing more information, maps and media to bring interest among tourists. There are other suppliers who link up tourist destination to rural areas and outsource their products to others.

Competitors provide alternate products to tourists to attract towards them but this does not mean that the hoteliers are losing their share (K1). But these new ideas and visions have helped to increase the flow in numbers of tourist to Pokhara and the length of stay has increased since the development of new businesses like paragliding, rock climbing adventures and hot air balloons. Therefore, the Competitor's works with Complementors help to gather new business ideas and market section in the existing market, which has potential to open door for new adventures tourists in the region.

- SMEs and networks

Coming from Chambers of Commerce (K1) had more established views on small firms to large firms in the beginning. When K1 was asked about his view on small firm's role in the

network, K1 gave preference to the idea of small firm plays role of supporting large firms to achieve this goal of building network in the tourism sector.

> *K1 expressed by saying, ''Large industries always look to get assistance from small firms to strengthen the network in tourism field due to larger share of market by the large companies*.'' K1 held the view that the small firms' contribution to the overall impact on the network was minimal.

K2 states that Pokhara has a majority of businesses that are small in size and power. These are the one that stick together in hard times and difficult situations. *Haath ra nang jasta hun sano businesses haru bhaneko (a Nepali proverb which means the ties between small firms are similar to the bond of hand and nails).* They are complementary to each other for marketing, market sharing and promoting businesses.

**Section Two: Interviews of managers/owners**

- How and why do they establish networks with other businesses, associations, agencies, rural businesses and how do they view those relationships?

## Business and Networks

Two of the managers (M3 and M5) focus on collaboration action with other business due to social phenomena like friends and family relationship and sharing businesses but other put forward the idea for networking is solely on basis of business perspective (M2). Other expressed the view of connection to various organizations due to communication need (M1, M4).

> M3 describes the network with other business by saying, '' *he does keep relationships with some businesses which are interrelated to tourism sector due to family relationships, his cousin has recently established a lodge and which helps to market his restaurant business.'' For M5 it is more of a family focus, she describes she has built up only certain relationship in the area which is because, ''I have established the business recently and I have only a few relatives in Pokhara; she highlights by stating that I have two relatives who have got established business here and I do consult with them only.''*

For M4 the purpose of relationships is based on communication need. She explained after establishing the business for long time, she needed to increase the sale and need to learn new things, which was available being member of the recognized institution.

> She said, '' *I need to engage myself more into business and I need to grow, so I decided to join the association and chambers related to tourism/business so that I could get more information and training and practical experiences from others.''*

## Relationships with Other Businesses

Those businesses whose managers expressed positive views on networking with other businesses in the area were small firms. Only M5 had limited networking with other small businesses as she has just recently established the business. Most of them gave preference to marketing advantages for the networking among small firms (M1, M3 and M4). Doing so gives them the opportunity to share the cost on marketing and cover large scale marketing.

Other aspects of creating relationships with other businesses were described by M2 as exchange of experiences and sharing of know-how and providing complementary or supplementary products or services already available in the market. M5 expresses the view

that not to repeat the same mistakes previous businesses have done and to avoid the hurdles they have faced, we need to increase our capacity of getting ourselves into relationships. Without engaging ourselves with each other, we do not have capacity to offer package deals and promotion offers to share the community benefits. This relationship helps us to build up the external links already available in the market or search for others (M3).

### Relationships with Supporting Agencies

All interviewees were members of chambers and some were involved in association of various kinds according to their need. Almost all tourism enterprises consider that one of the main advantages of being involved in supporting organizations, association and agencies is the capacity to influence tourism polices at the local level and they believe this helps to provide better lobbying in their favor. All respondents (M1, M2, M3 and M4) believed that networks stimulate better –informed solutions, which are brought into the decision-making and decision-taking processes.

This type of relationships further helps to strengthen the geographical management and distribution of resources, which in return affect the effectiveness and efficiencies of tourism policies.

> M3 and M1 emphasis the importance of the effectiveness and efficiency of their capacity through network by saying, ''*Together there is almost unbreakable power among us to influence the policies we need for the betterment of the region.*''

Associating with different organization has allowed the small firms to learn among themselves through sharing experiences and discuss the know-how so that they can come up with new ideas and creativity.

> M1 says that, ''*If sharing and learning did not happen then the business will not be improved and promoted. So this is the basic criteria.*'' M2 says there are lots of interaction program organized with these agencies, so that we can share our knowledge with each other.''

Most of them were of the view that these supporting agencies were important for gathering innovative ideas and creativity for exploring new market segments from various parts of the world (M3, M5, and M1).

M2 and M4 gave a strong response regarding the possibilities of building new external linkages with different nearby and national and international markets. M2 expressed the view that the reality is that there are these organizations without which we cannot make and develop any regional or national links which is very important to tourism business as our customers mostly come from outside Nepal. M2 & M4 consider the development of a tourism network to facilitate the internationalization of enterprises to be important. This result is in accordance with many studies which show that one way to acquire internationalization-related competences is through the promotion of networking, in the form of formal and informal links (see Lindstrand, 2003 and Etemad, 2004). Knowledge and linkages are key resources in the internationalization process of firms and can be achieved through networks (Erkus, 2009).

On the other hand, the relationships with such organizations with respect to power and trust relationships show different facets of tourism sector. Some of them completely believe in the advantages of relation to associations for example.

> M2 states, ''*we truly believe in our association, if we do not become active ourselves continuously then the harm is ours. However, due to political vested interests and different*

*personal aims and ideology sometimes this is difficult even though they are cooperating with us very well.''*

In contrast M3 has total negative perception to the associations and agencies and explains that *''association never look after us and never heard our words so I don't trust them and I am trying to cancel the membership.''*

M1 and M2 are really satisfied with the support they are receiving from these organizations. M1 says, *''we trust in our association and they organize programs like street festival every year which helps us in promotion and there is no reason to move away from their power.'' M2 supports this by saying, ''there is no issues of power and trust with them as there is code of conduct for the people working there and we all have to follow the code of conduct.''*

## Networking with Rural Enterprises

Out of five respondents only two had some relationships with rural enterprises since the others say that package deals are done by other tourism operators. One of them has business relationships with rural enterprises through home-stay packages. This business sends its customer to these rural enterprises.

He explains by saying, *''we do have relationship with rural tourism places like Ghandruk because tourism is a networking business. We provide home stay packages for tourists. This is especially for self improvement of villagers and we highly focus on women empowerment and this helps backward people to come forward and explore local productions.''*

- What are the perceived benefits from such relationships?

The relationships with other businesses, suppliers, local producers, tourism operators, chambers/associations, consultancy, G/NGOs, customers and family and friends have been outlined below (table 1) and each relationship's characteristics have been explained.

**TABLE 1:** Characteristics of different relationships ---- Small Firms Relationships

| Other Businesses | supplier | Local Producers | Tourism Operators | Chambers/ Associations | Consultancy | Govt./ NGOs | Customers | Family & Friends |
|---|---|---|---|---|---|---|---|---|
| Collaboration in marketing | Product innovation | Fresh supplies | Supplementary products offers | Lobbying with the government | New technology | Policy formulation | Business feedbacks | Support and feedbacks |
| Tourist promotion | Product improvement | Organic Products | Package offers | Policy initiation | New idea and innovation | Market controls | Trust and sharing | Commercial and social activities |
| Human resource exchange | Cost effective marketing | Local products | Diverse products | Joint promotion | Expertise sharing | Gathering market intelligence | Offers and discounts | Support for values, attitudes and cultural setting |
| Product bundling | Wholesale supply | Easily available | Links to external fields | Training & Development | Auditing and taxation | Lobbying | Ideas | Promotion |
| Substitute/ complementary product offering | | Small scale buy outs | | Conference halls | Marketing tools | Survey | | Emotional support |
| | | | | Know-how sharing | Training | New studies | | Ideas and creation |
| | | | | Support for local and regional promotion/ events | | Joint development of infrastructure | | |
| | | | | Market information | | | | |

**Source:** Field interviews, 2010

- How do they regard the ties (strong vs. weak) within this network?

**TABLE 2:** Classification of Tourism Relationships

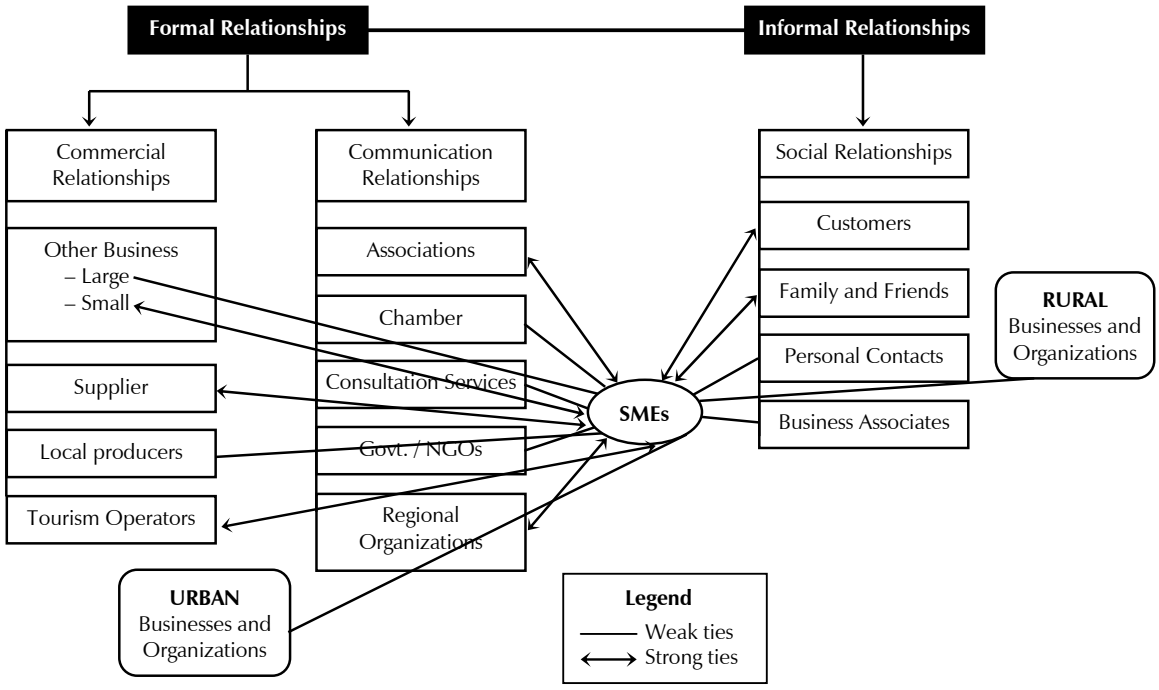
| Formal | | Informal |
|---|---|---|
| Commercial | Communication | Social |
| Other enterprises | Associations | Family |
| Supplier | Business Consultants | Personal |
| Local producers | G/NGOs | Business |

Above table no. 2 explains and classifies the relationships in tourism sector of the Pokhara region of Nepal into two major categories: Formal Relationships, which is made due to priority of business point of view. Other is Informal Relationships which is build because of family and social need, where business meetings relationship also comes. The formal relationships are further divided into commercial one and relationship raised due to communication need as the business grows. Commercial relationship gets highly importance as this is the major factor to help business grow due to competitive and complementary activities with other businesses in the area and the basic need to be supplied by the local producers to run the business smoothly.

On the other hand, communication relationships grow with the increase of commercial relationships and the businesses start making the effort to generate more information to be competitive. This effort of the business helps it to be legalise in the associations and chambers and supporting agencies. These supporting agencies provide the much needed information to the businesses by meetings, training and conferences. Therefore, the formal relationships play key role in the development of the businesses.

Such relationships are shown in the diagram (3) below which helps to visualise the structural diagram of the networks in tourism sector of the Pokhara region of Nepal. Such relationships are shown with the help of weak and strong ties, which depends of the individual need of the business at that moment.

**FIGURE 3:** Network Diagram



## Limitations and Implications, Conclusions

From the research done in the tourism sector of the Pokhara region of Nepal, the findings differed to that of Turkish tourism sector, as Erkus (2009) claimed that there was no networking relationships in the small businesses of the Antalya region of turkey but throughout this piece of research, we can see that there is significant relationship between tourism businesses in Nepal. From the findings above, we can conclude that there are growing business networks in tourism sectors in Nepal due to small area of tourism co-location that bring large number of tourists by developing relationships with each others. The different stakeholders coordinate with each other because they are growing in business sense, where as in Turkey the region has been already established to attract the mass tourism. They want to do more of trekking and hiking. So the nature of selection of the destinations and the stage of the development tourism industry could be the reason behind the different conclusion of these two research pieces.

The other findings of collaboration among businesses in the Pokhara region with respect to innovation and learning are similar to the claims made by Kogut, 2000, Blundel, 2002, and others which address that knowledge transfer and innovation development occurs because of confined ecology of each small firm. The process of sharing ideas and creation for knowledge development and innovation practices can be seen in the area from the introduction of new and adventures businesses like rafting, paragliding, hot air balloons, rock climbing.

The study was able to demonstrate how different actors and agencies are correlated to each other and how densely they are in links to the networks. This link keeps on moving within the network with the orientation and need of the businesses.

The different businesses viewed the networking meaning in different sense which is somewhat similar to theoretical definition but seems to be classified according to field need. The networks are viewed from commercial, communication and social angle. These stages of need changes with the development stage of businesses. There was a vital importance and valued role to be played by different stakeholders and supporting agencies.

The need for networking arises due to marketing and promotion need, knowledge and learning sharing and diversification of businesses and necessity of customers. Innovative ideas and creation plays significant part in the collaboration and relationships grows through sharing of resources. The benefits perceived from the small firms through their networking with supporting agencies could be specified as lobbying, regional development, training, product diversification, marketing strategies and so on.

Hence, Networking is a tool and approach used by small firms in the Pokhara region of Nepal to influence on their performances, which will be looked into during my Ph D research project.

### Limitations of the Research

The interview process has taken into account the scope and nature of the MRes dissertation and was considered the most flexible and effective measures to conduct such studies.

The fist issue was the numbers of respondents which was limited due to time factors and the scope of the research project. The study has tried to cover the views from the representations of different business sectors from tourism business. As the purpose of the qualitative study was to get an in-depth picture and views of the network in the Pokhara region of Nepal, the study has covered as much as possible within the stipulated time and considered the ethical issues and taken the required measures to overcome such problems. The respondents might not have

represented every aspect of the network in the tourism sector but this study is certainly a good basis for further future studies.

The second issue was the communication problem with the interviewees as the time difference and telecommunication problems were sometimes extreme. This has been minimized with the help of feedback on the summary of the interviews and the response from the key informants in this field.

Thirdly, the interviews were conducted by telephone using notes and audio recording for different interviewees. This could not get a natural setting for the qualitative study and decreased the ecological validity but on the other hand, there was less physical influence from the researcher himself, which should be an advantage for the study.

The researcher is confident that although this study had the above limitations that the main issues, aspects and characteristics of the relationships and inter-organizational networks in the region have been identified.

For future studies, this piece of work could be used in due course to look into the detailed mapping of tourism networks and the further evolution of structural dimensions of the network. Further, the in-depth studies of the performance of small firms could help to assess the impact on knowledge transfer and innovation creation among businesses in the region. These studies could help to generate more and new aspects on theory about network in the tourism region and to understand the behavior and inter-organizational ties among various actors. These could be applied to explore more on theoretical perspective and could be used by the tourism managers in praxis.

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# Green Marketing Initiatives of the Indian Corporates: An Empirical Study


- **P. Marishkumar**
  V.M.K.V. Engineering College,Vinayaka Missions University,Tamil Nadu, India.
- **B. Rajnarayanan**
  V.M.K.V. Engineering College,Vinayaka Missions University,Tamil Nadu, India.


## Introduction

There is growing interest among the consumers all over the world regarding protection of environment. Worldwide evidence indicates that people are concerned about the environment and are changing their behavior. As a result of this, green marketing has emerged which speaks for growing market for sustainable and socially responsible products and services. It is seen that most of the consumers, both individual and industrial, are becoming more concerned about environment friendly products. Most of them feel that environment friendly products are safe to use. Thus, green marketing has emerged, which aims at marketing sustainable and socially responsible products and services. Now is the era of recyclable, non-toxic and environment friendly goods. This has become the new mantra for marketers to satisfy the needs of consumers and earn better profits. The Indian consumer is evolving rapidly and with the democratization of media, global trends reach India much more rapidly than in the past. Companies are adopting green technology and methods such as water and electricity conservation techniques, rainwater harvesting, eco-friendly waste disposal and other processes. Trends in the industry in terms of products and services include use of paper bags instead of plastic bags, use of CNG, biodegradable detergents and soaps, environment friendly sprays, use of natural dyes, organic vegetables and fruits, non-polluting fuel and HCFC-free refrigerators are ruling the markets today. There is a new breed of green minded consumers who are opting for these environment friendly products. Currently, the number of these green consumers might be less but the future holds a strong possibility of increase in these green consumers. In general, green marketing is a much broader concept that can be applied to consumer goods, industrial goods and even services. Thus green marketing incorporates a broad range of activities, including product modification, changes to the production process, packaging changes as well as modifying advertising.

## Concept of Green Marketing

There is a common perception among the general population that the term green marketing refers only to advertising or promoting products that possess environmental characteristics. People associate terms such as recyclable with green marketing. Green marketing, while incorporating these claims, is a broader concept. It includes not only altering the advertising of a product but also a variety of activities such as altering production processes, changing packaging and modifying products. Polonsky defines green marketing as "all activities

designed to generate and facilitate any exchanges intended to satisfy human needs or wants, such that the satisfaction of these needs and wants occurs, with minimal detrimental impact on the natural environment."

This question of "why green marketing is important" has increased in importance. It is quiet simple and relies on the basic definition of economics. "Economics is the study of how people use their limited resources to try to satisfy unlimited wants." Thus mankind has limited resources on the earth, with which he must attempt to provide for the worlds' unlimited wants. In market societies, where there is "freedom of choice", it has generally been accepted that individuals and organizations have the right to attempt to have their wants satisfied. As firms face limited natural resources, they must develop new or alternative ways of satisfying these unlimited wants. Ultimately green marketing looks at how marketing activities utilize these limited resources, while satisfying consumes wants, both of individuals and industry, as well as achieving the selling organization's objectives.

## Why Companies Going for Green Marketing

When looking through the literature there are several reasons for firms increased use of green marketing. The possible reasons are mentioned herein below:

1. **Moral Obligation**: Organizations believe they have a moral obligation to be more socially responsible. Governmental bodies are forcing firms to become more responsible.
2. **An Opportunity**: Organizations perceives environmental marketing to be an opportunity that can be used to achieve its objectives.
3. **Cost Factors**: Cost factors associated with waste disposal, or reductions in material usage forces firms to modify their behaviour. Reduction of harmful waste may lead to substantial cost savings. Sometimes, many firms develop symbiotic relationship whereby the waste generated by one company is used by another as a cost-effective raw material.
4. **Competitor's Strategy**: In many cases firms observe competitors promoting their environmental behaviors and attempt to imitate this behaviour. In some instances this competitive pressure has caused an entire industry to modify and thus reduce its detrimental environmental behavior. Competitors' environmental activities pressure firms to change their environmental marketing activities.
5. **Limited Resources:** As resources are limited, it is important for the marketers to utilize the resources efficiently without waste as well as to achieve the organization's objective. Therefore, green marketing is inevitable.
6. **Governmental Pressures:** Various regulations are framed by the government to protect consumers and the society at large. The Indian government too has developed a framework of legislations to reduce the production of harmful goods and by products. These reduce the industry's production and consumers' consumption of harmful goods, including those detrimental to the environment; for example, the ban of plastic bags in Mumbai, prohibition of smoking in public areas, etc.

## Corporate Initiatives

Green marketing is a vital constituent of the holistic marketing concept. It is particularly applicable to businesses that are directly dependent on the physical environment; for example,

industries like fishing, processed foods, and tourism and adventure sports. Changes in the physical environment may pose a threat to such industries. Many Indian giants are now successfully implementing green marketing practices.

**Infosys**: Infosys is working to install lighting systems to make optimum use of daylight and attain maximum efficiency through artificial lighting. The company was also planning to procure green power to reduce emissions. Meanwhile, Infosys has replaced the old hardware with more energy efficient hardware. The new PCs and laptops the company is purchasing comply with environmental standards. Infosys has already started consolidating its server systems. The company has consolidated 185 individual file servers across the world into 33 Network Attached Storage infrastructures. For any future needs to increase the server capacity, they will be adding the disks to the Network Attached Storage infrastructure, instead of adding the file server.

**Maruti**: As part of its green city drive, Maruti Udyog Limited is working towards fitting compressed natural gas kits on all its petrol driven vehicles, including its bread-and-butter car "Maruti 800". The company has already drawn up plans to promote CNG vehicles in Delhi in the current fiscal. CNG is a viable alternative fuel since it offers lower emissions and has an extremely low running cost with an average fuel consumption of 19.6 km/kg and cost of Rs 11.30 per kg.

**TESCO**: TESCO is pumping $200mn into environmental technologies to reduce the amount of energy they use by 50 per cent compared with 2000 levels, by 2010. In addition to building 80 new eco-stores across Britain over the next year, the greenest of which will be constructed of recycled materials and will burn food waste for electricity, they are also making small changes that could have big results. They are paying customers not to use plastic bags which they expect would cut consumption by 25 per cent in two years.

**Wipro**: Homegrown companies like Wipro, too, are all for green products. The company, last year, launched a greenware range of desktops and laptops fully compliant as per the restriction of hazardous substances directive.

**Titan Industries**: It is adopting an eco-friendly process for recycling the discarded watches. It has launched an exchange offer where in an old watch bought from customers will be discarded in an eco-friendly manner.

## Statement of the Problem

No matter why a firm uses green marketing, there are a number of potential problems that they must overcome. One of the main problem is that a firm using green marketing must ensure that their activities are not misleading to consumer or industry, and do not breach any of the regulations or laws dealing with environmental marketing. Another problem that a firm faces is that those who modify their products due to increased consumer concern must contend with the fact that consumers' perceptions are sometimes not correct. Take for example the McDonald's ongoing scientific debate, which are more environments friendly. Some scientific evidence suggests that when taking a cradle-to-grave approach, polystyrene is less environmentally harmful. If this is the case McDonald's bowed to consumer pressure, yet has chosen the more environmentally harmful option. When firms attempt to become socially responsible, they may face the risk that the environmentally responsible action of today will be found to be harmful in future. Take for example, the Aerosol industry, which has switched from chlorofluorocarbons to hydro fluorocarbons only to be told. Hydro fluorocarbons are also

greenhouse gas. Given the limited scientific knowledge at any point in time, it may be impossible for a firm to be certain that they have made a correct environmental decision. This may explain why firms like Coca-Cola and Walt Disney World, are becoming socially responsible without publicizing the point. They may protect themselves from potential future negative flashback, if it is determined that they made a wrong decision in the past. Many organizations want to turn green, as to increase number of consumers' and to associate themselves with environmental-friendly products. But there are certain problems which are associated with green marketing such as: confusion among the consumers regarding the products; one often finds distrust regarding the credibility of green products; the technology involved in production and marketing of eco-friendly products is difficult to adopt due to huge costs involved. The additional costs involved may ultimately increase the price of the final product. This will cause a fall in the demand for the company's product reducing its customer base. For instance with the adoption of EURO I & EURO II standards by the car manufacturers in India, the prices of cars have risen sharply making them beyond the reach of average consumers.

All firms who undertake environmental marketing activities may not actually improve their behaviour. In some cases firms have misled consumers in an attempt to gain market share. In other cases firms have jumped on the green bandwagon without considering the accuracy of their behaviour, their claims, or the effectiveness of their products. This lack of consideration of the true "greenness" of activities may result in firms making false or misleading green marketing claims. One of the main problems is that firms using green marketing must ensure that their activities are not misleading to consumers or industry, and do not breach any of the regulations or laws dealing with environmental marketing. While governmental regulation is designed to give consumers the opportunity to make better decisions or to motivate them to be more environmentally responsible, there is difficulty in establishing policies that will address all environmental issues. There is a difficulty in measuring the ROI on green products. There are problems in understanding the application of regulations. Large capital manufacturing investments required to handle greener materials and greener investments. If firms make the packaging of their brands smaller, they may be at a disadvantage because of the reduced visibility of their brands on retail shelves. In this context, an attempt was made to assess the perception of 300 consumers about the green marketing practices of the select Indian companies.

## Objectives of the Study

- To study the need and importance of green marketing in general.
- To review the green marketing initiatives of the Indian corporates.
- To study the perception of the consumers towards green marketing practices of the select Indian companies.
- To suggest suitable measures for the effective green marketing process of the companies.

## Testing of Hypothesis

The study is based on the formulation of the following null hypothesis. $H_0$: The demographic variables of the consumers such as gender, age, educational status, and income, do not have any influence on their perception towards green marketing practices of the select Indian companies.

## Research Design

This study is empirical in nature based on survey method. The consumers of Wipro, Infosys and Titan Industries are selected for this study. As an essential part of the study, the primary data were collected from 300 consumers. The scope of the study is evaluating the perception of the consumers towards green marketing practices of the select Indian companies. By adopting quota sampling, 300 respondents i.e. 100 consumers from each company are selected. Questionnaire method was employed to collect the primary data. The secondary data were collected from journals, reports, books, and records of the companies. In order to study the perception of the consumers, chi square test, analysis of co-efficient of variation, multiple regression analysis, and percentage analysis were employed. The chi square test was employed to measure the association between the satisfaction levels of the consumers belonging to different demographic variables towards green marketing practices of the select Indian companies. The co-efficient of variation was employed to find out the consistency in the satisfaction level of the respondents towards green marketing practices. Multiple regression analysis was used to examine the impact of the personal variables of the respondents on their satisfaction with green marketing practices.

## Findings

1. There is no significant relationship between the satisfaction levels of the respondents belonging to different gender, age, and education and the green marketing practices of the select Indian companies. However, a significant association is found between the satisfaction levels of the respondents belonging to different income groups and the green marketing practices.

2. The female respondents, respondents of the age group above 50 years, respondents belonging to postgraduate qualification, and respondents belonging to monthly income up to Rs. 25000 are highly satisfied with the green marketing practices of the select Indian companies.

3. The variation in the satisfaction level was high among the female respondents, among the respondents belonging to 31-40 years, among the respondents holding postgraduate qualification, among the respondents earning monthly income Rs. 25001-30000 with the green marketing practices of the select Indian companies.

4. The gender, age, educational status and monthly income of the consumers have no significant effect on their satisfaction with the green marketing practices of the Indian companies.

5. About 50 per cent of the respondents are highly satisfied with the green marketing strategies followed in product, price, promotion, and distribution functions of the select Indian companies.

6. Misleading the consumers, lack of wide publicity, proliferation of regulations and guidelines, and lack of truthfulness in advertisement are the problems of the consumers with regard to green marketing practices of the companies.

## Suggestions

1. The companies those practice green marketing must environmentally be responsible. Because today's consumers are looking for more and they are looking at how the product addresses to different dimensions of sustainability, such as environmental impact, social impact, and economic feasibility.

2. In general, the customers are bothered about their own benefit and not on the profit of the company. For that reason, the companies shall make them to understand how they are benefited by using the product or service. Moreover, the companies need to judge whether the customers are educated enough or they are learning what it means to be green. When the consumers are still in the learning process, the companies can take efforts to teach them how using the product and service is beneficial as well as for the environment.

3. When the consumers understand the need of being environment friendly they will certainly purchase the company product or avail its service. Therefore, through consumer education, they can make a change in their decision and can stop using products that are harmful for the environment. Then the consumers will turn to the company knowing that it can help them do something for the planet even on local scale.

4. The advertisement of the company must address a relationship between a product or service and the biophysical environment to promote a green lifestyle by highlighting a product or service. Moreover, the advertisement must present a corporate image of environmental responsibility. "Truth in advertising is critical". Therefore, the companies can do away with hype and promote the truth in their advertisements.

5. The best way to convince the customers is to offer proof. If the product or service do some good to the customer as well as to the environment it is great. Therefore, the company shall share the fact with people and what can be a better way other than offering proof.

6. Price is an important factor in the green marketing blend. Most consumers are prepared to pay additional value if there is a perception of extra product value. This value may be as a result of improved performance, function, design, visual appeal, or taste. Therefore the companies can take all these factors into consideration while fixing a premium price. The price of the product should meet the expectation of the customers. High-end customers often don't mind paying more and will never question about price. In order to attract the non-premium customers, maintenance of an affordable price rate is so important.

7. Sustainability initiatives and marketing is to be real and authentic. Corporate transparency is at this moment the way of the world. Consumers don't expect the company to be perfect, but they do expect to be honest. Therefore the companies should not mislead the consumers. Because around 62 per cent of the respondents opine that they are mis-leaded.

8. The ecological objectives of the companies in planning products are to reduce resource consumption and pollution and to upkeep of scarce resources. Furthermore, the companies can conduct global warming campaign to make wide publicity for green marketing.

## Conclusion

Green marketing covers more than a firm's marketing claims. While firms must bear much of the responsibility for environmental degradation, ultimately it is consumers who demand

goods, and thus create environmental problems. It must be remembered that it is the uncaring consumer who chooses to disposes of their waste in an inappropriate fashion. While firms can have a great impact on the natural environment, the responsibility should not be theirs alone. It appears that consumers are not overly committed to improving their environment and may be looking to lay too much responsibility on industry and government. Ultimately green marketing requires that consumers want a cleaner environment and are willing to "pay" for it, possibly through higher priced goods, modified individual lifestyles, or even governmental intervention. Until this occurs it will be difficult for firms alone to lead the green marketing revolution. It must not be forgotten that the industrial buyer also has the ability to pressure suppliers to modify their activities. Thus an environmental committed organization may not only produce goods that have reduced their detrimental impact on the environment, they may also be able to pressure their suppliers to behave in a more environmentally "responsible" fashion. Final consumers and industrial buyers also have the ability to pressure organizations to integrate the environment into their corporate culture and thus ensure all organizations minimize the detrimental environmental impact of their activities.

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# Academia: An Ideal Practicing Ground for Process Consultation


- **Neha Gupta**
  Centre for Leadership, Innovation, and Change (CLIC), Indian School of Business, India
- **Rajeev Kumar**
  Management Development Centre, Larsen & Toubro, India


*'What we must decide is perhaps how we are valuable, rather than how valuable we are.'*

**F. Scott Fitzgerald (The Crack-Up)**


## Abstract

In today's era of accelerated change and uncertainty, there is an unprecedented need for teachers to play the role of a facilitator in developing the diagnostic and problem solving skills of the students. This is reflected in the course outlines of several reputed business schools in India and abroad, where the instructors often designate themselves as *facilitators* of learning and dissemination of knowledge. For instance, annual handbooks and/or course outlines of business schools namely Indian School of Business, Harvard Business School, Wharton Business School, Indian Institute of Management, and the like use the term 'facilitator' for the course instructors to distinguish themselves from the traditional perception of a teacher who predominantly focuses on delivering her/his lectures with scant attention to problem solving capability building of the students.

A close look at the underlying characteristics of the 'teacher-student' relationship reveals the implicit yet powerful correlation with 'Process Consultation'. This paper explores the idea of application of process consultation in the educational institutions to foster individual (student's) effectiveness. It attempts to extend the notion of consultation beyond conventional industry to classroom setting to develop the self-reflexive, self-analytic, and self-renewing skills of the students in the educational institutions.


**Keywords:** Process consultation; educational institutions; problem solving; capability building, students

## Introduction

Scharmer defines four levels of change namely 1) Re-structuring, 2) Re-designing, 3) Re-framing, and 4) Re-generating i.e. the deepest level of change which emanates from change in will/purpose. The greatest challenge encountered by the process consultants today is to help people and organizations access and operate from a deeper and more subtle level of organizational learning and change. (Schein, Kahane, & Scharmer, 2001). This paper attempts to extend the conventional approach to consulting to the classroom setting where teachers help the students uncover and develop their full potential and thus empower themselves.

The rhetoric of holistic development of child is unvarying since times immemorial and the process consultation model can emerge as a viable method to bridge the reality-rhetoric gap in educational institutions. The impetus for this paper comes from the evidence of improvement in inter-personal relationships and performance of groups with the help of process consultation (e.g. Schmuck (1979), Schmuck et al. (1969), Friedlander (1967), Argyris (1965)). This paper argues that the application of process consultation in the educational institutions can enhance the effectiveness of the learners by fostering their self-reflective, self-analytic and self-renewing capabilities. In this approach, the teacher doesn't provide direct answers/solutions to the students for the immediate problems, but encourages a reflexive openness and honesty about how they are addressed (Cooke, 1997). Even though a process consultation model in pedagogy will have the merits of being more developmental in nature, and empowering students to solve their own problems (Schein, 1987); it is not suggested that the process approach can fully replace or merge with the current teaching practices.

## Research Literature

There is ample evidence to prove that process problems can hamper the group's effectiveness. Maier and Solem (1952) demonstrated the negative impact of suppression of minority views in decision making in a group scenario. Zand (1972) has shown the adverse effect of mistrust on the ability of the group members to communicate, co-operate and make decisions, thereby impairing the group's performance. Hence, it is reasonable to hypothesize that a technique designed to remove or mitigate process problems can increase effectiveness of the group members (Kaplan, 1979).

Argyris (1962) established a connection between attention to process and work effectiveness. The study by Schmuck et al (1969) demonstrated the positive effects of multi-faceted process intervention at a school like improved teacher-principal relationship, lower teacher turnover, and an improved process in staff meeting. A large scale study of four types of OD interventions revealed that interpersonal process consultation had a positive effect on social variables like organizational climate, leadership, group performance, satisfaction. Although the performance was not explicitly measured, enhanced effectiveness can be induced from improved group process (Bowers, 1973). In another experiment, the groups that were trained using process consultation at an armed force R&D laboratory displayed greater personal involvement, mutual influence and group effectiveness (Freidlander, 1967).

In a laboratory experiment on undergraduates, quantitative problems were assigned to the groups. The results showed that groups using process analysis were more cohesive and functioned better but did not perform better than the control groups (Lipshitz & Sherwood, 1978). Kaplan (1969) found that the participants (undergraduate students) reported higher satisfaction from interpersonal relationships where the group task consisted of solving three cases on human relations.

## Reviewing Process Consultation

The intellectual roots of process consultation can be traced to the concept of group dynamics by Kurt Lewin in circa 1940s (Lewin, 1948). Edgar H. Schein, who is credited with the popularization of the term 'process consultation' as well as its use as a consulting tool, defined it as '*a set of activities on the part of the consultant that help the client to perceive, understand, and act upon the process events that occur in the client's environment in order to improve the situation*'

(Schein, 1969). The primacy of the client's view of the problem and its context is unquestionable in process consultation (Blunt, 1997).

The process calls for equilibrating the relationship between two parties at the outset so that they can work like partners in resolving the problem. The formation of a 'helping relationship' is not merely a pre-requisite for collaboration between the client and consultant for diagnosing and rectifying the difficulty, but the distinguishing characteristic of this approach to consultancy. The joint diagnosis is predicated on the fact that the consultant can rarely learn enough about the intangible and implicit aspects of the client system like culture, power bases, informal networks, team dynamics, group norms, etc. to design an appropriate workable intervention without the involvement of client. It stems from a belief in the three principles that undergird this model: (a) client knows more about the situation than the consultant ever will; (b) consultancy process needs to engender psychological ownership; and (c) the consultant should seek to develop the client's capabilities to solve their own problem (Cooke, 1997). A logical and commonsensical extension of the approach dictates that the teachers (consultants) should collaborate with the students (client) to develop an in-depth understanding of the explicit and implicit aspects to alleviate the problems impeding the performance of the student/s.

## Process versus Content

There is a distinction between *what* the group is trying to achieve and *how* it is going about it. The former refers to the content and the latter to the process of group activity (Schein, 1969). The content variables involve the problems themselves and the tasks to be performed such as the agenda of the meeting, problems to be solved, and decisions to be taken (Rockwood, 1993). The process variables refers to how tasks and problems are worked on by individuals and groups, for example, who talks to whom about what, method of decision making, and communication style. Process consultation, as the name suggests, focuses on the human processes including interpersonal relationships, communication, group and inter-group processes, and broader organizational issues such as values, culture and norms. It acknowledges and addresses the role of emotions in understanding problems (Schein, 1987).

In classrooms, for instance, decisions to select a particular project and daily allocation of work among the study group members comprise the content of group activity. Similarly, how do group members communicate with each other or how do they resolve their intra-group conflicts constitute the process of a group activity. In reality, the content and process blend into one another as the teachers need to familiarize the students with the content aspect of the subject (e.g. theoretical models, conceptual frameworks, formulae etc.) in addition to drawing their attention to the processes.

### Classification of Process

Processes can be further classified on the basis of its foci of observation and intervention (Ramnarayan & Gupta, Forthcoming).

- *Task process:* Task Process refers to how the task is carried out. For example – Consider the process of decision making in a group. Do the group members vote to arrive at the final decision? Do they make an effort to achieve consensus? Is the decision taken by a select few without consulting everyone in the group?

- *Interpersonal process:* Interpersonal Process refers to how members relate to each other, communicate with each other etc. For example – In one study group, students might be very attentive and polite while receiving feedback on the ideas proposed by them whereas in the other group; members may become aggressive or defensive when their ideas are being critiqued.

## Three Consultation Models

The repertoire of a consultant's tools consists of a wide array of consultation approaches. Depending upon assumptions inherent in different helping styles, Schein has identified three models of consultation (Schein, 1998).

1. **Purchase of Expertise:** In this model, the client diagnoses the problem and decides the kind of help s/he wants. Depending upon the diagnosis, s/he contacts the consultant with the required expertise to design and implement the solution. In essence, the client "purchases the expertise" of the consultant. The success of this model depends solely upon the accuracy of diagnosis by the client because the consultant merely fills in the expertise gap identified by the client.

2. **Doctor-Patient Model:** The client perceives a problem, describes the symptoms to the consultant, and entrusts the problem to the consultant. Based on client's description, the consultant acts like a 'doctor' who diagnoses and prescribes the treatment/solution to the client. Its success depends upon three factors – a) the capability of the consultant to unearth the pain-points of the client and recommend remedial actions, b) frank and honest sharing of information by the client and c) implementation of the solution by the client. The client's role is limited to accurately describing the symptoms being experienced, and following the doctor's advice.

3. **Process Consultation:** The differentiating characteristic of process consultation is that instead of consultant, the client owns the problem from the outset till the termination of the consultation process. The consultant forms a 'helping relationship' with the client. Together, they engage in joint diagnosis and problem solving like partners/collaborators. The role of the consultant is to facilitate the development of skills required for diagnosis and solution generation.

Amidst a slew of consultation models, process consultation stands out on account of the distinctive nature of client-consultant relationship**.** One of the fundamental differences between process consultation and other consultation approaches lies in the model of *helping relationship* (French & Bell, 2001). Process consultation involves collaborative problem diagnosis and joint problem solving to remedy the organizational problem. Unlike other consultation models, a process consultant does not act like a typical expert who enters the organization, rectifies the problem with low/no involvement of client and terminates the relationship once the results have been achieved. Instead, the consultant behaves like a partner by facilitating the honing of diagnosis and problem solving skills of the client (Schein, 1998).

Extending the concept of process consultation to academia, an effective teacher espouses the same philosophy by engaging the students and helping them learn and master the art of problem diagnosis and solution generation. The teacher, like a process consultant, assumes the role of a collaborator and a co-learner in the process of resolving the problem. The teacher forges a helping relationship with the students to promote an honest and open exchange of ideas, opinions, suggestions and knowledge. Despite the difference from traditional

consulting, process consultation is effective because client involvement is encouraged throughout the process which results in client empowerment.

## Assumptions of Process Consultation Approach in Educational Institutions

Process consultation presupposes exclusively good things about the client especially in one of its underlying principles that states: 'the client knows more about the situation than the consultant ever will' (Blunt, 1997). This principle is the most contentious in educational settings since the teacher is often is an expert in a particular subject with rich experience in teaching and interacting with students.

An underlying assumption of process consultation is that the skills of the students remain untapped with the current organizational systems, procedures, culture, norms and structure (Schmuck, 1979). The ability of the process consultation to facilitate capability building/task performance is rooted in the assumption that process problems can impede performance (Kaplan, 1979).

Process consultancy is normative and assumes that attention to means will produce the right ends (Blunt, 1997). Thus, precedence to means over ends is one of the ideological assumptions which can get in the way of pragmatic techniques that attach greater importance to the end results (e.g. grades/marks in exams for students).

The model assumes that the student as client has a constructive intent and some problem solving capability, and willingness to enter into a collaborative helping-working relationship with the teacher as consultant. It believes that the client does not want to engage exclusively in a dependent relationship where the client (student) abdicates the control to the consultant (teacher) (Rockwood, 1993).

The groups are assumed to be encountering obstacles that process consultation would presumably help them overcome. The ameliorative effect of consultation is an assumption at the outset of the process itself (Kaplan, 1979).

## Typology of Interventions in Process Consultation

Schein (1969) identifies four types of interventions that process consultants often employ in working with groups. All these interventions especially *counseling* can be potent tools for teachers in a classroom setting.

### Agenda Setting Interventions

These interventions are aimed at making the group aware of the internal processes by which it makes decisions and solves problems. For example – If a teacher finds that the way the students have defined the problem is narrow and ill-focused. S/he can assist them in proper statement and understanding of the problem. In short, s/he can help study groups in agenda-setting for an assignment/project.

### Data Feedback Interventions

Feedback given to a group on its interpersonal processes constitutes this category of interventions. For example – A teacher observing the students in a group activity e.g. making a

jig-saw puzzle, and giving feedback about the group communication and decision-making process is an instance of a data feedback intervention.

### Counseling

Counseling may often be required during or after a feedback session. For example, if the teacher observes dysfunctional behavior in a group member and shares feedback about the group, it may be necessary to counsel the individual to ensure that her/his behavior is suitably modified. At times, the teacher might have to counsel the group/individual members to help them sort out their differences.

### Structural Interventions

Structural interventions involve suggestions on how work should be allocated, committees organized, or group norms enforced. This type of intervention is useful in conjunction with one or more of the above interventions. For example – If a teacher perceives that the students in a class are very competitive, and want to inculcate a 'helping culture.' S/he can assign the project in such a way that competing members need to collaborate to finish the task.

### Approaches to Process Consultation

The initial phase of the consultation involves observation of the processes in the client setting (classroom) by the consultant (teacher) as a means of data gathering before embarking on process problems. After the teacher has observed and understood the task or interpersonal processes in the groups/classroom, s/he can make recommendations to the students to alleviate the problem. S/he can adopt one of the four approaches to process consultation.

***Process Management:*** The consultant/teacher may suggest several possibilities with emphasis on the processes but will leave the final decision of implementing a specific action to the client/student that s/he deems most appropriate. It is congruent with the process consultation philosophy where the consultant acts like a facilitator and not the decision-maker. For example – For effective conflict management in meetings, the teacher can draw student's attention to the process by sharing following ideas (Ramnarayan & Gupta, Forthcoming).

- "I want you to share step by step what happened in the meeting that led to the argument"
- "I would like you to role play the situation so that we can analyze how it went wrong."
- "Let's reconstruct the history to see how the conflict escalated over a period of time."

***Content Management:*** After developing a holistic view of the problem and situation, the consultant/teacher can give suggestions to modify the content i.e. "what is being done". However, the teacher should do this because the joint diagnosis should automatically lead the client/student to the content solution and the consultant/teacher need not play the role of an expert. For example – For effective conflict management in meetings, the teacher can suggest the following alternatives (Ramnarayan & Gupta, Forthcoming).

- "Why don't you delegate the responsibility of resolving conflict to the class representative?"
- "You can organize weekly meetings to sort out differences between members."
- "I suggest that you devote last 15 minutes of every meeting to resolve conflicts."
- "Why don't you ignore the dissenting members of the group and see what happens?"

***Structure Management:*** The consultant/teacher can either manage or make suggestions to change the structure to solve the existing problem. However, teacher should rarely resort to it because it signifies that the teacher has made up her/his mind about the problem and assumed an expert's role in telling the student what to do. Instead, the teacher should give students an opportunity to exercise their problem solving skills. For example – For effective conflict management in meetings, the teacher can give following recommendations (Ramnarayan & Gupta, Forthcoming).

- "Assign people with conflicting views to different tasks in project to minimize their interaction."
- "Make the conflicting members jointly responsible for the completion of the project."
- "Assign members with differences to same group in complementary roles to promote collaboration between them."

***Concepts Management:*** After assessing the situation and issue, the process consultant can decide to educate the client by sharing new ideas, concepts, theoretical framework or practical models relevant to the client's problem. The only issue with this intervention is that the client might perceive the education as irrelevant to her/his problem. For example – For effective conflict management in meetings, the teacher can recommend the following alternatives to the students (Ramnarayan & Gupta, Forthcoming).

- Ask the group members to read a book on Conflict Management.
- Attend a seminar on Conflict Management
- Advise the students to organize a workshop for the group on Conflict Management
- Share stories dealing with similar problems from her/his own experience.

## Objectives

The purpose of this paper is twofold. The primary objective of the study is to contribute to a conceptualization of process consultation that underscores the possibility of its application in the academic settings as opposed to the corporate settings (e.g. Farouk (2004)). Second, it aims to explore the efficacy of a somewhat overlooked, approach of 'teachers as process consultants' as a means of capability building of the students.

The paper contends that adoption of the role of a process consultant by a teacher has profound implications for the learners. It will not only help the students equip themselves with diagnostic skills but also ensure that they have the requisite capability and competence to rectify problems in future on their own. It will aid the students in overcoming the formidable challenge of managing and implementing change in the dynamic environment. It will improve their effectiveness by inculcating a habit of self-reflection, self-correction and self-evaluation.

## Methodology

The methodology includes extensive literature review from secondary sources of data including international journals and critically acclaimed books on Organization Development, and Process Consultation, in particular. The primary source of the data consists of exploratory interviews with the faculty members at the premier business schools in India including Indian School of Business who have rich experience in both teaching and consulting. The selection

criteria for an interviewee faculty member all of the following: a) Teaching experience > 5 years; b) Consulting experience > 5 years; c) Qualified in Organization Behavior and/or Organization Development.

Although in qualitative research, the data and interpretation are recognized to be subjective because the researcher holds biases impacting the questions s/he asks, where s/he looks for the answers, how s/he interprets the answers received, and how s/he presents these interpretations (Denzin & Lincoln, 2000), it was chosen over quantitative research because of other advantages it offers such as detailed explanation of the contexts in which the academic settings operate. Participants in the research i.e. interviewees in this case were selected purposefully on the basis of a pre-set criterion for their ability to offer varied information and diverse perspectives on the topic under study (Polkinghorne & Gribbons, 1999).

## Data Collection

Data collection in our study emphasized on obtaining a rich description of process consultation and its applicability to academia. It sought to investigate the beliefs and opinion of the interviewees from their combined experience as a teacher and consultant. The questions that formed the skeleton of the exploratory interview have been presented in Table 1.

**TABLE 1:** The Interview Questions for the Faculty

| S. No. | Questions |
|---|---|
| 1. | Have you heard of 'process consultation' being used in any of the schools, colleges or other educational institutions? |
| 2. | In your opinion, can we apply process consultation to educational institutions? |
| 3. | Where do you see the application of process consultation yielding maximum results? |
| 4. | Do you think that the skills acquired through process consultation can help students in self-renewal in their personal and professional life? |
| 5. | What are the major roadblocks that you perceive in adoption of process consultation approach in a classroom setting? |
| 6. | What are the difficulties that you foresee for teachers playing the role of a process consultant with students as their client? |
| 7. | Teachers usually resort to a 'Purchase of Expertise' or 'Doctor-Patient model' in classrooms. Please comment. |
| 8. | Would you experiment by espousing the philosophy of process consultation while teaching the students? |
| 9. | Would you recommend a workshop for faculty in schools and colleges to be trained in process consultation? |
| 10. | Please share your view on the possibility of using process consultation to improve the effectiveness of the students. |

The data collected from primary and secondary sources was qualitatively analyzed to assess the possibility of application of process consultation to academia. The information, views and opinions gathered from the semi-structured interviews were studied to identify the common patterns and themes emerging from the responses. These themes were further documented and analyzed by the authors independently to minimize personal biases and distortions in the interpretation of the data.

## Findings

The qualitative analysis of the primary and secondary sources of data indicates that the educational institutions are a suitable practicing ground for process consultation. However, acceptance of this pedagogical approach as a teaching method requires a change in the mindset of both academicians and students because process consultation is about assistance in how to do things and not pouring knowledge into the heads of the pupils (Ramnarayan, 2010). In

academia, the teacher and the students can play the role of the consultant and the client respectively to enhance the effectiveness of the students and the educational institution as well. Research indicates that for faculty to facilitate knowledge exchange, management instructors and students need to work together in an inquiring and exploring fashion Jenkins & Zetter, 2003). This ideology is coherent with the underlying principle of process consultation which advocates collaborative problem exploration and generation of solution.

In any association between a client and a consultant, forging a relationship with the client – labeled as 'a helping relationship' by Schein - is the foremost and absolutely necessary condition for any help or learning to take place (Frank Lambrechts, 2009). By using inductive reasoning, nurturing the 'student-teacher' relationship emerges as a determining factor in creating an environment conducive to learning and capability building of students. All the interviewees believed that relationship plays an instrumental role in acceptance of the learning and knowledge shared by the teachers to the students. This is also evident in the '*gurukul*' (In Sanskrit, *guru* means "teacher"; *kul* derived from *kula*, means "extended family"), the most prevalent system of education in ancient India. A gurukul is a type of school, residential in nature; with *shishyas* (students) living in proximity to the guru, often within the same house as extended family (Cheng, Tsui, Chow, & Mok, 2002, p. 194). In a *gurukul*, *shishyas* (students) reside together as equals, irrespective of their social standing, learn from the guru and help the guru in day-to-day activities. The notion of extended family helped the teachers in forging a strong bond with the students. In modern era, with dwindling numbers of *gurukul*, a teacher needs to make an effort to form a helping relationship with the students in the classroom.

Most of the interviewees asserted that 'informed experts are respected more in a class' and hence, the tendency to apply 'purchase of expertise' or 'doctor-patient model' in the classrooms. They believe that process consultation can be a very powerful technique to foster the development of students especially in team building, decision making, meeting, effective negotiation and conflict management. The interviewees accepted the limitation of process consultation in quantitative (finance or mathematics) courses where insufficient domain-expertise can be as detrimental as improper processes. It has more generic application across all disciplines and should not be confined to one subject area. Some of the interviewees believed that process consultation is used very effectively in all training programs but without giving title/name to the approach being employed. The interviewees unanimously felt that it is a good idea to organize a process consultation for faculty at schools and colleges especially at business schools where the students need the diagnostic and problem solving skills in their imminent professional life. They also pointed that several schools in North America have been formally engaged in process consultation for a period of 18 months or more (Schmuck, 1979).

Notwithstanding the subject taught by the teacher, the teacher is responsible to create the processes where learning will occur. A teacher can share her/his expertise in process consultation to help the students identify the root cause of the problem. While working together in a group, do they face difficulties on the content aspect (e.g. the formula/theoretical models required for a business plan) or the process aspect (e.g. how to ensure that all the group members are communicating their ideas effectively for the business plan). Most of the respondents believed that the application will yield more benefit in programs/courses where the association between the student and the teacher is for a longer duration. Process consultation is essentially about the question of realizing, and realization takes time (ISB, 2010).

One of the primary goals of the teacher i.e. to nurture a student's manifest and latent potential is congruent to the aim of building client's capability in process consultation. The teacher endeavors to develop students' diagnostic and problem solving skills instead of providing readymade solutions to rectify the issues encountered by them. If the teacher doesn't pass on the problem identification and solving skills to the students, s/he is constricting their ability to tackle problems in her/his absence in the future (ISB, 2010).

The efforts of the process consultant are directed not only at assisting the client in problem solving, but also at the passing on of process skills. One of the prime objectives of process consultation is to develop in the client an ability to become sensitive to process problems and also diagnose and intervene in interpersonal and group process problems. Similarly, the teacher also strives for the holistic development of the student where tomorrow s/he is adept at tackling interpersonal problems that s/he might encounter in her/his personal and professional life (ISB, 2010). The interviewees believed that the lessons learnt on process observation and process problem solving transcend the confines of the classroom and last for a lifetime because process consultation model has been successfully used in rectifying the community development and family problems as well (Schein, 1998).

The teacher should be adept at switching roles from consultant to expert as the situation warrants along with adequate attention to the subject knowledge (ISB, 2010). In addition, inculcating a collaborative culture of problem solving and improved inter-personal skills will enhance the self-renewing capability of the students as they learn to adapt to environmental changes. Process consultation can improve the overall performance of the educational institutions because it enhances the staff members' ability to communicate accurately, set goals clearly, confront conflict constructively, solve problems collaboratively and make decisions jointly (Schmuck, 1979).

The biggest mistakes that a process consultant can commit do not arise out of insufficient knowledge or understanding, but from lack of respect and humility (Schein, Kahane, & Scharmer, 2001). Hence, irrespective of the knowledge amassed/experience gained by the teacher, s/he should show considerable respect to the students which gets in the way of the authoritative orientation in the Asian culture. Instructors often make a huge mistake by walking in the classrooms with their own agenda whilst their prime objective should be to improve the self-renewing capability of the students.

## Theoretical and Practical Implications

Our research has clear implications for the teaching methodology adopted by the teachers in schools and colleges. In terms of the role of a teacher in a classroom setting, research suggests that process consultation can play a critical role in the learning process and the learners benefit from sharpening their diagnostic and problem solving skills. The involvement of the students from the outset of the process to the termination of the relationship results in 'empowerment' of the students. Specifically, for the learners to develop self-renewing capability, they should be able to identify the problems and generate the alternatives/devise the remedial action on their own. Thus, educational institutions should sensitize the faculty with process consultation approach to foster the capability building of the students and the organization as well.

A close examination of student-teacher interaction elucidates the overlap with process consultation. Table 2 summarizes how the different steps in process consultation can be mapped effectively in a classroom interaction between students and teacher. It proposes a

conceptual model of process consultation in educational institutions to enhance the effectiveness of students.

**TABLE 2:** Proposed Model of Process Consultation in Educational Institutions

| Steps in Process Consultation | Implementation in Educational Institutions |
|---|---|
| Entry | The teacher is assigned a specific course for a set of students. S/he enters the classroom at the beginning of the term. This is her/his first point of contact with the students i.e. entry into the client setting. |
| Contracting | Expectation setting by the teacher in terms of resources, time and skills s/he will provide and what the students are willing to commit. The expected output at the end of the association is also decided at the outset. The teacher acts like a facilitator where the onus of learning lies on the students. In other words, the students i.e. the client owns the problem like traditional Process Consultation model. |
| Forming a relationship | Process consultation is not merely about providing information, solutions or recommendations; rather it's about transferring a helping attitude. It is imperative for the students and teacher (just like client and consultant) to strike an equilibrium in the relationship where none feels being one-level up/down to facilitate the development of a *helping relationship*. Initial relationship building is instrumental to the success of the intervention as it facilitates joint diagnosis, problem solving, and acceptance of the remedial action. The teacher forges a 'helping relationship' with the students so that none feels loss of face in the process of helping/being helped to preempt denial of suggestions or feelings of resentment/incompetence. In this approach, even the consultant is an active learner by collaborating with the client. |
| Diagnosis of problem | The teacher i.e. consultant shares the tools and methodologies with the students i.e. the client which will aid them in the diagnosis of the problem. For example – In case study assigned to a group of students, the teacher shares with the class how to diagnose a problem/unearth the root cause. S/he takes on the role of a partner in the investigation of the situation at hand, thereby honing the diagnostic skills of the students. S/he draws their attention to the process problems like ineffective communication within the group, management of multiple perspectives, decision making etc. in addition to the content issues. |
| Solution Generation | Instead of providing ready-made solutions for the queries/problems faced by students, the teacher encourages the students to generate alternatives and then make an informed choice about the solution they deem appropriate. In this manner, the teacher doesn't let the students abdicate the responsibility, and facilitates the development of problem solving skills. However, the teacher is accessible and available throughout the process for handholding or any subject related expertise. The practice of allowing the students to diagnose and solve the problems on their own also engenders psychological ownership and a sense of empowerment. Students feel equipped to resolve issues on their own in the future with/without the involvement of teacher. |
| Termination of relationship | The end of the course marks the termination of relationship between the students and the teacher. Before the termination, the teacher ensures that the goals outlined at the 'Contracting' stage have been fulfilled. Throughout the association, s/he is persistent in drawing the client's attention to the *process* along with content – by asking questions or emphasizing the processes involved like conflict management, decision making style etc. S/he transfers her/his skills in process observation, diagnosis and problem solving to equip students for problems in future. |

There are two recommendations to enhance the effectiveness of the students. The suggestion for teachers does not imply that teachers should become process consultants with students with low/no focus on the content aspect of the subject/course. First, the teachers should be sensitized to 'process consultation' so that they can empower the students, thereby accelerating their capability building. The teacher should possess the required expertise along with the helping attitude to foster the overall development of the students.

Second, the learners should have the opportunity to practice process observation and process improvement in the classroom setting. This may not be easy to accomplish in view of the effectiveness of the current methods of teaching which rely heavily on the 'purchase of

expertise' or 'doctor-patient model'. However, teachers can also follow the '7E framework' as designed by Ramnarayan and Gupta (*forthcoming)* for managers and practicing consultants to become an effective process consultant (Table 3). The student who has sought help from the teacher can be labeled as the client.

**TABLE 3:** '7E' Framework for Process Consultants

| | |
|---|---|
| **Establish** | •Establish a *helping relationship* with the client to encourage sharing of information by client and minimize any defensiveness on the client's part. The client should feel at par with the consultant and not feel any loss of face because s/he is seeking help.<br>•**Action Implication**: Build a level of trust to establish a helping relationship |
| **Empathize** | •The consultant needs to put himself/herself in the shoes of the client to understand the problems undermining the efficiency of the group, group norms, cultural context, power dynamics, interpersonal relationships etc.<br>•**Action Implication:** Learn to look at the reality from the client's lenses |
| **Enquire** | •The client may/ may not share all the details /factors impeding the performance in the initial meetings till s/he develops trust. Therefore, the consultant must enquire about the relevant events, processes, people etc. before sharing her/his observations with the client.<br>•**Action Implication:** Develop a 'spirit of enquiry' for in-depth understanding of the problem |
| **Exemplify** | •Do not make any interpretations/inferences from vague/incomplete information given by the client. For e.g. - There is no team spirit Ask for specific instances to elaborate what s/he means by team spirit because the same phrase means different things to different people.<br>•**Action Implication:** Ask the client to provide concrete examples to illustrate the problem |
| **Examine** | •The consultant should not only examine the client's assertions but also her/his understanding of the situation, problem, context, group norms, setting and organizational culture etc. by paraphrasing or making statements like "Am I correct in deducing that ..." or "Have I rightly understood that...".<br>•**Action Implication:** Constantly examine the self, client, situation and environment |
| **Engage** | •After the consultant has established a helping relationship and gathered all the required information and checked her/his understanding; s/he should engage with the client in *"joint diagnosis"* and "*problem solving*" with emphasis on process.<br>•**Action Implication:** Involve the client in diagnosis and problem solving |
| **Empower** | •The consultant should empower the client by passing on his diagnostic and problem solving skills. One of the prime objectives of consultation is to develop these capabilities in client to enable her/him to tackle problems in future with/without the consultant.<br>•**Action Implication:** Hone the client's capability to diagnose and solve process problems |

**Source:** (Ramnarayan & Gupta, Forthcoming)

## Study Limitations and Directions for Future Research

There are several limitations to our study. Firstly, we focused mainly on secondary sources of data and selectively interviewed few people who had experience in teaching along with prior knowledge of Process Consultation. Thus, we did not capture the views of the OD practitioners with no experience in teaching and vice-versa.

The paper predominantly supports the application of process consultation for ideological reasons. Research findings on the impact of process consultation on improvement of task performance and increasing student effectiveness are unclear.

The needs of the research dictate that to determine the causal relationship between process consultation and performance; a single independent variable (consultation) should be manipulated at a given time with 'performance' as the dependent variable (e.g. Lipshitz & Sherwood (1978); and Kaplan (1979)). But the structure and curriculum design in the educational institutions prescribes that the development of students proceeds simultaneously on multiple fronts. Therefore, one cannot disentangle the impact of process consultation from other interventions, thereby making it difficult to measure the performance improvement. Future research should isolate the effect of process consultation by controlling other influencing variables and use proximal measures of improvement.

In the face of lack of empirical evidence to validate the assertions made in the paper, research to examine the effect of process consultation on capability building of the learners is a direction for future research. We propose a controlled experiment to evaluate the task performance of students at the end of the course. The study should consist of two groups of students with similar demographics like nationality, educational level, religion etc. who are taught the same subject by the same instructor. For instance, in a course on 'Effective negotiation', the instructor would employ the traditional teaching methods with one group whereas apply process consultation with the other group. The effectiveness of the approach can be ascertained by a comparative analysis of the controlled outcome evaluation of the two groups. Explicitly measuring the enhancement of performance of the students will aid our understanding of the effects and utility of process consultation approach in academia.

## Conclusion

The epigraph *'What we must decide is perhaps how we are valuable, rather than how valuable we are'* by F. Scott Fitzgerald at the beginning of the paper challenges us to expand the myopic, narcissistic view of ourselves and measure our true worth by using our abilities to help and develop others. This paper shows the possibility of application of process consultation in academia; traditionally treated as a consulting tool; as an approach to foster the learning and capability building of the students. While the field of process consultation may not have been deeply explored, it is logical to contend that the method designed to remove process problems can increase the effectiveness of the individuals and groups (Kaplan, 1979). Scientific validity may not legitimize the process consultant's methods, but the intention to develop and help the students makes the utility of this method an unassailable truth. The teachers who espouse the philosophy of process consultation attempt to help students develop better problem solving skills. However, when time is a scarce resource, people often lack the luxury of appreciating *how things are done* and are more interested in *what is produced.* Nevertheless, the educational institutions with progressive thinking who incorporate process consultation in their teaching armory will be more disposed and equipped to meet the challenges of an increasingly dynamic and complex world where adaptability is the key to survival.

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# Globalisation and Quality Excellence in Management Education

❑ **R. Satya Raju**
Department of Commerce and Management Studies, Andhra University, Andhra Pradesh, India

❑ **Miss R. Suneetha**
Business Analyst, GENPACT, Bangalore, India

## Introduction

Globalisation has intensified interdependence and competition among countries in the world market. Out of the top 500 higher educational institutes in the world, the United States dominated other countries with 42 per cent of the world's top 500 higher educational institutes in 2005. Even in 2010 the US and European schools are on the top. Studies revealed that globalisation and economic growth progressed hand-in-hand in the post reform period. The BRIC (Brazil, Russia, India and China) economies moved positively with a considerable number of institutions. As of 2005, India had only three institutes in the top 500 and in the top 100 higher educational institutes in the world. IT is expected to be on the top countries by 2020.

Total quality management (TQM) and Six Sigma approaches help a lot for improving quality excellence. The concept of TQM has evolved and developed from the concepts of quality control and assurance. It focusses on the customer and quality. In 1950s, the concept was coined by Armed Fienberg. It is customer oriented and involves long term commitment. It depends upon top management commitment. In order to satisfy the customer, several companies have been following various quality management practices. Adopting Six Sigma is the best method. In India, the B Schools also competing among themselves to improve quality to satisfy the customer. The issues relating to European Foundation for Quality Management (EFQM) model for business excellence, Quality Management (QM) initiatives and competitiveness among B schools, the best Indian B schools, perceptions of customers and some suggestions are presented in this paper.

'Perform or Perish', 'Grow or Perish', 'export or perish' are the new mantras of some management schools and business enterprises in the globalised era. In the present context, several B Schools have been performing well to meet the global standards. In India, Indian School of Business (ISB), Indian Institute of Management and Indian Institutes of Technology are considered to be the world class. In addition, about 100 management institutes have been growing fast and performing well. In India, over 1150 institutes and universities have been offering management education full time for two years. Some institutions have been offering part time management programme (evening) and Distance Mode programme for three years. Thus, Indian B Schools have been offering full time (2 years), part time (3 years) and Distance Mode (3 years or 2 years) management education during 1957 – 2000. In recent period, Indian School of Business (ISB) was established by leading CEOs of India with the objective of

offering world class management education in India. It is proved to be a really world class and one of the best B Schools in the world. The school offers one year residential management programme equivalent to MBA, with the collaboration of internationally reputed Wharton and Kellogg B Schools. The programme is highly successful and the students have been getting global placements by several top multinational companies.

## The Need

The liberalised era has been conducive for collaborations and creating cooperative work environment at various parts of the globe. The global opportunities for the management education have given philip to the young and energetic youth to pursue management courses at anywhere as per their choice. As a result, people from Asian countries have been studying in United States or Europe. Some students from African continent are studying in Asia. "Learning from each other has become a popular slogan to improve the work environment and quality of management education at different parts. As companies also have introduced new strategies, new structure, new systems and style in managing the enterprises, the management schools have to impart education as per the requirement of the corporate world. Every management school has to introduce new methods of teaching, new areas of knowledge, creative and innovative work environment to prepare the students to face the global challenges.

Some studies have been conducted on management education by different scholars all over the world. Some are under progress to be completed shortly. A careful introspection and analysis of the studies reveal that some studies are required to improve the quality of education further. Every school should become a center for learning and imparting quality education. This study is undertaken to examine the quality of management education and offering some suggestions for its excellence.

## Objectives

The following are the main objectives of the study:

- To examine the growth and quality of management education;
- To present the best management schools;
- To elicit the perceptions of customers (students) of management.

The Ultimate objective is to offer some suggestions in managing the schools for excellence in quality.

## Methodology

This study is based on the surveys conducted by various organisations to present the best business schools in India and also the parameters considered. Secondary data has been the main source for analysing the ranking of the business schools.

As the students of management are the main customers of any business school, students have been interviewed with a simple questionnaire to elicit their views. The students from universities studying management education have been chosen for the study. Ten universities in India covering five states have been included. From each University 25 students have been selected, thus, the total sample constituted 250. Random sampling technique has been adopted. The students' responses have been outlined very briefly.

## The Size and Structure of Management Schools

The management schools in India have been growing significantly during the last two decades. The first B-School was started in 1957 at Andhra University and later, two IIMs were established at Ahmedabad and Calcutta along with some B-schools. About 300 schools used to offer MBA programme by 1990. By 2010, the number has been increased drastically to over 2,000 schools. The growth rate was below ten in sixties and increased to over 400 per cent by 2010. The reason was globalisation, liberalisation and privatisation.

There are some world class management institutes in India offering graduation and doctoral programmes. Those are IIMs, ISB, IITs, IIITs. The following are the seven world class IIMs in India.

- Indian Institute of Management – Ahmedabad
- Indian Institute of Management – Calcutta
- Indian Institute of Management – Bangalore
- Indian Institute of Management – Lucknow
- Indian Institute of Management – Indore
- Indian Institute of Management – Kozhikode
- Indian Institute of Management – Shillong

An international management institute was established by top corporate Indian CEOs at Hyderabad i.e. Indian School of Business (ISB). The government of India has decided to establish another seven new management institutes about couple of years' ago. Those are at seven areas of the nation covering different parts. The proposed new IIMs in India are given below:

| New IIM | Mentor | Proposed Schedule | Status |
|---|---|---|---|
| IIM – Ranchi (Jharkand) | IIM – C | 2010 | Begins from 2010 |
| IIM – Rohtak (Haryana) | IIM – L | 2010 | Begins from 2010 |
| IIM – Tiruchirapalli (Tamil Nadu) | IIM – B | 2010 | Begins from 2010 |
| IIM – Raipur (Chattisgarh) | IIM – I | 2011 | Begins 2011 |
| IIM – Udaipur / Jaipur (Rajasthan) | IIM – A | 2011 / 12 | Work in progress |
| IIM – Kashipur (Uttarakhand) | Undecided | 2011 / 12 | Work in progress |
| IIM – Jammu & Kashmir (location not decided) | Undecided | 2011 / 12 | Work in progress |

## EFQM Model

14 large European MNCs formed the European Foundation for Quality Management (EFQM) to promote TQM principles in Europe. EFQM model for business excellence is based on the following nine factors: Leadership (10 per cent); People Management (9 per cent); Policy and Strategy (8 per cent); Resources (9 per cent); Processes (14 per cent); People Satisfaction (9 per cent); Customer Satisfaction (20 per cent); Impact on Society (6 per cent); Business Results (15 per cent). Malcolm Baldrige Quality National Award (MBQNA) considers the parameters of leadership (90 pts) information and analysis (75 pts), HRM & Management (150 pts), Education and Business Process Management (150 pts), School performance results (230 pts), student focus and student stakeholder satisfaction (230 pts). In the United States and other countries also quality in management of business schools has become an important dimension.

## Initiatives for Quality Management

The Government of India has been taking several measures for quality improvement. Some committees were constituted to suggest measures for quality improvement. The Report of the Education Commission – 1964-65, National Policy on Education 1986, the Programme of Action 1995, Vision 2005 are some of the initiatives. University Grants Commission (UGC), All India Council for Technical Education (AICTE) at national level, State Councils for Higher Education at state level have been taking several measures for quality. The UGC's National Assessment and Accreditation Council (NAAC) and AICTE's National Board of Accreditation (NBA) have prepared some guidelines for quality.

In addition to the AICTE, the UGC, several other bodies like Bar Council of India (BCI), Medical Council of India (MCI), Indian Nursing Council (INC), Pharmacy Council of India (PCI), Dentists Council of India (DCI), Central Council for Indian Medicine (CCIM), Veterinary Council of India (VCI), Distance Education Council of IGNOU (DEC – IGNOU), Rehabilitation Council of India (RCI), have also been established for various activities. The programmes like Special Assistance Programme (SAP), College Science Improvement (COSIP) College Humanities and Social Sciences Improvement Programme (COH SSIP), some other schemes were initiated by the UGC for quality improvement.

As per the NAAC, the following are the criteria for assessment of an institution.

- Curricular Aspects;
- Teaching – Learning – Evaluation;
- Research – Consultancy and Extension;
- Infrastructure and learning resources;
- Student support and progression;
- Organisation and Management;
- Healthy Practices.

The criteria for assessment and the points for various institutions were outlined as follows.

| Criteria | Unit of Assessment | | |
|---|---|---|---|
| | Universities (a) | Affiliated Constituent Colleges (b) | Autonomous Colleges (c) |
| Curricular Aspects: | 15 | 10 | 15 |
| Teaching, Learning Evaluation: | 25 | 40 | 30 |
| Research Consultancy and Extension | 15 | 05 | 10 |
| Infrastructure & Learning Resources | 15 | 15 | 15 |
| Student Support and Progression | 10 | 10 | 10 |
| Organisation and Management | 10 | 10 | 10 |
| Healthy Practices | 10 | 10 | 10 |
| Total | 100 | 100 | 100 |

NAAC is the founder member of International Network of Quality Assurance Agencies in Higher Education (INQAAHE). Over 120 National Agencies of INQAAHE have been engaged in Assessment, Accreditation and Academic Audit. At International level also some institutions have been getting certification for global recognition and standards.

According to the NAAC of UGC the factors considered for assessment are: curricular aspects (15, 10, 15); teaching, learning practices (25, 40, 30); research, consultancy and extension (15, 5, 10); infra structure and learning resources (15, 15, 15); student support and progression (10, 10, 10); organisation and management (10, 10, 10); and healthy practices (10, 10, 10). These factors are taken into consideration in universities, affiliated and constituent colleges and autonomous colleges respectively. Based on these several colleges and universities have been assessed

## Competitiveness among B Schools

There is a lot of competition among the B schools in India. A world class B school in India, advertises as, "Learn for one year and leader for Life". Another B school states "Learning for Leadership". One of the reputed B schools in India with international focus stresses its strengths as ours is India's first corporate – sponsored B school with 25 years of excellence in management education and ranked in the top ten B schools in India. 100 per cent placement in reputed organisations; 36 internationally claimed faculty; international collaborations with leading B schools; state of the art infrastructure wi-fi campus; multimedia class rooms, lush green and environment friendly campus.

Our B school features are: Full time two year residential programme. 100 per cent placements since inception; winner of Global Social Entrepreneurship Competition (GSEC) by university of Washington, Winner of Microsoft Imagine Cup 2005 at Yokohoma – Japan; Winner of Managerial Excellence Award 2005 by Madras Management Association, Active Collaboration with a Public Sector Giant, a computer center with a 2 mbps dedicated line and internet facility, accessible round the clock with connectivity to all hostel rooms, air conditioned library and 1100 online journals, upto date curriculum in tune with latest industry requirements. Another B school says, we are ranked consistently among the top B schools in India; 100 per cent placement record since inception in top organisations; continuous mentoring by industry professionals, student Exchange Programmes with leading foreign business schools / universities; strong – academic industry interface; state of the art campus. Our is an ISO 9001: 2000 certified institute. Our B school nurtures talent with the best in management education. It provides a disciplinary background and extensive work experience that helps in learning management principles and the dynamics of global business environment. "Dare to think beyond IIM's" is another slogan of another business schools.

In our B school, latest courseware and competent teachers facilitate constant upgrading and transform students into leaders who inspire others to aspire. An ISO – 9001 certified institute and A rated premier B School imparting professional education for the state of the art infrastructure, separate hostel facility for boys and girls, Lush green environment; air conditioned class rooms and conference hall; well equipped computer labs and library; library and computer facility at hostels, mess and canteen facilities.

## The Best B Schools

Some organisations in India, such as, COSMODE, All India Management Association (AIMA), Business World, Outlook, etc., have been conducting surveys on the Best B schools. The latest studies are shown below. The top 10 Indian B Schools in 2005 (COSMODE study – Alphabetical order, not by Rank) are given as follows:

- Fore School of Management, New Delhi;
- Indian Institute of Foreign Trade, New Delhi;
- Indian Institute of Management, Ahmedabad;
- Indian Institute of Management, Bangalore;
- Indian Institute of Management, Calcutta;
- Management Development Institute, Gurgoan;
- National Institute of Industrial Engineering, Mumbai;
- S P Jain Institute of Management & Research, Mumbai;
- Xavier Institute of Management, Bhubaneswar;
- Xavier Labour Relations Institute, Jamshedpur.

**Top Ten B Schools in 2005: (All India Management Association Study)**

- Xavier Labour Relations Institute, Jamshedpur;
- Xavier Institute of Management, Bhubaneswar;
- University Business School, Chandigarh;
- National Institute of Industrial Engineering, Mumbai;
- Institute of Management Technology, Gurgoan;
- Institute of Rural Management, Anand;
- Institute of Management Technology; Ghaziabad;
- Indian institute of Foreign Trade, New Delhi;
- Dept. of Management Studies, IIT, Delhi;
- S P Jain Institute of Management & Research, Mumbai.

**As per Business World survey in 2010, the best B schools were:**

- IIM – Ahmedabad
- IIM – Calcutta
- XLRI – Jamshedpur
- IIM – Kozhikode
- NIIE – Mumbai
- IIM – Indore
- NMIMS – Mumbai
- MDI – Gurgaon
- IIFT – Delhi
- JBIMS – Mumbai

Parameters Considered for ranking the schools by Cosmode – BW – Survey were:

**Infrastructure (100 points)**

- Physical Infrastructure (35)
- Library (30)
- Computer and Teaching Aids (25)
- Qualitative Evaluation (10)

**Faculty (250)**

- Faculty strength (110)
- Ph.D.s Produced (10)
- Faculty Publications (75)
- Other Programmes (30)
- Qualitative Evaluation (25)

**Placement (300)**

- Domestic and international (45)
- Average Domestic Salary (100)
- Return on Investments (20)
- Industry Interface (15)
- Alumni (15)
- Validation and Qualitative Evaluation (105).

**Networking (100)**

- Programmes & Research (25)
- Students & Research (15)
- Faculty Exchange (15)
- Member of Professional Body Awards & Electives (35)
- Qualitative Evaluation (10).

Parameters considered (AIMA Survey) were: Intellectual Capital (100); Admissions & Placements (100); Industry Interface (100); Governance (100); Infrastructure (100).

Overall score of top 10 B Schools was 95. Intellectual Capital, admissions and placements, infrastructure, industry interface varied from 85 to 95. Governance was observed from 75 to 95. Other Parameters in Top 10 B Schools are: student to faculty ratio; student to computer ratio; auditorium capacity; number of Ph.D.s; percentage of Ph.D.s; number of titles published; no. of papers published; no. of consultancy projects; no. of MDPs organised in 2 years; salary in last payment Rs.6,27,637. These values varied from category of B schools.

## Category wise B School Averages

### B School Category

| Parameter | Top Ten | A | B | C |
|---|---|---|---|---|
| Student to Faculty Ratio | 4.6 | 5 | 7 | 11 |
| Student to Computer Ratio | 1.1 | 1 | 2 | 3 |
| Auditorium Capacity | 719 | 503 | 366 | 499 |
| No. of Ph.D | 31 | 12 | 5 | 2 |
| No. of papers published | 129 | 32 | 8 | 2 |
| No. of Consultancy Projects | 74 | 22 | 5 | 1 |
| No. of MDPs' organised in 2 Years | 119 | 41 | 15 | 1 |
| Salary in last Placement (Rs. in lakhs) | 6.27 | 3.88 | 1.86 | 1.32 |

An other survey by Business and marketing revealed the following top B schools in India.

- India school of Business, Hyderabad (ISB – H)
- Indian Institute of Management – Ahmedabad (IIM – A)
- Indian Institute of Management – Bangalore (IIM – B)
- Indian Institute of Management – Calcutta (IIM – C)
- Faculty of Management Studies (FMS, Delhi)
- Xavier Labour Relations Institute (XLRI)
- Indian Institute of Management – Lucknow (IIM – L)
- Indian Institute of Management – Indore (IIM – I)
- Indian Institute of Foreign Trade
- Indian Institute of Technology – Kanpur
- Management Development Institute – Gurgoan (MDI)
- Indian Institute of Management – Khozikode (IIM – K)
- SP Jain Institute of Management & Research (SPJIMR)
- Narsee Morjee Institute of Management Studies (NMIMS)

The factors considered for ranking the schools were: Global exposure; fun factor; course contents; faculty; infrastructure; personality development; students profile; administration; research and writings; industry interface; placement and packages; alumni; parental perspective. Based on the score, the schools have been classified under grades representing A+, A, B+, B. The final ranking has been based on cumulative mean score.

For quality assessment, the B schools have been rated based on the following factors.

### Mission, Goals and Organisation

- Mission : (20)
- Management : (60)
- Resource Utilisation (Physical & Financial) : (100)

- Academic performance (Faculty & Staff) : (150)
- Students : (100)
- Teaching – Learning Processes : (200)
- Supplementary Processes : (50)
- Industry – Institute Interaction : (100)
- Research : (120)
- Innovation : (50)
- Contribution to Community : (50)

The parameters considered for Business World (2010) Survey were: Infrastructure (150); Intellectual Capital (250); Placements (250); Industry Interaction (150); Pedagogy (100); Institute's Recognition (50). All these parameters are examined in detail as following:

### Infrastructure (150)

- Location of the School (10)
- Campus Area (10)
- Facilities for Students (15)
- Facilities for Faculty (15)
- Healthcare Facilities (10)
- Recreational Facilities (15)
- Auditorium (5)
- Wi-Fi Faculty in Campus (10)
- Laptops / Computers for Students (10)
- Projectors in Class rooms (5)
- Speakers and mikes in class rooms (5)
- Online library / knowledge resources (5)
- Inbound Journals (10)
- Classroom Layout (10)
- Dissertations / case studies (5)

### Intellectual Capital (250)

- Student – Faculty ratio (2)
- Faculty with above 10 years experience (20)
- Proportion of faculty with PhD (30)
- No. of guest faculty (Indians) (10)
- No. of Guest faculty (global) (10)
- Management Development Programmes (20)
- No. of consulting hours (20)

- Faculty attendance international seminars / conferences (20)
- Faculty papers presented international (20)
- Faculty paper presentation in India (20)
- Student feedback mechanism (5)
- Faculty appraisal practices (5)
- No. of books published (10)
- Research done: A peer reviewed journals (20)
- Research papers in International journals (20)

### Placements (250)

- Average salary per annum (50)
- Maximum salary per annum in India (30)
- Students placed globally (20)
- Placement in India and abroad (20)
- Maximum salary (p.a.) global (20)
- Proof of placement (10)
- Return on investment (100)

### Industry Interaction (150)

- No. of industry visits (20)
- Corporate visitors (20)
- No. of research projects (40)
- Alumni Association (10)
- Alumni websites (10)
- Industry sponsored tests (10)
- Faculty – Industry experience (20)
- Industry experts as guest faculty (20)

### Pedagogy (100)

- V-sat programme (20)
- Entrance test scores (30)
- Frequency of curriculum review (10)
- Student exchange programme (10)
- No. of students sent abroad (10)
- Quality of institutional tie ups (10)
- Faculty exchange programmes (10)

### Institute's Recognition (50)

- Recognition at National level (20)
- Recognition at International level (30)

## Students Perceptions

A study was conducted in India with a simple questionnaire to obtain the perceptions of the 250 budding executives who joined during 2009. Their achievements, expectations and other related issues were briefly outlined as follows:

- The background of the students pursuing management education was 60 per cent urban and 40 per cent rural in India, 10 per cent were from abroad;
- Most of them (except eight per cent) had 10+2+3 educational background (BA, B.Sc., B.Com., BBM);
- Eight per cent had technical qualification (B. Tech. 10+2+4 system);
- About 10 per cent were from abroad (Africa and Nepal);
- 10 per cent of them appeared for CAT but could n't get admission in IIMs;
- Girls represent 45 per cent;
- Most of them had good faith in the university system and the management education offered by university affiliated colleges;
- Their achievement was entering into management profession along with some other distinctions.
- Faculty was mostly from India and they had doctoral degrees from Indian universities.
- Exposure to international business and practical environment was not adequate (80 per cent).
- Infrastructure was not enough in the business school (90 per cent).
- Placement companies in the past at campus were not upto mark (75 per cent); Recreation facilities were satisfactory (85 per cent). All the respondents felt that campus location was excellent.
- The management and organisational aspects should be improved (80 per cent).
- Faculty of the management schools mostly from local area within the state (90 per cent). They had doctoral qualifications from the Indian universities. Only four per cent were from abroad.

Their expectations were: encouragement from the faculty; good guidance to acquire practical knowledge; healthy environment; to get managerial skills; to acquire knowledge; to get good placement; to join in MNCs; to get skills for managing business; to acquire skills to take up entrepreneurship; to become good leaders; to get good career opportunities; to become successful in life; to become useful citizens in the future. The students with engineering background had expressed their dissatisfaction for studying same courses along with the students of three year degree background. They preferred better courses for the engineering graduates. Most of them (over 80 per cent) felt that value based management education was highly required to have a competitive edge over other institutions.

## Suggestions

The following suggestions are expected to enhance value of the management education. The Government of India, State Councils for Higher Education, the UGC, the AICTE and other agencies have to prepare PDCA (Plan, Do, Check and Act) cycle to improve the quality and create quality culture in management education. The managements of various organisations need commitment towards quality and should improve quality continuously. The people involved in the system i.e., faculty, staff, community and other stakeholders have to work with discipline, dedication and devotion. The managements of various companies need their support and cooperation to join as partners in progress. They have to continuously coordinate and monitor the education system. Need based programmes are to be offered by the institutions. Industry has to invest for creating facilities in selected institutions for research and training. Industry has to provide sustained motivational inputs for the faculty to pursue high quality research and consultancy. Separate programmes for engineering and medical graduates are to be designed to attract the talented people. Collaborations with reputed B schools and faculty are required. The role of the faculty is to be extended as mentors and counselors to mould the career of the students; The placement cells are to be strengthened to get global placements in reputed companies. Focus should be on problem solving or case studies. All the institutions need networking with national and international bodies for mutual benefit.

The administration should work together for global and national placements as per the requirement of the students. The students should be well equipped with all the necessary skills and talent to work for high performance. Infrastructure is to be developed at all schools. The curriculum should be revised frequently and incorporated the new management practices. Alumni associations have to do their best in improving the image along with all the participants concerned. Faculty requires international exposure and participation at different conferences / seminars. They have to prepare case studies and have industry consultancy as per the requirement. The collective efforts of all are highly required for creating world class organisations.

## Conclusion

In the recent period, some new trends can be observed. The interesting trends are that the one year MBA Course is slowly gaining momentum. IIM Ahmedabad, IIM Calcutta, IIM, Bangalore and IIFT New Delhi have already been introduced one year MBA programmes. IIM-B, IIM-A and IIM-C offer the programme full time one year and IIFT offers the programme during weekends. IIMs have designed the course for executives with experience who can take a break from their jobs for one year. An other new feature is that the management education at IITs, is also going to become highly competitive and expected to reach the top positions in the near future. During January 3 – 8, 2005, an Indian institution had organised a programme on Advanced Management in Pune with top Harvard's Professors (Krishna G Palepu, Nitin Nohria Das Narayandas) and the fee for each participant was Rs.2.5 lakh. Several such programmes were organised by various agencies and institutions by collecting huge amounts for short duration programmes. Even ISB in India charges Rs. 1.5 lakh to Rs. 2.5 lakh for a short MDP with 3 to 5 days duration. Some B schools have collaborations with top B Schools abroad and offering qualitative management education in recent years. The best faculty available abroad has also been sharing their expertise with the Indian B Schools. As a result, the quality of management education has been improving. The managements of several institutions and

Government of India have also been keen on the quality concept and implementation. The collective efforts of all the managements, state institutions and the global organisations are highly required for quality excellence in management education. The business schools are to be customer centric and market driven enterprises. The success or excellence depends upon several factors like leadership, management commitment, continuous coverage, recognition and rewards, participation of all the groups in the process of achieving the mission of quality excellence.

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# Women Entrepreneurship - Challenges to Women Empowerment


- **Robita Sorokhaibam**
  Department of Commerce, Manipur University, India
- **Nandita Laishram**
  Department of Commerce, Manipur University, India
- **Sanasam Amarjit Mangang**
  Department of Commerce, Manipur University, India


*"Respect for women is a prerequisite for success of countries in the modern world. In the dynamic 21st century no society can expect to flourish with half its people sitting on the sidelines, with no opportunity to develop their talents, to contribute to their economy or to play an equal part in the lives of their nations."*

**– Condoleezza Rice, Former US Secretary of State**

Women constitute almost half of the total population of the world. Similarly in India women constitute half of the total population. Though India is developing economically and technologically by leaps and bounds, women here still continue to be discriminated and bear almost all responsibility for meeting basic needs of the family. With illegal female infanticide on the rise, authorities need to check the growing imbalances in the society because the position and status of women in any society is an index of its civilization. But with the impact of globalization, women are now seeking gainful employment in several fields in increasing numbers. With the spread of education and awareness women entrepreneurs are spreading their wings to higher levels. Emergence of women entrepreneurship in an economy is an indicator of women's economic independence and their improved social status.

Women entrepreneurs have been making a significant impact in all segments of the economy. Women entrepreneurs may be defined as a woman or a group of women who initiate, organize and run business enterprise. In terms of Schumpeter concept of innovative entrepreneurs, women who innovate, initiate or adopt a business activity are called business entrepreneur. It is the group of women or single woman running an enterprise or company in order to earn profit. Nowadays because of women empowerment women are stepping out from the four walls of kitchen and are involved in several entrepreneurial activities. Today women are running several business like Beauty Parlours, Pickle making, Agarbati making, Switching shops, boutiques, etc.

The Government of India has defined women entrepreneurs based on women's participation in equity and employment of a business enterprise. Accordingly, a woman entrepreneur is defined as an enterprise owned and controlled by a woman having a minimum financial interest of 51% of the capital and giving at least 51% of the employment generated in the enterprise to a woman. A woman entrepreneur has also to perform all the functions involved

in establishing an enterprise. These include idea generation, and screening, determination of objectives, project preparation, product analysis, and determination of forms of business organization, completion of formal activities, raising funds, procuring men, machine, materials and operations of business. They have to perform various functions like exploration of the prospects of starting a new business enterprise, Undertaking of risks and handling of economic uncertainties involved in business, introduction of innovations, imitation of innovations, co-ordination, administration and control, supervision and leadership. Women entrepreneurship helps reduce poverty, promote gender equality and empower women. But it has another impact – providing women with the means to improve the health of their families and finance the education of their children.

The hidden entrepreneurial potentials of women have gradually been changing with the growing sensitivity to the role and economic status in the society. Skill, knowledge and adaptability in business are the main reasons for women to emerge into business ventures. 'Women Entrepreneur' is a person who accepts challenging role to meet her personal needs and become economically independent. A strong desire to do something positive is an inbuilt quality of entrepreneurial women, who is capable of contributing values in both family and social life. The glass ceilings are shattered and women are found indulged in every line of business from pappad to power cables. The challenges and opportunities provided to the women of digital era are growing rapidly that the job seekers are turning into job creators. They are flourishing as designers, interior decorators, exporters, publishers, garment manufacturers and still exploring new avenues of economic participation. Historically, entrepreneurship has been a male dominated pursuit, but many of today's most memorable and inspirational entrepreneurs are women. However, women have experienced special problems as entrepreneurs or aspiring entrepreneurs.

The main aim of this paper is to discuss the challenges or problems faced by women entrepreneurs in Manipur.

## Relation between Women Entrepreneurship and Women Wmpowerment

Women development or empowerment has emerged as an important issue in recent times. The economic empowerment of women is being regarded these days as a Sine-quo-Non of progress for a country, hence, the issue of economic empowerment of women is of paramount importance to political thinkers, social scientist and reformers. Entrepreneurship has paved the way for economic independence of women. Through entrepreneurship women are becoming economically independent and providing employment opportunities to others.

The emergence of women entrepreneurs and their contribution to the national economy is quite visible in India. Women entrepreneurship in India needs to be studied separately for two main reasons. First reason is that women entrepreneurship has been recognized as an important untapped source of economic growth. Second is that the topic of women in entrepreneurship has been largely neglected both in social sciences and in the society in general.

Development of a society is directly related with the income generation capacity of its members. And entrepreneurship is the right word for income generation especially for women. Micro enterprises are an integral part of planned strategy for securing balanced development of the economy of the women. Women's participation in agro-based activities is much more than what statistics reveal. This is mainly due to the fact that most of the work done by the women at farm and home is disguised as daily chores.

Women in India possess abundant resources to take up enterprises. To take up entrepreneurial venture one need an innovative mind and motivation. Nowadays economic development is one of the factors that have changed the entire scenario of social and cultural environment within the country especially for women. Through entrepreneurship women are generating income which helps to alleviate poverty and hence could achieve self sufficiency. They are economically empowered and are now attaining status in family and community.

## Contribution of Entrepreneurship in Women Empowerment

Empowerment of women has always been a challenge. Entrepreneurship not only enhances national productivity and employment but also helps to develop the economic independence, personal and social capabilities among women.

Following are the personal and social capabilities which were developed as result of taking up enterprises by women.

- Economic empowerment
- Improved standard of living.
- Self confidence.
- Enhance awareness
- Sense of achievement.
- Increased social interaction.
- Engaged in political activities.
- Improved in leadership qualities.
- Involvement in solving problems related to women and community.
- Decision making capacity in family and community.

Economic empowerment of women by entrepreneurship led to the empowerment of women in many things such as socio-economic opportunity, property rights, political presentation, social equality, personal rights, family development, market development, community development and at last the nation development.

## Women Entrepreneurship in Manipur - A Glimpse

During the past decades we probably heard a lot about need to encourage entrepreneurial activity in women communities as their participation percentage is low. In the traditional division of labour the man is perceived as the provider and the women as the one who primarily cares for the family. This division of labour still exists in Manipur. Women still assume the responsibility for family and children, this creates conflict and problem in making their work life and family hang together. But in these past few years we have seen quite radical changes in the traditional sex roles which help to blur the distinction between the value of men and women. With the impact of globalization and increasing literacy rate among women it allows women to choose more lines of business than before. Nowadays in Manipur we are experiencing this phenomenon. Women are establishing enterprises and are running businesses in fields that have been traditionally male territory. Earlier women of Manipur are engaged only in traditional sector which is handloom industry the only largest cottage

industry in the state. Most of their handloom products fetch good price- tag in the international market and they are well known for their handloom designs. But now women are engaging themselves in both traditional and non-traditional sectors and are running their enterprises and businesses quite successfully. And with the recent phenomenon of Self Help Groups (SHG's) in the state, it has strengthened the women in establishing tiny enterprises in every corner of the state. These SHGs help in giving birth to women intrapreneurs within the organization which helps in the overall growth of entrepreneurs in the state.

A survey on women entrepreneurs has been conducted and the following data's has been collected from various district of the state. A total of 450 entrepreneurs (a sample size of 50 entrepreneurs from each district) have been collected. Based on the data's the following tables and information has been provided.

## Women Entrepreneurs in Different Sectors

Women of Manipur contributed in a large scale in the economic development of the state. Most of the small enterprises and businesses are equally run by women folks. These small enterprises can be started with a small investment. The large and medium scale industries need a huge amount of capital in which only a few fortunate can afford to do, majority of enterprises are small enterprises which are dominated by women folks. The women entrepreneurs of the state are very committed, hard working and are very artistic in nature.

Today women are not involved only in traditional sectors like handloom and handicrafts but they have plunged themselves in non-traditional areas like Beauty Parlors, Xeroxing, Agarbati Manufacturing, Kids care Schools, running Restaurants etc..

**TABLE 1:** Women Entrepreneurs in different sectors

| Sectors | | No. of Entrepreneurs | Trained | Untrained |
|---|---|---|---|---|
| **Industry :** | Handloom and Handicraft | 120 | 40 | 80 |
| | Fruit Processing | 35 | 35 | - |
| | Agarbati making | 25 | 5 | 20 |
| | Food Processing | 20 | 20 | - |
| | Embroidery | 90 | 75 | 15 |
| | Tailoring and Wool knitting | 40 | 33 | 7 |
| | Gift item& Doll making | 45 | 28 | 17 |
| **Service:** | Beauty Parlour | 45 | 45 | - |
| | Xeroxing & Computer works | 20 | - | 20 |
| | Restaurant | 10 | - | 10 |
| **Total** | | 450 | 281 | 169 |

Source: Field Survey

The above table shows that 74% of women are engaged in industry sector whereas 26% are engaged in service sectors. The above trained entrepreneurs got basic training from various training centres in the state whereas some learned it by just mere observation from other entrepreneurs and some inherited the business from their parents or were a family business. From the above table it is clear that handloom and handicraft is the heart of women enterprises in Manipur, it is so because a woman of Manipur has been engaging themselves with this cottage industry as a culture. Running of service sector enterprises has only been a recent phenomenon in Manipur.

## Motivational Factors Behind Setting up of Enterprises

Setting up an enterprise is not an easy job for women entrepreneurs in Manipur. At the same time running the enterprise is a greater task. A challenge is always there for these women entrepreneurs to run their enterprise successfully earning profit and ensuring the growth of the enterprises which will severely test their entrepreneurial skill and survival of the unit. Despite various odds against them, several women are off to run their own enterprises.

**TABLE 2:** Motivational factors of women entrepreneurs

| Motivational Factors | No. of Women Entrepreneurs | Percentage |
|---|---|---|
| Desire to be independent | 360 | 80% |
| Earning more money | 250 | 55.5% |
| To prove oneself | 179 | 39.7% |
| Better status in the society | 90 | 20% |
| To utilize own skill | 179 | 39.7% |
| To contribute to employment | 398 | 88.4% |
| Influenced by success stories | 23 | 5.1% |

**Source:** Field survey

From the above table it clearly shows that desire to be independent is the most important motivational factor behind the setting up of enterprises by women entrepreneurs. Next important motivational factor is to earn more money so that they can afford a higher standard of living. Better status in the society is the next important motivational factor behind setting up of enterprises in the state by women community. But to some other entrepreneurs they set up their enterprise only to utilize their own skill and help in imparting their knowledge to others so that others can learn and set up their own enterprise and to help them in earning money to have a proper stand in life.

## Attitudinal Change in Women Entrepreneurs after Starting the Enterprise

In our state entrepreneurship seems to be an ideal job for women in seeking participation in economic development of the region. After starting their enterprises women felt that they could command more respect from the family and the society. They now carry enough confidence in themselves which help in the proper running of their enterprises. Now after running their own enterprises they felt that their family members became more supportive to them and felt that they have been consulted in decision making which is a very important, now they get more support and help from the family in domestic work. Now to some other people they have become role models which are quite an achievement.

**TABLE 3**

| Attitudinal change | No. of Women Entrepreneurs | Percentage |
|---|---|---|
| Increase in respect | 360 | 80% |
| Increase in support | 380 | 84.4% |
| Consulted in decision making | 388 | 86.2% |
| Help in domestic work | 228 | 50.6% |
| Role model for others | 15 | 3.3% |

**Source:** Field Survey

## Challenges of Women Entrepreneurs

It is true that the field of entrepreneurship is not a bed of roses. There are problems and problems vary from industry to industry, firm to firm and even from individual to individual. But whatever be the problems, women entrepreneurs are to face them. In fact, the efficiency of an entrepreneur is measured by her efficiency in handling problems. In an attempt to find out the problems faced by the sample entrepreneurs, some problems are selected and they have been asked to assign ranks in order of importance. The following table provides the weighted ranks of different problems faced by these entrepreneurs.

**TABLE 4**

| Problems | No of entrepreneurs | Percentage |
|---|---|---|
| Problems of timely finance | 360 | 80% |
| Problems of technology | 280 | 62.2% |
| Shortage of skilled labour | 220 | 48.8% |
| Shortage of power | 350 | 77.7% |
| Dual responsibility | 120 | 26.66% |
| Problems of marketing | 118 | 26.22% |
| Lack of financial knowledge | 380 | 84.4% |
| Lack of Proper organization | 189 | 42% |

**Source:** Field survey

The major hurdles that woman entrepreneurs face are the availability of resources to carry out their business. The most important is the allocation of funds that comes in the form of money to Research and Development. The availability of funds is very low since the schemes operate solely through bank, which are extremely reluctant to extend trade-related finance to small customers because of the risks and operational costs.

Another largely ignored factor is the availability of knowledgeable partners who can run a successful entrepreneurship after its initial stage. This is so because there is a great tendency for the entrepreneur to move from one project to another. The lack of knowledge on the part of the management can halt the development process, if adequate training is not provided.

Historically, women owned businesses have not been successful even in the developing countries due to the lack of Government support. It remains the most significant problem in mainly the theoretical and male dominated societies.

Besides due to the remote access and unavailability of knowledgeable labour, it is difficult to advise the local entrepreneurs who are willing to take the risks. Access to capital, labour, commercial markets and managerial staff are hindered due to remote locations.

## Conclusion

The field of women entrepreneurship in Manipur is mixed with problems and opportunities, still there are great prospects. Such prospects can be viewed from socio-economic changes, availability of resources, increasing role of promotional organizations and also infrastructural facilities.

In early days, women face resistance from the society and from the family to take up entrepreneurship. But nowadays such resistance has been minimized to a great extent and degree of male domination has decreased to certain extent. Now parents and husbands are

found to have encouraged their daughter and wives to take up entrepreneurship. The availability of resources in our state has great impact on economic and industrial activities. Leaving aside the traditional handloom and handicraft industry, at present the most important stress is given on food processing industries for women. The state has rich resource for this type of industries. Fruit processing industries is also another area where women can exploit a lot opportunities.

At present the women entrepreneurs in the state are in advantageous position for development as they are endowed with special benefits and schemes in addition to the general ones. Many entrepreneurship development programmes are undertaken exclusively for women who have considerable impact upon potential women entrepreneurs. Various new schemes are now in operation to reduce the gap between problems and opportunities. It is right time for women entrepreneurs of the state to come up to the big stage and join the big league of entrepreneurs. Now environment are favoring them and it is the right time to make a positive move.

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# Management Styles: How Different is China from the "West"?

❑ **Henrique Schneider**
Swiss Federation of Small and Medium Enterprises, Swiss University of Applied Sciences, Switzerland

## Abstract

Literature on the differences between Chinese and "Western"-style management is substantial. Some authors take insights from culture, history, religion, and the like in order to promote the following rationale: Since China and the West have meaningful differences, the respective management styles are different as well.

This article challenges this view in three ways:

1. The concepts of China and the West are far too general to be taken as a basis for the comparison of management styles. They lack homogeneity in the appliance of management techniques as well as in the respective cultural background.
2. Management style depends more on the firm's overall goals and the personality of managers than on the cultural background. Management tools and concepts are being employed and taught globally. They are, however, adapted to a firm's needs and to the ability of managers.
3. The results of an empirical survey conducted in 2010 in the Chinese city of Chongqing show no significant differences to a similar survey conducted in "the West".

All things considered, this article challenges the view of an East/West divide and explains management-styles in different terms. It especially aims to convey more and better knowledge of adaptive management styles as well as to turn the attention towards an important but less-known industrial city in China.

Methodically, this paper first discusses the idea of cultural contexts of management, behaviour, and organizations. It then challenges many of the theoretic constructs implying a "divide". This will be especially shown with the empirical survey contrasting Chongqing with Western cities. Some of the explanations for the similarity in management styles are global education, global benchmarking, complex supply chains, and overall economic efficiency. All of these factors of influence the push for homogeneous practices throughout similar branches. This research is new in its main thesis and traditional in its methods.

**Keywords**: China, intercultural communication, corporate behaviour, management style

## Introduction

"We expect loyalty and hard work. In return we give personal loyalty, commitment, care, and respect." If asked, almost no manager would deny the legitimacy of this statement; indeed,

many working in human resources – HR – might even make this the department's slogan. In an article published in 2000, however, Michael Miles claims this phrase to embody the essence of Chinese-style management. In the last decade, the literature about management techniques in China seemed to out-boom the country's GDP growth. Closely related to this, the research on organizational behavior, corporate culture, and management styles highlighting the differences between East and West has also been on the rise.

This paper asks the question whether there are noticeable differences in management styles between companies in the US, in Europe, and China. Despite all general work regarding overall differences, there is a need for empirical support of the "difference-thesis". Employing a questionnaire, this article empirically compares revealed preferences among the selected regions.

As many speak of the coming Asian century (meaning: Chinese) on the one hand, and as many US or European companies are facing difficulties in adapting their organizational layout or management to China – Google as a most recent example – the question posed by this article is timely and critical. Western enterprises and managers pulling out of the Middle Kingdom almost never blame their difficulties on costing, financing, marketing and so on; they mostly blame it on the cultural difference.

Taking revealed preferences as a good proxy for what actors really think, want, and favor, this paper contributes to current research on the interrelation of overall culture, organization culture, and management style. By attempting to do so, it sharpens the debate on an important issue and has implications for many practical problems.

In fact, this paper challenges the common view of unbridgeable cultural differences in three different ways:

1. The concepts of China and the West are far too general to be taken as a basis for the comparison of management styles. They lack homogeneity in the appliance of management techniques as well as in the respective cultural background.
2. Management style depends more on the firm's overall goals and the personality of managers than on the cultural background. Management tools and concepts are being employed and taught globally. They are, however, adapted to a firm's needs and to the ability of managers.
3. The results of an empirical survey conducted in 2010 in the Chinese city of Chongqing show no significant differences to a similar survey conducted in "the West".

Methodically, this paper first discusses the idea of cultural contexts of management, behaviour, and organizations. It then challenges many of the theoretic constructs implying a "divide". This will especially be shown with the empirical survey contrasting Chongqing with Western cities. Some of the explanations for the similarity in management styles are global education, global benchmarking, complex supply chains, and overall economic efficiency. All of these factors of influence the push for homogeneous practices throughout similar branches.

## The Theoretical Framework: Organizational Culture and Management Style

In this section, relevant research literature will be reviewed, and the most common lines of thought on a fundamental separation of China from "the West" will be identified. Then, the inconsistency of these claims will be analyzed, concluding that the concept of a homogenous West against a homogeneous East faces severe challenges.

## Literature Survey

Management styles here are simply defined as the particular or distinctive manner in which managers organize, control, or direct affairs in their institutions concerning questions like: How do they utilize their power for the control and allocation of resources? How do they exercise power over their colleagues? What power protection tactics do they employ in order to get themselves into or remain in office, and to what consequences?

It has been suggested that management style is key to organizational performance and to the businesses overall performance and productivity. In order to improve a company's competitive advantage, the specific instruments employed by managers are crucial for global businesses. Perhaps it is because of this suggestion that managerial science embarked on the course of research on organizational behavior and the cultural differences between management styles. Schein (1985, 19) defined culture as "a pattern of shared basic assumptions that a group learned as it shoveled its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems."

It was in the advent of another Asian economic power that organizational culture and the difference in management styles boosted as a topic of research. In the 80s, Japanese culture and its implications for management became a focus of research (e.g. Ouchi, 1981; Pascale and Athos 1981; Peters and Watermann, 1984). At the beginning of the 90s, China entered the scene, and by 2000 at the latest, research on Chinese organizational behavior emerged as a new serious topic.

Martin Lockett was among the first to analyze the psychology of Chinese management and the consequences thereof. In his 1988 article "Culture and the Problems of Chinese Management", he outlined five problems: (i) organizational structure; (ii) management skills and succession; (iii) party/management relations; (iv) operational, (v) motivation, and labor discipline. He saw Chinese culture to have four main features affecting organizations: (a) respect for age and hierarchy; (b) group orientation; (c) *face;* and (d) the importance of relationships. He further argued that these can reinforce management problems arising from a planned economy as well as undermining the legitimacy of formal organization. In a caution note he also stated that in the future, it is likely that moves towards Western management methods may not have the desired effects as a result of cultural influences.

Most research followed Lockett in his conclusions, preferring a Hofstede-style explanation for the differences between management styles in China and the US or EU. Hofstede himself published an influential article about Asian management in the 21st century in 2007, basically renewing his claim that the crucial elements of management show strong continuity over time, but differ from one country to another as a function of the local culture. In his article, he explored general characteristics of Asian management in its cultural origin as opposed to management elsewhere.

Many management consultants specialized in transferring business to China follow Lockett's and Hofstede's claim that the underlying premises of the foreign organizational methods imported alongside foreign finance require a reframing co capture core Chinese management concepts and practices. Along these lines, China's concept of management and organizational culture is supposedly based on the preconditions of formal egalitarism, collectivism, and relationship (guanxi). There also seems to be a difference in the potential sources of power and its use (Miles 2000, Ahlstrom 2004 and Yeung 2006). Similarly, academic research mostly

concentrates on proving the explanation for this divide – particularly, wherein exactly this divide lies and how it can be measured.

Faure and Fang (2008) approach China through the "Yin and Yang". Referring to Nisbett (2003) and Fang (1999) the authors claim that Chinese society differs from Western society in two fundamental ways; the different nature of the script and the isolation in which Chinese culture developed. Referring to the Yin and Yang, the authors try to explain why Chinese culture can reconcile seeming paradoxes. Opposites contain within themselves the seed of each other, and together they form the changing unity. Yin and Yang offers a holistic and paradoxical worldview and methodology.

The Yin and Yang philosophy has important implications for understanding the paradoxical nature of Chinese culture. Fang (2006) suggested that if there exists a value "v+" in Chinese culture, there must coexist a value "v-". Paradoxical orientations have always coexisted in Chinese culture, and today's globalization makes Chinese culture even more paradoxical within its current dynamics. Faure and Fang (2008) state that China seems to have never given up its single most important cultural characteristic, the ability to manage paradoxes (194), and argue that there is a need to move beyond classic Western methodology to study culture (195).

In order to exemplify the peculiarities of Chinese culture, Faure and Fang (2008) give the following examples:

**FIGURE 1:** Paradoxical Chinese values (Faure and Fang, 2008: 196)

| Paradoxical Chinese Values | | | |
|---|---|---|---|
| 1. | Guanxi | vs. | Professionalism |
| 2. | Importance of face | vs. | Self-expression and directness |
| 3. | Thrift | vs. | Materialism and ostentatious consumption |
| 4. | Family and group orientation | vs. | Individualism |
| 5. | Aversion to law | vs. | Respect for legal practices |
| 6. | Respect for etiquette, age, and hierarchy | vs. | Respect for creativity, simplicity and competence |
| 7. | Long-term orientation | vs. | Short-term orientation |
| 8. | Traditional creeds | vs. | Modern approaches |

On an organizational level, it seems that China today is open for almost all types of investment and entrepreneurship. Until 2005, however, joint ventures[13] (JV) were almost the sole possibility for non-Chinese to participate in the economic boom of the Middle Kingdom. Accordingly, research on organizational behavior and management styles was particularly focused on JV. Li et al. (2001) were among the first to ask – in a Chinese environment – whether culture affects the behavior and the performance of firms. They discovered that the effect of culture on the behavior and performance of JVs remained unclear. They sampled over 500 JVs in China.

The economic and market reforms in China – especially since mid-2000 – have produced firms with three distinct types of ownership: state-owned enterprises, private domestic enterprises, and foreign-invested firms. Tsui et al. (2006) addressed the questions of whether organizational culture varies among firms with different ownership structures and whether it relates to firm

13. Joint ventures can be defined as legally and economically distinct organizational entities created by two or more parent organizations that collectively invest capital and other resources to pursue certain strategic objectives (Pfeffer and Nowak, 1976). Joint ventures have long been a favored mode for entering foreign markets (Beamish and Banks, 1987).

performance or employee attitudes as it has been observed in US firms. They confirmed the relationship between organizational culture types and middle manager attitudes.

Wang (2008) asks the same question, concluding that native Chinese employees have higher job satisfaction and lower organizational commitment than their average colleagues in the US. This feature implies that present labor market dynamics and the employee-company linkage in Chinese society have been similar to their counterparts in western society. The comparatively low organizational commitment indicates that the previously forced loyalty in the employee-organization relation has been changed to flexible loyalty, and the "iron rice bowl" employment model (1949 – 1979) that used to create forced loyalty on the part of employees has been replaced (see page 222).

However, Wang's study revealed "that employees who were 41 or older had higher levels of intrinsic, extrinsic, and general job satisfaction, as well as continuance commitment and normative commitment, while employees who were 18 – 30 and 31 – 40 did not show differences in the above dimensions, and with regard to affective commitment, there were no differences among the age groups. This phenomenon indicates that older employees were more satisfied with their jobs in both intrinsic and extrinsic facets and more committed to the organization due to moral obligation and personal-cost calculation, while younger employees were less satisfied and less committed to the organization. In addition, this study confirmed the findings from non-Chinese contexts (Lincoln and Kallenberg, 1990; Ross and Reskin, 1992) where increases in age led to increases in satisfaction and commitment."(pp. 222 – 223).

Finally, Dong et al. (2007) claim some fundamental differences between US and Chinese organizations and workforce – independent of the type of company. Along two dimensions, each is characterized differently. In the first dimension, which Dong calls "authority", the differentiation is as follows:

**FIGURE 2:** Differences in authority (Dong et al. 2007)

| US | China |
|---|---|
| Egalitarian | Hierarchical |
| Side-by-side communication | Top-down communication |
| Overt feedback | Covert feedback |
| Achieved managerial status | Ascribed managerial status |
| More democratic management style | More autocratic management style |

The second dimension is individualism:

**FIGURE 3:** Differences in authority (Dong et al. 2007)

| US | China |
|---|---|
| Individual oriented | Group oriented |
| Direct communication | Indirect communication |
| High and required feedback | Low or subtle feedback |
| Task oriented | Relationship oriented |
| Content-based | Context-based |

These findings seem to contradict some of the early taxations of Chinese corporate culture as egalitarian and democratic. It also seems, however, that the content orientation and the importance of relationship are once again validated. Independent from empirical validation, the difference between East and West is explained with reference to the so-called traditional patterns of Chinese society. According to some early explanations taking the communist rule

to have deeply influenced China, those patterns involve egalitarism and relationship among equals. Later, explanations trying to establish a Confucian continuity take the basic patterns to be relationship and context orientation. Both, however, state a fundamental difference between organizational behavior in China and the West.

## Challenges to the Consensus

Few studies challenge this consensus on a "divide" between East and West. Fan, for example, claimed in 2006 that if patterns in organizational culture are different in different environments, so would the patterns of change management be. In China however, organizational change follows the models known in the West. Others try to make a point in referring to global management practices and their tendency towards homogenization (Tsui 2006). Others claim that despite extensive research on the "divide", all empirical evidence does not sort out one exact outcome; data can be read as supporting the idea, but also as its falsification (McSweeney 2002). Even without challenging the supposed basic difference between both cultures and styles, note that some of the value attributes that are "typically Chinese" for some researchers are taken by others to be representative of other cultures.

The current literature on the differences in management styles between China and the West can be challenged in a number of ways, four of them are:

- almost no empirical research;
- unspecific differences / unspecific terms;
- too broad concepts of the West and the East often compounded with normative assertions;
- lack of differentiation between what agents claim and what they actually do.

The lack of empirical research can be partially attributed to the difficulty of getting first-hand and reliable responses from Chinese companies. Partially, it is also a problem of transcultural research as such usually referring to a triangulation; in the case of management styles, corporate culture serving as the reference. However, the actual lack of advances in the empirical research on management differences is also a sign that the East-West divide is taken as a self-explaining axiom and that the costs of a refinement of appropriate measurement methods outweigh the benefits. On the other hand, the seeming evidence of differences in management styles is often vague and opaque.

In a small-scale experiment conducted with some 320 students at universities and universities of applied sciences in Switzerland and Austria, the participants were asked to read the following table (Figure 4; without legend) and complete to the following statement: "The following table shows strengths and weaknesses of managers of a specific country (or region). Name the country (or region)". From the sample 38% answered with "China", 23% named "Asia", that is, 51% of the students thought the table to refer to the region considered to be "East" (other responses were Africa and Russia). In reality, the table referred to the Baltic States, members of the European Union.

**FIGURE 4:** Strengths and weaknesses of Baltic managers (Baumane 2010, 32)

| Strengths | Weaknesses |
|---|---|
| Action-oriented | Lack of long-term perspective; lack of ability to see the big picture |
| Excellent in delivering results | Missing work review abilities |
| Proactive, eager to try new things | Lack of cross-functional collaboration |
| Easily adjusting to changes | Poorly developed ability to develop people |
| Easier to get rid of people | Chaotic in reporting |

Even if the experiment is unrepresentative and unreliable, it has at least two implications. First, the opaqueness of the values in the table can be attributed to almost every other less known region from a given perspective. Just as the average Swiss and Austrian student has never visited the Baltic countries, he/she has never visited China or Asia either – what remains is the sentiment of "otherness" and a difference that is transferred from an overall intuition to its application on research. This means that the answers to this experiment question may give more information about the participants' backgrounds than about their reasoning.

Second, most research on cultural/managerial differences of East and West operate with similar concepts, asking whether the one rather suits a Western-style management and the other an Eastern-perspective. However, because of the first-person perspective of the respondents and the character of "otherness", the vaguer these concepts are, the more differences can be constructed.

This is also due to a pre-existing normative use of the terms "East" and "West". As Osterhammel (2010) puts it: Since the European 18th century Asia is seen as the ultimate opposite to the West; veiled, vilified, or idealized by some sort of cultural "mysticism". Therefore, it is plausible that in trying to differentiate between values in Asia and the West, this hidden normativity strikes. Referring to Faure and Fang (2008), why should the ability to deal with paradoxes be a peculiarity of Chinese culture? The US seems to do the same in being individualistically-oriented as well as having strong family bonds. Also, directness in business culture in the US coexists with the necessity of keeping a good image, i.e. with "face". Referring to Dong et al. (2007), there are many small and medium enterprises in the US that consider authoritarian management to be the only style that works (Jones 2006). Equally, there is a consistent culture of indirect communication and secretive feedback in the US as well as in Europe. For example, the French, the Swiss and the Danish value context and relationship highly, especially in business transactions. Moreover, it is questionable whether all of China is just one cultural region, as it is to be doubted that the entire West is homogeneous. There are not only differences between North-America and Europe, there is also considerable diversity within the US, Canada and Europe (Finland and Portugal are a priori not necessarily more alike than Switzerland and China).

The conceptual opposition and constructed peculiarities attributed to the cultures and their respective management styles arise with the opacity and vagueness of the attached values as well as with a pre-existing normative background biased towards enforcing the impression of a divide between East and West. Other studies in Europe and the US show how different values usually identified with the East are also seen as intrinsic in the West, when no comparison is made (Mars 2008; Jones 2006; Luo 2008). In short, whatever the differences might be, they appear contradictory in the light of comparison.

There is a last problem to be hinted at here: the question of separation from agents' statements and actions (Luthans et al. 2005). When directly asked, agents tend to state an ideal state of affairs which isn't always congruent with their actions. For example, asked whether they use authoritarian management styles, many managers will reply "no", while still doing so. The same applies for all other qualities and values. Often, research is conducted with the use of standardized questionnaires and with almost no observation of actual processes, hence tending to be biased in favour of what agents state. The normative precondition of the "divide" mindset strikes most heavily here – by the agents' insensitivity towards their own biases.

The overall conclusion of this chapter is that although China, its culture, and management-style have been researched in-depth for the past twenty years, the general discourse continues

to explore the difference in styles as a function of the difference in culture. Despite the question of whether this derivation is a necessary one and not just contingent, the thesis claiming a divide between East and West in management styles itself faces several challenges. It uses too broad constructs of "East" and "West", it relies on normative presuppositions, and it uses vague and opaque concepts for analyzing the differences. Moreover, research often relies too heavily on the first-person perspective of the agents.

## Chongqing – Chicago – Paris

In this chapter, the results of a survey comparing statements about management and the actions of managers will be discussed. This empirical examination tries to overcome the flaws described in chapter 2.

This paper analyzes the following hypothesis:

**H1:** If there is a perceptible cultural difference between management styles in East and West, then the answers in to the survey will allow a clustering with a sharp differentiation among the groups.

Basically, this 0-hypothesis claims that the results of the survey will reveal two clear-cut clusters, one for Western enterprises and the other for Chinese enterprises. This would on the one hand mean that both management styles are substantially different. On the other hand, the alternate hypothesis – no clear-cut clusters – suggests that despite the cultural difference on a social level, management styles are governed by the same preferences in the East and the West.

This would have wide-ranging consequences for actual research on entrepreneurship and management in China and would even reveal the blame on culture as an undifferentiated diagnose hiding further causes.

### Design of the Experimental Inquiry, Sampling, and the Methods of Gathering Data

Following Kaiser et al. (2009), organizational culture and management style are not visible and cannot be directly assessed; their mechanisms are sometimes rather implicit and not consciously known to people. Hence, a technique for triangulation is needed in order to infer how people actually live "management" from what they say about organizations. This research employs a standardized questionnaire asking about value associations and assessing practical ways of behavior. The responses are positioned on a Likert scale ranging from 1 (strongly agree) to 5 (strongly disagree). In order to avoid the aforementioned problems with triangulation, hidden normativity, and first-person perspective, participants are not asked to compare or to make statements that are dependent on context and/or cultural sensitivity. They are not told why they are completing the questionnaire, and they are explicitly not made aware of intercultural research.

Chongqing is a Chinese city of more than 30 million inhabitants focused on industry, services, and technology. Chicago, a city with similar focus in the US, and Paris, again with a similar focus in France, were also chosen as locations for the sample. All participating companies employ more than 500 people and either provide services or are industrial entities. The questionnaire was provided in Chinese, English, and French respectively; the translation controlled by a translate-back technique. In each company, at least five different people across hierarchy levels were asked to respond to the survey. This research was conducted between January and February 2010.

Focusing on Chongqing has different reasons: First, many Chinese claim that the general cultural differences between provinces are far bigger than those between countries in the West. Not wanting to discuss this statement, this paper nevertheless wants to avoid being criticized for not taking it into account; hence, the concentration on one region. There is yet another intuitive claim this paper tries to escape: Many say that enterprises in the coastal area are used to dealing with Western partners and therefore adapt more rapidly to Western methods of management and styles of organizational culture. Here again, Chongqing is a major industrial hub with more than 30 million inhabitants – its exposure to Western entrepreneurship, however, has been rather moderate.

In order to formulate the statements to address the above-mentioned problems and desiderata, French's (1968) research on managerial power was used. He differentiated five potential sources of power: rewards, punishments, the legitimate role of the position, expertise or knowledge, and charisma. Theoretical work on Chinese organizational culture claims that life in China is driven by a deeply held belief that there exists a basic equality among people, and therefore Chinese managers prefer to use the power of relationship among "informal equals" to motivate workers' productivity. This claim is often made in conjunction with a second one, according to which Chinese managers use guanxi regardless of the other power bases that are operating at the same time (such as position, reward, or expertise). Sometimes, a third claim is added, namely that legitimate forms of power make many Chinese employees suspicious of superiors, especially if the managers act as if they are somehow better than the workers.

Research on motivation and organizational culture often makes the point that in the West, the following is crucial for a productive culture: first, the ability to work (skills, knowledge, tools, and support), second, the figure of the manager (his words, his history of reliability and support), and third, the attractiveness of the rewards. Chinese organizations, on their part, also rely on these three components but add two more: the relationship between employee and manager as well as feelings of mutual respect shared at a personal level between the manager and the worker.

The survey balances all these views, asking the respondents to express their degree of agreement with intentional statements as well as judging specific behavior. The statements are phrased neutrally and do not hint at Chinese or Western values and patterns. The number of statements is reduced to below twenty in order to motivate as many people as possible to complete the questionnaire in a reasonable period of time. The statements are the following:

1. Rewards (salary and fringe benefits) are among the strongest motivators for my work.
2. A manager has more rights than anybody else because of his position.
3. Punishments (fear of) are among the strongest motivators for my work.
4. The manager is the person in charge because of his formal position as manager.
5. All people (also managers) are equal.
6. The manager is the person in charge because of his expertise and knowledge.
7. Relationship to my peers and the management is among the highest motivators for my work.
8. The manager is the person in charge because of his character.

9. A manager can take a free day without adhering to the rules for non-management co-workers.
10. I am a manager (want to become a manager) in order to be above others and command them.
11. Management by Objectives (MBO) is my favorite technique.
12. I only work well if the managers care about my person.
13. Productivity is among the strongest motivators for my work.
14. The manager is like a father: He has benevolent authority.
15. Interest in my work is among the strongest motivators for me.
16. Feelings like mutual respect, care, and loyalty at a personal level are important for me.
17. As a co-worker it is my duty to openly challenge my boss' views.
18. As a manager, I only lead by giving my employees direct orders.
19. Acquiring new skills is among the strongest motivators for my work.

## Results

The aggregated results are shown in figure 5. According to the location, the mean answer to each statement (5-point Likert scale) as well as the standard deviation are given.

**FIGURE 5:** Chongqing – Chicago – Paris; Results

| Statement number | Chongqing n = 418 | | Chicago n = 389 | | Paris n = 403 | |
|---|---|---|---|---|---|---|
| | Mean | Standard deviation | Mean | Standard deviation | Mean | Standard deviation |
| 1 | 2.58 | 0.79 | 2.32 | 0.65 | 2.61 | 0.70 |
| 2 | 3.29 | 0.75 | 3.29 | 0.73 | 3.34 | 0.66 |
| 3 | 3.00 | 0.94 | 3.05 | 0.87 | 3.17 | 0.74 |
| 4 | 2.84 | 0.96 | 3.05 | 0.88 | 3.20 | 0.75 |
| 5 | 2.26 | 0.66 | 1.99 | 0.47 | 1.88 | 0.30 |
| 6 | 2.12 | 0.75 | 2.00 | 0.57 | 2.09 | 0.54 |
| 7 | 2.50 | 0.82 | 2.50 | 0.81 | 2.55 | 0.81 |
| 8 | 3.51 | 0.72 | 3.61 | 0.70 | 3.37 | 0.75 |
| 9 | 3.20 | 0.89 | 3.56 | 0.77 | 3.39 | 0.76 |
| 10 | 3.41 | 0.93 | 3.57 | 0.84 | 3.81 | 0.81 |
| 11 | 2.93 | 0.89 | 2.47 | 0.80 | 2.57 | 0.83 |
| 12 | 3.28 | 0.85 | 3.24 | 0.80 | 3.28 | 0.76 |
| 13 | 2.49 | 0.76 | 2.46 | 0.89 | 2.61 | 0.83 |
| 14 | 2.38 | 0.63 | 2.47 | 0.61 | 2.64 | 0.77 |
| 15 | 2.31 | 0.60 | 2.31 | 0.57 | 2.57 | 0.79 |
| 16 | 2.50 | 0.79 | 2.48 | 0.80 | 2.51 | 0.79 |
| 17 | 3.94 | 0.79 | 3.91 | 0.78 | 3.88 | 0.77 |
| 18 | 3.09 | 1.00 | 3.05 | 1.01 | 3.09 | 1.08 |
| 19 | 2.35 | 0.82 | 2.16 | 0.72 | 2.42 | 0.76 |

Judged by the mean responses made to the 19 statements, the differences between the three geographic locations seem to be inconclusive. Regarding the mean results from the survey, no city presents a particular frame that is completely different from the other two. Certain statements have one city responding significantly different from the other two, but this pattern normally has Chongqing near Chicago or Paris with Paris or Chicago deviating.

Statement 4 (formal positing of manager) has the widest range of responses, with significant differences between the cities and elevated standard deviations (except Paris). Statements 5 (all people are equal) and 9 (MBO) seem to be the only two for which Chongqing responds differently from the western cities; both times more skeptically. The other major variations between Chongqing and Chicago are shared by the same deviation from Paris and Chicago. For eight statements (2, 3, 7, 8, 10, 14, 15, and 17) Chongqing's mean is nearer to Chicago's than to Paris'; for six statements (1, 6, 12, 13, 16, and 19) it is nearer to Paris' than Chicago's. As to the spread between the cities, Chongqing shows the highest mean for six responses (for two of those identical to Paris) and for a further six the lowest (for two identical to Chicago). Paris shows the highest for twelve statements and the lowest for five; Chicago for three the highest, for ten the lowest. Paris and Chicago never share the same mean.

There is one peculiarity concerning the standard deviation among Chongqing's respondents: For 12 out of 19 statements they show the highest standard deviation in comparison to the other two, i.e., they are the least homogeneous of the three. Paris has the highest values in standard deviation for five statements and Chicago for two.

## Consequences

With the data as collected in the three cities and analyzed above it is not possible to identify two (or three) different clusters in the responses to the statements. No city shows a differentiating pattern in such a way to make it possible to recognize greater differences than similarities. All three cities show heterogeneous responses, mostly with elevated standard deviation. Hypothesis H1 can therefore not be verified. This failure can be read in three ways.

First, a moderate reading claims that the failure to verify H1 shows that there is no conclusive possibility of discerning two clusters, one for Western responses and therefore Western management, and one for Eastern responses and Eastern culture. This failure doesn't mean that there are no differences, since the standard deviation was elevated – it just means that the differences are not significant enough.

Second, a strong reading claims that the similarities in the responses to these statements together with the elevated standard deviation for all cities point towards a differentiation apart from culture and "national identity". I.e., although there is no divide between "East" and "West", there may be a divide along the lines of corporate culture, education, age, and the like, which were neither tested nor differentiated here.

Third, the strongest reading claims that the failure to verify H1 dismisses the possibility of the divide and exemplifies that management as such – just like culture – has different meanings that can be clustered in different ways, but not exclusively. The strongest claim relates to a fuzzy understanding of the terms "management", "culture", and "values".

This paper endorses the second claim, which is strong in dismissing H1 and moderate in accepting its contrary. The survey, however, addresses all above-mentioned critiques. Although is uses concepts related to the moral judgment of individuals, it does not ask the respondent to compare his/her own values with others; by alternating statements concerning

values with statements in which actions are being judged, the survey stills favors the first-person perspective without being biased, since it lets the very first person adjust its answers. Lastly, it is insensible to the context, as the participants respond in their respective mother tongue and without knowledge of the aim of the study. This is enough, then, to accept the robustness of the dismissal of H1, since independent of the cultural background, all cities responded similarly to the survey. On the other hand, since the survey did not sort for different other criteria, it does not follow that management is the same, all things considered. The dismissal of H1 is a necessary condition to state that management style is broadly independent from Eastern and Western culture, but is not sufficient to claim its independency from all culture.

The question remains then: If management style is not dependent on a divide between East and West, what other factors influence it? Management style depends on a number of influencing factors, some of them were hinted at in the survey. Age, formal position, character, and education are just some of the personal attributes of managers; group cohesion, the styles of other managers, firm culture, hierarchy, and organization are some of the company's factors; specter of activity, age of the industry, degree of global involvement, and even local culture can be overall factors. Management style is more a question of how these factors interact and how they change over time than a separation of East and West.

## Conclusions

In this paper, the comparison of Eastern and Western management styles has been critically reviewed. Often, a fundamental separation of both is claimed by basing upon another theory stating fundamental differences between Eastern and Western culture. Without analyzing the cultural component, this paper tried to show that the divide doesn't apply to management styles, because these are influenced more strongly by other factors than national culture.

By first analyzing current research literature and then conducting an empirical survey, this paper showed that

1. the concepts of China and the West are far too general to be taken as a basis for the comparison of management styles. They lack homogeneity in the appliance of management techniques as well as in the respective cultural background.

2. management style depends more on the firm's overall goals and the personality of managers than on cultural background. Management tools and concepts are being employed and taught globally. They are, however, adapted to a firm's needs and to the ability of managers.

3. the results of an empirical survey conducted in 2010 in the Chinese city of Chongqing and in Chicago and Paris dismiss the thesis of a fundamental difference in East and West as far as management style is concerned.

In addition, this paper opens a broad spectre for further research. Finding out why and how contradictory cultural values are considered "typically Chinese", for example, may seem as interesting as further research on the different factors that influence management styles. It is conceivable that although the styles are not a function of national culture, the prioritization of certain management qualities are. Lastly, the survey could be expanded in scope and be conducted in different Chinese cities in order to research differences within the country itself.

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# Competitive Advantage of Commercial Banks in Nepal

❑ **Dhundi Raj Bhattarai**
DAV School of Business, Kathmandu

## Abstract

This paper observed the relationship between the strategic positioning of commercial banks and the sustainability of financial performance. Banks can attain a competitive advantage either by following a cost leadership or a differentiation strategy. In the context of Nepal, a study by Parajuli(2006), finds that in Nepalese five star hotels were moderately practice of low price and product differentiation strategy in the view of respondents. Bank of Kathmandu and Siddartha Bank Limited was followed low cost strategy. Himalaya Bank Limited and Laxmi Bank was followed differentiation strategy (Kaspal, 2009). Cost leadership strategy enhances competitive performance and it should be applied by banking managers primarily. A good differentiation strategy seems to be very important for banks. A single strategy is not sufficient to have superior performance and to get competitive advantages. (Thapa, 2008). However it is not recommended which strategy is more beneficial for commercial banks. Study of major eight Nepalese commercial banks for five years confirm the conventional wisdom that adopt a cost leadership strategy which enables a bank to sustain superior performance more than a differentiation strategy does. Important for senior officers of commercial banks is our finding that while cost leadership is a source of sustainable performance, it also increases the sustainability of earnings. Similarly, cost leadership is better than differentiation strategy for increasing sales growth, ROA stability and market price per share. But according to opinion of senior officer of commercial banks differentiation strategy is better than cost leadership for increasing market share. So cost leadership strategy is better than differentiation for commercial banks but differentiation cannot be avoided.

**Keywords:** Competitive advantage, Cost-leadership, Differentiation.

## Introduction

With cost leadership, the producer seeks to gain advantage over the whole market by economics of scale and competitive pricing alone. Porter's generic strategy of cost leadership focuses on gaining competitive advantage by having the lowest costs and cost structure in the industry. In order to achieve a low-cost advantage, an organization must have a low-cost leadership mindset, low-cost manufacturing with rapid distribution and replenishment, and a workforce committed to the low-cost strategy. The organization must be willing to discontinue any activities in which they do not have a cost advantage and may outsource activities to other organizations that have a cost advantage. There are many ways to achieve cost leadership such as mass production, mass distribution, economies of scale, technology, product design, input cost, capacity utilization of resources, and access to raw materials. Cost leaders work to have the lowest product or service unit costs and can withstand competition with their lower cost

structure. Cost leaders may take a number of cost saving actions, including building efficient scale facilities, tightly controlling overhead and production costs, and monitoring costs to build their relatively standardized products that offer features acceptable to many customers at the lowest competitive price (Porter, 1980, 1996).

If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry provided that it commands prices at or near the industry average. At equivalent or lower prices than its rivals, a cost leader is low cost position translates into higher returns. A cost leader however, cannot ignore the bases of differentiation. If buyers do not perceive its product as comparable or acceptable, a cost leader will be forced to discount prices well below competitors to gain sales. This may nullify the benefits of its favorable cost position.

A cost leader must achieve parity or proximity in the bases of differentiation relative to its competitors to be an above average performer, even though it relies on cost leadership for its competitive advantage. Parity in the bases of differentiation allows a cost leader to translate its cost advantage directly into higher profits than competitors. Proximity in differentiation means that the price discounts necessary to achieve an acceptable market share does not offset a cost leader's cost advantage and hence the cost leader earns above average returns.

The strategic logic of cost leadership usually requires that a firm to achieve by the cost leader, not one of several firm's buying for this position. Many firms have made serious strategic eras by falling to recognize this. When there is more than one aspiring cost leader's rivalry this is usually fierce because every point of market share is viewed as crucial. Unless one firm can gain a cost lead and "persuade" others to abandon their strategies, the consequences for responsibility (and long run industry structure) can be disastrous has been the case in a number of petrochemical industries. Thus cost leadership is a strategy particularly dependent on preemption, unless major technological change allows a firm to change its cost position radically.

Differentiation was defined by Porter (1985) as the ability to provide unique and superior value to the buyer in terms of product quality, special features or after sales service. When using a differentiation strategy, a company focuses effort on providing a unique product or service, setting their offerings apart from competitors. Product differentiation fulfills a customer need and involves uniquely tailoring the product or service to the customer. This strategy allows organizations to charge a premium price to capture market share. The differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support and service. Firms following a differentiation strategy can charge a higher price for their products based on the product characteristics, the delivery system, the quality of service, or the distribution channels. The quality may be real or perceived, based on fashion, brand name, or image. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique quality product or service and willing to pay a higher price for these non standardized products.

In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important and uniqueness with a premium price.

A firm that can achieve and sustain differentiation will be an above average performer in its industry if its price premium exceeds the extra costs incurred in being unique. A differentiator, therefore, must always seek ways of differentiating that lead to a price premium greater than

the cost of differentiating. A differentiator cannot ignore its cost position because its premium prices will be mollified by a markedly inferior cost position. A differentiator thus aims at cost parity or proximity relative to its competitors by reducing cost in all areas that do not affect differentiation.

The logic of the differentiation strategy requires that a firm choose attributes in which to differentiate itself that are different from its rivals. A firm must truly be unique at something or be perceived as unique if it is to expect a premium price. In contrast to cost leadership, however, there can be more than one successful differentiation strategy in an industry if there are a number of attributes are widely valued by buyers.

## Rationale of the Study

There was no sufficient investigation of evaluation of impact of generic strategies in sustainability of financial performance of commercial bank of Nepal, which are either government or private. There was no studied about role of differentiation and cost leadership.

Strategies on market price per share, return on assets, return on assets stability, sales growth. Similarly, there was no study about impact of book value per share and earning per share on market price per share.

This type of study has not yet been undertaken in our country till this date. This study at least can open the door for future intensive research. According to view point of commercial bank of Nepal, we can find out different necessary information from this study like as if a firm adopting a cost leadership strategy attains its advantage based on operational efficiency or not. Its superior performance is likely to dissipate over time since such, as advantage may be easily imitable or not. On the other hand, firms that adopt strategies based on differentiation may attain advantages that endure, and hence the performance of such firm likely to be sustained over time or not. Here we empirically examine this proposition using widely available archival financial data. We obtain appropriate information which (differentiation or cost leadership) strategy is beneficial for commercial bank of Nepal regarding the government as well as private sector in the field of return on assets, stability of return on assets, sales, sales growth, earning per share, market value per share.

## Objectives of the Study

Different commercial banks like as government owned banks, joint venture commercial banks and the development banks are operating in our country. Rastriya Banijya Bank (RBB), Agriculture Development Bank (ADB), Nepal Bank Limited (NBL) are the government banks and NIC, Himalayan Bank, Standard Chartered Bank, NABAIL etc are private banks of Nepal. But there is no investigation of relationship between the strategic positioning of firms and the sustainability of financial performance of commercial banks of Nepal that are either government or private. Commercial banks can attain a competitive advantage either by following a cost leadership or a differentiation strategy.At present, 26 commercial banks are running in our country. In Nepal, generally there is no sufficient research about which strategy like as cost leadership or differentiation is beneficial for commercial bank of Nepal. There is no sufficient information about impact of generic (differentiation or cost leadership) strategies on return on assets, stability of return on assets, sales, sales growth, earning per share and market price of share. In line of above argument, the major objectives of these studies are as follows-

- To analyze impact of generic (differentiation or cost leadership) strategy on return on assets, sustainability of return on assets, sales, sales growth, earning per share and market price of share in commercial banks of Nepal.
- To analyze impact of book value per share and earning per share on market price per share.
- To analyze more beneficial strategy for increasing market share of commercial banks of Nepal.
- To analyze more risky strategy for commercial banks of Nepal.

## Review of Literature

Banks that pursue a cost leadership strategy realize a statistically significant performance advantage when compared to the stuck-in-the-middle group, whereas banks that pursue a broad differentiation, customer service differentiation, or focus strategy do not realize a statistically significant performance advantage. Stated differently, 73.3 percent of the cost leaders (11 out of 15 banks) reported earnings above the sample average compared to 37.5 percent of the customer service differentiation group, 35.7 percent of the focus group, 27.9 percent of the broad differentiation group, and 16.7 percent of the non-strategy group. These findings suggest that it is difficult to convince customers in the banking industry to pay a sufficiently higher price for differentiated loan and deposit services so that the additional costs of pursuing a differentiation strategy can be recovered and a superior return realized.

An emphasis on competitive methods that results in a cost leadership strategic position appears to be the primary basis for achieving superior performance in the banking industry. This conclusion supports one route to the development of a strategic position in service industries identified by Miller (1992) and Bharadwaj et al. (1993). The reported ROA for banks that develop broad differentiation, customer service differentiation, or focus generic competitive positions is below the total sample average ROA. This suggests that, in an industry that is mature and whose products and services are homogeneous, it may not be possible for most banks to economically convert available skill and resource competitive methods into a differentiation or focus strategic position in a manner that results in superior performance. When the strategic groups were divided based on their emphasis on critical competitive methods, a statistically significant performance benefit was not found. However, those banks that emphasized all of the critical competitive methods that are related to a broad differentiation, customer service differentiation, or cost leadership strategy reported higher ROA ratings than banks that did not emphasize all of them. While not statistically significant, the presence of a performance advantage in each of these strategic groups suggests that the use of critical competitive methods will provide an incremental performance benefit over banks that do not use all of them.

Bush and Sinclair (1992) who concluded that banks in a mature industry must follow a differentiation strategy because managers in this industry are typically familiar with methods of cost reduction. Miller's (1992) contention that cost leadership is an effective strategy when customers are price sensitive. The research findings clearly show that cost control, which includes flexibility in loan and deposit management as well as a strong emphasis on learning, is the best route to a performance advantage. We suspect that cost leaders have learned to place selective emphasis on differentiation activities because such additional expenditures are not rewarded by customers.

In the context of Nepal, a study by Parajuli (2006) finds that in Nepalese five star hotels were moderately practice of low price and product differentiation strategy in the view of respondents.

Bank of Kathmandu and Siddhartha Bank Limited w followed low cast strategy Himalaya Bank Limited and Laxmi Bank were followed differentiation strategy.

Thapa (2008) argued that cost leadership strategy enhances competitive performance and it should be applied by banking managers primarily. A good differentiation strategy seems to be very important for banks and he further goes as to argue that, a single strategy is not sufficient to have superior performance and to get competitive advantages.

## Theoretical Framework and Hypothesis Development

To achieve superior financial performance, a firm needs to posses a competitive advantage that allows it to perform better than its rivals. Superior profits can be achieved either by commanding higher prices or by enjoying lower costs than rival firms. Porter identified two main generic strategies that successful firms adopt: differentiation and cost leadership. Firms adopting a differentiation strategy seek to create value through customer loyalty, price inelasticity and higher margins achieved by creating brand image, advertising intensity, novelty, fashion and such means as exclusive distribution networks (e.g., Berry, 1982; Chaganti et al, 1989;Mason et al, 1991). On the other hand firms adopting the cost leadership strategy, and focuses on creating value through a combination of internal efficiency, generic products, high turnover and limited product range (e.g., Lewiston and DeLozier, 1989). Standardized merchandise and price appeal are the main means of achieving competitive advantage for firms adopting operational efficiency (e.g., Mason et al, 1991).

The preceding discussion leads us to the following research hypothesis:

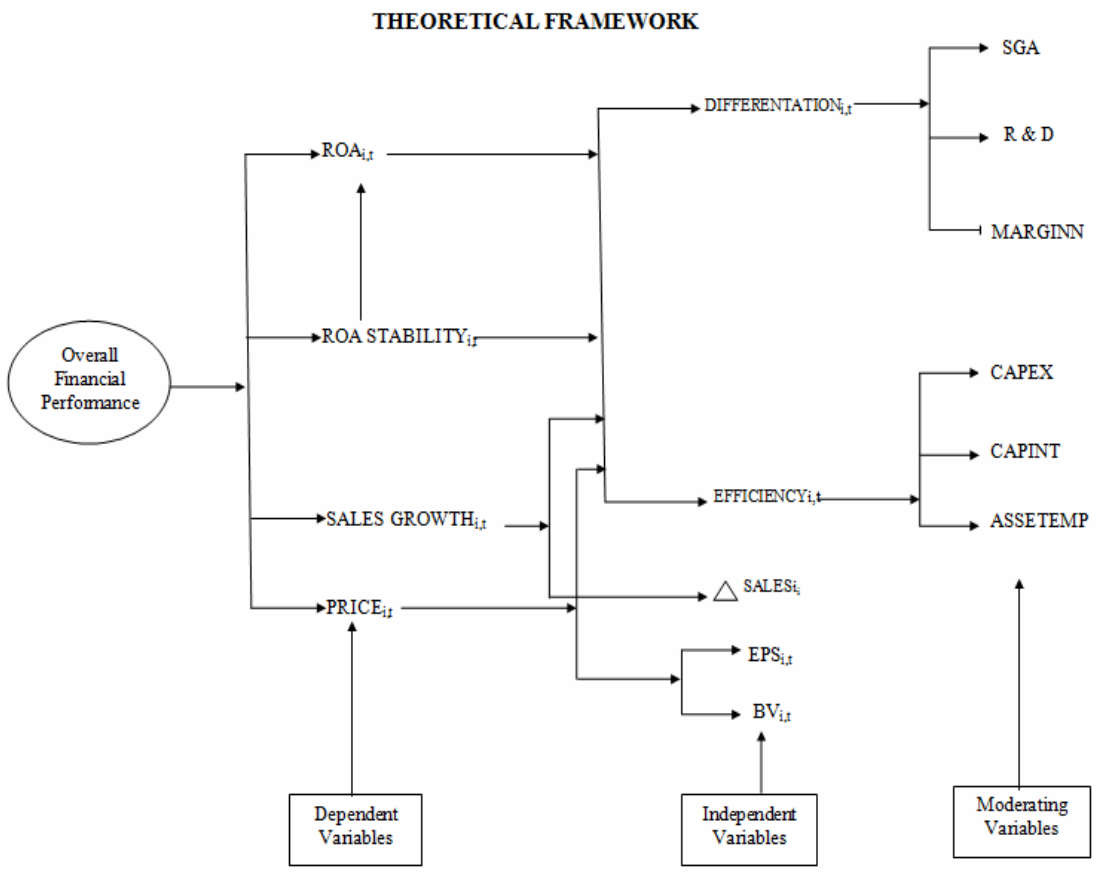
**H1:** Differentiation strategy is more risky than cost leadership.

**H2:** Differentiation strategy increases more ROA than cost leadership.

**H3:** Differentiation strategy increase more market share than cost leadership

**H4:** Differentiation strategies is better than cost leadership to sustain financial performance in the future

In order to perform this study successfully, we need a theoretical framework. It helps complete the research successfully. As far as the research subject concern, we will use five different regression models. The same variable will become dependent as well as independent according to requirement of regression model. For example, in the first regression model $ROA_{i,t}$ (Return on assets of 8 banks in 5 year)will be dependent variable and $Differentiation_{it}$ (differentiation of bank of 8 banks in 5 year) and $Efficiency_{it}$ (efficiency of 8 banks in 5 year) will be independent variable. In the second regression model, $ROA_{i,t}$ (return on assets of 8 banks in 5 year) will be dependent variable and impact of differentiation on ROA it &impact of efficiency on $ROA_{i,t}$ will be independent variable. As far as the research subject concern the following schematic diagram of the theoretical framework has been developed:




## Methodology

### Populations and Sample

The banking sector is the emerging industry in Nepal and the successful industry as well. Therefore, the competitiveness has become one of the essential requirements that are to be obtained through the generic strategies. But all banks are not seen uniformly same regarding the state of generic strategies. So, the research in this sector itself can be at least the initiation, in absence of wide range of studies. Therefore, population of this study is the total Nepalese commercial banking sectors formed of government banks, commercial joint venture banks, and the private banks.

Twenty-six commercial banks are running in our country.

Out of above these banks, we took eight banks which are (1) Nepal Bank Limited (2) Nabil Bank Limited (3) Nepal Investment Bank Limited (4) Standard Chartered Bank Nepal Limited (5) Himalayan Bank Limited (6) Nepal SBI Bank Limited (7) Kumari Bank Limited (8) Laxmi Bank Limited.

In order to conduct the research work successfully and efficiently, various data were collected and analyzed. There were mainly two sources of data- primary and secondary. In primary data, 28 questionnaires (concerned with differentiation and efficiency strategy) were distributed to senior officers of banks (male and female) because it is related with formulation of strategy. 137 respondents (including male and female) gave their opinion through 28 questionnaires from and sample banks. They were senior officers 59 (45 male and 14 female) respondents were from Nepal Bank Limited out of 150, 11 (8 male and 3 female) respondents

from Himalayan Bank Limited out of 40, 11 (9 male and 2 female) respondents from SBI Bank out of 30, 11 7 male and 4 female) respondents from Kumari Bank Limited out of 20, 9(6 male and 3 female) respondents from Laxmi Bank Limited out of 15, 11 (9 male and 2 female) respondents from Nabil out of 40, 15 (10 male and 5 female) respondents from Nepal Investment Bank Limited out of 30, 10 (8 male and 2 female) respondents from Standard Chartered bank out of 10.

In overall, 102 respondents were male and 25 respondents were female i.e. 74.45% respondents were male 22.55% respondents were female. Both male and female respondents had worked minimum one year. Secondary data will be collected from annual report and Web site etc.

## Strategy Measures

To measure strategic positioning of firms indicates that the following six variables have been typically used to operationalize different strategies.

1. **Selling intensity (SG&A):** It is measured as the total sales, general and administrative expenditure divided by net sales (Banker et al., 2006). It reflects a firm's resource allocation on sales and marketing efforts. Firms pursuing a differentiation strategy will invest in a variety of advertising, marketing and related activities in order to differentiate themselves from competitors. A higher allocation of resources to SG&A indicates an effort to build and strengthen the firm's brand and product image. Higher SG&A thus indicate a greater likelihood that the firm is pursuing a differentiation strategy (David et al., 2002; Berman et. al, 1999).

2. **R&D intensity (R&D):** It is measured as the total research and development expenditure divided by net sales(Banker et al., 2006). A key success factor for a differentiator is the ability to offer high quality and innovative products and services. It is therefore likely that such firms spend more on research and product design. Higher R&D expenditure is likely to indicate that affirm id pursuing a differentiation strategy (Hambrick, 1983 David et. al., 2002; Ittner et al, 1997; Thoma et al., 1991).

3. **Gross margin (MARGIN):** It is measured as net sales divided by cost of goods sold (Banker et al., 2006). A firm pursuing a differentiation strategy is likely to create a unique perception of its products and services superior to its competitors, enabling it to command above-market prices, and greater profitability (Kotha and Nair 1995; Nair and Filer, 2003). Other researchers have used the margin variable to measure cost efficiency (e.g., Hambrick, 1983; Berman et al, 1999), since a firm pursuing efficiency strategy will aim to minimize its cost of goods sold relative to sales in order to improve gross margin.

4. **Capital expenditure (CAPEX):** It is measured as capital expenditure on property, plant and equipment divided by net sales (Banker et al., 2006). It indicates the (lack of) asset parsimony (Hambrick, 1983; Kotha and Nair, 1995; David, et. al, 2002).

5. **Capital intensity (CAPINT:** It is measured as net book value of plant and equipment divided by net sales (Banker et al., 2006). It indicates the (lack of) asset parsimony of the business (Hambrick, 1983; Kotha and Nair, 1995).

6. **Assets-to-employee ratio (ASSETEMP):** It is measured as the total number of employees divided by total assets (Banker et al., 2006). This ratio measures the efficiency of utilization of the firm's resources by it's employees (Hambrick, 1983; Kotha and Nair, 1995) and hence the (lack of) asset parsimony of the business.

We use six variables described above to operate the two generic strategies of firms. We compute the mean of the previous five years of data for each variable to compute the long-term orientation of firms. We conducted an exploratory factor analysis to capture the common patterns among the six variables. The results of the factor analysis were implemented to measure co-efficient of regression equation.

## Results

To measure strategic (differentiation and efficiency/cost leadership) performance of commercial banks, six variables have been used for primary data analysis, which are SG&A, R&D, MARGIN, CAPEX, CAPINT & ASSETEMP. Five variables except R&D of above six variables have been used for secondary data analysis. Different statistical tools were used for secondary data analysis, which are factor analysis, descriptive statistics, correlation analysis and regression analysis.

**TABLE 1:** KMO and Bartlett's Test

| | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | 0.628 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 10.098 |
| | Df | 6.000 |
| | Sig. | 0.032 |

KMO index ranges from 0 to 1, with 0.6 suggested as the minimum value for a good factor analysis. The Bartlett's test of sphericity should be significant at 5% level for the factor analysis to be considered appropriate. Both criteria have been satisfied in this case.

**TABLE 2:** Rotated Component Matrix

| | Component | | Total variance explained (communalities) | Unexplained variance |
|---|---|---|---|---|
| | Differentiation | Efficiency | | |
| CAPEX | 0.985 | -0.068 | 0.974849 | 0.025151 |
| ASSETEMP | -0.678 | 0.722 | 0.980968 | 0.019032 |
| SG&A | 0.893 | -0.418 | 0.972173 | 0.027827 |
| CAPINT | -0.125 | 0.986 | 0.987821 | 0.012179 |
| Total variance | 2.242983 | 1.672828 | 3.915811 | 0.084189 |
| % Of variance explained | 0.56074575 | 0.418207 | 0.978953 | 0.021047 |
| Cronbach alpha | 0.701 | | | |

Rotation is a method used to simplify interpretation of a factor analysis. This table (called the pattern matrix for oblique rotations) reports the factor loadings for each variable on the components or factors after rotation, each number represents the partial correlation between the item and the rotated factor.

From the above table it is clear that factor analysis result classified four different variables CAPEX, ASSETEMP, SG&A and CAPINT in to two components i.e. differentiation and efficiency. CAPEX and SG&A supports differentiation strategy while as remaining variables ASSETEMP and CAPINT supports efficiency (cost leadership strategy.

Table number 4.3 indicates the variance explained by each variable differentiation and cost leadership. Differentiation and cost leadership explains 56.07% and 41.825 of total variance respectively. All together, differentiation and cost leadership in combination has explained 97.89% of total variance. Only 2.11% of total variance is remained unexplained by the model.

**Table 3:** Descriptive statistics

| | N | Mean | Median | Std. Deviation | Range | Minimum | Maximum | Percentiles | | | Coefficient of Variation (cv) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | 25 | 50 | 75 | |
| MPS | 40 | 1371.40 | 1073.75 | 764.42 | 1756.38 | 676.00 | 2432.38 | 724.50 | 1073.75 | 2167.13 | .5574 |
| BV | 40 | 439.69 | 437.49 | 32.39 | 86.44 | 404.33 | 490.77 | 413.15 | 437.49 | 467.33 | .0737 |
| EPS | 40 | 80.49 | 71.08 | 16.90 | 38.28 | 65.05 | 103.33 | 67.24 | 71.08 | 98.46 | 0.21 |
| ROA | 40 | 1.53 | 1.58 | 0.30 | 0.83 | 1.06 | 1.89 | 1.27 | 1.58 | 1.77 | .196 |
| Diff | 40 | 0.00 | -0.35 | 1.00 | 2.40 | -0.62 | 1.78 | -0.55 | -0.35 | 0.72 | - |
| Eff | 40 | 0.00 | -0.11 | 1.00 | 2.43 | -0.98 | 1.46 | -0.91 | -0.11 | 0.96 | - |

Total number of observation is 40 i.e. eight bank is multiplied by five. Mean value of market price per share (MPS) is Rs 1371.40 with median of Rs 1073.75.It ranges from Rs 676 to Rs 2432.8 minimum to maximum respectively. Mean value of book value per share (BV) is Rs 439.69 with median of Rs 437.49.It ranges from Rs404.33 to Rs 490.77 minimum to maximum respectively.

Mean value of earning per share (EPS) is Rs 80.49 with median of Rs 71.08.It ranges from Rs 65.05 to Rs 103.33 minimum to maximum respectively. Mean value of ROA (Return on assets) is 1.53 with median of 1.58.It ranges from 1.06 to 1.89 minimum to maximum respectively.

Mean value of market price per share (MPS) is Rs 1371.40 with median of Rs 1073.75.It ranges from Rs 676 to Rs 2432.8 maximum to minimum respectively. S.D. (standard deviation) of MPS, BV, EPS & ROA are Rs764.42, Rs 32.39,Rs 16.9 &0.3 respectively. After observing C.V. (coefficient of variance) of each variable i.e. MPS is most volatile than other followed BV, EPS & ROA.

Mean value of differentiation & efficiency are zero. Median of differentiation & efficiency are -0.35 & -0.11 respectively. Minimum and maximum value of differentiation and efficiency are -0.62 &1.78 and -0.98 & 1.46 respectively.

**TABLE 4:** Pearson Correlation

| | Diff | Effi | MPS | BV | EPS | ROA |
|---|---|---|---|---|---|---|
| Diff | 1.000 | 0.000 | -0.473 | 0.872 | -0.386 | -0.891 |
| Effi | | 1.000 | 0.869 | -0.342 | -0.851 | -0.293 |
| MPS | | | 1.000 | -0.721 | -0.605 | 0.182 |
| BV | | | | 1.000 | -0.061 | -0.798 |
| EPS | | | | | 1.000 | 0.599 |
| ROA | | | | | | 1.000 |

Table number 4.8 presents Pearson correlation matrix between six variables, which are Diff, Eff, MPS, BV, EPS, and ROA. Out of six variables, correlation coefficient between two variables Diff & Effi is zero i.e. there is no correlation between differentiation and efficiency. Correlation coefficient between two variables Diff and MPS is -0.473 i.e. there is low degree of inverse relation between differentiation and market value per share. Correlation coefficient between two variables Diff and BV is 0.872 i.e. there is high degree of positive relation between differentiation and market value per share.

Correlation coefficient between two variables Diff & EPS is –0.386 i.e. there is low degree of inverse relation between differentiation strategy and earning per share. Correlation coefficient between two variables Diff & ROA is –0.891 i.e. there is high degree of inverse relation

between differentiation strategy and earning per share. Correlation coefficient between two variables Effi & MPS is 0.869. There is high degree of positive relation between efficiency strategy and market value per share. Correlation coefficient between two variables Effi & BV is –0.342. There is low degree of inverse relation between efficiency strategy and book value per share.

Correlation coefficient between two variables Effi & EPS is –0.851.there is high degree of inverse relation between efficiency strategy (cost leadership) and earning per share. Correlation coefficient between two variables Effi & ROA is –0.293. There is low degree of inverse relation between efficiency strategy and return on assets.

Correlation coefficient between two variables MPS & BV is – 0.721.There is high degree of inverse relation between market value per share and book value per share. Correlation coefficient between two variables; MPS & EPS is –0.605. There is moderate degree of inverse relation between market value per share and earning per share. Correlation coefficient between two variables MPS & ROA is 0.182. There is low degree of positive relation between market value per share and return on assets.

Correlation coefficient between two variables; BV & EPS is –0.061. It is low degree of inverse relation between book value per share and earning per share. Correlation coefficient between two variables; BV & ROA is – 0.798. It is high degree of inverse relation between book value per share and return on assets. Correlation coefficient between two variables EPS & ROA is 0.599. It is moderate degree of positive relation between earning per share and return on assets.

**TABLE 5:** Spearman's Rank Correlation

| | Diff | Effi | MPS | BV | EPS | ROA |
|---|---|---|---|---|---|---|
| Diff | 1.000 | 0.500 | -0.300 | 0.400 | -0.600 | -0.700 |
| Effi | | 1.000 | 0.600 | -0.300 | -0.800 | -0.600 |
| MPS | | | 1.000 | -0.900 | -0.400 | 0.200 |
| BV | | | | 1.000 | 0.300 | -0.500 |
| EPS | | | | | 1.000 | 0.600 |
| ROA | | | | | | 1.000 |

Table number 4.9 presents Spearman's rank correlation matrix between six variables, which are Diff, Eff, MPS, BV, EPS, and ROA. Out of six variables, correlation coefficient between two variables Diff & Effi is 0.5 i.e.there is moderate degree of positive correlation between differentiation and efficiency strategy. Correlation coefficient between two variables Diff and MPS is -0.3 i.e. there is low degree of inverse relation between differentiation and market value per share. Correlation coefficient between two variables Diff and BV is 0.4 i.e. there is low degree of positive relation between differentiation and market value per share.

Correlation coefficient between two variables Diff & EPS is –0.6 i.e. there is moderate degree of inverse relation between differentiation strategy and earning per share. Correlation coefficient between two variables Diff & ROA is –0.7 i.e. there is high degree of inverse relation between differentiation strategy and earning per share. Correlation coefficient between two variables Effi & MPS is 0.6. There is moderate degree of positive relation between efficiency strategy and market value per share. Correlation coefficient between two variables Effi & BV is –0.3. There is low degree of inverse relation between efficiency strategy and book value per share.

Correlation coefficient between two variables Effi & EPS is –0.8.there is high degree of inverse relation between efficiency strategy and earning per share. Correlation coefficient between two variables Effi & ROA is –0.6. There is moderate degree of inverse relation between efficiency strategy and return on assets.

Correlation coefficient between two variables MPS & BV is – 0.9.There is high degree of inverse relation between market value per share and book value per share. Correlation coefficient between two variables; MPS & EPS is –0.4. There is low degree of inverse relation between market value per share and earning per share. Correlation coefficient between two variables MPS & ROA is 0.2. There is low degree of positive relation between market value per share and return on assets.

Correlation coefficient between two variables BV & EPS is 0.3. It is low degree of positive relation between book value per share and earning per share. Correlation coefficient between two variables; BV & ROA is – 0.5. It is moderate degree of inverse relation between book value per share and return on assets. Correlation coefficient between two variables EPS & ROA is 0.6. It is moderate degree of positive relation between earning per share and return on assets.

## Regression Result

The conclusion of the regression models are shown and described as-

$ROA_{i,t}$ = 1.529 – 0.271$Differentiation_{i,t}$ – 0.089$Efficiency_{i,t}$ ... (i)

(0.002)* (0.068)* (0.354)* $R^2$ = 0.88

$Sales\ Growth_{i,t}$ = 25.234 – 0.636$Differentiation_{i,t}$ + 4.847$Efficiency_{i,t}$ ... (ii)

(0.01)* (0.571)* (0.036)* $R^2$ = 0.9301

$ROAStability_{i,t}$ = 0.031 – 0.001$Differentiation_{i,t}$ + 0.209$Efficiency_{i,t}$ …(iii)

(0.692)* (0.988)* (0.133)* $R^2$ = 0.787

ROAStabilityi,t = 0.031 – 0.001Differentiationi,t + 0.209Efficiencyi,t …(iii)

(0.692)* (0.988)* (0.133)* $R^2$ = 0.787

Pi,t = 11,645.19 –17.973Bvi,t –29.460EPSi,t ... (iv)

(0.026)* (0.046)* (0.061)* $R^2$ = 0.943

Pit = 1371.401 –361.661Differentiationi,t + 664.449Efficiencyi,t ... (v)

(0.003)* (0.043)* (0.013)* $R^2$ = 0.98

Pi,t = 4443.054 – 4.602BVi,t – 12.493EPSi,t

(0.00)* (0.00)* (0.00)*

4.837EPSi,t* Differentiationi,t + 5.904EPSi,t * Efficiencyi,t …(vi)

(0.00)* (0.00)* $R^2$ = 1.00

*indicates P value

According to regression result of equation-i, coefficient value of both differentiation & efficiency has been observed –0.271 & –0.089 respectively and both are insignificant at 5 % level of significance. Negative coefficient value of efficiency is less than differentiation. So efficiency is better than differentiation.

While regressing differentiation and efficiency on sales growth under equation-ii, coefficient value of differentiation has been observed –0.636.

And it is not significant at 5% level of significance while as coefficient value of efficiency has been observed 4.847 and it is significant at 5 % level of significance. But according to this model cost leadership strategy is better than differentiation strategy for increasing sales growth.

In the result of regression equation-iii, the coefficient value of Differentiation is –0.001. Coefficient value of efficiency has been observed 0.209 but both are not significant at 5 % level of significance. According to this model cost leadership strategy is better than differentiation strategy for maintaing ROA stability.

Under regression equation-iv, Bvi,t & EPSi,t are significant at 5 % level of significance but Coefficient value of both Bvi,t & EPSi,t are negative. So further model has been placed and tested for analyzing of impact of differentiation and efficiency on it.

Under regression equation-v, Coefficient value of differentiation is –361.661 and coefficient value of efficiency is 664.449. Differentiation and efficiency is significant at 5 % level of significance. Overall this model explains 98 % of total variation.

According to this model cost leadership strategy is better than differentiation strategy for increasing market value per share. But, Again another model has been placed and tested for analyzing of combine impact of differentiation and efficiency on EPS as well as EPS & BV on it.

Under regression equation-vi, Coefficient value of book value per share, earning per share, differentiation is multiplied by earning per share and efficiency is multiplied by earning per share is –4.602, -12.493, -4.837 and 5.904 respectively and all are significant. Overall model explains 100 % variation. According to this model cost leadership strategy is better than differentiation strategy for increasing market value per share.

**TABLE 6:** Measurement of risk

| | n | Mean | S.D. | Std. error mean | t | P value | Result |
|---|---|---|---|---|---|---|---|
| Imitdiff | 137 | 3.2336 | 0.90961 | 0.07771 | 1.577 | 0.116 | Insignificant |
| Imiteff | 137 | 3.0584 | 0.92963 | 0.07942 | | | |

Mean of Imitdiff and Imiteff are 3.2336 and 3.00584 respectively. To test the difference between means of Imitdiff and Imiteff using SPSS we observed t and p value are 1.577 and 0.116 (< 0.05). This indicates there is no significant between mean of differentiation strategy easily imitable and cost leadership strategy easily imitable. So both strategies are equaled risky. But according to above respondents differentiation strategy slightly more risky than cost leadership because mean value of Imitdiff is slightly greater than Imiteff

**TABLE 7:** Measurement of return on assets

| | n | Mean | S.D. | Std. error mean | t | P value | Result |
|---|---|---|---|---|---|---|---|
| ROAdiff | 137 | 3.3285 | 0.80540 | 0.06881 | -2.033 | 0.043 | significant |
| ROAeff | 137 | 3.5328 | 0.85793 | 0.07330 | | | |

Mean of ROAdiff and ROAeff are 3.3285 and 3.55328 respectively. To test the difference between means of ROAdiff and ROAeff using SPSS we observed t and p value are -1.786 and 0.043 (> 0.05). This indicates there is significant difference between differentiation strategies increases return on assets and cost leadership strategy increases return on assets. According to

above respondents result, Mean of ROAdiff is less than ROAeff. So cost leadership strategy increase return on assets than differentiation.

**TABLE 8:** Measurement of sustainability of financial performance in the future

| | N | Mean | S.D. | Std. error mean | t | P value | Result |
|---|---|---|---|---|---|---|---|
| Susdiff | 137 | 3.1022 | 0.94934 | 0.08111 | -0.789 | 0.431 | Insignificant |
| Suseff | 137 | 3.1898 | 0.88727 | 0.07580 | | | |

Mean of Susdiff and Suseff are 3.1022 and 3.1898 respectively. To test the difference between means of Susdiff and Suseff using SPSS we observed t and p value are -0.0789 and 0.431 (< 0.05). This indicates there is no significant difference between sustainability financial performance in the future due to implementation of differentiation and cost leadership strategy. But according to above respondents result cost leadership strategy slightly better than differentiation because mean value of Suseff is slightly greater than Susdiff.

**Table 9:** Measurement of market share

| | n | Mean | S.D. | Std. error mean | t | P value | Result |
|---|---|---|---|---|---|---|---|
| MSdiff | 137 | 3.8394 | 0.79736 | 0.06812 | 3.071 | 0.02 | significant |
| MSeff | 137 | 3.5255 | 0.8918 | 0.07619 | | | |

Mean of MSdiff and MSeff are 3.8394 and 3.5255 respectively. To test the difference between mean of MSdiff and MSeff using SPSS we observed t and p value are 3.071 and0.02 (>.o5). This indicates there is significant difference between increase on market share due to following differentiation and cost leadership strategy. According to above respondents result, mean of MSdiff is greater than men of MSeff. So, differentiation strategy is better than cost leadership to increase market share.

## Conclusions, Limitations & Areas for Further Research

Our study of a sample of eight of commercial banks of average five years confirms the conventional wisdom that adopting a cost leadership strategy enables a firm to sustain superior performance more than a differentiation strategy does. Important for senior officers of bank is our finding that while cost leadership is a source of sustainable performance, it also increases the sustainability of earnings. Similarly, cost leadership strategy is better than differentiation strategy for increasing sales growth, ROA stability and market price per share. But according to opinion of senior officer of commercial bank differentiation strategy is better than cost leadership for increasing market share. So Cost leadership strategy is better than differentiation for commercial banks but differentiation strategy cannot be avoided.

More evidence is needed to determine impact of generic (differentiation or cost leadership) strategies in commercial banks. Only 8 banks were taken as a sample out of 26. This study included only fiscal year of 2059/60 to 2063/64 for this study due to incompletion of annual report of 2064/65. This study also included (opinions of senior officer) data from only 8 commercial banks that are situated in Kathmandu valley. Hence, the results of the study cannot be assumed to extend beyond all commercial banks or to different study periods or different locations.

There is no separate record of research and development expenditure of commercial banks of Nepal, which is necessary for following differentiation strategy for any organization as

commercial banks. So, this analysis of research and development expenditure included only as a primary data basis i.e. only qualitative basis.

Future research should be conducted on another banking sector like as development bank, other service sector like as hospitals, college and manufacturing organizations.

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# The Role of a Modern HR Director an Empirical Analysis


- **Satwinder Singh**
  Brunel University Business School, UK.
- **Tamer Khalil Darwish**
  Brunel University Business School, UK.



## Abstract

**Purpose:** The purpose of this paper is to empirically examine the role of a modern HR director. There is an implicit undercurrent in the literature that the role of present day HR director has become 'strategic' as opposed to being 'routine' in the past. In this paper we empirically test these assertions in the context of a country study.

**Design/methodology/approach:** The design includes a detailed survey instrument sent to all 104 financial firms in Jordan. Descriptive and inferential statistical methods are employed to test the hypotheses. Descriptive methods include the use of frequency tables, mean and standard deviations, and zero-order correlations. Inferential statistical methods include the use of proportions test, ordinal and logistic regressions.

**Findings:** The study finds that the reliance on routine functions has indeed fallen for the HR director. However, there is only weak evidence that importance of strategic functions has substantially increased. Inferential analysis of data shows that male HR directors and those longer serving, with higher qualifications, and those working for companies with lower employee turnover, are more likely to rate as 'high' the importance of most strategic HR functions. It does not matter whether they are working for large or old established companies.

**Limitations:** The study focuses on financial sector and although it covers almost the entire population of firms, the number of firms in the study could be increased. The study can also be conveniently extended to additional sectors.

**Implications for empirical papers:** There are very few empirical papers of this nature. Adopting the methodology used in this paper, the study can conveniently be extended to additional sectors within the country. The study can also be extended to additional countries.

**Originality/value:** Empirical in nature and one of a few conducted in non-western environment, it adds to the literature with some interesting implications and avenues for future work.


**Keywords:** Strategic HRM, proportions test, ordinal and logistic regressions.

## Introduction

The field of Human Resource Management has come a long way from its humble days when it used to be known as 'Personnel Management', in which the 'personnel manager' performed routine functions of recruitment, placement, pay rolls, and retirement planning. With the

advent of new modes of information technology, organisational flexibility, relentless cost pressure, and need to conduct businesses globally have changed the way organisations now work and compete with each other. The emergence of strategic human resource management (SHRM) has given HR managers new roles, challenges and managerial expectations. It is now being increasingly advocated that employees are the key resources that enable organisations gain competitive advantage that they pursue (see e.g., Becker and Huselid, 1998; Pfeffer, 1994, 1998). HR managers now face real challenges in their organisations where they have to acquire and develop world-class work team competencies and the practices for strategically managing them (Khandekar and Sharma, 2005). This, it is said, is changing the role of HR directors who are the drivers of HR changes in an enterprise. In a drive towards this optimal use of human resources, it is argued that the whole gamut of issues—recruitment, training, retention, succession, compensation, retrenchment have come to receive a thoughtful and sensitive treatment in the hands of enterprises, in particular the commercial, for-profit enterprises, who are answerable to their stock holders. There is also a burgeoning (but as yet inconclusive) literature on the link between the SHRM and positive firm performance, however measured (see e.g., Huselid, 1995; MacDuffie 1995; Huselid and Becker, 1996; Delery and Doty, 1996; Delery and Shaw, 2001; Wright and Boswell, 2002). The drivers of these changes are the HRM directors and the focus of their operations has now (supposedly) changed from routine functions to presently a dynamic and a strategic one.

In this paper we test these assertions with the help of primary data collected from the population of financial firms operating in Jordan. In the wake of recent financial crisis, the paper assumes special importance in unearthing the assumed role of HRM directors of financial firms. The paper is divided as follows. In section II we summarise the literature on the role of HRM directors. Section III presents the research questions and hypotheses resulting from the literature review. Section IV outlines the data sources, and methodology related issues. Results are presented in section V. Discussion and conclusions form section VI.

## Literature Review

The realisation that proper management of human resources can add great value to modern day organisations has led scholars (see e.g., Storey, 1995; Tyson, 1995; Wright *et al*., 2001; Evans *et al*., 2002) to take great interests in the role HRM directors can play in achieving these values for organisations. A review of literature on the role of HRM directors throws up some interesting frameworks and models that have tried to identify specific roles of HR managers. A good starting point is Tyson's typology (1987) who classified the role of HR director into three main models. He called the first model as the clerk of works model. Personnel manager in this model works as an administrative supporter with no involvement in business and strategic issues. The principal activities of HR director here are the main HR practices such as recruitment, performance appraisals, training and incentives and rewards. The second model is the contract manager model. HR mangers work as experts in trade union agreements and fixing day-to-day issues with the unions. Finally, he called the third model as the architect model. HR directors contribute in building the whole organisation and they are the key persons for organisation success. HR directors in this model must have a good relationship with line managers and top executives as well. They work with top management in formulating and implementing business and corporate strategies. Other writers (e.g., Carrol, 1991) have also captured a shift in HRM roles, as a result of the positive impact of HRM on organisational performance as being more strategic oriented than how it was before. His framework defines three new roles in addition to the traditional ones. The first one is that of

delegator, where line managers serve as key implementers of HRM system. In the second role, which is the technical expert, HR managers and professionals only have highly specific HR-related skills such as recruitment, performance appraisals, and training and development. Hence, they are only focusing on their area of specialty. Finally, he called the last role as the innovator, the role that enables HR mangers to recommend new approaches to solve major problems in their organisation, such as lack of productivity. Storey (1992) proposes the following typology based on two dimensions--interventionary vs. non-interventionary, and strategic vs. tactical. Advisers: HR managers act as internal consultants; they know all the recent development in their organisations, but leave the actual implementing of HRM issues to line and top management. This role is strategic but non-interventionary. Handmaidens: HRM are primarily customer-led in the services they offer, and they cooperate in everything they do with line managers. This role is tactical but non-interventionary. Regulators: HR managers formulate, promulgate and monitor all the employees-related issues, which range from the personal issues to joint agreement with the union. This role is considered as interventionary and tactical. Change makers: HR mangers make real changes in their organisations based on the overall strategic and business needs. This role is interventionary and strategic. Ulrich (1997), on the other hand has introduced a model of HRM that identifies four roles that HR managers play: Strategic partner: HR managers have to align HR initiatives with the strategic goals of the organisation. They implement these practices taking into account the strengths and weaknesses of the organisation, to add value. Change agent: HR managers try to increase the competitiveness of their organisation in an ever-changing work environment. They implement HR practices to assess and respond to inevitable changes in the competitive landscape, government regulations, and global economy so as to achieve and maintain competitive advantage. Administrative expert: HR managers introduce efficient HR processes, whether they are in recruitment and selection, or training others to maximize the use of new technologies and improved methods in order to add value. Employee champion: HR managers seek to maximise employee productivity and loyalty to the organisation. This can be done by either listening and responding to employee needs with available resources or increasing an employee's knowledge, skill and ability. HR practices that can be utilised include career-planning, mentoring, training, and development. Ulrich's (1997) multiple HRM role models helps describe the important implications of global trends and other issues that need to be addressed by HR departments to continue to demonstrate and increase organisational value. Furthermore, Truss *et al*., (2002) have classified HR managers into two main types; type A and type B. They have argued that type A HR managers have the power and the authority in their organisations and they consider themselves as business and strategic partner. This type of HR managers works as close partners with top management and they support them to cope with the major changes in the business environment. In contrast, type B HR managers are concentrating on their own field of speciality and they are traditional approach oriented. *In general, all of the proposed models in HRM literature reflect the idea that HR managers' role has taken a shift to be more business oriented, more strategic, and more focussed on organisational change.*

On a different note, some researchers have argued that HR directors will require a wide range of skills in the future. For instance, the European Association for Personnel Management (EAPM) has conducted a comprehensive study in Europe to explore the future role of HR director. They interviewed 4,250 HR directors from 15 countries. The study revealed that HR directors should be good performers, good at project management, and they must be internationalists. Moreover, they should have multi-functional experience and senior management experience. The study argued that HR directors should be perceived as strategic partners than those holding traditional, administrative and centralised departments. In this

context, Ulrich *et al*, (1989) have suggested that HR managers who want to be considered as strategic partners by top management in their organisations must demonstrate additional skills and competencies. For example, they have to have a broad knowledge of the business, the ability to manage change, and the ability to deliver outstanding HR services. Hiltrop *et al*., (1995) have emphasised the changing nature of HR directors and HR professionals in the future. They argued that organisations should provide promising HR managers with the opportunity to broaden their knowledge to other functions, help them to develop business experience, and support career tracks that will create the new HR profile. Furthermore, line managers must be rotated, trained, and developed in HRM so they will be able to deliver excellent HR services. One more important issue that concerns the role of HR director is the representation of personnel directors in the board of directors. The pace of change in modern organisations has given HR mangers as board members many opportunities to formulate the business and corporate strategies, and then formulate HR strategies and policies based on these strategies so they can effectively and efficiently implement them (Kelly and Gennard, 1996). HRM researchers have given this issue a special consideration as it is considered important step to consider HR manager as business and strategic partner. Budhwar (2000) argued that the level of integration between HRM and the overall strategic process of the company could be measured by the representation of HR managers on the board of directors. Ulrich (1997a) has asserted that HR managers as strategic partners should be involved in the strategic decision process next to other senior managers in organisations, because that will give organisations an opportunity to align HR practices and policies with strategic business and corporate objectives. Sullivan (2003) and Kelly and Gennard (1996) have claimed that establishing a good relationship between CEO and HR manager increases the opportunity of the HRM-organisational strategy nexus. An effective relationship between HR manager and CEO should be based on high trust relationship concerning shared values on the issues of strategic development and success of business.

## This Study

Taking a cue from the literature, this study focuses on finding the role of HR directors in a modern day corporation. Based on the review of literature we listed the following testable hypotheses.

### a) Hypotheses

**H1:** The role of HR director in a modern day organisation has moved away from the routine functions (such as headhunting, training, job evaluation) to strategic functions (such as contributing to planning and implementing the business and corporate strategies and organisational designs).

**H2:** The role of HR director has distinctly changed over the past 5-10 years. It has become more influential in strategic decision making.

**H3:** HR director has become influential with the board and regularly attends board meetings.

This is a logical corollary to H1 and H2.

**H4:** HR directors now routinely delegate day to day HR work to line/junior managers for them to be able to concentrate on strategic functions.

**H5:** This hypothesis concerns seven control variables broadly classified into two groups—one concerning the traits of the HR director and the other concerning the firm itself. 'Trait'

variables include gender, age, education, and experience of the responding HR director. We hypothesize that the HR functions, in particular strategic functions would be a positive function of male, older, better educated, and experienced HR director. The 'firm' variables include the size and turnover. We hypothesize that strategic HR functions will be a positive function of larger sized firms with lower turnover rate of employees.

The first three hypotheses directly test the claims that the role of HR director has become more strategic. Hypothesis 4 is logical deduction from what is stated in hypotheses 1-3. Hypothesis 5 tests the validity of control variables.

## b) Methods

In order to test the stated hypotheses, descriptive and inferential statistical methods are employed. Descriptive methods include the use of frequency tables, mean and standard deviations, and zero-order correlations. Inferential statistical methods include the use of proportions test, ordinal and logistic regressions. For proportions test, the null hypothesis, $H_0$ for all the attributes is that the ratio $p_1 = p_2$, and the alternative hypothesis, $H_1$ is that $p_1 > p_2$. The *Z-values* that can be computed as below follow a normal distribution with zero mean and unit standard deviation.

$$Z \cong \frac{p_1 - p_1}{\sqrt{p\,(1-p)\left(\frac{1}{n_1}+\frac{1}{n_2}\right)}}$$

where $p_1 = \frac{x_1}{n_1}$, $p_1 = \frac{x_2}{n_2}$ and $p = \frac{x_1 + x_2}{n_1 + n_2}$

The ordinal regression used to analyse part of the data may be written in the form as follows if the logit link is applied. f $[g_j (X)] = \log \{ g_j (X) / [1- g_j (X)]\} = \log \{[ P(Y \leq y_j \mid X)] / [P(Y > y_j \mid X)]\} = a_j + ßX$, j = 1, 2, …, k - 1, and $g_j (x) = e^{(a_j + ß X)} / [ 1 + e^{(a_j + ß X)} ]$, where j indexes the cut-off points for all categories (k) of the outcome variable. If multiple explanatory variables are applied to the ordinal regression model, BX is replaced by the linear combination of $ß_1X_1 + ß_2X_2 + \ldots + ß_pX_p$. The function f [gj (X)] is called the link function that connects the systematic components (i.e. $a_j + ßX$) of the linear model. The alpha $a_j$ represents a separate intercept or threshold for each cumulative probability. The threshold ($a_j$) and the regression coefficient (ß) are unknown parameters to be estimated by means of the maximum likelihood method (Chen and Hughes, 2004).

The methodology adopted to do the Logit regressions follow model of the following type:

$$\text{Logit } (Y) = \text{In}\left(\frac{\pi}{1-\pi}\right) = \alpha + \beta_1 X_1 + \beta_2 X_2 .. \beta_n X_n + \in$$

where π = Probability (Y = probability of being an event happening) | $X_1 = x_1$, $X_2 = x_{2\ldots..}$,

$$X_n = x_n = \frac{e^{x + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n}}{1 + e^{x + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_n X_n}}$$

Where π is the probability of the event, α is the *Y* intercept, $\beta_s$ are the regression coefficients, and $X_s$ are a set of predictors; α and $\beta_s$ are estimated by the maximum likelihood (ML) method. The null hypothesis underlying the overall model is that all $\beta_s$ are zero. A rejection of the null hypothesis implies that at least one $\beta$ does not equal zero in the population, i.e., the logistic equation predicts the probability of the outcome better than the mean of the dependent variable *Y*.

### c) Data

The target population of this study is the financial sector of Jordan. This sector is one of the largest and well developed services sector in the country and is witnessing a great deal of deregulation which is attracting private investment from within the country and overseas. A count of all the firms operating in the financial sector revealed a population of 104 firms in banking, insurance, real estate, brokerage and other financial services. These firms are listed on Amman Stock Exchange (ASE). It was decided to approach all these firms in the population for the purpose of data collection. A detailed questionnaire was drafted to collect the primary data. The questionnaire instrument included questions on issues such as recruitment, retention, training, appraisals, corporate culture, and perceived and actual financial performance. All the 104 firms were contacted in person, of which 99 agreed to participate in the survey. Questionnaires were delivered by hand and collected in person. In many instances HR directors/managers spent time with the researcher to clarify questions before they were replied. Cross checks reveal data to be consistent and reliable.

### d) Construction, Test and Validity of Variables

Section B of the questionnaire was devoted to eliciting information related to the role of directors. Question-1 read 'what activities of the HR director are of greatest strategic importance to the company?' Respondents were asked to tick on a Likert scale (with 5 being 'very significant') nine responses. These were (1) 'headhunting (searching skilled employees)' (2) 'contribute to planning and implementing the business and corporate strategies', (3) 'contribute to succession planning', (4) 'organising training programmes', (5) 'planning career paths for management development', (6) 'job evaluation', (7) 'monitoring and assessing employee performance', (8) 'advising on organisational design', (9) 'ensuring compliance with equal opportunities legislation'. Question-2 read 'how has the role of HR director changed over the last 5-10 years? Respondents were asked to tick as appropriate among the four choices, which were: (1) 'the HR director has become more influential in strategic decision making', (2) 'review of training needs' (3) 'the training budget carries a higher priority', (4) 'frequent job rotation has become more common for middle managers'. The third question read 'would you please rate the representation of HR director on the board meetings? For this question respondents were asked to choose one most important among the four choices which were: (1)'attends all board meetings', (2) 'attends by invitation when HR matters are discussed', (3) 'does not attend but supplies reports for discussion by the board', (4) implements policies determined by the board, but does not participate in policy making'. The final question in this section asked 'how important is the delegation of the following to line/junior managers?' Here two choices were given on which respondents were asked to tick on Likert scale (5 being very important); the choices were (a) 'day to day HR work', (b) HR strategic decisions'.

### e) Control Variables

It is essential to include control variables in the study owing to their possible association and impact on dependent variables. For the purpose of this study we chose 7 variables broadly classifying them into two groups—one concerning the traits of the HR director and the other concerning the firm itself. The 'trait' variables include four variables--gender, age, education, and experience of the responding HR director. The 'firm' variables include the size and turnover. The gender variable is a binary variable assuming the value 1 for male HR directors and 0 otherwise. Age variable is also binary assuming unitary value for older age group HR directors (40 years and above); and 0 otherwise. The education variable is also a dummy assuming unitary value for HR directors holding master's degree or above and 0 otherwise. Similarly experience variable assumes unitary value for HR directors with 15 or more years of experience and 0 otherwise. The 'firm' related variables has three binary variables: one for

older firms (established for more than 10 years), larger size (with more than 15 employees), and those with low employee turnover rate (1-6% pa), all assuming value 1 and 0 otherwise.

# Results

## Routine and Strategic functions

Table-1 presents the response to question-1 that asked respondents as to 'what activities of the HR director are of greatest strategic significant to the company'. Hypotheses 1 and 2 relate to this question and a subsequent question that asked respondents as to 'how the role of HR director has changed over the last 5-10 years'. Let us first analyse statistics in table-1. Column 1 list possible jobs HR directors are likely to perform in various intensities. Column 2 lists the number of respondents who did not think that the listed job was of a great deal of significance; column 3 lists the number of respondents who thought that the listed job was of a great deal of significance. Although not presented as such to respondents, for the purpose of analysis, responses have been classified into two broad groups—routine and strategic. Let us first look at the strategic chores. Around 45% of the HR directors stated that 'contribution to planning and implementing the business and corporate strategies' and 'advising on organisational design' has become an important activity for them and although a higher number, around 55%, of the directors rated it as not a very significant activity for them, the higher response is statistically not significant. Interestingly what is highly significant is a large number of routine responses which the HR directors said were not important for them; headhunting, organising training programmes, planning career paths, job evaluations, monitoring, compliance with equal opportunities, all came to be rated as not very significant for the HR directors and this non-importance is statistically significant as well. The message this question relays is that the role of HR directors is shifting, albeit gradually in the direction of being strategic.

**TABLE 1:** Significance of Routine and Strategic functions

| Response to question 'what activities of the HR director are of greatest significance to the company? | Proportion responding as not so significant[A] ($p_1$) | Proportion responding as very significant[B] ($p_2$) | z statistics (H0: p1 = p2) |
|---|---|---|---|
| Col-1 | Col-2 | Col-3 | Col-4 |
| **Routine** | | | |
| 1. Headhunting (searching skilled employees) | 67 | 32 | 3.52*** |
| 2. Contribute to succession planning | 54 | 45 | 0.90 |
| 3. Organising training programmes | 26 | 73 | 4.72*** |
| 4. Planning career paths for management development | 65 | 34 | 3.12*** |
| 5. Job evaluation | 75 | 24 | 5.13*** |
| 6. Monitoring and assessing employee performance | 25 | 74 | 4.92*** |
| 7. Ensuring compliance with equal opportunities legislation | 73 | 26 | 4.72*** |
| **Strategic** | | | |
| 8. Contribute to planning and implementing the business and corporate strategies', | 54 | 45 | 0.90 |
| 9. Advising on organisational design | 54 | 45 | 0.90 |

[A]include responses 1-3 on 5 point scale (5 'very significant'); [B]include responses 4,5. ***significant at.01 level. N=99.

## Dynamics of HR director's role

Respondents were asked the question as to how the role of HR director has changed over the last 5-10 years. They were given four choices, the replies to which are reported in table-2. The first one was a direct question asking if their role has become more influential in strategic

decision making. Around 58% of the respondents replied this in positive. Proportion's test showed that this response was significant at.10 confidence level. What is the other side of the coin—the replies to three remaining questions of non-strategic nature are also statistically significant at various levels (between.01-.10). So although one would have liked to see the response to first question to be strategically significant at higher level, the replies to remaining three questions do indirectly confirm that HR director's role in strategic decision making is on the rise and in non-strategic routine matters on the decline.

**TABLE 2:** Dynamics of HR director's role

| Response to question: How has the role of HR director changed over the last 5-10 years? | Response count (chosen) | Response count (blank) | Total |
|---|---|---|---|
| 1. HR director has become more influential in strategic decision making | 57 | 42 | 99 |
| 2. Review of training needs | 34 | 65 | 99 |
| 3. The training budget carries a high priority | 40 | 59 | 99 |
| 4. Frequent job rotation has become more common for middle managers | 19 | 80 | 99 |

Table 3 reports the replies to question on HR directors' representations on the board meetings. The results are revealing: 41% of all respondents said that they attend all board meetings; 21% attend by invitation when HR issues are discussed; 23% do not attend but supply reports when HR matters are discussed. Only 14% of the respondents said that they implement policies determined by the board without participating in board meetings. So barring the last group of 14% of HR directors who simply take orders from the board on matters relating to human resources, remaining 86% have some form of direct or indirect involvement with matters of HR and have interface with the board; of these 41% seem to have a direct say in the matters relating to HR within the company.

**TABLE3:** Dynamics of HR director's role

| Response to question: Would you please rate the representation of HR directors on the board meetings? | Attends all board meetings. | Attends by invitation when HR matters are discussed. | Does not attend but supplies reports for discussion by the board. | Implements policies determined by the board, but does not participate | Total |
|---|---|---|---|---|---|
| Frequency count | 41 | 21 | 23 | 14 | 99 |
| Percent | 41.4 | 21.2 | 23.2 | 14.1 | 100 |

## Delegation of HR Functions

The notion of a modern HR director is built around the belief that in present day world of SHRM, the HR director, unlike like its predecessor personnel director, no longer worries about the routine jobs which he is happy to delegate to junior staff. In its place, he is more concerned with the strategic side of HR issues and decisions about which he would be more concerned. The only way to find this out was to pose a straightforward question of this nature to HR directors. We did this and found the following responses. Sixty percent of the respondents agreed that it was very important for him to delegate day-to-day HR work to junior managers. This response is statistically significant (.05 level). What is the other side of the coin, 84% of HR directors confirmed that it was not important to delegate strategic HR decision making to junior staff (.01 level); logical deduction of this is that whereas HR directors are quite happy to delegate routine work to junior staff, they would keep the control of any strategic decision making in their hands.

## Ordinal and Logistic regression analysis of responses

Table 4 presents the basic statistics and zero order correlation matrix of 21 dependent and independent variables. Table 5 reports the results of ordinal and logistic regressions of 14 dependent variables on 7 independent variables as described in sub-section III (d) above under the heading 'Construction, test and validity of variables'. The 7 independent variables are described in sub-section (e) above under the heading 'control variables'. The 14 dependent variables describe the activities of HR directors ranging from headhunting to complying with equal opportunities; the 7 independent variables relate to personal attributes of the respondents such as age, education, experience and to firm attributes which include the age, size, and the rate of employee turnover. We will first briefly comment on the correlation matrix in which we notice several meaningful correlations, especially in columns 1-9 which show the positive correlations between the traits of HR director's functions of headhunting, planning and implementing the business and corporate strategies, contributing to succession planning, organising training programmes, planning career paths of employees, job evaluations, advising on organisational designs and such. Of particular interest to us are the two strategic variables of 'contributing to planning and implementing the business and corporate strategies and 'advise on organisational designs'. These two strategic variables are positively and significantly associated with fellow HR directors' function telling us that these functions, though relatively strategic and intimately linked with routine functions as well. In the lower block of table-4 that describes the correlation status of independent variables, last two related to 'large size of the firm' and 'lower turnover of employee' rate stand out as significantly related to most independent variables. This tells us that 'size' does matter, especially when it is a large firm that also has lower rate of employees leaving the company each year.

Correlations tell us only the strengths of association; to understand the degree of causality we have to refer to the inferential results reported in the form of ordinal and logistic regressions in table-5. In table-5, the first 14 variables from table-4 constitute the dependent variables acting as functions of remaining 7 independent variables. Hence, fourteen equations are fitted to the data. Model fitting statistics reported at the bottom of the table shows that most models are very good fit to the data. Two results immediately stand out in table-5. First, the positive and significant coefficient for 'lower turnover rate of employees' which tells us that lower the rate of turnover of employees in a company, more likely it is that HR directors will rate as 'high' the importance to most HR functions. Second, the coefficient for 'education' comes out positive and significant in several equations telling us that higher the qualification of the responding HR director higher will be the rating he will give to most HR functions signifying the importance the director gives to his HR duties and responsibilities. We were hoping to see the positive and significant impact of 'large sized' and 'older' firms in most equations but this does not seem to be the case. The results of three strategic variables which are of most interest to this study are listed in model 2 (contribution to planning and implementing the business and corporate strategies), 8 (advising on organisational design), and 9 (the HR director has become more influential in strategic decision making). The first of these three model results are as follows: male HR respondents are less likely to give higher rating to this question; but those respondents who have higher qualification and work for companies with lower employee turnover rate are more likely to give higher score to this variable. With the second strategic question on 'advise on organisational designs', HR directors with greater number of years of experience and those working for companies that have 'lower employee turnover rate' are likely to rate highly this question. Finally, the results of the third of the 'strategic models' tell us the following. Male HR directors working in larger firms are less likely to rate highly the importance of this question but those with higher qualification would assign higher importance to this question.

**TABLE 4:** Basic statistics and zero-order correlation matrix of variables

| Variable | Mean | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1.Headhunting | 2.96 | 1.21 | 1 | | | | | | | | | | | | | | | | | | | | |
| 2.Strategy | 3.41 | 1.22 | .598** | 1 | | | | | | | | | | | | | | | | | | | |
| 3.Sucession | 3.43 | 1.05 | .615** | .693** | 1 | | | | | | | | | | | | | | | | | | |
| 4.Training | 4.02 | 0.94 | .405** | .573** | .551** | 1 | | | | | | | | | | | | | | | | | |
| 5.CareerPaths | 3.18 | 0.99 | .362** | .501** | .422** | .424** | 1 | | | | | | | | | | | | | | | | |
| 6.Jobevaluation | 2.84 | 0.97 | .404** | .352** | .331** | .207* | .616** | 1 | | | | | | | | | | | | | | | |
| 7Monitoring | 3.96 | 0.87 | 0.154 | .363** | .411** | .716** | .435** | .199* | 1 | | | | | | | | | | | | | | |
| 8.Orgdesign | 3.39 | 0.94 | .357** | .499** | .551** | .539** | .471** | .229* | .623** | 1 | | | | | | | | | | | | | |
| 9EqualOpp | 2.96 | 0.94 | 0.098 | -0.057 | 0.142 | 0.001 | 0.151 | 0.151 | 0.149 | .217* | 1 | | | | | | | | | | | | |
| 10.DecisionMaking | 0.58 | 0.50 | .259** | .579** | .493** | .523** | .406** | .324** | .386** | .517** | -0.037 | 1 | | | | | | | | | | | |
| 11.TrainingNeeds | 0.34 | 0.48 | 0.095 | -0.036 | -0.077 | 0.053 | 0.039 | 0.122 | 0.083 | 0.014 | 0.123 | -.369** | 1 | | | | | | | | | | |
| 12.Commitment | 0.02 | 0.14 | -.233* | -.285** | -0.128 | -0.157 | -0.026 | 0.174 | 0.09 | -.292** | 0.083 | -0.167 | -0.104 | 1 | | | | | | | | | |
| 13.TrngBudget | 0.4 | 0.49 | -0.007 | 0.041 | -0.086 | -0.084 | -0.027 | -0.183 | -0.081 | -0.105 | -.252* | -.251* | 0.098 | -0.12 | 1 | | | | | | | | |
| 14.Jobrotation | 0.19 | 0.40 | 0.101 | 0.129 | 0.141 | 0.127 | -0.012 | 0.029 | 0.023 | 0.014 | 0.076 | 0.003 | -0.136 | -0.07 | -0.192 | 1 | | | | | | | |
| 15.Male | 0.7 | 0.46 | 0.069 | -.209* | 0.022 | -0.009 | 0.032 | 0.095 | -0.005 | 0.019 | .207* | -0.121 | 0.014 | 0.1 | -0.084 | 0.042 | 1 | | | | | | |
| 16.Age | 0.56 | 0.50 | 0.156 | 0.104 | 0.119 | 0.063 | 0.041 | 0.061 | -0.042 | 0.095 | -0.104 | 0.014 | 0.005 | -0.16 | 0.032 | 0.126 | .251* | 1 | | | | | |
| 17.Education | 0.25 | 0.44 | .328** | 0.185 | .314** | .237* | 0.081 | 0.122 | 0.108 | .204* | 0.075 | 0.123 | 0.02 | -0.08 | -0.147 | 0.13 | 0.181 | 0.005 | 1 | | | | |
| 18.Experience | 0.37 | 0.49 | .234* | 0.184 | 0.158 | 0.118 | 0.111 | 0.13 | -0.061 | 0.077 | -0.101 | 0.029 | -0.031 | -0.11 | 0.002 | 0.101 | .282** | .565** | 0.176 | 1 | | | |
| 19.Agefirms | 0.69 | 0.47 | .230* | 0.141 | -0.011 | 0.108 | .234* | 0.113 | 0.019 | 0.052 | -.287** | 0.037 | 0.03 | -0.06 | .201* | -0.169 | 0.124 | 0.054 | 0.042 | .206* | 1 | | |
| 20.Size | 0.64 | 0.48 | .271** | .240* | .294** | .287** | .288** | 0.07 | .232* | .252* | 0.012 | 0.158 | 0.016 | -0.19 | -0.019 | -0.005 | 0.096 | .211* | 0.101 | .324** | .486** | 1 | |
| 21.Turnover | 0.35 | 0.48 | .340** | .531** | .521** | .483** | .398** | .278** | .328** | .414** | 0.055 | .507** | -0.09 | -0.11 | -0.049 | .230* | 0.028 | 0.109 | 0.008 | 0.084 | -0.047 | .252* | 1 |

**TABLE 5:** Ordinal and logistic regression analysis of HRD function traits

| PREDICTORS ↓ | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 | Model 7 | Model 8 | Model 9 | Model 10 | Model 11 | Model 12 | Model 13 | Model 14 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Gender of HRDirector | -.50 | -1.89*** | -.36 | -.30 | -.07 | .10 | -.03 | -.32 | 1.33*** | -1.09* | .072 | 18.17 | -.47 | -.00 |
| Age of HR Director | .33 | .375 | .09 | .00 | -.11 | .03 | .02 | .30 | -.70 | .13 | .18 | -18.7 | .35 | .57 |
| Education of HRDirector | 1.59*** | 1.43*** | 1.79*** | 1.28** | .36 | .31 | .49 | 1.04** | .08 | 1.10* | .12 | -16.64 | -.68 | .78 |
| Experience of HRDirector | .33** | .61 | .14 | .13 | .11 | .36 | -.72 | -.25 | -.35 | -.26 | -.32 | 1.71 | -.00 | .29 |
| Firm Age | .97 | .76 | -.37 | .29 | .80** | .68 | -.16 | .00 | -1.92*** | .55 | .06 | -.69 | 1.44** | -.98 |
| Firm Size | .10 | .00 | .82* | .46 | .57 | -.50 | .94* | .77 | 1.21** | -.07*** | .20 | -16.46 | -.75 | -.13 |
| Employee Turnover rate | 1.63*** | 2.86*** | 2.33*** | 2.53*** | 1.60*** | 1.20*** | 1.12*** | 1.62*** | -.054 | 3.10 | -.45 | -17.24 | .00 | 1.16** |
| Model Fitting Statistics | | | | | | | | | | | | | | |
| -2 log likelihood | 189.36 | 166.59 | 157.65 | 139.12 | 167.45 | 187.94 | 159.10 | 164.32 | 172.46 | 99.58 | 126.03 | 8.82 | 124.00 | 85.73 |
| Chi-square | 35.34 (.00) | 58.51 (.00) | 48.74 (.00) | 41.96 (.00) | 26.70 (.00) | 12.48 (.00) | 16.59 (.02) | 25.59 (.00) | 22.47 (.00) | 35.38 (.00) | 1.36 (.99) | 10.74 (.15) | 9.57 (.21) | 11.09 (.13) |
| $R^2$: Nagelkerke | .31 | .47 | .41 | .37 | .25 | .12 | .16 | .24 | .21 | .40 | .01 | .57 | .12 | .17 |
| $R^2$: Cox & Snell | .30 | .44 | .38 | .34 | .23 | .11 | .15 | .22 | .20 | .30 | .01 | .10 | .09 | .10 |

## Conclusions and Discussion

The modern day business environment has become hugely competitive. Competition is driven largely by external forces over which an enterprise has little or no control. All it can do is to strive to become as competitive as is feasible given its physical and human resources. The latter in particular assume special importance since it is they who turn the physical capital into product or services that an enterprise provides to its customers. Other things being equal, the quality of human resources will determine the outcome of competitive position of the firm on the market. This realisation has led firms to take a fresh look at their work force. The Human resource director operates as a liaison between the employees and the board maintaining a delicate balance between the day to day or short term chores and long term strategic issues related to the management of HR within the organisation. There is now increasing evidence in the literature that as a result of market pressure to be competitive, the role of HRD has become much more strategic, as opposed to doing routine functions that a personnel manager performed until recently. It is said that the strategic nature has taken the shape of HR directors' increasing involvement in the affairs of the business by way of his involvement in board meetings and by permitting him to delegate routine HR functions to junior staff for him to concentrate on strategic issues of long term importance. This country study, with the help of primary data examined these assertions for the population of financial firms in Jordan. Most studies of this nature have been conducted with reference to western firms. The study also contributes by focusing on sector that is presently very much in news. We set out to test five explicitly stated hypotheses on the modern day role of HR directors. These hypotheses state that a modern day HR director would delegate routine functions to junior staff and instead concentrate on strategic functions such as contributing to planning and implementing business and corporate strategies. We also hypothesised that the functions, routine or strategic would also be influenced by HRD's personal traits such as the level of his education, experience, age, or gender. They will also be influenced by some firm specific traits such as the size and age of the firm and by the employee turnover rate. We used descriptive and inferential statistics to test our hypotheses. The results are informative. A significant proportion of HR directors did confirm that the routine operations (headhunting, organizing training programs and such) were no longer important for them. But we did not find statistically significant results for strategic functions (contribution to planning, implementing business and corporate strategies and such) for our HR directors. Only 45% confirmed that these activities were now more important to their roles. We conclude from these results that the role of HR directors *is in the process of a gradual shift*. This conclusion is further strengthened from a separate question in which we explicitly asked as to how their role has changed in the past 5-10 years; in this question 58% (at.10 significance level) did confirm that it has become more influential in decision making. It seems that even though the importance of routine operations is on the decline for HR directors, strategic importance is only gradually rising. The qualitative robustness of these results are confirmed in that, as yet, only 41% HR directors attend all board meetings. It seems that although strategic functions for HR directors are gaining in importance, the *directors are still finely balancing them with routine functions*. This is confirmed in the follow up analysis of data in correlation and regression analysis. The statistical significance of the role of HR director springs to life with some interesting results when we take into account the traits of HR directors. Our analysis on the whole shows that male HR directors and those longer serving with higher qualifications (masters degree and above) and those who work for companies which have lower turnover rate of employees are more likely to rate as 'high' the

importance of most strategic HR functions. It does not matter whether they are working for large or old established companies.

We live in a dynamic world dominated by private enterprises that are always looking into newer lines of business to diversify into or integrate them into their exiting lines of specialisation. At the same time they are ever under pressure to make optimal use of physical and human resources to cut costs and become competitive. Change, although it is imminent, in modern day business environment, has costs attached to it in terms of time consumed in planning and implementation of policy issues no matter how grand, noble, or pious. This seems to be the case with regard to the implementation of strategic HR policies for the good of the enterprise. The talk of SHRM in a modern day world can be loudly heard in academic circles and in the corporate world where scores of training programmes can be found on people management. If our results are any indication then the shift from routine functions to strategic seems gradual. This is understandable given the complexities the change encompasses and the resistance it can cause. HR directors may be the drivers of strategic HR changes but they are also aware of the complexities of its implementations. We suggest that future studies of this nature could concentrate more on the dynamic side of the strategic change—i.e., how the change comes about or is implemented. Furthermore, our study relates to one (financial) sector. Similar surveys could also be conducted for additional sectors as well. Thirdly, although our study covered almost the whole of financial sector for our chosen country, the study could be carried out for sectors with a larger population or sample size to test the robustness of the results.

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# The Impact of Culture and Alliance Strategy on Firms' Performance in the Global ICT Industry


- **Monika Golonka**
  Kozminski University Warsaw, Poland
- **Robert Rzadca**
  Kozminski University Warsaw, Poland


## Abstract


**Purposes:** In this article, we explore relationship between partnering strategy (exploration vs. exploitation) and firms' market performance as well as culture differences impact on firms' partnering strategy and market performance in global ICT industry.

**Methodology:** The sample covers 30 of the largest firms and their alliance portfolios from global ICT industry. Focal firms' alliance portfolios data are collected mainly from SDC Platinum Database, containing alliance data from over 25 years period of time. Alliance data for our analysis cover years from 1990 till 2009, because of data completeness as well as timeliness. After data cleaning the final sample had 10 247 ties including 7 258 unique partner firms in focal firms' portfolios. Focal firms' financial data source to calculate focal firms' market performance is the Infinancials database. To test our hypothesis we applied Pearson's correlation coefficient as well as regression analyses.

**Findings:** Our findings show that the exploration type of alliance strategy is dominant in ICT industry. There are correlation links between:

- Firms' market performance and alliance strategy (exploration strategy seems to be more effective in global ICT industry).
- Firms' country of origin as well as organizational model (based on Hofstede's cultural dimensions) and firms' alliance strategy type; the dominant exploration alliance strategy is characteristic for "family" and "village market" type of firms Exploitation one is typical for "pyramid of people" type of organization (large power distance, strong uncertainty avoidance).

Moreover, there is also a relationship between the model of organization and firm's market performance.

**Academic and Practitioner Implications:** Our results support the importance of "third leg" (except positioning school and resource-based view of the firm) explanation – the institution based theory in strategic management: based on partnering strategy, decision making and firms' behavior in global organizations. This research shows that exploration strategy in dynamically changing, knowledge- and technology-intense, global environment seems to be more successful in short time, and might lead to strength of firm's competitiveness in long perspective. Exploration strategy is characteristic for global Asian ICT companies ("family"

model of organization) as well as companies from countries such as USA, Sweden, Norway, Canada, UK, corresponding with "village market" model of organization: minor meaning of hierarchy and rules; demands of situation determine decisions and processes. It seems that the country of origin – and organizational model preferred by the company might have an influence on firms' market performance in ICT industry.

## Purpose

In recent years, the literature in management has focused on inter-firm relationships, alliances, quality and quantity of ties, firms' alliances portfolios, inter-firm networks and industry dynamics.

Unfortunately, academic literature in Strategic Management field has put little or even no concern on impact of cultural differences on alliance strategy, alliance portfolio creating as well as firms' performance in global environment. From managerial practice perspective, in recent research little guidance has emerged on how to successful build the firms' competitiveness using partner' portfolio in dynamically changing global environment.

The purpose of this paper is to highlight an importance of partner portfolio building strategy in global industries as well as to indicate a cultural impact on company's success in dynamically changing environment. Then, the purpose of our research is also to initiate discussion on institutional related factors in partnering strategy of global companies.

First, we provide a brief overview of the academic literature in strategic management, alliance portfolio building, cultural differences and industry dynamics. Second, we build a theoretical framework of firms' success (market performance) related to partnering strategy and formulate propositions based on our framework.

Then we empirically test our propositions, based on alliance portfolios of global companies from ICT (Information and Communication Technologies) industry. Finally, findings and implications for strategic management practice as well as directions of further research are discussed.

## Literature Review

Fundamental issues which are being discussed from the very beginning in Strategic Management field are: sources of differences between firms, differences between firms' maneuvers, the determinants of their scope, behavior and - the determinants of their success or failure. What makes them new is the changing envrionment and organizations themselves. One of the most important phenomenas is globalization. The concept of "global strategy" refers to a strategy created in a global scale, taking into account the possibilities offered by the processes of globalization as well as global competition (Ghemawat, 1991, Spulber, 2007, Peng, 2008).

The companies' operation in a global scale is presented in the literature in two main research traditions: resource-based view (RBV) and the competitive positioning school. Therefore the research interest lies in resource creation and innovation (Hamel and Prahalad, 1989; Schumpeter, 1934, 1950; Senge, 1990), competing (Chen, 1996; D'Aveni, 1994; Porter, 1980; Smith, 1992), cooperation (Contractor and Lorange, 1988; Dyer and Singh, 1998; Hamel, Doz and Prahald, 1989) and also co-opetition – collaboration with current or potential rivals (Bailey, 1997; Brandenburger and Nalebuff, 1996; Doh, 2000). It is worthy to add that both research

traditions were originated and fully growth in the well-developed economies, particularly the American economy. As research went to other, less advanced economies, especially in Asia it turn out that institutions play important role, shaping corporate strategies.

Institutional approach in strategic management, which can be traced in sociology and Institutional Economics, according to Peng (2002 and later) and also a large group of economists (North, 1990, Williamson, 1985, 2000) and sociologists (DiMaggio and Powell, 1983, Meyer and Rowan, 1977, Scott, 1991) has significant, supplementary matters in global strategic management. Consideration of the strategic choices in a global scale would be insufficient without this approach (Brouthers et all, 2008; Gao, Murray, Kotabe, Lu, 2009; Meyer, Estrin, Bhaumik, Peng, 2009; Yamakawa, Peng, Deeds, 2008; Yang, Jiang, Kang, Ke, 2009). According to Peng (2002, 2003, 2004, 2006, 2009) the company's success in a global scale as well as choices of decision-makers depend partially on institutional factors.

The concept of Institutional view in strategic management has been introduced by Peng (2002). The intention was to focus on those aspects of institutionalism, which are related to the strategic decisions of managers in a global scale (Peng, 2009).

**FIGURE 1:** Determinants of firms' maneuvers in a global scale. Based on Hao Ma, 2004, Peng, 2009.




According to Peng (2009) as well as North (1990, 2009) and Scott (1997) institutional dimensions in strategic management – „rules of the game" are divided into two main groups: *formal factors* (e.g. formal regulations, law, rules), suported by coercive pillars and *informal factors* (e.g. norms, ethics, cultures) supported by cognitive pillars. Culture dimensions approach proposed by Hofstede (1997, 2005) is the most influental classification (Peng, 2009) found in the literature.

Currently, particularly in the global industries, creating alliances with potential competitors is more and more frequently chosen way of protecting firm's competitive position. There are many studies in the literature on creating **c**ompetitive advantage in global scale using strategic partnership or joint ventures (e.g. Gomes-Casseres, 1994; Hamel, 1989; Kogut, 1988; Yan, 1998; Low, 2007). Establishing and exploiting ties between firms takes many forms, since the spectrum of the ties included in the term "alliance" is quite broad.

Alliances are seen as a way of learning, expansion of existing knowledge or gathering new knowledge (Kogut, 1988, Prahalad and Hamel, 1990). Firms establish relations with competitors in order to gain access to external resources, share risks and costs, to complete the skills (Hagedoorn, 1993, Kogut, 1988, Hagg and Johanson, 1983). Alliances are a response to the demand for complex products that require multiple sources of technology and knowledge (Contractor and Lorange, 2002). Firms should co-operate with other companies for access to their resources and share with them their own resources (Richardson, 1972, Porter and Fuller, 1986).

RBV researchers are focused on an alternative "make or buy" when it comes to acquiring resources (Barney, 1986, 1989, Dierickx and Cool, 1989). However, there is also another way to acquire resources which are difficult to obtain in a traditional manner: by sharing resources with partners, forming agreements and inter-organizational agreements (Dyer and Singh, 1998, Eisenhardt and Schoonhoven, 1996).

Alliances also allow to manage the uncertainty by establishing a negotiable environment (Cyert and March, 1963, Hirsch, 1975). Some studies have shown that companies are creating alliances with allies rivals, and create a network of alliances, which are a response to the network created by the competitors (Gimeno, 1999, 2004).

Not only a multiplicity of such ties is important (undoubtedly having an impact on the competitive position of companies), but also, and even above all, quality of relationships (Gulati, 1998, 2007). Quality of ties (alliances) is often associated in the literature, with the term strength of ties. The strength of ties according to Granovetter (1973) is based on "a combination of time, emotional intensity, intimacy (mutual trust) and the mutual rent that characterize the relationship. Rowley et all. (2000) characterizes the strength of ties by the frequency of interaction between partners and the level of resources which are part of the obligations in the relationship.

Types of firms' strategies accomplished within alliances with other companies are related to the strength of ties (March, 1991, Dussauge et all., 2000, 2004, Dittrich, 2002) – *exploration strategy* associated with *weak ties* and *exploitation strategy* associated with *strong ties.*

The greater uncertainty in the market environment and the stronger need of innovation to survive, the more possible that firm can decide on an exploration strategy. This strategy allows to research of new, uncertain, riskier areas, testing rules and strategic choices. According to Koza and Levin (1998) exploration strategy is usually not associated with relationship to involve the joint capital. The weak relationship can take the form of e.g. licensing agreements or marketing agreements.

Weak ties are often used to gain access to the latest information and also are connected with the possibility of "penetrating" the network. The choice of partners in the case of weak ties is often addressed to the possibility of access to different areas of the network, rather than specific partners (Granovetter, 1973).

Exploitation strategy requires a deeper understanding of the area in which it is applied. It is the strategy for a case when more specialized knowledge is necessary. This type of strategy is based on strong ties (Krackhardt, 1992), social capital (Bordieu, 1986, Portes, 1998), high level of network embeddedness (Granovetter, 1985). The purpose of such a strategy is to strengthen existing ties and build a new one - direct partnership. In this case, only the interesting strategic partners (allies) which are valuable are directly connected with real, measurable commitment. Weak ties in this case are not a source of learning and innovation. Maximizing the number of strong ties can lead to expand of the basic knowledge related to technologies or products.

Partners are often redundant when it comes to their own connections with other companies. They are focused on strengthening its own knowledge base, rather than access to new ones. Duration of ties is also important in this type of strategy.. This strategy is characterized by a greater number of contracts with the same partner, longer duration of the relationship, often cooperation. It is important that social capital - building trust with this type of relationship (Knoke and Kukliński, 1982; Wasserman and Faust, 1994).

Uzzi (1996) observed that firms involved in the strong ties were able to transfer between them knowledge of good quality and useful. Within this kind of ties partners learn one another's organizations, they also become more dependent on partners, building mutual, relational trust (Larson, 1992, Krackhardt, 1992, Kogut, 1988). The strong relationships can often go beyond the short-term benefits by creating problems solutions in the long term (Powell, 1990, Uzzi, 1996). Kale, Singh and Perlmutter (2000) showed a positive correlation between social capital, characterized by relationships based on trust and learning in alliances.

## Propositions and Hypothesis

Phenomena related to the global strategy conducting can be clearly seen in ICT industry. It's a "natural global" industry. Competition is regulated at the local level causing wide implications associated with changes in the approach to building global competitive advantage. ICT includes both firms providing services and products, and it's one of the fastest growing sectors (Fine, 1998). Information and communication technologies are becoming increasingly important in the context of all areas of business and social life (Goddard and Richardson, 1996). The industry increases the pace of globalization through created technology and parallel has been greatly influenced by it's mechanisms. Technological development in this case and convergence of services lead to huge number of alliances, mergers, acquisitions, strategic partnerships as well as groups of alliances (Varun and Khawaja, 2003).

Thus, it is strongly reasonable choosing the ICT industry to partnering strategy in a global scale research.

The literature on alliance strategies shows that both ties type - strong and weak – may provide adequate benefits. The company may have in its portfolio alliances of various types. The choice of ties types is often related to environment in which the company operates (Rowley, Behrens, Krackhardt, 2000).

According to March (1991), essence of exploitation is to enhance and expand existing competencies, technologies and paradigms. However, the essence of exploration is experimentation with new and uncertain possibilities.

After Lant, Millken and Batra (1992) in more uncertain environments, where companies are afraid to invest in the uncertain future developments, seems that firms are more likely to decide on a strategy of exploration, seeking out and testing new options. Taking into account this, the first proposition has been defined.

**Proposition 1.** In global sectors, knowledge-intensive, dynamic changing (an excellent example is the ICT industry), the predominating is the exploration strategy.

In order to test this proposition both hypothesis 1 a and 1 b have been defined:

*Hypothesis 1a. In the focal firms' portfolios there is summarily more weak ties then strong ones.*

*Hypothesis 1b. In recent years, the average cumulative increase of weak ties is larger than that increase of strong ties in the focal firms' partners portfolios.*

Previous studies show that strategic alliances networks leads to asymmetric access to resources in the industry, it can affect the behavior of firms and their performance (Granovetter, 1985; Burt, 1992; Nohria, 1992). Farina (2008) developed and tested the idea of the impact of network structure and network embeddedness on firm's performance. They treated the network as the

external resources that company can use in strategic maneuvers in order to increase its efficiency. Other studies shows that the relations in the network are potential sources of external resources for the company (Langlois, 1992, Nohira, 1991), when their effectiveness is dependent on network structure (Burt, 1992) as well as firm's internal capabilities (McEvily and Zaheer, 1999). Alliances with well "equipped" partners (technology, finance, marketing, human resources) contribute to the growth of the company and its market performance (Lavie, 2006, 2007).

Taking into account the fact that alliances and alliance networks may influence the firms' market performance, the impact of a type of partnering strategy on the performance appears as the additional significant issue. Therefore we have defined a proposition 2.

**Proposition 2:** An exploration strategy in global, knowledge-intense, dynamically changing sectors is more efficient then exploitation one.

To validate this proposition we have created Hypothesis 2.

*Hypothesis 2. There is a positive relationship between the share of weak ties in the focal firms' portfolios and their market performance.*

Although some researchers believe that the processes of globalization and technological change and changes in industrialization can affect change certain values in different cultures (Inglehart and Baker, 2000, Nieves, Mujtaba, Pellet Cavico, 2006), according to Hofstede (2009), changes in culture require a long time horizon, 50 or even 100 years, or extremely dramatic external events. Many of the differences named in the end of 20$^{th}$ Century existed in 1900, 1800 or even in 1700, there is no reason to underestimate them today.

The implications of identifying the dimensions of culture in business practices are significant. According to Bing (2004), global companies need to constantly monitor the impact of cultures on their global activities and projects. According to KPMG study, 83% of mergers and acquisitions fail in terms of achieving the benefits for shareholders and more than half actually reduces the value of the company (Gitelson, Bing, Laroche, 2001). Cultural differences are identified as a frequent barrier to the effective implementation of the merger. According to Bing (2004) defining the culture dimensions should lead to reducing cultural problems through better understanding them. Also in alliances, they can be useful in understanding the differences and similarities between the partners to achieve better effects of the partnership. According to Peng (2009), the results of Gao's empirical research (2009) indicate, that institutional are essential in the exporters' strategic choices and affect the results obtained by their companies.

Thus, it seems possible that the culture can influence the strategy pursued by the company. According to Hofstede (2005), there is much evidence for the existence of the relationship between the country's position in the PDI-UAI diagram (Power Distance and Uncertainty Avoidance dimensions) and preferred organizational model as well as way of problems solving in the firms. Our assumption is that allies choosing in global companies are mostly strategic decisions, so they are taken at the strategic decision-making level. Hence the company's headquarters country of origin is a crucial factor in this study.

Therefore, there may also exists the relationship between partnering strategy pursued by a company and its country of origin that is the dimensions of national culture. Thus it is reasonable to define the following proposition:

**Proposition 3:** cultural dimensions (organization model affiliated with the culture) have an effect on the partnering strategy of firms in the ICT industry.

*Hypothesis 3. There is a relationship between the model of organization (based on the company's country of origin) and the share of weak ties/strong ties in its alliance portfolio.*

Taken into account the above, the next proposition is related to the consequences of previous ones. Perhaps also culture, which the firm is associated with, has impact on the market performance in a global scale.

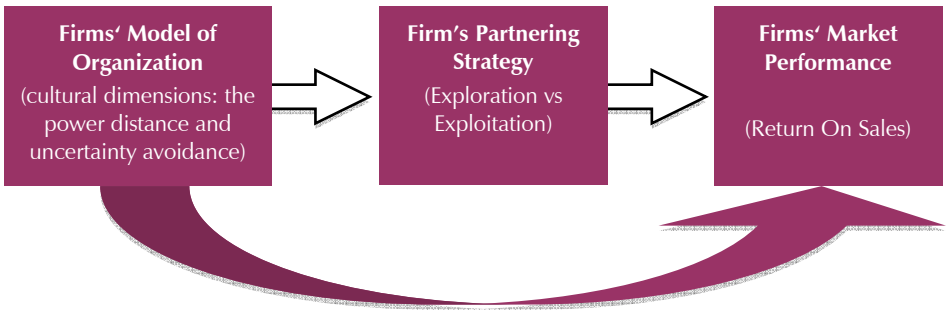
**Proposition 4.** There are grounds to believe, that the culture can also influence the firms market performance in a global scale.

*Hypothesis 4.* There is a correlation between a firm's organizational model and its market performance.

## Methodology

The theoretical framework for this study is summarized in Figure 2.

**FIGURE 2:** Theoretical framework.




The data collected for this research covers 30 of the most significant global focal firms from ICT industry (based on 4 digit SIC codes), offer in their business portfolios solutions including products and services dedicated to Telecommunication Operators, have at least 5 years financial reports in Infinancials database. Firms' headquarters are located in USA, Europe, Canada, Asia.

Focal firms' alliance portfolios data are collected from SDC Platinum Database, cover the alliances from almost a 25 year period, from 1985 till 2009. Alliance data for our analysis cover years from 1990 till 2009, because of data completeness as well as timeliness. Following Anand and Khana (2000), Lavie (2007), we compiled records of ties formed by each focal firm. Then we complemented and corrected the data by searching publicity announced alliances in press releases and corporate web sites of focal firms. There were over 20 000 ties identified for all focal firms. After data cleaning and removing terminated alliances the final sample had 10 247 ties including 7 258 unique partner firms in focal firms' portfolios.

For each partner firm we coded additional information such as: date of alliance's announcement, name, country of origin, industry sector (based on 4 digit length SIC codes), type of alliance.

Although ties between firms can take many forms, including both strong and weak ties, following Nohira (1991) in this study for each company's portfolio there are identified ties and grouped into those two categories.

Strong ties (Granovetter, 1985, Uzzi, 1996, Larson, 1992, Krackhardt, 1992) are: capital alliances, joint ventures, production joint ventures, r&d alliances, multiple agreements with the same partner. Such relationships are wider and deeper in terms of interactions.

Weak ties (Powell, 1990, Koza and Levin, 1998) are: marketing agreements, license agreements, selling, service agreements - less costly in management and coordination then strong ties.

For each focal firms' country of origin the organizational model based on PDI-UAI (power distance and uncertainty avoidance cultural dimensions) were identified: pyramid of people (large power distance, strong uncertainty avoidance), village market (small power distance, weak uncertainty avoidance), family (large power distance, weak uncertainty avoidance), well-oiled machine (small power distance, strong uncertainty avoidance) (Hofstede, 2005).

Focal firms' performance was measured by the return on sales (ROS), a commonly used financial and market performance measure especially for different sized firms (Leach and Leahy, 1991).

Following the European Commission of Information Society and Media (The world's economies depend on Information & Communication Technologies (ICT), 2010) there is a significant difference in meaning and the contribution of ICT to productivity before and after 2000. Before 2000 actually USA had role in shaping global ICT industry. After 2000 also UE as well as Asia & Pacific have become irrelevant in a global scale. Thus, in order to ensure the most recent and reliable data, our research cover a 10 years time period from 2000 until 2009.

We focused on vendor firms in ICT industry to control inter industry variation. We controlled also size of focal firms by calculating market performance as Return On Sales (ROS). We tested also correlation between focal firms' partnering strategy and sales. We observed the similar effect from both tests.

We tested Hypothesis 2, 3 and 4 using Pearson's correlation coefficient and hierarchical regression analysis. The statistical significance of coefficient is tested using a t-test.

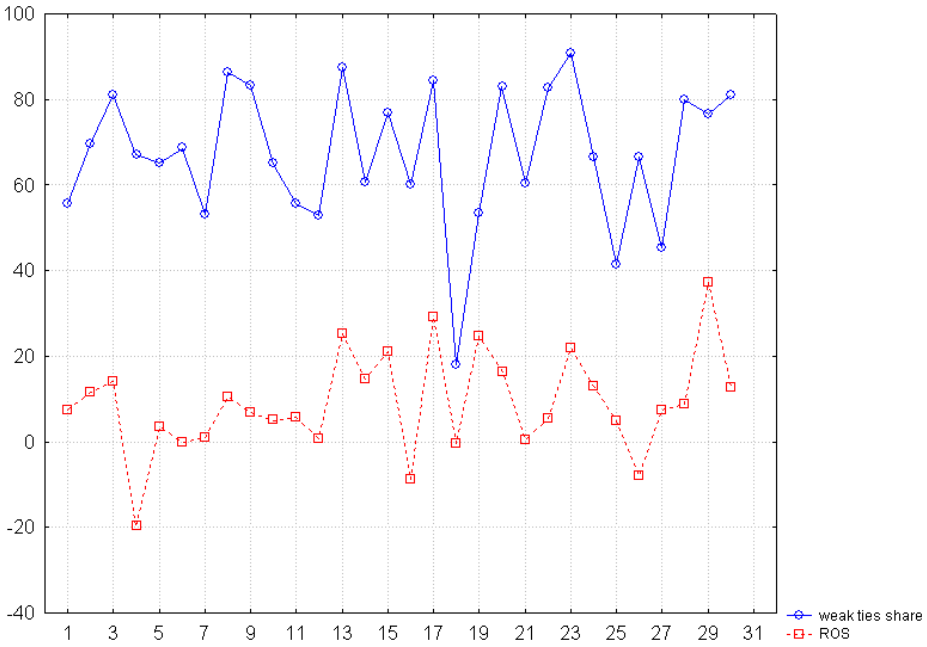
## Findings

Regarding Hypothesis 1a we report, that total share of all weak ties in focal firms' alliance portfolios is 70,2 percent, when proportion of strong ties is only 29,8 percent. This is significant reason to regard Proposition 1 as true. Exploration strategy seems to be dominant in tested sample of focal firms. Moreover, we investigated the growth of weak ties proportion in focal firms' alliance portfolios in time period from year 2000 till 2007. The results confirm our Hypothesis 1b in term of partnering strategy development – proportion of weak ties in firms portfolios increased by 405,99 percent an average, while share of strong ties increased by only 98,14 an average during assumed time period.

The analysis using Pearson's correlation coefficient for Hypothesis 2 indicates a statistically significant relationship between share of ties' type in focal firms' portfolios and it's market performance. Regression analyses were used to test the remaining hypothesis.

Regression result showing a significant coefficient ($R=.42$, $p<.018$, adjusted $R2=.15$) strongly supported Proposition 2. The firms' performance increase with increases in the share of weak ties in alliance portfolio. The relation between weak ties share in firms' portfolio and market performance is shown in Figure 3.

**FIGURE 3:** Weak ties share in focal firms' alliance portfolio and firms' market performance.




To test Hyphothesis 3, firstly we coded the model of organization based on country of origin as "village market"= 1, "family"= 2, "well-oiled machine"= 3, "pyramid of people"= 4 (Hofstede, 2005).

Then we examined both the Pearson correlation between the model of focal firms' and it's partnering strategy and we included the focal firms' model in a regression equation with focal firms' market performance as the dependent variable. The firm partnering strategy change with their organizational model as indicated by the model of organization based on PDI-UAI cultural dimensions: r =.41, p <.016, adjusted R2=.13. The "pyramid of people" model of organization is characterized by the largest share of strong ties in firm's portfolio (49%). The "family" type of firms has mostly weak ties with their alliance partners (77%). The more then average share of strong ties is typical for "village market" model (69,6%). We had only one "well-oiled machine" type of firm and both type of ties were half in this case.

Finally, to examine the relationship between a model of organization and firms' performance, we conducted a Pearson's coefficient analysis. The results support Proposition 4: R=-.39, p<.31.

We used U-Mann Whitney non-parametric test to analyse the differentiation between groups (strong and weak ties share) in case of each organization model: family, village market, pyramid of people.

Hierarchical *F*-tests reveal that the four theoretical variables are jointly significant in Hypothesis 2, 3 and 4: 2 ($p < 0.01$), 3 ($p < 0.02$), and 4 ($p < 0.03$).

Table 1 presents these results for all the key variables.

**TABLE 1:** Regression tests results for Hypothesis 2,3 and 4.

| | ROS (Return on sales) [%] | Weak ties share in focal firm's alliance porftolio [%] |
|---|---|---|
| Weak ties share in focal firm's alliance porftolio [%] | R=,42649587<br>R2=,18189873 | |

| | | |
|---|---|---|
| | Adjusted R2=,15268083<br>N=30<br>F(1,28)=6,2256 p<,01876 | |
| Model of organization<br>"village market"=1,<br>"family"= 2,<br>"well-oiled machine"= 3,<br>"pyramid of people"= 4 | R=,39361017<br>R2=,15492897<br>Adjusted R2=,12474786<br>N=30<br><br>F(1,28)=5,1333 p<,03140 | R=,41128549<br>R2=,16915575<br>Adjusted R2=,13948274<br>N=30<br><br>F(1,28)=5,7007 p<,02395 |

## Academic and Practitioner Implications

In global industries beyond the "classical" methods of competing based on rivalry, ability to cooperate with partners becomes more and more important. According to Gulati (2007) operating of global company without access to the network resources will be very difficult or even impossible. Hence, the ability of enterprises to acquire and manage of such resources becomes critical for survival and building the competitive advantage in a global scale.

Particularly in rapidly growing global industries, such as ICT, where significant are the dynamic changes and the customers needs are increasingly related to the complexity of services, the company which can first gain the trust of customers by offering a holistic problem solving becoming not only a supplier but a partner. Such firm has a chance to get advantage in a short time, allowing them to develop it in long-term perspective.

Our findings contribute to the understanding of the link between firm's performance and partnering strategy as well as one of the Institutional factors, culture. This paper show that exploration strategy in dynamically changing, knowledge and technology-intense, global environment seems to be more successful in short time, and might lead to strength of firm's competitiveness in long perspective.

In a global scale important are the "rules of the game" applicable in different parts of the world. These rules are both formal: legal, economic, political - and non-formal: institutional factors, related to cultures, ethics and standards existing in different countries. It's worth to admit, that these rules significantly affect the way of business development, competing, and above all building alliances, relationships, agreements between partners from different cultures. There are several studies in the literature on cultural and organizational differences, geographical distance, communication and learning problems that are typical for cross-border alliances (e.g. Barkema et al., 1997, Parkhe, 1991, Simonin, 1999), but as we show in this research, the differences may have also impact on a global firms' strategy conducting.

The results of our study support the importance of "third leg" (except Competitive Positioning and Resource-Based View of the firm) – the Institution View in Strategic Management. Especially it's important issue in partnering strategy, decisions making and firms' actions in global environment.

Our study show that the exploration strategy is characteristic for companies from countries such as USA, Sweden, Norway, Canada, UK, corresponding with "village market" model of organization: with minor meaning of hierarchy and rules; demands of situation determine decisions and processes. "Family" model characteristic for most Asian countries seems to be similar in terms of alliance strategy. The most common for Asian global ICT firms is exploration strategy (especially Indian companies - more then 90% of weak ties an average).

In the era of centralization of global companies, the question about the influence of such centralization on firms' alliance formulation in local conditions seems to have important meaning. Transfer the sales and partnering decisions to a central level may possibly slow down the process and reduce the flexibility of firms' branches operating in a local environment.

Last but not least, it seems also that the country of origin – which means in this case the organizational model preferred by the company may have an influence not only on firms' alliance strategy but also on firms' market performance in analyzed industry.

This paper has implications for both researchers and managers of global companies. Managers should adapt their strategy to the changing environment and be aware of importance of decisions concerning alliances creation as well as the impact of institutional factors on the efficiency of enterprises.

## Research Limitations and Future Directions

Further research could extend or modify this study along several dimensions. For instance, although the sample of focal firms for this study is limited to 30, the larger number of focal firms can be used in further research and the sample can be also extended to smaller firms.

For this research we have selected time period not affected by the world economical crisis. It seems to be interesting also to analyze the way in which the economical slowdown can affect global firms' partnering strategy.

In this study the Return On Sales was calculated as a market performance taking into account that in the rapidly growing and changing ICT industry the sales is the most appropriate measure indicating market performance. Possible further studies may be needed for investigation an additional financial measures to identify the most affected areas of companies' activities.

Although this research is focused on cultural aspect of Institutional View of the firm, additional factors may be analyzed in term of alliance strategy and firms' performance, e.g. formal institutional factors as well as other informal variables. This shall demand a more thorough researching in the future.

Finally, considering that the Information and Communication Technologies have an increasing impact on many other industries, further studies may extend the research in order to compare companies' strategic actions and alliance strategy in other industries.

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# Trust in Organizations: Study on New Dimensions

❑ **Katarzyna Krot**
Bialystok University of Technology, Management Department, Poland

## Abstract

Trust is a multidimensional concept that has been revealed to contain various dimensions. The authors still disagree despite the fact that, in parallel with the attempts to identify trust, attempts have also been taken to identify the dimensions. There has been a wide range of publications that propose different dimensions of trust. At present, numerous authors in their subsequent studies on trust employ three dimensions: integrity, dependability and competence. The above-mentioned dimensions refer mainly to the interpersonal trust and neglect institutional trust and distrust, coexisting with trust. In this context the purpose of this paper is to define the level of trust of employees in their employer as an organization (institutional trust), superiors (vertical trust) and co-workers (horizontal trust). The other intension is to explore new dimensions of trust by survey among employees of enterprises located in Poland.

**Keywords:** dimensions of trust, institutional, vertical, horizontal trust, Poland

## Introduction

On the one hand trust is a universally discussed concept that people use everyday without much thought to its definition (Welch, 2006). On the other hand, trust has been studied from a variety of perspectives over the past several decades (Martins, 2002). The importance of trust can be explained by the fact that it is seen as a phenomenon which contributes to the strength of inter-personal relationships, intra-organizational relationships and inter-organisational relationships in business dyads (Svensson, 2005). This paper presents the dimensions of organizational trust: institutional, vertical and horizontal by survey among employees of enterprises located in Poland. The aim of this paper is to provide value to a practitioner audience in terms of the importance of institutional trust and coexistence trust and distrust within relationships.

## Literature Review

### Definition of Trust

The development of new theories explaining the competitiveness of the firm, the knowledge-based view of the firm and the theory of social capital create a room for a research tradition combining currently distinct theoretical approaches and emphasise the role of trust as a basic merit in any human interaction (Blomqvist, 1997).

Importance of trust rises in the situation when more and more potential choices are available. To select from alternatives, it is often necessary to relate to trust (Sztompka, 2007). Morgan (2000) states trust and engagement are the essential elements of creating relations. Trust, by keeping our mind open to all evidence, secures communication and dialogue. The role of trust is cooperation and collective action among people to achieve common goals. Trust development is one of the main conditions of effective cooperation among people, groups and organisations (Ashleigh and Nandhakumar, 2007; Rousseau et. al,. 1998). Trust is also a factor that is often identified as having an influence on knowledge acquisition and knowledge dissemination processes (Loon Hoe, 2007; Sveiby, Simons, 2002). Cooperation, supported by trust, enables developing innovative solution and creativity. Hence, research on organisational trust has more and more impact on interest of researchers.

According to Tzafrir and Eitam-Meilik (2005) "trust is willingness to increase the resources invested in another party, based on positive expectations resulting from past positive mutual interactions". It is a conviction that neither of the parties will ever act to the partner's detriment, taking advantage of their weaknesses (Morgan, Hunt, 1994). Trust is the decision to rely on another party under a condition of risk (Currall, Epstein 2003). Trust results from positive notions being a consequence of current mutual interactions (Brockner, Siegel, 1997). Trust means expectation and faith that the partner will act to our mutual benefit. However, on the other hand, trust is connected with uncertainty about the partner's motives, intentions and actions (Gilson, 2003).

In consequence, "trust in an organisation is a global evaluation of the organisation's trustworthiness as perceived by the employee (the trustor). It is also the employee's belief that the organisation will perform an action that is beneficial, or at least not detrimental to him or her" (Tan and Tan, 2000). McElroy (2002) suggested that trust creates added value in an organisation and it is a key factor that transfers information and the development of new knowledge. Welch (2006) portrays trust as a key strategic organisational asset and trust building as an important process for strategic communication managers.

Inspiration of trust is promoted by a consensus in respect of one's values, both in individual and corporate dimensions. This unanimity makes it possible to predict the attitude and behaviour of the participants in a relationship to a certain extent and it also allows for effective communication. Moreover, trust has the ability to inhibit opportunistic behaviour. Close interpersonal relations are more effective in protecting against unethical behaviour than legal regulations and other strict principles (Hampden-Turner & Trompernaars, 2000).

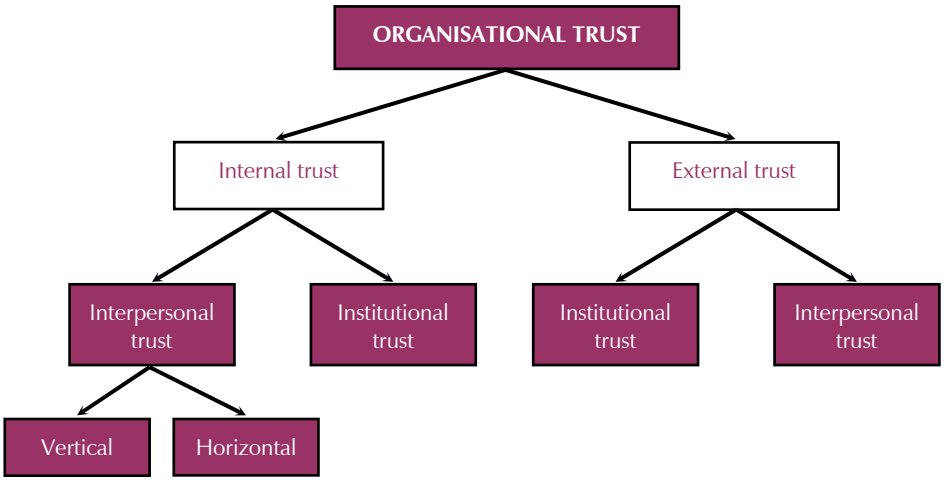
Trust forms the organisational foundations for effective communication, employee retention, employee motivation, and contribution of discretionary energy, the extra effort that people voluntarily invest in work. When trust exists in an organisation or in a relationship, everything is easier and more comfortable to achieve.

Organisational trust may be directed inside an organisation – that is trust in co-workers, technology and IT systems implemented in the organisation (internal trust) and directed outside organisation – trust between cooperating institutions (partners – external trust; Yan Zhang, et.al. 2008).

What is more, internal trust may be either of interpersonal or institutional nature. The first one may refer to trust between co-workers (horizontal) or to trust between employees and their direct superiors and managers (vertical, Loon Hoe, 2007). It influences enrichment of relations; enhances cooperation and engagement, flow of information and creation of knowledge (Connell, Ferres, Travaglione, 2003). The institutional trust, in turn, is trust that employees

have in the organisation of their enterprise (procedures, technologies, management, goals and visions), competence and justice (Ellonen, Blomqvist, Puumalainen, 2008; picture 1).

**Picture 1** The type of organizational trust




**Source:** prepared by the author on the basis of literature review

The above-mentioned dimensions of trust are interdependent but, at the same time, they reciprocally determine the existence of the other dimensions. According to Tan and Lin, one type of trust reinforces the other ones, for example the trust in co-workers influences the overall trust in the organisation (Tan, Lim, 2009). Most of the research on organisational trust have focused on trust in a direct leader, such as superior, manager, or work-group leader (vertical trust) (Aryee, Budhwar, Chen, 2002; Tan and Tan, 2000). Less frequently, the horizontal trust has been subject to research (Dirks, Ferrin, 2001; Tan, Lim, 2009), while the institutional trust has been entirely omitted.

An informal nature of the interpersonal trust should be supported by a formal nature of the institutional trust. In a global and highly competitive environment, enterprises cannot depend solely on the interpersonal trust. The institutional trust constitutes a complementary mechanism supporting the process of creating and transferring knowledge (Ellonen, Blomqvist, Puumalainen, 2008).

## Dimensions of Trust

Definitions of trust are unanimous in explaining this feature of organisational relations but, at the same time, they point at its multidimensional character. Trust is a multidimensional concept that has been revealed to contain various dimensions that make up the construct (Svensson, 2005). The authors still disagree despite the fact that, in parallel with the attempts to identify trust, attempts have also been taken to identify the dimensions.

There has been a wide range of publications that propose different dimensions of trust. Svensson (2005), has conducted a historic survey of numerous studies on identification of trust dimensions. According to Svensson (2005) in the 1950s benevolence, predictability and motivation to lie were suggested to constitute important ingredient of the trust. The 1960s and 1970s introduce expertness, confidence and motives/intentions, altruism, acceptance, business sense, judgement and character. With the course of time, consistency, fairness, faith and argue respect have also been added.

At present, numerous authors in their subsequent studies on trust employ three dimensions: integrity, dependability and competence (Ellonen, Blomqvist, Puumalainen, 2008; Grunig and Hon 1999; Dietz, Den Hartog, 2006; Morgan and Hunt, 1994; Gutierrez, Cillan, Izquierdo 2004; Blois, 1999). Blois (1999) remarks trust is defined as a multi-dimensional construct involving confidence, goodwill, faith, justice, veracity, reliability, benevolence, risk and vulnerability. McCole (2002), in turn, argues that the trust literature reveals ten dimensions of the construct in relationships, such as availability, competence, consistency, discreteness, fairness, integrity, loyalty, openness, promise fulfillment, and receptivity.

The above-mentioned dimensions refer mainly to the interpersonal trust. What lacks is determining the dimensions that would allow for studying the institutional trust. While it is true that the research group of Schiffman, Thelen and Sherman (2010) employed the trust dimension referred to as Institutional Trust, after examining reliability scores for dimensions results fallen below desired levels.

### Trust and distrust

It is observed in literature that much of the previous work implies trust as blanket or complete trust. M. Welch (2006) argues that blanket trust is rare; instead, people partly trust and partly distrust. If so, distrust requires further attention in the literature to build on work which has identified negative relationship variables which may constitute distrust such as: confrontation, guile, self-interest, lack of caring and disrespect (Welch 2006).

Instead of thinking about distrust as a dangerous and destructive force, it might be more useful to consider it a natural state for discerning, prudent stakeholders who operate a sort of caveat emptor "buyer beware" mechanism. According to Welch (2006), distrust is defined as "a multi-dimensional concept encompassing rational and presumptive (unconscious) distrust. Rational distrust is characterised by elements including: wariness, scepticism, self-interest, lack of confidence, concern about harm, suspicion, confrontation, guile, hostility, lack of caring and disrespect". Distrust is defined as a dimension separate to trust, rather than simply a lack of trust (Lewicki, McAllister, Bies, 1998).

It is further suggested that trust and distrust can be better understood by conceptualising them as being simultaneously employed in relationships in a zone of approval (Welch 2006). The data analysis suggests that episodes in the relationship may increase or decrease the levels of trust and distrust on different aspects of the relationship (honesty results in increased trust, failure to meet agreed deadlines results in increased distrust; Lewicki, McAllister, Bies, 1998). In this zone, levels of trust and distrust relating to aspects of the relationship may fluctuate independently over time (Welch 2006). This suggestion, that both trust and distrust are present in relationships at the same time, may have a lot of implications. If trust and distrust co-exist, managers need to develop mechanisms to study these elements of relationships and develop approaches to enable simultaneous management of trust and distrust (Huang, Dastmalchian, 2006; Lewicki, McAllister, Bies, 1998).

## Methodology

Importance and multidimensional character of trust requires further research and analysis. Investigating trust depend on the way it is conceptualised. There is conceptual complexity involved in the analysis of trust and a number of methodological questions about the design and methods to be used when investigating trust in empirical studies (Calnan, Rowe, Entwistle, 2006). Research into trust relations has tended to explore levels of trust; the nature

and form of trust in terms of its different dimensions and types; the factors that build, sustain or detract from trust; and those that have examined the effects of high or low trust (Calnan, Rowe 2006).

Trust is also a soft concept in terms of its measurement. Assessment relies on personal judgments made on the basis of interviews and/or questionnaires, and we should not underestimate the importance of obtaining reliable information from carefully selected respondents.

The purpose of the paper is to define the level of trust of employees in their employer as an organization (institutional trust), superiors (vertical trust) and co-workers (horizontal trust). In the studies on the interpersonal trust one distinguishes three main dimensions: integrity, dependability and competence (Ellonen, Blomqvist, Puumalainen 2008, Grunig and Hon 1999; Morgan and Hunt, 1994; Gutierrez, Cillan, Izquierdo 2004; Blois, 1999). Up until now, only few researches have looked into the institutional trust and, in particular, its dimensions. What is more, an aggregate analysis of the three type of trust: institutional, horizontal and vertical may provide knowledge of new dimensions they could manifest themselves. Therefore, the other intention is to explore new dimensions of trust (institutional, vertical and horizontal trust).

To reach those purposes it has been necessary to perform field research in the form of survey among employees of enterprises located in Poland. Respondents were researched by a questionnaire. The respondents were asked to answer five groups of questions, including demographic ones. Three of them referred to level of trust in: whole organization, supervisors and co-workers. Trust Assessment Scale verified by employees of Wichita State University (http://www.selfhelpnetwork.wichita.edu) and Tzafrir and Dolan's Trust Scale (Tzafrir, Gur, 2007), adjusted to Polish conditions, were used in the questionnaire in order to perform the research on the issue of trust. All items are structured according to the five-point Likert scales (1= strongly disagree, 5= strongly agree).

The research sample consisted of 241 people. In order to avoid potential negative influence employers and co-workers could have on respondents' opinions, the surveys were conducted out of their work place. The respondents were chosen from students of universities, so as to reflect the sector structure of enterprises in Poland (table 1).

**Table 1** The structure of sample (%)

| | Statistical Office | % in sample |
|---|---|---|
| Agricultural sector | 2,6 | 2,9 |
| Industrial sector | 9,9 | 13,3 |
| Services sector | 58,1 | 54,3 |
| Trade | 29,3 | 29,5 |

**Source:** Author

# FINDINGS

## The Level of Trust

In the study, it was attempted to define the level of the institutional and interpersonal trust: vertical and horizontal. The institutional trust was examined with the help of 17 items, horizontal – 21 items, and vertical – 14 items.

The level of trust was researched in two ways. First, the respondents were researched by using the Likert scale consisting of particular items. Next, the respondents presented again their general attitude to their company, co-workers and superiors but - this time - by answering one question. The results proved that the respondents presented the highest level of trust in their company as an organization, followed by trust in co-workers. They declared relatively the lowest level of trust in superiors (table 2).

**Table 2** The level of trust

| | Average evaluation |
|---|---|
| Institutional trust | 3,75 |
| Horizontal trust | 3,58 |
| Vertical trust | 3,34 |

**Source:** Author

Complete institutional trust is mostly declared by employees from private sector (39%, p=0,05) and from small and medium enterprises (43,5%).

**Table 3** The differences in complete institutional, horizontal and vertical trust between privately held companies and public agencies

| | Public agencies | Private firms | p |
|---|---|---|---|
| Institutional trust | 23,6% | 38,9% | p=0,05 |
| Horizontal trust | 29,1% | 28,8% | p=0,64 |
| Vertical trust | 27,9% | 23,5% | p=0,84 |

**Source:** Author

Complete horizontal trust is declared by employees of governmental and local administration (29,1%) with more than 200 employees (37%). Complete vertical trust is also declared by employees from organisations of a similar profile – public agencies (27,9%) but these correlations are not statistically important (table 3).

## New Dimensions of Trust

The next aim of the study was to single out dimensions of trust. Contrary to the studies carried out in the past, where the dimensions were examined in relation to a selected trust type, e.g. the trust between employees and their superiors, in this article all 52 items have been employed.

To this end, a factor analysis has been used. The goal of the exploratory factor analysis is to find the smallest number of interpretable factors that can adequately explain the correlations among a set of variables. Items that are grouped together are presumed to be measuring the same underlying construct. It is important that the factors be interpretable according to a recognized theory in addition to the model fitting the data well. Exploratory factor analysis is a useful tool for understanding the dimensionality of a set of variables and also for isolating variables that do not represent the dimensions well. It is extremely helpful during pilot work in the development of a set of items as all loadings are free to vary (Brooke Dobni, 2008).

Following the first step of the factor analysis, 22 items have been excluded from further study: 10 items from institutional trust, 10 from horizontal trust and 2 from vertical trust. All factors loading above 0,5 were taken as evidence that the given variable (item) is a good indicator of a factor (table 4).

**Table 4** Results of factor analysis

| | Factor 1 | Factor 2 | Factor 3 | Factor 2 | Factor 5 | Factor 6 | Factor 7 |
|---|---|---|---|---|---|---|---|
| Item I.1 | 0,754079 | | | | | | |
| Item I.2 | 0,749199 | | | | | | |
| Item I.3 | 0,641657 | | | | | | |
| Item I.8 | 0,519673 | | | | | | |
| Item H.12 | | 0,828165 | | | | | |
| Item H.13 | | 0,759590 | | | | | |
| Item I.15 | | | 0,648923 | | | | |
| Item H.16 | | | 0,809302 | | | | |
| Item I.10 | | | | -0,796792 | | | |
| Item H.18 | | | | -0,701322 | | | |
| Item H.1 | | | | | 0,694758 | | |
| Item H.2 | | | | | 0,642552 | | |
| Item H.5 | | | | | 0,794611 | | |
| Item H.6 | | | | | 0,717003 | | |
| Item H.19 | | | | | 0,680972 | | |
| Item H.20 | | | | | 0,730048 | | |
| Item H.22 | | | | | 0,727367 | | |
| Item V.1 | | | | | | 0,630122 | |
| Item V.2 | | | | | | 0,774215 | |
| Item V.3 | | | | | | 0,729411 | |
| Item V.4 | | | | | | 0,706314 | |
| Item V.6 | | | | | | 0,782206 | |
| Item V.7 | | | | | | 0,766202 | |
| Item V.8 | | | | | | 0,778881 | |
| Item V.13 | | | | | | 0,802269 | |
| Item V.9 | | | | | | | 0,621209 |
| Item V.10 | | | | | | | 0,831464 |
| Item V.11 | | | | | | | 0,848965 |
| Item V.12 | | | | | | | 0,705676 |
| Share | 0,076064 | 0,054204 | 0,048154 | 0,045644 | 0,135531 | 0,178205 | 0,090706 |

**Source:** Author

Thanks to this procedure, 7 dimensions of trust have been singled out: participational company management, confrontation, loyalty, engagement, relations with co-workers based on honesty and reliability, approach towards the superior and communication with the manager.

Table 5 shows the results of Cronbach's alpha for all seven dimensions. The alpha coefficients portray satisfactory results, with Cronbach's alpha ranging between 0,56 and 0,92. Only in one dimension – confrontation - Cronbach's alpha was relative low, i.e. 0,43.

The first dimension of trust is called "participational company management". This dimension relates to the institutional trust and it has hardly occurred in the studies focusing on an analysis of the interpersonal trust which have been conducted so far. Involving the employees in the organisation's management process proves to be an important dimension of trust. It reflects the employees' belief that they together determine directions of the company's development, which ensures the realisation of individual and organisational benefits. This dimension also relates to the belief that the company is well managed and, therefore, deserves to be trusted. Moreover, thanks to an efficient system of internal communication and adopted management rules, the employees are constantly informed

of current problems occurring in the company, which enhances their responsibility for the pursued goals. This is why this dimension is related to another factor, i.e. *engagement*. The belief that the manager can perceive the employees' individual and group engagement improves the organisation's credibility as a company which invests in its employees, encourages them to work hard, and brings to perfection results of their work.

**Table 5** The dimensions of trust

| | Alfa Cronbach |
|---|---|
| **Factor 1** | |
| All employees are familiar with my company's development vision. | 0,73 |
| As a company, we aim at an explicitly defined direction. | |
| If in my organisation happens something really bad, I am confident that I will be informed of it. | |
| Flow of information in my company is fast and efficient. | |
| **Factor 4** | |
| Perceiving the employees' individual engagement influences the quality of performed work. | 0,65 |
| Appreciating group work engagement influences the quality of performed work. | |
| **Factor 3** | |
| I am loyal to my company. | 0,56 |
| I am loyal to my co-workers | |
| **Factor 2** | |
| The 'us' and 'them' dichotomy between our external partners and us interferes with work. | 0,43 |
| The 'us' and 'them' dichotomy between employees interferes with work. | |
| **Factor 5** | |
| There is an atmosphere of mutual trust between employees in my organisation. | 0,63 |
| If I had any problems with anything related to my work, I could safely talk about my concerns to my co-workers and receive some advice. | |
| I am certain that my work colleagues wish me well. | |
| I am certain that my work colleagues would help me. | |
| I am certain that my co-workers are honest. | |
| I am certain that what I say will not be used against me. | |
| I am certain that none of my co-workers bears a grudge against me. | |
| **Factor 6** | |
| There is an atmosphere of authentic mutual trust between employees and managers in my organisation. | 0,92 |
| My boss is a competent person and s/he manages the team well. | |
| I think my manager takes appropriate decisions. | |
| If I had any problems with anything related to my work, I could safely talk about my concerns to my management and receive some advice. | |
| My superior is my moral authority. | |
| I think my boss is fair when evaluating his employees. | |
| My boss has multiple interpersonal skills. | |
| Everyday company meetings with the boss are a pleasant part of a workday. | |
| **Factor 7** | |
| In my company, talks conclude with determining the next stage of action. | 0,84 |
| In my company, talks conclude with appointing the person responsible for the next stage of action. | |
| In my company, talks conclude with determining the deadline for completing the task. | |
| In my company, talks conclude with determining the method of task completion. | |

**Source:** Author

The third dimension identified in the study is the employees' loyalty towards both the co-workers and the company as a whole.

What distinguishes the next dimension from the other ones is its negative impact on the trust level. Its identification indicates that a complete trust in an organisation is a resultant of factors which reinforce that trust co-occurring with the reducing factors. Apart from loyalty and engagement, what influences trust is also the dimension of confrontation, which may encourage distrust. The dimension of confrontation and hostility refers to the company's internal and external relations, i.e. relations with external cooperation partners. The fifth dimension refers to relations between the co-workers. In encompasses: integrity, goodwill, reliability and dependability. Although the past studies have looked into them individually, the performed factor analysis has unequivocally combined these dimensions into one. The co-workers' integrity, goodwill and reliability together with their will of providing help result in the development of trust in the organisation.

The next two factors refer to relations with the superiors. Combining dimensions that, so far, have been viewed as independent has lead to the emergence of the sixth dimension of trust. It includes integrity, dependability, justice, technical and interpersonal competence. The last dimension of trust constitutes communication with superiors. This dimension has not been looked into in research studies so far. This trust is based on precise and comprehensible communication with the manager who explains who, when and how should perform a given task.

## Conclusions

The research results of other authors from different fields prove trust is a difficult, complicated and, at the same time, universal construct which requires further more complex research.

According Martins (2002), trust takes a long time to build, can be easily destroyed, and is hard to regain. Maintaining trust requires careful attention from management. It appears that effective managers today must develop trusting relationships. It turns out that also other trust types are important: between co-workers (horizontal) and institutional trust. Considering multidimensional character of trust, it should be investigated in different levels: institutional, vertical and horizontal (Zhang, et al.,2008; Connell, Ferres and Travaglione, 2003; Loon Hoe, 2007; Msanjila and Afsarmanesh, 2008; Tan and Tan, 2000). The research results allowed for stating that the respondents trust in their companies to the greatest degree and in their leaders to the least degree.

Holistic insight into trust allowed for singling out dimensions of trust that are different from those studied do far. Most often, researchers identified three independents dimensions: integrity, dependability and competence. This study, however, has singled out a collective dimension which combines the three above-mentioned sub-dimensions, with regard to both managers and co-workers. Additionally, communication with the manager, loyalty and engagement have been recognised as important dimensions of trust. Due to the fact that it is the interpersonal trust that has been mainly studied so far, the importance of dimensions referring to the institutional trust has been overlooked. The study allowed also for singling out a dimension related to the employees' participation in the company management. This dimension constitutes a belief that the company is, with the employees' help, well managed and its development directions are explicitly defined, which results in the company's deserving trust.

What is more, the results of the study confirm hypotheses put forward by Welch, (2006), according to whom a mix of trust and distrust within relationships exist simultaneously. In his zone of approval, trust and distrust may increase and decrease, on different aspects of the relationship in this same time. Next to (i.a.) relations with the superior based on integrity, dependability and competence creating trust, also a xenophobic and confrontational attitude may occur, which diminishes this trust.

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# An Empirical Study of Indo: Nepal Trade Co-Operation

❑ **Anirudh Prasad Singh**
Academy of Third World Studies, Jamia Millia Islamia, New Delhi, India

## Abstract

Indo-Nepal economic relations have been unique and unparalleled. Geography, history and culture have influenced Indo-Nepal economic relations. India has been the major trade partner of Nepal. India has a preferential trading regime with Nepal and concessions extended bilaterally are deeper compared to those extended within the SAPTA framework for Nepal. Indo-Nepal relations can reach new heights in the new millennium.

Shri Anand Sharma, Union Minister of Commerce and Industry and Mr. Rajendra Mahto, Nepalese Minister of Commerce and Supplies signed the 2009 India-Nepal Treaty of Trade and Agreement of Cooperation to Control Unauthorized Trade. The 2009 Trade Treaty revises the 1996 Trade Treaty between the two countries. has The 1996 Treaty been a turning point in the trade relations between the two countries and resulted in phenomenal growth of bilateral trade from Rs. 28.1 billion in 1995-96 to Rs. 204.8 billion in 2008-09. While the Nepalese exports to India increased from Rs. 3.7 billion to Rs. 40.9 billion, the Indian exports to Nepal increased from Rs. 24.4 billion to Rs. 163.9 billion during the period -1995- 2009.

SAARC member countries have made considerable economic progress. Average growth of domestic output of Nepal during 1980-89 was 3.5 % per anum and during 1994-97 was 4.2 % per annum and that of India was 6 % per annum and 7 % per annum(Source ADB/ESCAP report 1998). The growth rate has been increasing consistently since then. It all happened in spite of political turmoil in Nepal. It all reflects the strength of Indo – Nepal ties and sense of co-operation.

The industrial sector is the engine of growth. The two land locked countries viz NEPAL and Bhutan and island economies like Maldives, have recorded impressive industrial output in SAARC region. In agribusiness sector Nepal performed much better than India during 1989-1997(ADB reports 1998).

The existing trading cooperation during the last two decades can been well analyzed from the following tables.

## Who Trades what?

Goods / commodities traded between India and Nepal are provided in the table below.

| Country | Partner | Exported to Nepal | Imported from Nepal |
|---|---|---|---|
| India | Nepal | Mechanical equipment and Spare parts, medicines, transport vehicles and spare parts, cotton thread, Mechanical equipment and Spare parts, medicines, transport vehicles and spare parts, cotton textile, cement chemicals, electrical equipment and goods, rice, baby food and milk products, agricultural equipment and parts, tobacco, vegetables, coal, writing and printing paper, synthetic textiles, cumin seed and pepper, sugar, books and magazines | Vanaspati, toothpaste, jute goods(sacking, twine, hessian, etc),polyester and acrylic yarn, pulses, hides and skins, herbs, cardamom, rice, bran, oil, ginger, oil cakes, noodles, etc |

The share of Industry in GDP in India was 31.9 % in 1997 as compared to only 19.1 % in Nepal. The services sector in Nepal is very close to India. The share of services in GDP in Nepal was 39.8 % as compared to 43.8 % of India in 1997. (Source ADB report 1998)

Nepal has the largest agricultural sector in relation to its GDP in the whole of SAARC region, and it significantly influences the growth performance of the country.

The manufacturing sector dominated by woolen, readymade garments, cotton textiles and jute industries are the real strengths of Nepal. Major problems in industrial growth in Nepal are weak infrastructure and poor powe supply facilities and surface transport hurdles. India has been cooperating in all these sectors.

Nepal's Services sector expanded very rapidly during the last 20 years and it is likely to grow at the rate of 5 % per annum.Most impressive increase in engineering industry has been recorded by Nepal with 82 % rise in its share over the two decades.

The first significant economic collaborative agreement was the SAARC Preferential Trade Agreement (SAPTA). SAPTA was implemented in December 1995, and since then there have been four rounds of SAPTA negotiations. The SAPTA agreement was groundbreaking, as all negotiations were conducted on an item-by-item basis. Least Developed Countries (LDCs) received preferential treatment in the form of lower tariffs. The successful SAPTA negotiations prompted SAARC leaders to set up a committee of experts to draft a South Asian Free Trade Area (SAFTA) treaty at the tenth SAARC summit in 1998. The agreement was designed to be a legally binding schedule for freeing trade. It came into effect at the start of 2006 and will be fully implemented by the end of 2015.

In addition to SAFTA, there are a number of sub-regional initiatives for trade liberalisation. The Bangladesh-Bhutan-India-Nepal Growth Quadrilateral Initiative (BBIN-GQ) is being pursued under the SAARC framework. Its prime objective is to promote rapid economic development through the identification and implementation of specific projects.

## Problems in Promoting Greater Trade

Nepal does not have a diversified industrial structure. Regional exports largely consist of raw materials and traditional products such as textiles and garments, while regional imports consist mainly of capital goods and high-tech products. Some regional countries are direct competitors in the world export market for their products. Thus, the trade pattern of the two countries.

Transport and communication links between India and Nepal is very poor. Nepal, vis-à-vis Pakistan, uses mainly the Kolkata port for trade with countries other than India, Bangladesh and Bhutan.

Restrctive trade policies also cause low levels of intra-regional trade within the SAARC region. The restrictions have been more severe on the export interests of South Asia. This is so because countries are generally more restrictive towards products that are considered non-essential, or those that are locally available. And products that their neighbours could possibly supply fall in this category. For example, while more than half the exports of manufactured goods from South Asia consist of textiles and leather products, they are subject to very high rates of import duties and/or other restrictions in South Asia. This was reflected even in the SAPTA regime, as most products of export interest to regional countries were excluded from preferential treatment. Many believe that even under liberalisation under SAFTA, countries could adopt similar tactics.

## Prospects for Greater Trade Cooperation

Under the SAFTA agreement, tariff reductions, rules of origin, safeguards, institutional structures and dispute settlement will be sorted out by various committees. It also calls for harmonization of standards and customs procedures, mutual recognition of test results and transport infrastructure cooperation. These measures will hopefully help in promoting intra-regional trade.

The agreement calls for the elimination of all quantitative restrictions on products on the tariff liberalization list. The agreement allows a negative list, but it provides for reviewing the number of products on the sensitive list at four-year intervals, to reduce the list and expand free trade coverage under the agreement. Hopefully further progress will be made in this regard, helping boost intra-regional trade in South Asia.

The main features of the 1996 Trade Treaty (A turning point in trade relations):

- Duty free access to each other's primary products as per agreed list.
- Nepalese manufactured products are allowed non-reciprocal access to the Indian market, free of basic customs duty, provided the goods are manufactured with Nepalese and/or Indian inputs.

If third country inputs are used, at least 30% value addition is required to attract duty free access.

- Annual quotas for duty free access in respect of four items –vegetable fats (100,000 tons) acrylic yarn (10,000 tons),copper products (10,000 tons) and zinc oxide (2,500 tons);
- MFN access for three items – cigarettes, alcohol (excluding beer) and cosmetics with non-Nepalese and non-Indian brands;
- Goods manufactured by small scale units in Nepal enjoy the same benefits as SSIs in India with regard to tax exemption;
- Designates twenty two points on India-Nepal border for bilateral trade.

The 2009 Agreement of Cooperation to Control Unauthorized Trade will allow export of goods imported by Nepal from India to the third countries without necessity of carrying out any manufacturing activity in Nepal. This will enhance exports from Nepal to third countries where it has a better market access as compared to India. Similarly it will allow export of the goods imported by India from Nepal to third countries. This will help Nepalese exporters to take advantage of the third country market access developed by the Indian export houses.

There is need to shift the Indo-Nepal trade to the higher level and attain better qualitative dimensions. The opening of new lines of products and duty free access in India will provide further boost to the growing Indo-Nepal Trade. The revised treaty would help facilitate Trade by opening new land routes for trade between the two countries. The current treaty is expected to provide further access to Nepalese products into India and to enhance and expand bilateral trade between the two countries.

The changes introduced in the Treaty:

- The validity of the Treaty has been increased from five to seven years, along with the provision of automatic extension for further periods of seven years at a time.This will provide more stable framework for bilateral trade and promote investments in Nepal based on preferential access provided by the Treaty to Nepalese products.
- No discrimination will be made in respect of tax, including central excise, rebate and other benefits to exports merely on the basis of payment modality and currency of payment of trade. This will bring the bilateral trade conducted in Indian Rupees at par with trade in convertible currency and will end the existing mechanism of Duty Refund Procedure (DRP) which was procedurally cumbersome. It will provide Nepal a direct control on the customs duty revenues on import of manufactured goods from India. It will also allow Indian exports to avail benefit of export promotion schemes prevailing in India, making these products more competitive for further sale or value addition in Nepal. (This change would be made effective from the date to be mutually agreed to. Modalities will be developed for smooth transition from the existing to the new system.)
- The time limit for temporary import of machinery and equipment for repair and maintenance has been raised from 3 to 10 years.
- Several new items of export interest to Nepal have been added to the list of primary products giving these items duty free access to India without any quantitative restrictions. These include floriculture products, atta, bran, husk, bristles, herbs, stone aggregates, boulders, sand and gravel.
- Criterion for calculating value addition for gaining preferential access to India has been changed from ex-factory basis to FOB basis.
- India has agreed to consider waiver, on request from GON, of any additional duty that may be levied over and above CVD.
- Both sides have agreed to exempt exports of goods, which are already covered under forward contract, from imposition of restrictions on exports.
- Both sides will grant recognition to the sanitary and phyto-sanitary certificates issued by the competent authority of the exporting country based on assessment of their capabilities.
- Articles manufactured in Nepal, which do not fulfill the criteria for preferential access will be provided MFN access to the Indian market. The certificate of origin in case of such exports has been prescribed.
- The provisions regarding safeguard measures in case of serious injury to the domestic industry have been streamlined.
- A joint mechanism, comprising local authorities has been established to resolve problems arising in clearance of perishable goods.

- An Inter-Governmental Sub-Committee (IGSC) at the joint secretary-level has been established. Existing Inter-Governmental Committee (IGC) at the Secretary-level will meet once in six months and the IGSC will meet at the interval of the two IGC meetings.
- Four additional Land Customs Stations (LCSs) will be established to facilitate bilateral trade: Maheshpur/Thutibari (Nawalparasi); Sikta-Bhiswabazar; Laukha-Thadi; and Guleria/Murtia, bringing the total number of Stations to 26.
- Bilateral trade will be allowed by air through international airports connected by direct flights between Nepal and India (Kathmandu/Delhi, Mumbai, Kolkata and Chennai).
- The Indian side has agreed to review and simplify the existing administrative arrangements for operationalisation of fixed quota for acrylic yarn, copper products and zinc oxide.
- India has agreed to consider several additional products as wholly produced or manufactured in Nepal for the purpose of gaining preferential access to the Indian market. It includes articles collected in Nepal fit only for recovery of raw materials and waste and scrap resulting from manufacturing operations in Nepal.
- The Government of India will provide preferential access to the Indian market free of customs duties normally applicable and quantitative restrictions, except as mentioned elsewhere, for all articles manufactured in Nepal, provided they fulfill the qualifying criteria given below:
- the articles are manufactured in Nepal wholly from Nepalese materials or Indian materials or Nepalese and Indian materials ;or
- the articles involve a manufacturing process in Nepal that brings about a change in classification, at four digit level, of the Harmonized Commodities Description and Coding System, different from those, in which all the third country origin materials used in its manufacture are classified; and the manufacturing process is not limited to insufficient working or processing as indicated in Annexure "B", and
- From 6th March 2002 to 5th March 2003, the total value of materials, parts or produce originating from non-Contracting Parties or of undetermined origin used does not exceed 75% (seventy five percent) of the ex-factory price of the articles produced, and the final process of manufacturing is performed within the territory of Nepal. From 6th March 2003 onwards, the total value of materials, parts or produce originating from non-Contracting Parties or of undetermined origin used does not exceed 70% (seventy percent) of the ex-factory price of the articles produced, and the final process of manufacturing is performed within the territory of Nepal.

  **Note:** *The value of materials, parts or produce originating from non-Contracting Parties shall be the CIF value at the time of importation of materials, parts or produce, at the point of entry in Nepal, where this can be proven, or the earliest ascertainable price paid for the materials, parts or produce of undetermined origin in the territory of the Contracting Party where the working or processing takes place.*
- For Nepalese articles not fulfilling the conditions given in sub-para-1 (b) (i) above, but fulfilling the condition at sub-Para- 1 (b) (ii) above, preferential access may be given by the Government of India, on a case by case basis, after satisfying itself that such article has undergone a sufficient manufacturing process within Nepal.

- However, the import of Nepalese manufactured articles described in Annexure "C" which fulfill the criteria in sub-para-1 (a) or (b) (i) (ii) above will be governed by the terms specified in this Annexure.
- In the case of other articles manufactured in Nepal which do not fulfill the qualifying criteria specified in sub-para-1 (a) or (b) (i) (ii) above, the Government of India will provide normal access to the Indian market consistent with its MFN treatment.
- Import of articles in accordance with the Para -1 above shall be allowed by the Indian customs authorities on the basis of a Certificate of Origin to be issued by the agency designated for this purpose by His Majesty's Government of Nepal in the format prescribed at Annexure -"D" for each consignment of articles exported from Nepal to India. Information regarding the basis of calculation for grant of such Certificates of Origin to the manufacturing facilities in Nepal will be provided to the Government of India on an annual basis. The modalities for this will be worked out within three months from the signing of the Protocol.
- On the basis of a Certificate issued, for each consignment of articles manufactured in the small-scale units in Nepal, by His Majesty's Government of Nepal, that the relevant conditions applicable to the articles manufactured in similar Small Scale Industrial units in India for relief in the levy of applicable Excise Duty rates are fulfilled for such a parity, Government of India will extend parity in the levy of Additional Duty on such Nepalese articles equal to the treatment provided in the levy of effective Excise Duty on similar Indian articles under the Indian Customs and Central Excise Tariff.
- The "Additional Duty" rates equal to the effective Indian excise duty rates applicable to similar Indian products under the Indian Customs Central Excise Tariff will continue to be levied on the imports into India of products manufactured in the medium and large scale units in Nepal.
- In regard to additional duty collected by the Government of India in respect of manufactured articles other than those manufactured in "small" units; Wherever it is established that the cost of production of an article is higher in Nepal than the cost of production in a corresponding unit in India, a sum representing such difference in the cost of production, but not exceeding 25 per cent of the "additional duty" collected by the Government of India, will be paid to His Majesty's Government of Nepal provided His Majesty's Government of Nepal have given assistance to the same extent to the (manufacturers) exporters.
- Export of consignments from Nepal accompanied by the Certificate of Origin will normally not be subjected to any detention / delays at the Indian customs border check posts and other places en route. However, in case of reasonable doubt about the authenticity of Certificate of Origin, the Indian Customs Authority may seek a clarification from the certifying agency which will furnish the same within a period of thirty days. Meanwhile, the subject consignment will be allowed entry into India on provisional basis against a bond i.e. a legally binding undertaking as required. After examining the information so provided by the certifying agency, the Indian Customs Authority would take appropriate action to finalize the provisional assessment. Whenever considered necessary, request for a joint visit of the manufacturing facility may be made by the Indian Customs Authority which would be facilitated by the concerned Nepalese authority within a period of thirty days.

- The Indo-Nepal relationship has also been fraught with tension although the two sides have not allowed their overall relationship to be held hostage to their differences. The Indo-Nepal equation is a classic example of big power-small power political maneuvering with the smaller power, Nepal, trying its utmost to retain an independent posture, despite being economically dependent on India. The bulk of the problems between the two sides are grounded in economic concerns.

Indo-Nepal relations were quite strained when SAARC was formed. India had denied Nepal's bid to be declared an international security zone (Murthy 1999). Nepal's acquisition of Chinese weaponry met with a strong official protest from the Indian government, worried about losing its influence in Katmandu. In 1988, Nepal refused to accommodate Indian demands on the long-standing transit treaty between the two countries. Nepal took a hard-line approach, and after the expiration of the treaty in 1989, faced an economic blockade from India, a development that led to further escalation in Indo-Nepal tensions (India, 1995).

More recently, a conciliatory strain in bilateral relations has emerged. Although India and Nepal also have an outstanding territorial dispute on a 75 square kilometer area, the issue has not impacted Indo-Nepal relations to any significant degree (International Boundary, 1998). Since the early 1990s, Nepal's worsening economic and political situation has forced it to seek rapprochement with India. In 1990, the special security relationship between the two countries was restored and in the mid-1990s, fresh trade and transit treaties were signed along with other economic agreements (Murthy 1999). India has also supported the Nepalese government in its fight against the ongoing Maoist rebellion in the country, a fact that has further improved relations between the two countries.

## Economic and Environmental Issues

The first issue that dominates the Indo-Nepal economic relations is the Balance of Trade, favoring India. Ninety-five percentage of Nepal's trade is conducted through the Calcutta port, nearly 40 percentage of the employment generated in Nepal is through Indian investments and India remains the major investor in Nepal.

## Conclusion

Internal politics, bilateral relations and religion is a vicious cocktail with a dark potential for conflict of many hues. The Pashupatinath temple episode is wrought with just such an implication where assault on the Indian priests allegedly by Maoists in Nepal has raised tempers in both countries. The Maoists claim that the assault on the Bhattas or the two priests from Southern India was launched by radicals forming part of the people's movement for replacing Indian priests with Nepali ones. Ironically the issue has also created a deep cleavage between the Maoists and other parties in Nepal. This has sadly placed Indo Nepal relations which were showing some signs of improvement in jeopardy.

The progress in Indo Nepal relations was evident during the first visit of the Nepal Prime Minister and UPN CML leader Mr. M K Nepal to New Delhi from 18 to 22 August. This was also Mr. Nepal's first visit outside the country on taking over. His predecessor, the Unified CPN M or Maoist leader Pushpa Kumar Dahal or Prachanda had visited China first though he succeeded in covering it up as for Beijing Olympics rather than an official visit. The visit by the Prime Minister Mr. Nepal was not universally supported in Nepal, the opposition; Unified CPN M termed it as a surrender and sell out to India, while his own Foreign Minister Sujata Koirala refused to accompany him as allegedly she was not made the Deputy Prime Minister

before the visit. While a new trade treaty was agreed upon, its implementation would remain to be seen.

The principal achievement was signing of the Treaty of Trade and Agreement of Cooperation to Control Unauthorized Trade. The new agreement will replace the existing arrangements since 1991, which was extended from time to time. The trade treaty, which has been negotiated for the last two years, aims at enlarging the scope of the existing institutional framework. As per the treaty India gives duty-free access to its market to goods manufactured in Nepal. The bilateral trade takes place generally in Indian currency.

On the river waters issue, Indian side agreed to send a technical team to Nepal to study the Bagmati Civilization Project, satisfaction was expressed over timely completion of the technically challenging task of the closure of the breach of Kosi embankment. To accelerate the implementation of Pancheshwar Multi-purpose Project, the Joint Ministerial Commission on Water Resources and Joint Committee on Water Resources will expedite finalization of Terms of Reference for Pancheshwar Development Authority and the Detailed Project Report of the Pancheshwar Project. Progress on the Sapta Koshi High Dam and Sunkoshi Diversion Project and the Naumure Project as per bilateral discussions is to be expedited.

On the security front, the Bilateral Consultative Group on Security Issues and the Home Secretaries of the two countries will meet within two months to enhance bilateral cooperation to effectively address all issues concerning security, including cross-border crime. One of the major concerns India has with Nepal is the flow of fake Indian currency to India through Nepal. The other two concerns are Nepal being used for terrorist activities directed at India and the use of madrasas for anti-India activities. According to estimates, four out of every thousand Indian Rs. 1,000 denomination notes are fake and Nepal is a major conduit for them.

Nepal-India Joint Technical Committee (JTC) is also preparing and finalizing the boundary strip maps. For border management, construction of two Integrated Check Posts (ICPs) at Birgunj-Raxaul and Biratnagar-Jogbani at an estimated cost of Indian Rs.200 crores will commence soon. India is also providing assistance at the proposed National Police Academy at Panauti, Kavre in Nepal at an estimated cost of Indian Rs.320 crores.

The Joint Statement issued on the occasion of the current visit of the Prime Minister is seen to be more comprehensive and addresses a number of key issues such as trade and development, transit as well as the major Indo Nepal Treaty of Peace and Friendship of 1950 which is to be reviewed in detail later. The Prime Minister of Nepal was very emphatic about provision of safe and secure atmosphere for trade and industry from India in the country. However ground conditions are not very conducive for such a purpose as the Maoists have been on a war path and for them India is a soft target that can be swayed by their deliberate political antics to get closer to China. Thus unless there is a political consensus there would be many hurdles in implementing the projections made in the Joint statement.

Thus the story of Indo Nepal relations is peculiar of love and hate. While both countries know that they cannot live without each other, there are many subterranean influences which have been acting against a smooth relationship, the trade treaty is important for Nepal and so is investment of the private sector from India. But how much would the Nepali security and political situation permit a smooth inflow remains to be seen, for it is observed that the current government in case of any dispute within the political landscape over a treaty would have to face opposition in the Parliament as well as on the streets by the Maoists. And any successful conclusion of the trade treaty would depend on the attitude of the Maoists as much as the government signing the same.

# Employee's Perceived Quality of Work Life: A Case Study of Banks in Silchar City

❑ **H. Ramananda Singh**
Department of Business Administration, Assam University, Silchar, Asam, India.

## Abstract

In today's competitive industrial environment, the success of any organization is highly dependant on how it attracts recruits, motivates, and retains its employees. Therefore organizations are required to adopt a strategy to improve the employees' Quality of Work Life'(QWL) to satisfy both the organizational objectives and employee needs. Moreover, how the employees perceived the QWL of the banks where they are working is going to reflect in terms of their loyalty, commitment to the banks and service render to the customers.

Banking is a customer oriented services industry and Indian banks have started realizing that business depends on client service and the satisfaction of the customer. Managing service quality in a commercial bank is rather challenging because so much depends on how well the bank employees respond to the needs and expectations of the customers. Many customers, switched banks because of what they considered to be poor service are provided by the employees. The more loyal and more committed employee will give better service to the customer. Employees who perceived better QWL in their bank will deliver better service to the customer leading to the satisfaction of the customers.

The objectives of the paper are to measure the employees' perceived QWL levels of their respective banks and to study if any difference in the employees perceived QWL between Private and government banks. This study is based on primary data collected from the employees of eight different banks (i.e.4 Govt. Banks and 4 Private Banks) of silchar city of Assam, India. Nineteen Parameters leading to nineteen statements are used for measuring employees perceived QWL of their respective Banks on five-points Scales. ANOVA and Independent sample t-test are used for analysis of the data collected in the light of the objectives of the study. The study reveals that although employees of different Banks perceived same level of QWL of their respective Banks, the Banks differ in three parameters or aspects of QWL. The study also reveals that both Govt. and Private Banks have similar level of employees' perceived QWL but differ in one parameter or aspect of QWL.

## Introduction

The success of any organization is highly dependant on how it attracts, recruits, motivates, and retains its workforce. Today's organizations need to be more flexible so that they are equipped to develop their workforce and enjoy their commitment. Therefore, organizations are required to adopt a strategy to improve the employees' Quality of Work Life'(QWL) to satisfy both the organizational objectives and employee needs. QWL denotes all the organizational inputs which aim at the employee's satisfaction and enhancing organizational effectiveness.

In the late 1950s the term QWL was used to stress the prevailing poor quality of life at workplace and it was first defined then in terms of people's reaction to work, particularly an individual's job satisfaction and mental health (Pattanayak, 2006). Ghosh (2006) defines it as "Favourableness or unfavourable ness of a job environment for people". The recent definition by Serey (2006) on QWL is quite conclusive and best meet the contemporary work environment. The definition is related to meaningful and satisfying work. It includes the following points:

- An opportunity to exercise one's talents and capacities, to face challenges and situations that require independent initiative and self-direction.
- An activity thought to be worthwhile by the individuals involved.
- An activity in which one understands the role the individual plays in the achievement of some overall goals.
- A sense of taking pride in what one is doing and in doing it well. This issue of meaningful and satisfying work is often merged with discussions of job satisfaction, and believed to be more favourable to QWL.

According to Straw and Heckscher (1984) QWL is a philosophy, a set of principles, which holds that people are the most important resource in the organization as they are trustworthy, responsible and capable of making valuable contribution and they should be treated with dignity and respect. Thus it means the quality of relationship between employees and the total working environment. It is a process by which an organization responds to employee needs for developing mechanism to allow them to share fully in making the decisions that designs their lives at work. The basic aim of QWL is to identify and implement alternative programs to improve the quality of professionals as well as personal life of an organization's employees (Menaka, 2008).

QWL means having good supervision, good working conditions, good pay and benefits and an interesting, challenging and rewarding job. High QWL is sought through an employee relations philosophy that encourages the use of QWL efforts, which are systematic attempts by an organisation to give workers greater opportunities to affect their jobs and their contributions to the organisation's overall effectiveness. That is, a proactive human resource department finds ways to empower employees so that they draw on their "brains and wits," usually by getting the employees more involved in the decision-making process.

The term 'humanisation of work', 'industrial democracy', 'quality of working life' and 'participative work' is interchangeably used for the same concept. The core of these concepts is the value of treating the worker as a human being and emphasising his development and involvement in work decisions (Pareek and Rao, 2006). Thus, it refers to overall climate of work climate of work and its impact on people as well as on organizational effectiveness. QWL related activities are several but revolve around participative problem solving, work restructuring, quality circles, reward system, and work environment.

## Importance of QWL

QWL consists of opportunities for active involvement in group working arrangements or problem solving that are of mutual benefit to employees or employers, based on labour management cooperation. People also conceive of QWL as a set of methods, such as autonomous work groups, job enrichment, and high-involvement aimed at boosting the satisfaction and productivity of workers. It requires employee commitment to the organization

and an environment in which this commitment can flourish. Regular assessment of QWL can potentially provide organisations with important information about the welfare of their employees, such as job satisfaction, general well-being, work-related stress and the home-work interface. Providing quality at work not only reduces attrition but also helps in reduced absenteeism and improved job satisfaction. Not only does QWL contribute to a company's ability to recruit quality people, but also it enhances a company's competitiveness. Common beliefs support the contention that QWL will positively nurture amore flexible, loyal, and motivated workforce, which are essential in determining the company's competitiveness.

## Review of Literatures

Sirota (1973) found that underutilization of worker's skill and abilities cause low quality of work life and suggested job enrichment programme to correct the problems of worker's skill and abilities. Sayeed and Sinha (1981) examined the relationship between QWL, job stress and performance. The results indicate that higher QWL leads to greater job satisfaction. Rahman (1984) in his study on the industrial workers of India found that subjects having low educational background and lower income had better perception of QWL than those having higher education and higher income. Haque (1992) in his study found that QWL is positively related to performance and negatively correlated to absenteeism. But he found no relationship between perceived QWL and workers' age, education and job experience. Wadud (1996) in a study found that QWL was significantly higher among the private sector women employees than their counterparts among the private sector women employees than their counterparts in the public sector. It also showed that younger group and higher experienced groups had significantly higher perception of QWL than the older and the lower experienced groups. Winter et al. (2000) viewed QWL for academicians as an attitudinal response to the prevailing work environment and posited five work environment domains that include role stress, job characteristics, and supervisory, structural and sectoral characteristics to directly and indirectly shape academicians' experiences, attitudes and behaviour. Widgery (2004) in his research it has been found that attitudes toward the quality of city life in general are importantly influenced by attitudes toward the quality of life in the neighbourhood. Angur, Widgery and Angur (2005) observed that subjective indicators of neighbourhood conditions are more highly correlated to overall neighbourhood quality, than are objective indicators of neighbourhood conditions. The study done by Chan and Wyatt (2007) examined the Quality of Work Life in China in terms of how their work lives satisfy eight basic needs of employees. Therefore it is clear that, job characteristics and organizational settings have important influence on the employee's work attitude. Varadaraj and Sellappan (2008) in their paper concluded that quality of work life of employees is related to an individual's expectation of different characteristics of the job and perception of how much is attained. The aspiration varies for various reasons from individual to individual and with in the same individual at different times of age, education, length of service. This accounts for the conflicting results with regard to effect of these variables on quality of work life. Patil and Chavan (2009) in their paper observed that businesses that adopt quality of work life strategies improve their chances for success. QWL strategies improve performance, reduce costs, and enhance profitability. Melsungen (2009) in their study on "An exploratory study on perceived quality of working life among sales professionals employed in pharmaceutical, banking, finance and insurance companies in Mumbai", observed that the most important component of Quality of Working Life dealing with the organizational characteristics was found to be employee satisfaction and continuance (ESC). At the negative side of this continuum is unconducive work environment

(UWE), which defines unsafe working environment, injustice, stress, under performance and insecurity, was found to be second important component of QWL. Whereas perceived job motivators (PJM) and job awareness and commitment (JAC) contributed equally and Perceived organizational culture (POC) was the least.

## Principles of QWL

The principles of humanisation of work (Khanka, 2005) are briefly given below:

**The Principle of Security:** Humanisation of work implies freedom from anxiety, fear and loss of employment. The working conditions should be sage and there should be no fear of economic loss. This will ensure utmost development of skills and ideas.

**The Principle of Equity:** The equity principles require that there is a just way of evaluating the conditions of an employee. If work has to be humanised, equity also requires sharing in the profits of the organization according to the individual contribution.

**The Principle of Individuation:** Individuation refers to the work environment in which employees are encouraged to develop themselves to their fullest competence, a system of work which facilitates the fullest possible development of individual potential. The precondition for this is the availability of freedom and autonomy in deciding their own pace of activity and design of operations.

**The Principle of Democracy:** This principle implies greater authority and responsibility vested into the workforce. Increasing controls, over supervision and high degree of institutionalism inhibit humanisation of work. Participation in decision-making also guarantees the 'right to citizenship'.

## Factors of QWL

Walton (1985) has given the following factors that determine the QWL of individuals:

- Adequate and fair compensation
- Safe and healthy working conditions
- Immediate opportunity to use and develop human capacities
- Future opportunity for continued growth and security
- Social integration in work environment
- Constitutionalism or the 'rule of law' in the work organization
- Work and the total life space
- The social relevance of work life

Jerome M Rosow (2006) has identified seven critical factors which will affect the quality of work life. These are pay, employee benefits, job security, alternative work schedules, occupational stress, participation and democracy in the workplace.

Mohanty (2006) has outlined the main factors of QWL are adequate and fair compensation, fair recruitment policy, training and development, performance management, safe and healthy working condition, reward and recognition, culture, opportunity for growth, social integration in the workplace and work & quality of life.

Khanka (2005) has divided the constituents of QWL into eight components. These are adequate and fair compensation, safe and healthy working conditions, opportunity to use and develop human capacities, opportunity to continued growth and security, social integration in the work organization, constitutionalisation in the work organization, work and the total life space and the social relevance of work life.

## Objectives of the Study

The objectives of the present study are given below:

- to measure the employees' perceived QWL levels of their respective Banks and
- to compare the employees perceived QWL between Private and government banks

## Research Methodology

**a)** **Type of research:** the type of research used is both Exploratory and Conclusive in nature. Exploratory Research is used to determine the perceived QWL of Banks employees where as Conclusive research is used to determine the significance of difference in QWL scores among the banks as well as between Govt and private Banks.

**b)** **Sources of data**; Both Secondary and primary data are used. Secondary data are used for review of literature for developing framework of study and Primary data are used for measuring perceived QWL of employees of Banks.

**c)** **Data Collection method**; a schedule questionnaire method is used for collecting the data from the employees of Banks.

**d)** **Sampling type;** of all the banks in the Silchar city, 4 branches of different Govt Banks and 4 branches of private Banks are chosen by simple random sampling method. From the bank branches chosen data are collected from almost all employees. The Govt. banks chosen for the study are SBI, UBI, IDBI and UCO. The Private Banks chosen for the study are ICICI, AXIS, HDFC and INDUSIND.

**e)** Parameters for measuring QWL of employees

In all 19 parameters are used for measuring the QWL of the employees of Banks. These parameters are expressed in terms of 19 statements of which some are positive and some are in negative statements. These statements are measured against 5 point 0rdnal scales in the continuum of Strongly Agree, Somewhat Agree, Can't Say, Somewhat Disagree, and Strongly Disagree.

Later, for the positive statements following values are assigned to the various responses;

Strongly Agree = 5, Somewhat Agree = 4, Can't Say = 3, Somewhat Disagree = 2 and Strongly Disagree = 1.

For the negative statements, following values are assigned;

Strongly Agree = 1, Somewhat Agree = 2, Can't Say = 3, Somewhat Disagree = 4 and Strongly Disagree = 5.

The 19 statements expressing the 19 parameters chosen for the study are given as under:

1. Your organisation gives good opportunity for your self development.
2. Your organisation does not give opportunity for the application of your skill and abilities.
3. Your Organisation gives autonomy to your work and responsibilities.
4. Your Organisation does not provide feedback to about your performance.
5. Your organisation always tries to identify the potentials of the employees.
6. Your organisation does not give opportunity for promotion to the employees.
7. Your organisation occasionally sends employees to attend training programs.
8. Your organisation does not provide opportunity to express personal views by the employees.
9. Your organisation gives equal treatment to all the employees.
10. Your organisation does not allow you to participate in the decision making.
11. Your organisation provides occasions (platforms) for interaction among employees of all levels (position).
12. Your relationships with your superiors (Persons in the higher position) are not atisfactory.
13. Your relationships with peers/colleague (persons in the same position) are satisfactory.
14. There is no proper interaction& cooperation among different departments in your organisation.
15. The salary (compensation) provided by your organisation is satisfactory to you.
16. Your organisation does not provide attractive post retirement package for the employees.
17. Your organisation often recognises or appreciates the people who are sincere, hard working and good performers.
18. The working condition in your organisation is not safe/healthy.
19. Your job responsibilities are not satisfactory.

The Reliability of the scale used for measuring the perceived QWL of employees of Banks is given in the table below.

**TABLE 1:** Reliability Statistics

| Cronbach's Alpha | Cronbach's Alpha Based on Standardised items | N of items |
|---|---|---|
| .841 | .848 | 19 |

The Cronbach's Alpha = 0.841, this indicates that the scales consisting of 19 statements are highly reliable for measuring the perceived QWL of employees of Banks.

**e) Data analysis methods**; appropriate statistical tools such as descriptive statistics, ANOVA and Independent samples t -test are used.

**f) Period of study;** the study was conducted during May-October 2010

# Findings

## a. Employees' perceived QWL levels of their respective Banks

The mean scores of employees' perceived QWL of their respective Banks of Silchar City as measured on 19 parameters of 5-point scales are computed and presented below in Table No.2.

**TABLE 2:** Employees' perceived QWL levels among different banks

| Name of The Bank | Number of Employees | Mean Score Of QWL |
|---|---|---|
| SBI | 31 | 75.1613 |
| UBI | 08 | 79.3750 |
| IDBI | 06 | 71.1667 |
| UCO | 05 | 65.6000 |
| ICICI | 06 | 71.8333 |
| AXIS | 07 | 78.0000 |
| HDFC | 07 | 72.0029 |
| INDUSIND | 09 | 79.0000 |
| Total | 79 | 74.8357 |

To test the Significance of the difference in the observed Mean scores of the perceived QWL of employees of their respective Banks, ANOVA One-Way Analysis is done. The result of the analysis is given below in the ANOVA Table.

**TABLE 3:** ANOVA Table

| Sources of variation | Sum of Square | Degree of freedom (df) | Mean Square | F | Sig |
|---|---|---|---|---|---|
| Between Groups | 1011.812 | 7 | 144.545 | .839 | .559 |
| Within Groups | 12234.856 | 71 | 172.322 | | |
| Total | 13246.668 | 78 | | | |

**Inference:** From the above table, it is seen that p value (=0.559)>0.5, this indicates that F value (=0.839) is insignificant at α =5% and df (7, 71). Therefore, there is no significance difference in mean scores of perceived QWL of employees of Banks.

That is, employees of different banks perceived to have same QWL of their respective Banks. In other words, all the banks provide similar QWL to employees.

The parameters on which the employees of the banks have significant differences in their opinions are given below:

**TABLE 4:** ANOVA table for Parameters

| Statements/Parameters | Sources of variation | Sum of squares | df | Mean Square | F | Sig |
|---|---|---|---|---|---|---|
| Your Organisation does not provide opportunity to express personal views by the employees | Between groups | 34.267 | 7 | 4.895 | 2.525 | .022 |
| | Within groups | 137.631 | 71 | 1.938 | | |
| | Total | 171.899 | 78 | | | |
| Your Organisations provide occasion of interaction among employees (at all levels). | Between groups | 21.284 | 7 | 3.041 | 2.385 | .030 |
| | Within groups | 90.513 | 71 | 1.275 | | |
| | Total | 111.797 | 78 | | | |
| Your responsibilities are not satisfactory | Between groups | 23.360 | 7 | 3.337 | 2.181 | .046 |
| | Within groups | 108.615 | 71 | 1.530 | | |
| | Total | 131.975 | 78 | | | |

**Inference:** From the above table, it is seen that p values for three statements relating to 3 parameters are < 0.5, these indicate that the corresponding F values are significant at α =5%. Therefore, there is **significance** difference in mean scores of perceived QWL of employees of Banks on these 3 parameters.

That is, employees of different banks perceived to have different opinions on three parameters. The three parameters or aspects of QWL are given below;

- Opportunity to express personal views by the employees.
- Occasion of interaction among employees (at all levels).
- Satisfactory responsibilities.

## b. Comparison of employees' perceived QWL between Private and government banks

The mean scores of employees' perceived QWL of Govt and Private Banks of Silchar City as measured on 19 parameters of 5-point scales are computed and presented below in Table No.5.

**TABLE 5:** Employees' perceived QWL between Private and government banks

| Type of Banks | Name of The Bank | Number of Employees | Mean Score Of QWL | Number of Employees | Mean Score Of QWL |
|---|---|---|---|---|---|
| Government Banks | SBI | 31 | 75.1613 | 50 | 74.4000 |
| | UBI | 08 | 79.3750 | | |
| | IDBI | 06 | 71.1667 | | |
| | UCO | 05 | 65.6000 | | |
| Private Banks | ICICI | 06 | 71.8333 | 29 | 75.5869 |
| | AXIS | 07 | 78.0000 | | |
| | HDFC | 07 | 72.0029 | | |
| | INDUSIND | 09 | 79.0000 | | |
| | Total | 79 | 74.8357 | 79 | 74.8357 |

To test the Significance of the difference in the observed Mean scores of the employees' perceived QWL of Govt. and Private Banks, Independent samples t –test is done. The result of the test is given below.

**TABLE 6:** Result of Independent Samples test

| | Levene's Test for equality of Variance | | t-test for equality of Means | | | | |
|---|---|---|---|---|---|---|---|
| | F | Sig | Mean Difference between Govt and Private | Std. Error of Difference | t | df | Sig (2-tailed) |
| Equal variance assumed | 6.995 | .010 | -1.18690 | 3.05853 | -.388 | 77 | .699 |
| Total score Equal variance not assumed | | | -1.18690 | 2.74368 | -.433 | 75.825 | .667 |

**Inference:** From the above table, in the Levene's Test for equality of Variance it is seen that the F value (=6.995) is significant as p value (=0.010) < 0.5, this indicates that population variances are not equal. Therefore we can use t- value, df, and two tailed significance for the unequal variances estimates to determine whether the difference in employees' perceived QWL between Govt and Private Banks exist.

The two- tail significance indicates that P value (=.667) > 0.05, so the t-value (=-0.433) is insignificant at α =5%. Therefore, there is no significance difference in mean scores of perceived QWL between employees of Govt.Banks and Private Banks.

That is, employees of Govt. Banks and Private Banks perceived to have same QWL. In other words, both Govt and Private Banks provide similar QWL to employees.

The parameters on which Govt banks employees have significant difference in their perceived QWL with that of Private Banks are given below:

**TABLE.7**: Independent Samples test for Parameters

| Statement/Parameter | | Levene's Test for equality of Variance | | t-test for equality of Means | | | |
|---|---|---|---|---|---|---|---|
| | | F | Sig | Mean Difference between Govt and Private | t | df | Sig (2-tailed) |
| Your organisation does not give | Equal variance assumed | 15.79 | .00 | -.852 | -2.790 | 77 | .007 |
| Equal opportunity for development | Equal variance not assumed | | | -.852 | -3.156 | 76.736 | .002 |

**Inference:** From the above table, in the Levene's Test for equality of Variance it is seen that the F value (= 15.79) is significant as p value (=0.00) < 0.5, this indicates that population variances are not equal. Therefore we can use t- value, df, and two tailed significance for the unequal variances estimates to determine whether the significant difference in employees' perceived QWL between Govt and Private banks exist for the parameter mentioned in the above table.

The two- tail significance indicates that P value (=.002) < 0.05, so the t-value (=-0.852) is significant at α =5%. Therefore, there is **significance** difference in the mean scores of perceived QWL between employees of Govt. Banks and Private Banks on one of the parameters used for measuring employees' perceived QWL.

That is, employees of Govt. Banks and Private Banks perceived to have different opinions on the parameter "Organisation giving equal opportunity for development".

Further, the mean difference between Govt and Private Banks is negative indicating that employees of Private Banks have higher degree of opinion than those of Govt Banks regarding bank providing equal opportunity for development to employees.

## Conclusion

Employees of different banks perceived to have same QWL of their respective Banks. In other words, all the banks provide similar QWL to employees.

Employees of different banks perceived to have similar opinion on all the 19 statements or parameters used for measuring employees' perceived QWL about their respective Banks except on 3 parameters. The 3 parameters are given below;

- Opportunity to express personal views by the employees.
- Occasion of interaction among employees (at all levels).
- Satisfactory responsibilities.

That is banks are different in the perception of their respective employees in the above mentioned three parameters.

Further, employees of both Govt, and Private Banks perceived to have similar opinion on all the 19 statements or parameters used for measuring employees' perceived QWL about their respective Banks except on one parameter. The parameter is "Organisation giving equal opportunity for development".

That is Govt. and Private Banks are different in the perception of their respective employees on the parameter "Organisation giving equal opportunity for development". Employees of Private Banks have higher degree of opinion than those of Govt Banks regarding banks' 'providing of equal opportunity for development to employees".

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# A Case Study on Implication of Change Management Practices at G. Kuppuswamy Naidu Memorial Hospitals, Coimbatore

**Vimala Sanjeevkumar**
Universiti of Utara Malaysia, Tamil Nadu, India

**V. Latha**
DJ Academy for Excellence, Pollachi Road,Coimbatore

## Introduction

*"It is not the strongest who survive, nor the most intelligent but those who are most responsive to change"*- Darwin.

Change management has received considerable attention in human resource management. First its theoretical contributions can be categorized into three broad areas, a key to integrative mechanism. Second, change management has been identified as a means of enhancing organizations control over employees, constructing a consistent statement of managerial expectations, and promoting a unitary view of the organization Third, change management is held to be an important driver in determining valuable outputs such as employee commitments. Identification by employee with the organization in terms of adherence to its values, goals and desired behavior is assumed to bring about strong culture and be conductive to organizational success.

Clare Chow-Cha, Mark Goh (2000) presented an exploratory research about Quality improvement in health care industry in Singapore. The researchers highlighted different routes hospitals adopted in pursuing their corporate quality journey. In the research both continuous improvement and innovation based approaches have generated cost and time savings and help to streamline work processes. The results showed that the innovation based programs require a long time frame for resistance to change and suffer from programme failure. The results showed that large and public hospitals were more inclined to implement innovation based approaches and medium sized hospitals tend to use continuous improvement as a medium of quality improvement.

Healthcare industries that underwent Change Management practices were as follows:

- Asian Heart foundation's Rabindranath Tagore International Institute of cardiac sciences, Kolkata.
- Asian Heart Foundation's Narayana Hrudalaya, Bangalore.
- Dr. B. Nanavathi Hospital & Heart Institute, Mumbai.
- Max Devki Devi heart & Vascular Institute, Delhi.
- Wockhardt Kidney & Research Institute,Kolkata.

## Need and Requirements for Change Management in hospitals

- Introduction of professionalism in Indian hospital administration.
- Hospital administrators and Medical superintendents must be trained in the art and science of hospital administration.
- Administrative training requirements for Departmental heads.
- Innovative approaches, appropriate technology, quantitative management techniques etc must be introduced wherever possible and practical.
- Hospital programmes should be properly planned, organized, coordinated, evaluated and implemented.

## Significance in GKNM Hospitals

GKNM Hospital wants to explore the models of Change Management and assist the process of Change Management. The descriptions of change methods related to the possible integration. GKNM Hospital wants to improve its Business and Service performance. The Organizational Culture of GKNM hospital, especially its core values and beliefs, provided an environment conductive to the development and implementation of high performance Human Resources Practices. GKNM Hospitals strongly believed that progressive Change Management practices improve business performance by helping to ensure that an organization has committed people and to achieve maximum benefit in terms of competitiveness and success of the hospital.

## Factors Affecting Performance of People in GKNM

Performance of people is affected by a number of factors, all of which should be taken into account. These comprise:

- Personal factors- the individual's skill, competence, motivation and commitment.
- Leadership factors- the quality of encouragement, guidance and support provided by managers and team leaders.
- Team factors- the quality of support provided by colleagues.
- Systems factor- the system of work and facilities provided by the organization.
- Contextual (situational) factor- internal and external environmental pressures and changes.

## Introducing the Change

As an organization, ability to change itself is regarded by several writers as an important criterion of its self-effectiveness. However, the change should not be introduced all at one time. It should be introduced in phases.

Broadly speaking, there are two methods of introducing change: Directive method and Participative method

James (2004) revealed about developing change and leadership capabilities, he stated that integral role change management played in this successful adoption. He considered a long line

of management such as TQM, BPR etc. The importance of story, visionary leadership in making them a reality.

## Organizational Change Management

Organizational Change Management includes processes and tools for managing the people side of the change at an organizational level. This tool includes a structured approach that can be used to effectively transition groups or organizations through change.

Professor Lary Greiner of Harvard Business School who deeply studied (1970) the organization change patterns reveal that successful organization change programmes pass through a six phase change process, and in absence of it contributes for less successful changes. He presented this model in the classic book entitled Organizational Change and Development published in 1970.These six phases were as follows:

- Pressure and arousal
- Intervention and Reorientation
- Diagnosis and Recognition
- Intervention and commitment
- Experiment and search
- Reinforcement and Acceptance

## Resistance to Change

Change has no constituency. People like the status quo. They resist change. Goodwin Watson classifies all forces of resistance into two broad categories. Viz., Forces of resistance in individual personality, and Forces of resistance in the social system.

Wim J.1. Elving in his study titled resistance to change, (2002), stated that change is inevitable for many organizations. He stated that nearly 2/3rd of major change for this is not based on lack of skill or resources, but resistance.

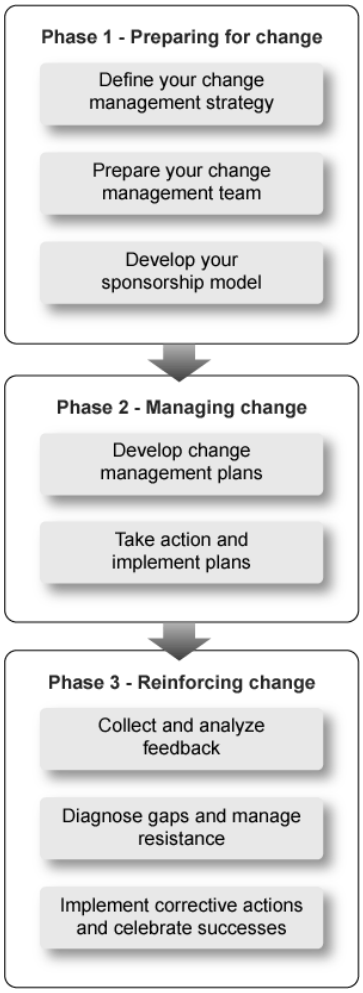
Management to a project or change. Based on Prosci's research of the most effective and commonly applied change, most change management processes contain the following three phases:

Phase 1 - Preparation, assessment and strategy development

Phase 2 - Detailed planning and change management implementation

Phase 3 - Data gathering, corrective action and recognition

**Phases in Change Management Process**




## Need for the Study

The reason behind the study of change Management practices are as follows:

- Change with the Top Management in the year 2004
- To go about with effective and progressive competencies
- To know about the impact of change practices in all areas of hospital.
- It is a traditional hospital with its own culture and values, The Management wanted to know about the resistance towards change and its consequences.
- To bring about powerful Change methods and Models to establish current situation

## Scope of the Study

Change may be regarded as one of the few constants of recorded history. Management and change are synonymous. Successful exploitation of change situation requires

- Knowledge of circumstance surrounding a situation
- Understanding of the interactions
- Awareness of the potential impact of associated variables.

## Scope of Change Management in Other Disciplines

1. Application Development
2. Business Intelligence
3. Business process management
4. Disaster recovery
5. Green IT Library
6. Infra structure library
7. Marketing and Sales
8. Project Management
9. Outsourcing
10. Risk Management
11. Telecommunications

## The Role of GKNM Hospital in Management of Change

GKNM's first responsibility is to detect trends in the Macro environment as well as Microenvironment so as to be able to identify changes and initiate programs. It is also important to estimate what impact a change will likely to have on Doctor's and Head of the Departments behavior patterns, Work processes, technological requirements, and Motivation.

## Objectives

The overall objectives of the study are

- To study if the top management and doctors agree that progressive and effective management places well in shaping future and top core competences.
- To study if people are aware about change in the hospital and its impact.
- To find out if doctors and top management respondents have desire to participate and ability to implement the change.
- To study about the hospital culture and examination of total system in GKNM.
- To find out various factors that can be applied to all departments concerned.

### Specific Objectives

- To analyze various motivating factors that support change and ways to impart change knowledge.
- To analyze various factors applied in change practices to impart change in GKNM Hospitals and the respondent's opinion towards change practices.
- To find out the important qualities required for change agent.
- To analyze reasons for resistance in change and to suggest for countering resistance and implementation of suitable change.
- To study powerful change methods and possible integration through Training and Learning methods.
- To analyze the respondents based on their positions, that if they have same level of opinion on various changes being practiced in the hospital
- To analyze the gender of the hospital if they have same opinion towards the changes being practiced in GKNM Hospital.
- To analyze suitable techniques and models for establishing the current situation.

### Null Hypothesis in Chi Square are

- The respondents agree that changes in the hospital as an accelerating drive.
- Respondents have agreed that they face highly dynamic and ever more complex operating environment in their job.
- The respondents are highly dissatisfied with the knowledge provided by the top management.
- The respondents agree that the management has direct control over awareness and indirect influence over employees desires to change.
- The respondents are satisfied with the impart of knowledge to change.
- Top management is most straightforward and positively influences the evaluation.
- The respondents strongly disagreed about creative and effective management of change towards top core competencies.
- The respondents have the ability to implement the change.
- The respondents know somewhat about the risk of if not changing.
- The respondent's don't agree that their hospital culture exhibits enterprising and democratic characteristics.

## Null Hypothesis in Z Test

There is same level of opinion towards changes between Male and Female towards changes being practiced in the hospital

### ANOVA: Null Hypothesis

The Top, Middle and junior level respondents have the same opinion of the changes, which are being practiced, in the hospital.

## Introduction to GKNM Hospitals

### History of GKNM Hospitals

GKNM hospital was established in 1952, now it is in 53rd year of service to the community with science and humanity. GKNM Hospital offers a world class Health care infrastructure at an affordable cost. GKNM is a tertiary; Super speciality Five hundred bedded hospital. GKNM dedicate to high standards of care and service to Indian community.

On 29th of October 1948, The Kuppuswamy Naidu Charity Trust for Educational and Medical relief was registered. In 1950, the construction was started and by May 1952, a fifty-bedded hospital has come into existence. It was inaugurated by his highness, the Maharaja of Mysore in the presence of Dr. Sir.A.Lakshmanaswamy Mudaliar.

### Reasons for Change in GKNM Hospitals

The study is confined to GKNM Hospitals alone because the internal working environment of the hospital has got unique characteristics. This varies from different hospitals. In GKNM Hospital, different departments has different culture but various personal characteristics such as values, needs, attitudes, views etc determine the change in various aspects of internal

working of their departments. The individual autonomy, position structure, consideration, growth and development, control etc varies with all the departments. GKNM Hospital wanted to undergo a planned change related to people and the hospital itself.

The study helps to address and embrace change as an opportunity than as a threat. The demands for change were considered inside and outside the hospital. The hospital wanted to introduce the models and practices towards the goal of increasing individual and organizational effectiveness. The need for introducing change in a formal way is to cope up with the present environment, to optimize the human resources and their potential and to fulfill the social responsibilities.

GKNM Hospital has both intramural and extramural responsibilities. It is always towards the society in order to increase its social relevance. This social relevance involves Change with respect to People, Technology, Process and Task.

Further the research about change management helps GKNM to get the respondents opinion about people oriented change, Triggers of the hospital, Reasons for reactions resistance to change and type of change that is very much suitable to the hospital.

## Research Methodology

According to Fred. N.Kerlinger, "Research is a systematic, controlled, empirical and critical investigation of hypothetical propositions about the presumed relations among natural phenomena."

A detailed study was undertaken by set of activities. Systems of models, techniques are used to find the results of the research problem.

## Type of Research

### Applied Research

In this study, applied research is used. The researcher tries to solve an ongoing problem within some organizational framework by introducing a planned change and observing in the process the results of change.

### Research Design

A Research Design is the overall plan or programme of research. It is a general blue print for the collection, measurement and analysis of data.

1. **The Research Problem:** The purpose of research is to fill in the gaps in existing knowledge, and to discover new facts. The researcher and GKNM Hospital jointly wants to recognize the various powerful methods of change. GKNM Hospitals had certain questions regarding the implication of change w.r.t people, process, technology, and organizational structure as a whole.

   The purpose of the study is about the following aspects.

   - To know if people are aware about change in GKNM Hospitals and their ability to implement.

- To identify various motivating factors that result in employees choosing to support change.
- To identify various factors that hospital provides to impart knowledge to change.
- To analyze various factors that are applied to all concerned
- To study about people oriented change and respondent's ability to implement change.
- To study about fear of change and reasons why people resist change.

2. **Hypothesis:** Relational Hypothesis is used by the researcher where in the relationship between two variables are stated. The independent variable and dependent variable are considered. The hypothesis in this research is generally expressed in the form of Null Hypothesis. The Null Hypothesis is a hypothesis of no difference. It is usually formulated for the express purpose of being rejected. If it is rejected alternative hypothesis may be accepted. The alternative hypothesis is the operational statement.

3. **Research Design - Exploratory:** Exploratory research analyzes the data, and explores the relationship of variables in the study. The researcher explores the possibility of using the findings in future. The researcher used two types of exploratory research. They are Literature survey- a study involving a collection of literatures in the selected area of Change Management in which the researcher has limited experience and critical examination. The second type is the Study of insight stimulating, where new insights for the study are considered, using case studies by ProSci and Change Management Learning Center.

4. **Sampling Technique:**

   **Population:** Population is the target group. The population considered for the study is finite and it includes the Heads, Doctors of GKNM Hospitals. Population is drawn from the list of Doctors and Head, GKNM Hospital. It is otherwise called 'Frame'. It represents the population.

   **Sampling Unit:** The sampling unit is the basic unit containing the elements of the population. It is the Doctors and Head of various Departments of the Hospital; it was drawn from the frame.

   **Sampling Method:** Non-probability method is used. In this research, purposive sampling is used. It is otherwise called judgment sample. This term indicate selection by design by choice, not by chance. In purposive sampling a sample is chosen which is thought to be typical of the universe with regard to the characteristics under the investigation. This sampling is often used in exploratory investigations.

   **Sample Size:** The sample size is 96 doctors and head of various departments since change management is a part of organizational development and it is practiced by the top management.96 samples are drawn from the total population of 109.

5. **Method of Data Collection**
   - Primary data
   - Secondary data

   Secondary data are the published data from GKNM Hospital, Books, Online journals, Publications by Change Management learning center, Journals, magazines, websites, etc.

**Techniques in Data Collection:** In this, the questions and their sequence are pre determined in advance. The researcher proceeds systematically through the list of questions, noting the replies given by the respondents.

6. **Statistical Analysis and Techniques:** A statistical analysis is always more precise and objective. It also enables to evaluate the quality of the research. Descriptive statistics are devised to describe the data. The following statistical analysis is used.

- Garelts ranking method
- Chi-square
- Factor analysis
- Multiple Regression
- ANOVA
- Z –Test:

## The Limitations of the Study

1. Few doctors were not aware of the basic concepts and models in Change Management; they were explained in detail through mentoring.
2. Though the respondents belong to top and mid management category, they were reluctant to provide certain information.
3. The average waiting time was very lengthy and time consuming because of the busy schedule of the doctors.
4. Some respondents had limited knowledge about the practices and they had more doubt with respect to certain questions for which the researcher explained the concept in detail.
5. Few respondents had fear in change management concepts.

## Analysis and Interpretation

Applying factor analysis technique the following results are obtained.

Extraction method : Principal component analysis

Rotation method : Varimax with Kaiser normalization

| Factor 1 | Factor 2 | Factor 3 | Factor 4 | Factor 5 |
|---|---|---|---|---|
| Sense of belonging | Dignity & prestige | Hope in future | Uniqueness trust | Job security |
| Compensation and Incentives | | Power and position | | |

### Inference

The table states that the factors sense of belonging and compensation & incentives are the first most important motivational factors that results in employees choosing to support the change in GKNM Hospitals. The second factor is dignity and prestige. The respondents also give importance for their career with authority. They consider by doing things differently and favors for job security.

## Garelts Table

Several motivational factors were considered and opinions of employees in GKNM Hospital were asked to find out the important factors that can help the management to change its environment. The opinion given in the form of rates were converted into percentage positions using

$$P = \frac{100\ (R - 0.5)}{N}$$

P = Percentile position

R = Rank

N = No. of items

### Inference

The ranking table reveals the various motivational factors that support change. The highest score is 6277, Job security ranks first. The career prospects stand second, for which the score is 5993; the third highest score is for hope in future, scores 5111. The fourth factor is power and position, which scores 4753.

Respondents score the least for sense of belonging and loyalty, which scores 4401 and 3572 respectively.

Objective: Factors that are being practiced in GKNM hospitals & respondents opinion

### Rotated Component Matrix

Extraction method : Principal Component Analysis

Rotation method: Varimax with Kaiser Normalization

| Factor 1 | Factor 2 |
|---|---|
| Team work | Patients performance |
| Innovation | Govt. Legislation |
| Training procedure | Technology |
| Performance appraisal | Economy & cost |
| Policies, communication | |

The respondents favored the Teamwork, Innovation, Training procedure, Performance appraisal, Policies and Communication as the factors practiced in GKNM Hospitals. The second factor favors for Patient's preference, Govt. legislation, Technology, Economy and Cost.

### Factors that are applied to all concerned

Extraction Method : Principal component analysis

Rotation method : Varimax with Kaiser Normalization

| Factor 1 | Factor 2 | Factor 3 | Factor 4 |
|---|---|---|---|
| Systematic approach | Change agent | Organizational culture | Style of management |
| Social background | | Support of top management | |

The respondents favored the systematic approach and social background applies to all concerned departments. The second factor is 'change agent' to imply change. The third factor is

organizational culture and support of top management. It is applicable to all the departments and personnel. Finally the style of management is said to be common

### Factors Important for a Change Agent

Extraction method : Principal component analysis

Rotation method : Varimax with Kaiser normalization

| Factor 1 | Factor 2 | Factor 3 | Factor 4 | Factor 5 |
|---|---|---|---|---|
| Interpersonal relationship | Motivation & leadership | Communication skills | Concern for people | Leadership skill |
| Qualification | Influencing skills | Convincing ability | | |

The factors that are very important for a change agent is the interpersonal relationship and his/ her qualification. The second factor is motivation & leadership and influencing skills. The third important factor for a change agent is the communication and convincing ability. Concern for people is fourth and leadership skill as fifth factor that are very import for a change agent.

## Regression Analysis

**Objective:** To study powerful change methods and possible integration through Training and Learning methods.

The concept used is multiple regression equation.

Dependent variable = Constant + B1X1 + B2X2 + …

X1, X2… are independent variable and are otherwise called predictors

Level of significance = 0.05

If P<= Level of significance, Reject Null Hypothesis

Training and Learning strategies= 1.179+0.438

Thus it is significant and the relationship between the independent variables is significant.

The above analysis says that the independent variables such as Job enrichment, Education Programme, and seminars and conferences avoid the negative impact of change and fear. The above factors were dependent on the Training and learning strategy.

**Objective:** To analyze reasons for resistance in change and to suggest for countering resistance and implementation of suitable change.

The P value is greater than the level of significance 0.05 and thus the independent factors such as new technology, Additional responsibility and Accountability are not the reason for stress. Increase in workload sometimes leads to stress. Apart from the above various other factors such as Monotony, Lack of empowerment, Lack of flexibility, personal factors etc may lead to stress.

**Objective:** To study if the respondents accept change at personal level so that the Training and Learning strategies are imparted

Level of significance = 0.05

If P<= Level of significance, Reject Null Hypothesis

Acceptance of change at personal level=1.179+. 364

Thus it is significant and the relationship between the independent variables is significant.

The above analysis shows that the independent variable, strategy making is based on the acceptance of change at personal level. So it needs to consider various models and strategies to overcome stress rather than Improvement and Development, Service orientation, and Innovation.

## Discussion

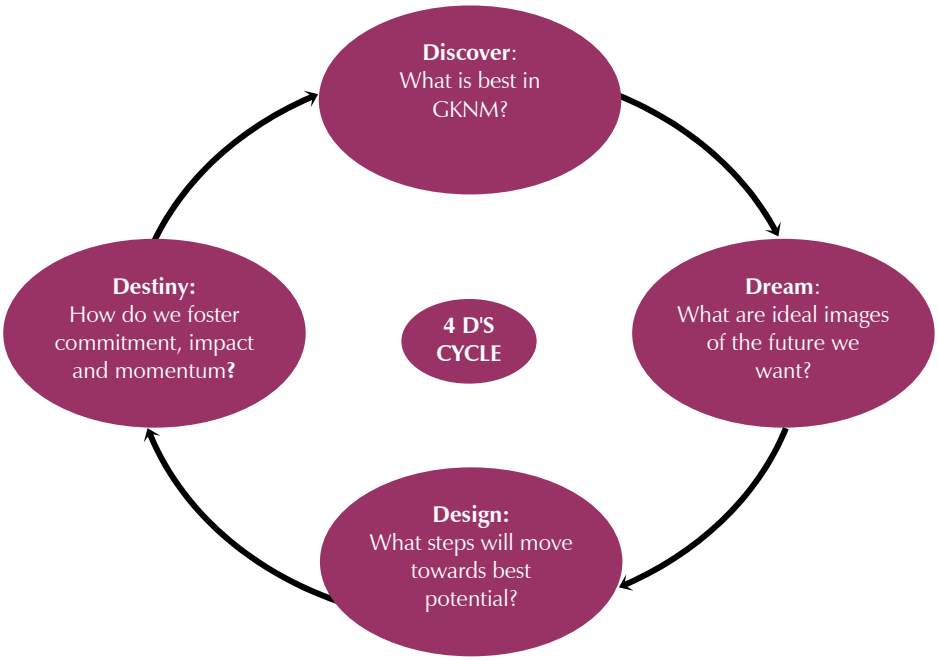
The research in GKNM Hospital infered that people are highly motivated with sense of belonging and compensation and Incentive. Since many respondents have more years of service in the hospital, obviously they are loyal and have more of belongingness towards the hospital.

The incentive and compensation factor favored first among the motivational factors. GKNM Hospital drafted a plan for productivity-based incentive for its employees.

The various factors being practiced in GKNM hospital are Teamwork, Innovation, and Training procedure, Performance Appraisal, Policy and Communication. Respondents prefer and favor the above factors has got impact on change in the hospital.

Team building activities and teambuilding sessions are formulated and directed towards task accomplishment, interpersonal relationship etc. Goals and priorities are set in the hospital and analyze the way the work is performed. Interdependency Exercises were suggested in order to improve the co-operation among the doctors and HOD's, in their department.

When appreciative interventions were underway, grievances have dipped. In the follow-up study, the doctors were more empowered. It also took a long-term effort to make it possible and successful. Four elements were considered inappreciative inquiry. It is otherwise called 4D ' cycle.



The Factor analysis also states that the communication, Policies and Technology are to be given due importance.

Factors applied to all concerned: Respondents favor first for systematic approach, Social Background and Change agent in order to facilitate change in GKNM Hospital. The focus is towards GKNMM Hospital with common 'Charter", While imparting change w.r.t. People, Technology, Process or Structure.

Change Agent is considered as a very important factor. Change Agent focuses on dealing with difficult people, conducting appraisals, imparting interventions etc. The main functions of change agent are a) Reframe the future) Built commitment c) Teach and Learn d) Built community e) Balance paradox.

From the analysis, it is inferred that Organizational Culture and Style of Management should be given due importance. Careful analysis and synthesis of differing new points are to be considered.Organization Culture of GKNM can be developed by integration of Five-step model.

- Develop long term strategic plan w.r.t various departments, labs, paramedical etc.
- Create new competencies with accountability [e.g.: Direct reports, performance reviews
- Creating a culture of inclusion into all training and education programmes
- Implement incentives and rewards.
- Enhance feedback systems.

In GKNM Hospitals 3 D Learning, fast paced, uniquely engaging action learning approach for leadership development and skill building is proposed for HODs..

The communication, convincing ability, concern for people and leadership skill in Change Management of GKNM Hospital has to be given due importance. In this context, Vortex simulation approach was suggested so that the change agent and the participants of change would understand the hospital with respect to systems perspective.

The knowledge of impart of change is done in the following ways,

- Education and Communication
- Participation and Involvement
- Facilitation and support
- Negotiation and agreement

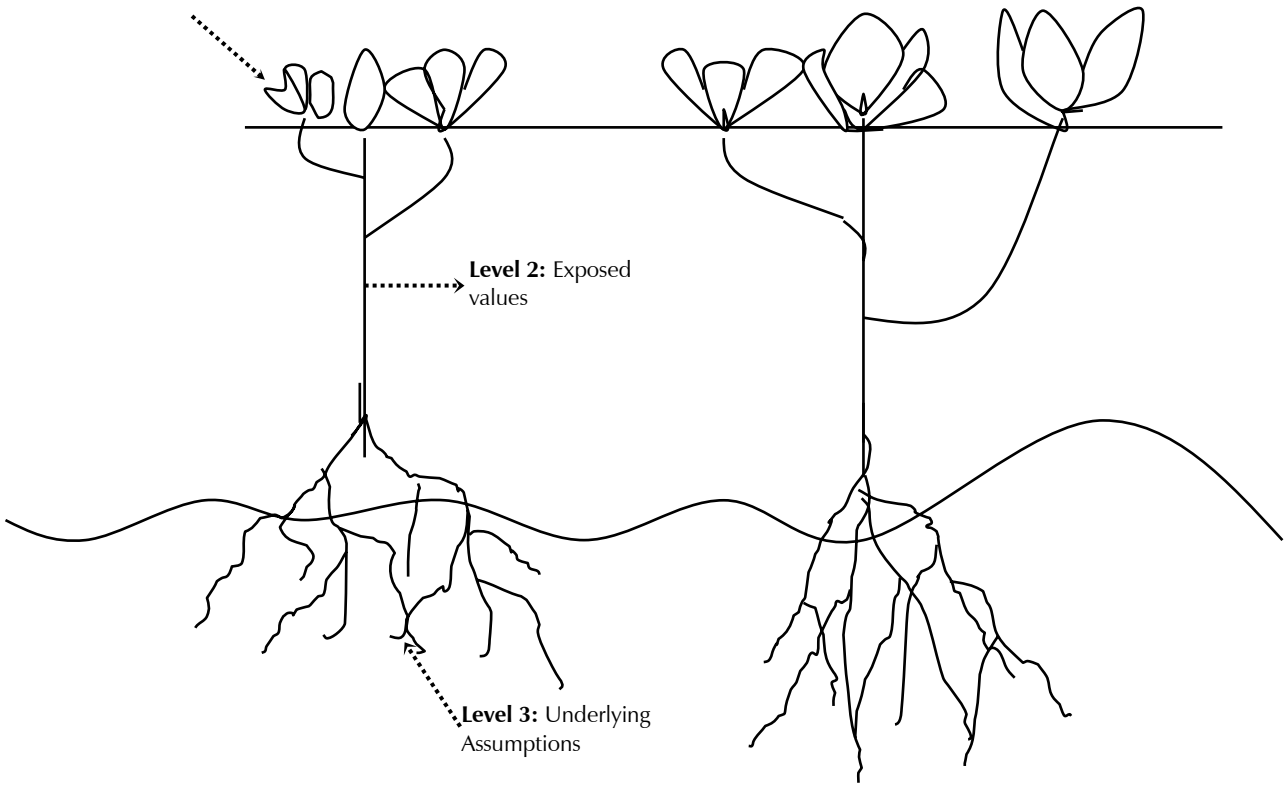
Eight steps are used in Kotter Model and the same can be followed in GKNM Hospital in order to impart change Knowledge.

- Establish a sense of requirement and urgency
- Form powerful guiding coalition
- Create a vision
- Communicate the vision
- Empower others to act on the vision
- Plan and create short term wins

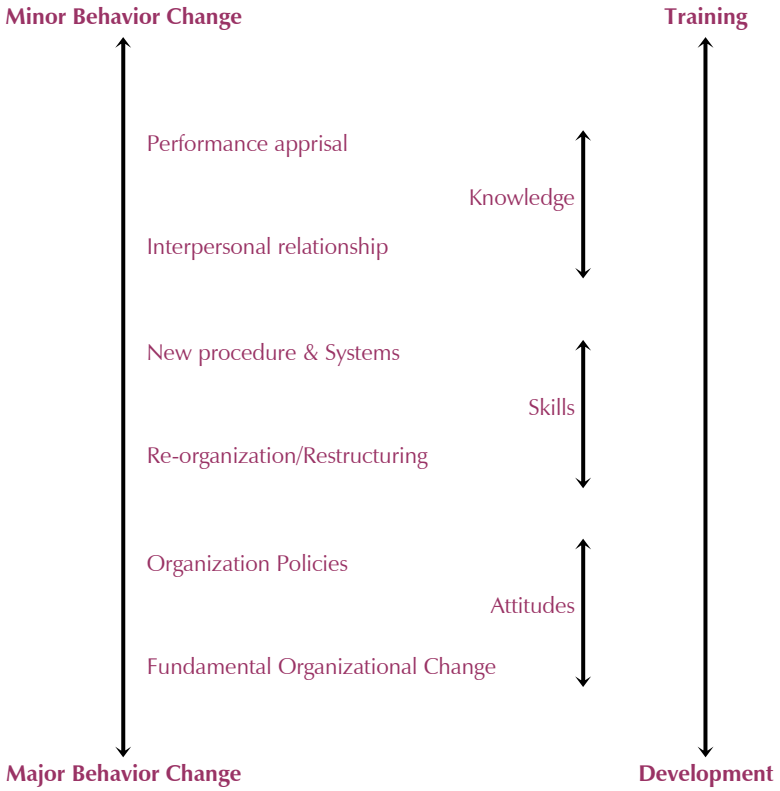
- Consolidate improvements and produce still more change
- Institutionalize new approaches

Schein's metaphor for a three –level model of organizational culture, known as "Lily Pond" can be used to influence the culture of change within individuals in the hospital. This metaphor emphasizes the dynamic and organic nature of organizational culture. The activity on the surface is connected with the atmosphere, sends down the nourishment to the roots, at the same time the roots extended deep into the fertile soil, send nutrients up through the stems to the flowers and leaves.

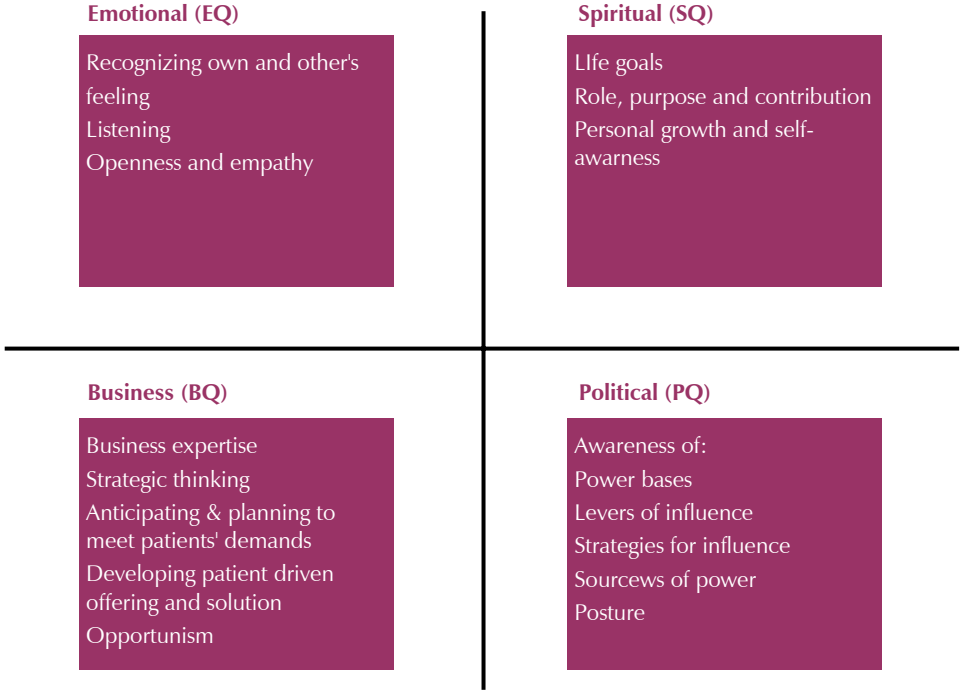
**LILY POND MODEL**



## Individual Behavior change and Training and Development in impart of knowledge about change in GKNM hospital

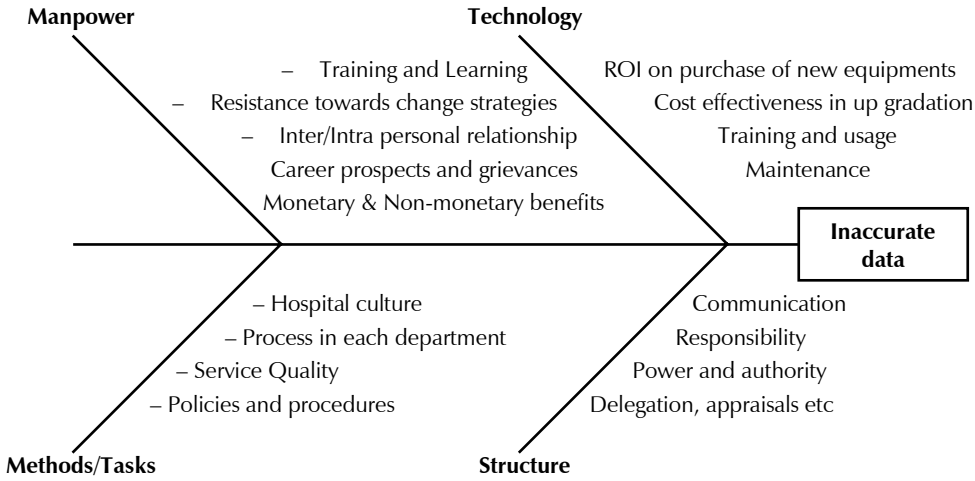



## A change leadership intellect is as follows:



If requires, any or all of the identified possible causes may then become the focus of another Cause and Effect analysis to break the issue down further in order to establish which are the true root causes.

### Fish bone model with respect to GKNM Hospitals Change Management




## SWOT Analysis in GKNM Hospital with respect to Change Management

### Strength

- Management and organization of GKNM hospitals
- Multi skill Human Resources
- Cultural backdrop of the hospital
- Cost and benefit of change against original cost justification
- Methods of implementation of change in all the departments
- Infra structure, Hospital policies, Interventions
- Meeting customer requirements and reasonable cost
- GKNM hospital as Bench Mark in Change Management
- Support of top Management

### Weakness

- Budgetary constraints
- Knowlege requirements about change in the hospital
- Understanding of overall strategy in Change Management
- Time scales Integration into development team
- Resistance to change

### Opportunity

- Continuous Learning and implementation of change practices.
- Organizational Development and impart of interventions
- Powerful guiding coalition

### Threat

- Fear among employees of the hospital
- A sense of insecure ness among employees
- Resistance to change and interventions

## Suggestions

The reason for using such models was to impart change more effectively and efficiently. The Appreciative Inquiry techniques with 4 D cycle model enhance long term change in GKNM hospital.

The implication of Appreciative Inquiry is that it does not ignore the negativity in the hospital, rather the change in the hospital look for ideal images that shape the negativity. Energy is created by the perceived gap between the real and ideal. The Management over appreciates the negative forces while severely depreciating those that are positive. When this tide of negativity is tipped in favor of the positive, it evokes the potential, excitement, and innovation. Reframing problems as opportunities releases energy where people feel passion.

## Action Research Model

Action research in GKNM hospitals involves three processes. It includes collection of data with respective to various departments, feedback of data and the selection of a change action based on what the analyzed data indicate. Action research is used to solve the problems faced by the hospital such as resistance to change, counseling of people in the hospital. Training and Learning, Individual and group behavior, Communication, Technology components, Task components and structural components.

## Six Sigma Initiatives

Six sigma helps to identify variation, isolate and control the same and ultimately eliminate that variation. Six sigma helps in improving any kind of process in the hospital. The following steps are as follows:

- Identifying the practical problem
- Changing into statistical problem
- Identifying statistical solution
- Changing the solution to practical solution

Six sigma is fact-based approach to problem solving. Various quality tools are used in six sigma. GKNM Hospital can follow the six-step process:

- Identify the need for change
- Identify the department or Hospital requirements
- Diagnose the errors or resistance in imparting the change
- Define a process for doing the task
- Proof the process
- Put permanent controls in place

## Consensus Reaching

A technique to determine the best or most popular options or ideas in circumstances where many possibilities, which may be randomly presented, exist.

## Iceberg model

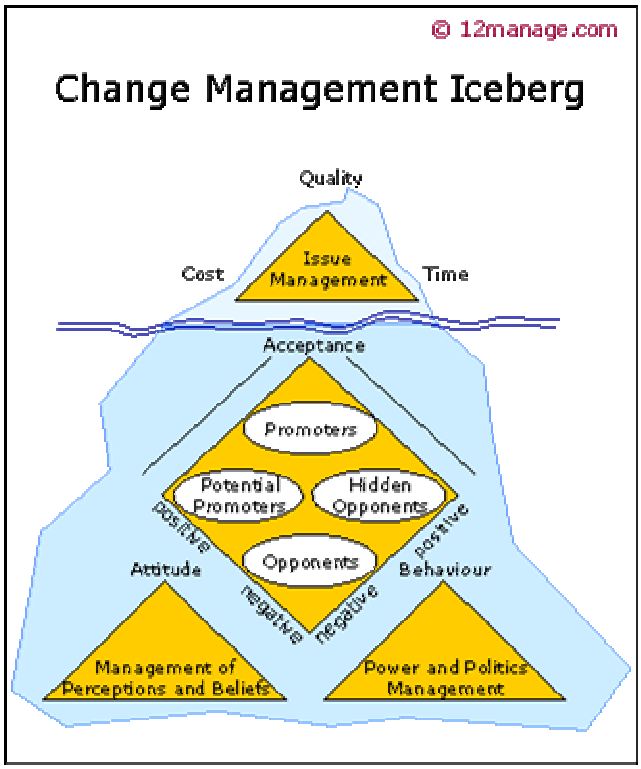
The feed back about the hospital can be got through by examining the organization climate. Organization climate is determined by knowing the attitudes and perceptions of the employees about the organization's leadership, services provided by the hospital, pay, and benefits given by the hospital, policies and goals of the hospital.

In the organizational climate, the researcher and the management should know about the informal aspects of the hospital, which is analogous to the part of an iceberg that rests under water.

The formal aspects of the iceberg are those are readily observable. Job itself, Control, Departmentalization, Technology, Responsibilities, Goals, Policies, and Systems. The researcher and the management can see these things and they are oriented towards structuring the hospital.

On the under water part of the iceberg are the informal aspects. These are hidden from view and are oriented to socio-psychological processes and behavioral considerations. The underwater part includes power, influence, interpersonal and intra group relations, group norms, perceptions, openness, value orientations, employee satisfaction.

Ice berg model can be used to identify the formal and informal aspects that induce change in the hospitals. The formal aspects are easily identified and based on this informal aspects are assessed and considered. The formal aspects of the hospitals are effectively carried on so that it supports the hidden processes and behavioral aspects.



## Scope for Future Research

This case study involves various factors applied to impart change. The future research can forego with Continuous learning and adaptation of Knowledge management Practices with respect to Change Management practices.

The researcher did not distinguish between transactional and transformational change and its impact on the Hospital sector. The future research can identify the variables related to the above changes and formulate models for it.

The researcher did not emphasize much on Change transition, Dynamics of change, Interventions and Change Management and Change leadership in detail because of time constraints. The future research helps to overcome the gap.

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# Global Brands in the Context of Nepal: Understanding Consumer Country-of-Origin and Brand Trust Perceptions

**Al Rosenbloom**
Marketing & International Business, Brennan School of Business, Dominican University

## Abstracts

This paper reports the country of origin and brand trust perceptions of 160 Nepali consumers living in Kathmandu. The paper also explores these Nepali consumers' perceptions of global brands. Three major findings are reported: (1) For these Nepali consumers, the importance of buying a global brand is exceptionally important in their purchase decisions. (2) The set of global brands most trusted were dominated by brands from the United States and East Asia; and (3) Globalization is eroding clear consumer perceptions of country of origin. The paper also discusses the challenges of market research in Nepal.

Nepal is one of the smaller countries in South Asia in terms of total population and total geography. Only the Maldives, Sri Lanka and Bhutan are smaller. Economic theory suggests that small countries like these have many intrinsic disadvantages when compared to larger, more populous countries (Katzenstein, 1995). One of the most important disadvantages is that small size often limits economic diversification. This is true of Nepal. As a result, small countries manufacture a limited range of goods and import the rest. Because the domestic economy in these small states is both export oriented and "open," small countries are extremely vulnerable to trade shocks (Aiyar, 2008). Shrestha (2005), when summarizing the Nepali marketing macro-environment, supports these assertions. He notes that because Nepal's domestic market is small, "domestic industries do not enjoy cost and value effectiveness" (p. 50). As a result, foreign products dominate over local products and Nepalis "prefer to use [these] foreign goods rather domestically manufactured [ones]" (p. 50).

The marketing of Lux soap in Nepal represents the challenge of changing consumer perceptions relative to foreign made versus domestically produced products. Lux is a leading, global soap brand manufactured by Unilever. Historically, HindustanLever (the Unilever subsidiary in South Asia), manufactured, marketed and exported Lux throughout South Asia. In 2001, Hindustan Lever opened a manufacturing plant in Nepal itself. Almost immediately, Lux faced strong resistance from Nepali consumers who negatively perceived the soap's "made in Nepal" label. One shopkeeper summarized negative consumer sentiment by complaining, "We no longer get real Indian soap" (cited in Onkvist & Shaw, 2004, p. 256). The Lux soap marketing response was to have Karishma Manandhar, "a heart-throb of Nepali film industry, [endorse] the product, thus helping to localize the brand" (Lux with Nepali Karishma, 2001). The endorsement strategy worked, and "made-in-Nepal" Lux regained its position as a market leader.

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Foreign brands dominate many product categories in Nepal. As the Lux soap example illustrates, Nepal's common border with India makes Nepal a logical and relatively easy market to enter. In the two-wheeler (i.e., motorcycle) category, the market-leader from India, Baja, goes head-to-head with the well-known Japanese brands, Suzuki and HeroHonda. In the bottled water category, Bisleri, a well-known Indian brand, competes vigorously with Coca Cola's brand, Kinley. Yet the bottled water category also illustrates that in some categories, local brands also compete. Two leading Nepali brands, Himalaya and Everest, are also gaining market share. Many Japanese brands also compete vigorously for market share. In the TV category, Sony competes against two of Korea's well-known brands, Samsung and LG. In the two-wheeler (i.e., motorcycle) category, well-known Japanese brands, Suzuki and HeroHonda, go head-to-head with Bajaj, the market-leader from India. This discussion of global versus local brands leads logically to the topic of globalization. Common marketing textbook assertions about globalization are that (1) it supports consumer awareness of and desire for non-domestic products and brands, thereby creating new market opportunity for the globally-aware firm; (2) it enables firms to leverage more efficiently than every before widely dispersed markets, through their use of technology and the Internet; and (3) it homogenizes consumer preferences; consumers now want the same brands everywhere (Cateora & Graham, 2007; Johansson, 2009). de Mooij (2004a) has tackled directly what she terms "the myth of the global village":

> *In a sense, new communication technology has made the world a global city or village in which we, in theory, can hear and see everything at any time in any place. The question is whether in practice we do hear and see at any time and place. And, then, even if we do, the core question is whether that makes us similar to each other (p. 2)*

de Mooji's response to her own rhetorical question is that it does not. She asserts that "no empirical evidence has yet been presented to support the argument that homogenization of tastes, needs and motives of consumers across the world has occurred. On the contrary, there is recent evidence of increased heterogenization of consumer behaviour with increased wealth" (de Mooij, 2004b, p. 179). Whatever perspective on globalization is ultimately correct, Pecotich and Wards' (2007) observation that " 'globalization' of world markets implies a research focus on global and international brands spanning countries and cultures" (p. 272) is correct. Özsomer and Altaras (2008) reached a similar conclusion by noting "The globalization of markets has put global brands on the center stage. The evidence is everywhere: on the streets, in stores, in the media. Global brands are exerting their power and influence within various domains" (p.1).

This research, then, stems from the intersection of globalization theory, global brand strategy and small state considerations. It uses Nepal as a focal country to explore how Nepali consumers interpret country of origin (COO) and brand trust all within the context of global brands. The research question is two-fold: (1) If foreign brands dominate in Nepal, will there be stronger preferences for non-Nepali products than for domestic ones? (2) How does COO relate to consumer trust in the context of global brands? The paper turns next to a succinct literature review on global brand definition, country of origin and global brand trust.

## Literature Review

### Global Brands

In a recent article, Johansson and Ronkainin (2005) raise an important definitional issue around global brands: "The stickiest problem…seems to be the difficulty of defining what is 'global'

[about a global brand] and what is not" (p. 340). Two definitional perspectives are found in the literature. One set of definitions takes a producer perspective, while the other takes a consumer perspective. "A global brand is defined as the worldwide use of a name, term sign, symbol, design or combination thereof intended to identify goods or services of one seller and to differentiate them from those of competitors" (Ghauri & Cateora, 2010, p. 356). This definition clearly is written from the firm's view, since its focus is on the internal processes of brand design and differentiation. For Ghauri and Cateora (2010), a global brand is a product or service with uniform characteristics (name, sign, and symbol) sold in multiple countries.

Recently, scholars have begun to define global brands from both a consumer as well as a supplier perspective. Roberts and Cayla (2009) note that "definitions of global brands are mostly supply side" (p. 350). They assert that a brand's globalness is defined in terms of number of markets served, size of markets served and the extent to which the brand shares consistent technical specifications across these markets. This parallels the traditional definition of a global brand stated earlier (Ghauri & Cateroa, 2010). Roberts and Cayla (2009) also note that while a consumer-centric view of global brands (that is, the process by which consumers categorize brands as "global") is desirable, such a view is still underdeveloped in the marketing literature. Steenkamp, Batra and Alden (2003) are very clear that "a brand benefits from consumer perceptions that it is 'global'…only if consumers believe the brand is marketed in multiple countries and is generally recognized as global in these countries" (p. 54).

Rosenbloom and Haefner (2009) have analyzed global brand definitions from both the firm's and the consumer's perspectives. Their literature review found only one global brand definition that integrated both consumer and producer orientations: A global brand was defined as "the multi-market reach of products that are perceived as the same by both consumers and internal constituents" (Johansson and Ronkainen, 2005, p. 340). Firm and consumer perspectives are aligned through a global brand strategy. Since the firm's intentional branding strategy is perceived as such by targeted consumers in multiple countries.

Finally, Samiee (1994) found that the demographic characteristics of consumers created statistically significant differences in the relative importance consumers gave to the country of origin information. Consumers with more income and education accepted foreign products more readily (Niss, 1996). Both Ahmed and d'Astous (2002) and Han & Terpstra (1988) found that younger, wealthier and more educated consumers evaluate foreign products more favorably.

## Country of Origin

The published research on country of origin issues is vast. Pharr (2005) conducted an extensive literature review and found well over 700 COO studies. Since 2005, the COO literature base has continued to increase. Within that vast domain of research, however, Wong, Polonsky and Garma (2008) noted the uneven distribution of countries studied in the extant COO literature. Most COO studies, they noted, were conducted with individuals living in Western countries. While acknowledging that some COO research has involved non-western countries, "Asian markets [remain] less explored. Consequently, our knowledge of COO effects on consumer behavior in other parts of the world is less developed" (p. 456).

There is a growing body of literature of COO effects in developing countries (Bilkey & Nes, 1982; Speece & Nguyen, 2005). Table 1 provides a selection of COO research focused specifically on Asian consumer COO perceptions.

**TABLE 1:** Selected Country-of-Origin Research Conducted in Asian Countries

| Country of Origin Location | Researchers |
|---|---|
| Bangladesh | Kaynak, Kucukemiroglu & Hyder (2000) |
| China | Au & Sha (2003), Hu et al. (2008), Wang & Yang (2008), Xuehua & Yang (2008), Wong, Polonsky and Garma (2008), Zhuang et al (2008) |
| India | Bandyopadhyay & Banerjee (2003), Bawa (2004), Kinra (2006) |
| Taiwan | Lin & Chen (2006), Lee & Chen (2008) |
| Vietnam | Speece & Nguyen (2005) |

By reporting on the COO perceptions of consumers living in Nepal, this research adds to the COO literature conducted in Asia, specifically South Asia

Generally, COO "definitions can be classified into three groups: overall country image, aggregate product-country image, and specific product–country image" (Hsieh, 2004, p. 269). "Overall country image" relates to the stereotypes and generalized attitudes individuals have about a specific country. Myanmar's overall country image, for example, might be thought of as a highly repressive, militaristic, poor, backward country. In contrast, "aggregate product-country image" and "specific product-country image" refer to the COO attitudes individuals hold at the level of product category and individual brand level, respectively. Aggregate product-country image is tapped when individuals evaluate "the made in" label, such as computers made in Malaysia. Specific product-country image is evoked when consumers evaluate a brand, such as an Apple iPhone made in China versus an Apple iPhone made in Vietnam. More recently, Pappu, Quester and Cooksey (2006) simplified Hseih's framework into just macro and micro country image

Over the years, COO research has moved from conceptualizing country of origin as a single cue presented to consumers for evaluation to being a complex, multidimensional cue in which consumers use varying strategies for its evaluation (Pecotich & Ward, 2007). COO is now a nuanced concept that includes Hofstede's work on culture, brand image, brand name, consumer levels of involvement, country stereotypes, quality/price relationships, and differentiation (if possible) between country-of-assembly, country-of-parts and country-of design (Pharr, 2005). Additionally, scholars have variously tried to understand how COO effects perceived product value (Cervino, Sanchez & Cubillo, 2005; Hui & Zhou, 2002); brand image and brand equity (Lin & Kao, 2004; Pappu, Quester & Cooksey, 2007).

Consumer ethnocentrism can act as a mediating variable in any COO evaluation. Following the definition first used by Shimp and Sharma (1987), consumer ethnocentrism is the belief held by consumers about "the appropriateness, indeed morality, of purchasing foreign products" (p. 280). Consumer ethnocentrism is a systematic preference favoring purchase of domestic over foreign products. Consumer ethnocentrism is more contemporaneously termed "domestic country bias" (Balabanis and Diamantopoulos, 2004, p. 80). Empirical research has identified differences in domestic country bias between consumers living in developed versus developing countries (Batra et al., 2000; Upadhyay & Singh, 2006). The former clearly favored domestic over foreign products, while the latter favored the opposite. Research by Bawa (2004) indicated that contrary to earlier findings that consumers from developing countries were biased toward imported over domestic products, "the label 'made in India' is not a liability. The Indian consumers will not lap up foreign goods merely because of their 'made in' tags" (p.43). Whatever the research focus, though, COO is inevitably linked with trying to understand how COO mediates product evaluation and consumer purchase intention (Pharr, 2005; Usunier & Cestre, 2007).

### Brand Trust

As with many concepts in marketing, there are multiple definitions of trust. Rotter (1971) defined trust as "a generalized expectancy held by an individual or group that a word, promise, verbal or written statement of another individual or group can be relied on" (p.1). Barney and Hansen (1994) add the idea of hurt and harm when they defined trust as "The mutual confidence that no party to an exchange will exploit another's vulnerabilities" (p. 176). As the previous definitions suggest, trust is an elusive concept (Elliot & Percy, 2007), which can be thought of as an individual characteristic, as a characteristic of interpersonal relations and/or as an institutional attribute (Lewicki & Bunker, 1995). Trust is also a nuanced concept that has familiarity as its precondition (Luhmann, 1979). Battacharrya, Devinney & Pilluta (1998) highlight the protective nature of trust when they defined trust as "an expectancy of positive (or nonnegative) outcomes that one can receive based on the expected action of another party in an interaction characterized by uncertainty" (p. 462). Trust thus involves commitment, risk and mutuality. Trust is also a dynamic concept that is always contingent. "The amount of knowledge necessary for trust is somewhere between total knowledge and total ignorance. Given total knowledge there is no need for trust and given total ignorance there is no basis upon which to rationally trust" (McAllister, 1995, p.26).

Relationship marketing has encouraged the transfer and application of trust to brands (Romaniuk & Bogomolova, 2005; Fournier, 1998). This led Delgado-Ballester, Munera-Alemain and Yague-Gullien (2003) to define brand trust as "The confident expectations of the brand's reliability and intentions in situations entailing risk to the consumer" (p. 37). Brand trust has also been defined as "the confidence a consumer develops in the brand's reliability and integrity" (Chatterjee & Chaudhuri, 2005, p.2). Brand trust has been linked with brand loyalty (Lau & Lee, 1999) as well as increased market share and advertising efficiency (Chatterjee & Chaudhuri, 2005). Brand trust has also been hypothesized to be leading indicator of brand equity (Ambler, 1997).

Of recent interest has been the question of whether brands vary in terms of trust. Romaniuk and Bogomolova (2005) studied this question by controlling for brand size effects when they assessed trust scores of 110 local brands in 13 markets in subjects living in the United Kingdom and Australia. They found little variation in brand trust scores when controlling for market share. They concluded that "trust is more like a 'hygiene' factor in that all brands have to have a certain level of trust to be competitive in the market" (Romaniuk & Bogomolova, 2005, p. 371).

## Methodology

The challenge of designing and conducting research in the poorest country in South Asia must be acknowledged at the onset. The Asian Development Bank (2003) indicates that Nepal is the second most underdeveloped country in Asia after North Korea. Many Nepalis live in isolated communities. Isolation is reinforced by geography (the Himalayan Mountain range runs across Nepal's northern border) and by an inefficient, crumbling infrastructure. Nepal has frequent nationwide power blackouts and has continual water shortages, even in its major cities. A Maoist insurgency has created substantial political instability and there are frequent, violent national strikes often targeted at businesses.

The study was designed to be a small scale, first effort at measuring country of origin and brand trust perceptions in a segment of Nepali consumers. The study was conducted in Kathmandu, where access to English-speaking individuals was greatest. English-speaking

respondents were essential, since the survey was written in English. Furthermore, data collection was electronic. This also suggested using respondents who lived within Kathmandu, since computer access and consistent electricity was most likely there.

Stock and Tupot (2006) provided evidence for a "global youth" segment. This global youth segment is defined by not only by a convergence of brand preferences but also by a homogeneity of life style. Global youth are media savvy, are tuned-in, are plugged-in, are knowledgeable with current trends/fads and can converse literally with one another through social networking websites such as myspace and facebook. A working assumption for this research was that exposure to global brands would be highest among young, media savvy Nepali consumers. Thus, survey participants were recruited from three educational institutions in Kathmandu. One institution was a large private university with a business school; and one institution was newly formed private school of management and one institution was a secretarial school. English was the language of instruction in all three schools. Students had access to computers in all three schools as well. Students attending these three schools were asked by their teachers to participate in the research

This survey had three parts. Part one asked respondents to evaluate the importance of buying a global brand in each of 23 different consumer categories. This approach mirrored that of Steenkamp, Batra and Alden (2003) in the use of perceived brand globalness. As noted above, there is no agreed upon, unitary meaning for what constitutes a global brand, other than the fact that the brand must be sold outside its domestic market. To avoid the artificiality of encumbering the survey with an academic definition of global brands, the survey stated simply that "a global brand is one that you think is found or sold in several countries around the world." A seven-point Likert scale (anchored with "very unimportant" and "very important") was used to capture level of importance.

Product categories tested in the survey spanned a range of dimensions: (1) high and low involvement product categories (computers versus candy bars); (2) durable versus nondurable products (washing machines and coffee); and (3) categories not often reported in the marketing literature (e.g., rice cookers, disposable batteries, motorcycles and clothes dryers). Table 2 lists all 23 product categories.

**TABLE 2:** Product Categories Explored

| | | |
|---|---|---|
| A bank checking account | VHS player | Clothes dryer |
| Shampoo | Refrigerator | Personal credit card |
| Disposable batteries | Soft drink | Mobile phone |
| Hamburger - Fast Food | Rice cooker | Coffee |
| Home computer | Toothpaste | Bottled drinking water |
| DVD player | Washing machine | Jeans |
| Running shoes | TV | Motorcycle |
| Chocolate candy bar | Yogurt | |

Part two of the survey asked respondents to evaluate country of origin and brand trust. This was a forced choice question. For each of the 23 product categories listed in Table 2, respondents were asked to choose the one country that their most trusted brand(s) came from. Country choice was limited to China, France, Germany, Great Britain, India, Japan, South Korea and the United States because at least one global brand from each category in Table 2 came from at least one of the listed countries. Respondents could note if the brand(s) they trusted most came from a country not listed. If a consumer most trusted a domestic, Nepali

brand, they would code it as "other country." Part three of the survey collected basic demographic information: age, gender, employment status and highest education level.

The initial questionnaire draft was submitted for expert review for word and scale consistency. Based on feedback, the questionnaire was revised. Additionally, survey design experts confirmed that all product categories had a single meaning. The survey was posted on SurveyMonkey.com, an online survey website, for ease of data collection. Online data collection did not present any problems to these Internet-savvy young adults. The survey's first page assured all respondents that their answers would be kept confidential and that the identity of every respondent would remain anonymous. Data were collected in 2008.

## Results

A total of 160 Nepalis took the survey. Fifty-two percent of the respondents were male; 48% were female. Survey respondents ranged in age from 19 through 50. The mean age was 27. 2, the median age was 26, while the modal age was 23. The older, more mature composition of survey respondents is reflected further in the sample's educational profile (see Table 3).

**TABLE 3:** Respondent Education Levels

| | Frequency | Percent |
|---|---|---|
| Some College | 19 | 12.4 |
| A Bachelor's Degree | 56 | 36.6 |
| A Master's Degree | 76 | 49.7 |
| A Doctorate | 2 | 1.3 |
| Total | 153 | |

Thirty-seven percent of survey respondents had completed college, while almost 50% had completed a Masters degree. Twelve percent of the sample reported having some college, while only two survey respondents held a doctoral degree. Lastly, 62% of respondents were employed either full time or part-time. Thirty-eight percent of respondents were studying fulltime.

### Global Brand Importance

Table 4 presents the research's core finding: that buying a global brand is extremely important for this sample of Nepal consumers. Table 4 is a rank ordering of mean scores on the importance of buying a global brand in all 23 product categories tested.

**TABLE 4:** Importance of Buying a Global Brand: Ranked Order of Importance

| Product | Mean | n |
|---|---|---|
| Mobile Phone | 6.52 | 145 |
| TV | 6.10 | 149 |
| Refrigerator | 6.03 | 144 |
| Home Computer | 5.93 | 144 |
| Motorcycle | 5.88 | 136 |
| Credit Card | 5.84 | 120 |
| Washing Machine | 5.58 | 132 |
| Shampoo | 5.56 | 145 |
| DVD | 5.51 | 136 |
| Rice Cooker | 5.28 | 139 |

| | | |
|---|---|---|
| Soft Drinks | 5.24 | 142 |
| Checking Account | 5.14 | 127 |
| Toothpaste | 5.11 | 146 |
| Running Shoes | 5.01 | 141 |
| Jeans | 4.83 | 136 |
| Bottled Water | 4.82 | 140 |
| Coffee | 4.77 | 141 |
| VHS | 4.55 | 82 |
| Clothes Dryer | 4.45 | 82 |
| Chocolate | 4.21 | 128 |
| Hamburger-Fast Food | 4.08 | 120 |
| Disposal Batteries | 4.08 | 130 |
| Yogurt | 3.19 | 133 |

**Note.** Rated on a seven point scale with 1=very unimportant and 7=very important

The top five product categories for which a global brand is most important are: mobile phone, TV, refrigerator, home computer and motorcycle. The most salient, common characteristic in these products is that they are all high involvement products. Additionally, except perhaps for a mobile phone, all products are durable. These products are expected to last a long time and once a purchase is made, it is hard to return it. Consumer decision making is thus focused on making an optimal decision, given time and pricing constraints. In all five product categories, these Nepali consumers probably engage in lengthy decision making, likely evaluate various product features and benefits and probably make price/performance as well as price/quality tradeoffs. Like every consumer, their implicit purchase goal is to get the greatest value for their Rupees spent. When taken as a group, these top five, high involvement products (mobile phone, refrigerator, TV, home computer and motorcycle) seem to suggest that knowing COO is very important in high involvement product purchases.

Given the value perspective just described and the overall economic level of Nepal as a county, it is also reasonable to look at the first five products through the purchase attitudes triggered by different products. Batra and Ahtola (1990) state that "consumers purchase goods and services and perform consumption behaviors for two of consequences'" (p. 159). It seems reasonable, then, to conclude that in Nepal, what unites the first five products is their function/utilitarian features. Consumers want the utilitarian benefits of mobile phones, refrigerators, TVs, home computers and motorcycles to work right. While one may purchase a refrigerator based on hedonic motivations (i.e., having this globally branded refrigerator will increase one's self-esteem), if the refrigerator doesn't function correctly (i.e., keep some food cool and other food frozen), then whatever hedonic motivations have been applied to the refrigerator are worthless. Purchasing a global brand in these five product categories stresses the functionality of the product.

Lastly, these same "top five" products are all technological. In essence, each of these five product categories embodies a high risk purchase situation. It seems reasonable, then, to hypothesize that purchasing a global brand in these five categories greatly reduces risk – functional risk, monetary risk and physical risk. Nepali consumers want neither their cell phone, nor their refrigerator nor their credit card to fail. The global brand becomes a surrogate for increased product reliability and performance, thereby increasing its purchase for these Nepali consumers. H5a, that Nepalis will have higher global brand trust scores in product categories perceived as high risk, seems to be confirmed.

Table 4 also suggests that purchase of a global brand is not very important for low involvement products, such as fast food hamburgers, chocolate candy bars, disposable batteries and yogurt. This finding is reasonable. COO is much less important in products typically classified as low involvement. Further understanding of why this is the case can be gained from the following: Global fast food companies, such as McDonalds, KFC and Burger King, have no presence in Nepal to date. This fact, when combined with the underpinning Hindu religion and cultural preferences for fresh, non-processed food, helps explain the lack of importance of purchasing a global brand in this category. When the top five most important and the bottom five least important product categories are compared, there seems to be a relationship between risk and the importance of buying a global brand. (Only the category of clothes dryer is an outlier.) The greater the perceived risk, the more important it is to buy a global brand – and vice versa. This finding suggests that Nepalis will have higher global brand trust scores in product categories perceived as high risk and, conversely, that Nepalis will have lower global brand trust scores in product categories perceived as low risk.

To gain further insight into significant differences in this group of Nepali consumers vis-à-vis global brand purchases, a one way ANOVA test was conducted comparing mean scores across three demographic variables: age, gender and education. Respondent ages were twice recoded. First, the sample was divided in quartiles. Next, the sample was divided into thirds. No statistically significant differences were found between either a quartile or a one-third division of ages on the importance of purchasing a global brand across all 23 product categories. Education almost resulted in a similar conclusion of "no difference." When the sample was recoded to remove the two individuals who had PhDs, only three product categories yielded statistically significant differences. Post-hoc comparison of the means using a Bonferroni alpha set at 0.05 found three product categories in which education made a statistically significant difference: Checking account, a credit card and a refrigerator. Across all three product categories, respondents with some college education reported increased importance of buying a global brand than respondents with either a Bachelor's degree or Master's degree (checking account). For purchasing a refrigerator, individuals with some college education rated purchasing a global brand more important than those individuals holding Bachelor's degrees, and for wanting a globally branded credit card, Nepalis with some college stated this was more important than Nepalis having only their Master's degree. Perhaps the reassurance of "quality" that a global brand offers might explain why individuals with some college education prefer global brands in these categories.

Table 5 presents another interesting finding. Only five product categories had statistically significant gender differences. When purchasing a computer, s rice cooker, shampoo, a DVD player and a washing machine, women consistently rated the importance of buying a global brand higher than men. Three product categories (rice cooker, washing machine and shampoo) might suggest that buying roles are influenced by gender. It seems unsurprising that women would have more knowledge of, interest in and purchase experience with these categories.

**TABLE 5:** Importance of Buying a Global Brand By Gender*

| Product | Means |
|---|---|
| Computer | Male – 5.40 Female -- 6.51 |
| Rice Cooker | Male -- 4.60 Female -- 6.20 |
| Shampoo | Male – 4.74 Female – 5.87 |
| DVD Player | Male – 5.11 Female – 5.95 |
| Washing Machine | Male – 5.21 Female -- 6.00 |

*__Note.__ All reported mean differences are significant at the.05 level or less

The product categories of computer and DVD player prove more interesting. Two contrasting hypotheses can be offered. One: For technology products, the global brand functions to reassure women more than men about consistent, product performance. Global brands communicate reliability and value, increasing, for these Nepali women, the desire to purchase. The risk reduction function of global brands noted above might be operating here. Two: Brands have symbolic as well as function characteristics. Brands, in the context of every consumer culture, convey meaning. This is no less true in Nepal than elsewhere. One can hypothesize that the ego expressive, symbolic quality of a global brand may be very important to these women. Thus, choosing a global brand for computer may communicate important characteristics about the buyer: product knowledge, status, self-concept and so on.

The paper turns next to a discussion of which countries these Nepali respondents trusted most. Table 6 presents a cumulative summary of respondent judgments as to which countries' brands, overall, they trust most. In other words, Table 6 is a summary of country-of-origin perceptions relative to most trusted brands. Table 6 indicates that within the 23 product categories evaluated, Japanese brands are most trusted. Brands from the United States and India are the second and third most trusted countries, respectively. From Table 6 it seems that Nepali consumers will have strong COO preferences.

**TABLE 6:** Cumulative Summary of Most Trusted Brand by Country-of- Origin

| | Responses | |
|---|---|---|
| | N | Percent |
| Japan | 794 | 29.4% |
| United States | 605 | 22.4% |
| India | 477 | 17.7% |
| Other Country | 420 | 15.6% |
| China | 127 | 4.7% |
| Great Britain | 87 | 3.2% |
| Korea | 86 | 3.2% |
| Germany | 56 | 2.1% |
| France | 47 | 1.7% |
| TOTAL | 2699 | 100.0% |

Table 7 refines Table 6 through its presentation of the top three most trusted countries across 21 product categories. (The categories yogurt and clothes dryer were eliminated due to the low number of reported brands.) Nepali adults clearly trusted more brands from the United States more than any other country. Japanese brands were the second most trusted. Nepalis "most trusted" US brands for the product categories computer, toothpaste, jeans, running shoes, shampoo, credit cards, jeans, running shoes, batteries, hamburgers and soft drinks.

**TABLE 7:** Brands from this Country-of-Origin Most Trusted

| Product | Most Trusted | 2nd Most Trusted | 3rd Most Trusted |
|---|---|---|---|
| Computer (n = 84) | US (69%) | China (13.1%) | Other Country (7.1%) |
| Toothpaste (n = 96) | US (89.6%) | Other Country (6.3%) | China (4.2%) |
| Bottled Water (n = 66) | India (93.3%) | Other Country (9.1%) | US (6.1%) |
| DVD Player (n = 86) | Japan (67.4%) | Korea (19.8%) | Other Country (12.8%) |
| Washing Machine (n = 74) | Korea (40.5%) | US (18.9%) | Japan (17.6%) |
| Jeans (n = 83) | US (83.1%) | Great Britain (10.8%) | Other Country (3.6%) |
| Running Shoes (n = 74) | US (50%) | Germany (43%) | Other Country (4.7%) |

| | | | |
|---|---|---|---|
| TV (n =98) | Japan (72.4%) | Korea (15.3%) | Other Country (9.25) |
| Motorcycle (n =84) | Japan (82.1%) | India (14.3%) | China (2.4%) |
| Chocolate Bar (n = 67) | Other Country (38.8%) | US (29.9%) | Britain (26.9%) |
| Checking Account (n = 31) | Britain (41.9%) | US (25.8%) | Other Country (25.8%) |
| VHS Player (n = 42) | Japan (83.3%) | India (7.1%) | Korea (4.8%) |
| Shampoo (n = 76) | US (51.3%) | India (23.7%) | France (14.5%) |
| Refrigerator (n = 59) | Korea (47.5%) | Japan (18.6%) | US (15.3%) |
| Credit Card (n = 46) | US (78.3%) | Britain (10.9%) | Other Country (8.7%) |
| Batteries (n = 44) | US (70.5%) | Japan (22.7%) | China (2.3%) |
| Soft Drinks (n = 77) | US (98.8%) | India (1.2%) | ------- |
| Cell Phone (n = 67) | Other Country (78.5%) | Japan (9.7%) | US (6.5%) |
| Hamburger (n = 36) | US (94.4%) | Other Country (5.6%) | ------- |
| Rice Cooker (n = 47) | Japan (44.7%) | Korea (21.3%) | India (19.1%) |
| Coffee (n = 98) | Other Country (95.5%) | US (4.8%) | -------- |

One might hypothesize that respondents are expressing in these categorizes the halo effect of such well-known US brands as McDonalds, Coke/Pepsi, Levi's, Visa/MasterCard. Japanese brands were "most trusted" for DVD players, TVs, motorcycles, VHS players, and rice cookers. Except for motorcycles, all product categories were electronic. The dominance of Japanese products in these categories is not too surprising. These preferences might simply reflect the marketplace reality in Nepal: That brands from Asia, such as Sony, Panasonic, Samsung, HeroHonda, Yamaha, have had a long marketplace presence in Nepal.

Finally, the paper discusses Table 8, which is a listing of the top three brands in each product category as reported by these Nepali consumers. Specific brand names give additional insight into these consumers, since judgments about country-of-origin operate at the aggregate level. Consumers do not buy "country-of-origin." They do, however, buy brands. Table 8 must be dealt with carefully. Some categories (checking account and hamburger) have small responses. As in Table 7, there are a number of American brands (Dell, IBM, Nike, Reebok. Visa, Coke, Pepsi, Duracell, Eveready, Whirlpool, Starbucks, Calvin Klein). Yet, there are also a number of East Asian brands (Sony, Samsung, LG, Sanyo, Toshiba, Honda) and South Asian brands (Bisleri and National). Additionally, As noted earlier, it would be unwise to interpret some brand preferences too strongly due to small numbers. Table 8 tantalizes, though, and suggests further research is needed to validate this finding of regional brand preferences.

**TABLE 8:** Top Three Most Trusted Brands

| Product | Most Trusted Brand | 2nd Most Trusted Brand | 3rd Most Trusted Brand |
|---|---|---|---|
| Computer (n = 82) | Dell (32.9%) | IBM (12.2%) | Intel (11.0%) |
| Toothpaste (n =93) | Colgate (53.8%) | Pepsodent (22.6%) | Close-up (15.1%) |
| Bottled Water (n = 55) | Aqua (43.6%) | Bisleri (41.8%) | Dasani (3.6%) |
| DVD Player (n = 83) | Sony (59%) | Samsung (19.7%) | Philips (13.3%) |
| Washing Machine (n = 71) | LG (22.5%) | Samsung (20.0%) | Whirlpool (12.7%) |
| Jeans (n = 81) | Levi (70.4%) | Pepe (11.1%) | Calvin Klein (3.7%) |
| Running Shoes (n = 80) | Nike (38.8%) | Adidas (38.8%) | Reebok (15%) |
| TV (n = 95) | Sony (73.7%) | LG (9.5%) | Philips (9.5%) |
| Motorcycle (n =82) | Honda (41.5%) | HeroHonda (25.6%) | Yamaha (12.2%) |
| Chocolate Bar (n = 64) | Cadbury (25%) | Nestles (17.2%) | Toblerone (12.5%) |
| Checking Account (n = 28) | Standard Chartered (28.6%) | Citi (17.9%) | Nabil (14.3%) |

| | | | |
|---|---|---|---|
| VHS Player (n = 42) | Sony (69%) | Panasonic (9.1%) | National (9.1%) |
| Shampoo (n = 71) | Pantene (22.5%) | Head and Shoulders (22.5%) | SunSilk (15.5%) |
| Refrigerator (n = 58) | LG (24.1%) | Samsung (22.4%) | Whirlpool (10.3%) |
| Credit Card (n = 44) | Visa 43.2%) | MasterCard (27.3%) | Standard Chartered (11.4%) |
| Batteries (n = 42) | Duracell (54.2%) | Eveready (16.7%) | Sony (16.7%) |
| Soft Drinks (n = 80) | Coke (90%) | Pepsi (3.8%) | Sprite (3.8%) |
| Cell Phone (n = 89) | Nokia (78.7%) | SonyEricsson (10.1%) | Motorola (4.5%) |
| Hamburger (n = 35) | McDonalds (77.1%) | KFC (8.6%) | Burger King (5.7%) |
| Rice Cooker (n = 93) | Sanyo (25.6%) | National (16.3%) | Philips (14%) |
| Coffee (n = 100) | Nescafe (95%) | Starbucks (3.3%) | Nepali Coffee (1.7%) |

## Discussion and Conclusion

This research yielded three main findings about adult Nepali consumers living in Kathmandu. First, the research found that the sample, as a whole, thought that purchasing a global brand was exceptionally important (Table 3). This sample of Nepali consumers was well educated and mature. On the one hand, one could have predicted their interest and desire to purchase global brands due to their education levels, their exposure to global media, their use of the Internet and participation in social networking websites and their ability to travel. Quite unexpectedly, as Table 3 indicated, was the strength of the importance of global brand purchases. Marketers would do well to highlight the "globalness" of their brand when positioning it to these Nepali consumers.

The second finding, which strengthens the discussion above, is the stronger desire of women to purchase global brands than men in only five categories (Table 5). Marketing strategies should be gender neutral since, according this research, gender does not differentiate segments on the importance of purchasing a global brand.

The third, and perhaps most interesting finding, concerns the dominance of the US when brands were matched with country of origin (Table 7). This stands in contrast to Table 6, where Japanese brands were mentioned most frequently in all categories. When Table 7 and Table 8 are analyzed together, it is possible to infer that broad generalizations about country of origin might be at play. Consumers have stereotypes of countries: Germany makes precision automobiles; France and Italy are the sources for high fashion; Japan makes the best electronics. Such stereotypes may be operating here. Yet the results are confounded by the longstanding presence of Japanese products in the Nepali market. Further, the dominance of the United States and the generalized perceptions that US brands are "the best" might also be at work.

Such an explanation for this incongruence is supported in the research done by Samiee et al. (2005). Their findings suggest that (a) consumers varied in their accurate recognition of a brand's true country of origin, and (b) respondents inferred country of origin by associating the brand name with a language thought to be representative of a specific country. They postulated a new construct called "brand origin recognition accuracy." The difference between Nepali statements found in Table 7 and those in Table 8 might simply be due to the inaccurate recognition of the true country-of-origin for the product. Another (and perhaps more intriguing) explanation might concern the "demise of global brands." Globalization -- and the desire of many fast moving consumer good (FMCG) companies to penetrate emerging markets -- has resulted in a global market presence for many FMCGs. Colgate, Pepsodent and Close-Up

are all available in Nepal. Their manufacture, however, is in India. In marketing, perception is reality. As is often discussed, if a product is marketed here, sold here, and positioned here, it must *be* from here. If Colgate, Pepsodent and Close-Up are made in India and sold in the Indian subcontinent, then they must be Indian not American. Perhaps, in this era of global saturation for many brands, country-of-origin is becoming much less important to consumers. This raises intriguing questions about whether globalization blurs consumer understandings of what it means to be a "global brand." Perhaps country of origin is becoming less meaningful and relevant to consumers, since "everything is everywhere" and "it is essentially the same." The perceptions of *how* these Nepali consumers arrived at their judgments clearly needs further investigation.

Conducting research in countries with low literacy levels and whose national citizens live in rural, dispersed and remote areas and whose national citizens speak an ethnic/tribal as well as a national language is challenging. The educated, more mature Nepalis who comprised this sample and who lived in Kathmandu are only one segment of Nepali consumers. This research was a small scale, initial effort to explore country-of-origin and global brand trust perception in this one segment. Not only is further research needed to confirm these findings in Kathmandu, but also further research should include measures of consumer ethnocentrism. Understanding consumer attitudes towards local versus foreign products and brands is an important next step in developing a multi-cue approach to COO. Also research is needed to see if these findings can be generalized to other segments of Nepali consumers. As noted earlier, Nepal is the poorest country in South Asia. Extending these findings to low income Nepali consumers, who constitute the largest number of individuals in Nepal, would extend knowledge about another underrepresented consumer segment and their COO/global brand trust perceptions (Prahalad, 2005).

Overall, this research had two goals: (1) to obtain a better understanding of the attitudes and preferences of Nepali consumers with regard to global versus local brand trust and (2) to evaluate the salience of country of origin cues within these same Nepali consumers. As noted in this paper's opening section, "small states" have some inherent economic disadvantages, and as this research has suggested, one of the marketing implications of being a small state is the marketplace dominance of foreign brands. This research, then, has been a first, tentative step toward exploring how Nepal (one of the smaller states in South Asia) and its citizens interpret COO information and value global brands. More work needs to be done on all fronts.

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- **Malathi Sriram**
  SDM Institute for Management Development (SDMIMD), Mysore, India
- **Mohamed Minhaj**
  SDM Institute for Management Development (SDMIMD), Mysore, India



## Abstracts

B-Schools are in the process of continuously improving their curriculum and the pedagogy. Thinking innovatively has become the norm of the day, in any field. As so is the case in B-schools. With many B-schools jostling to find a place in the sea of management education, it becomes imperative for B-schools to find a differentiator that will set it apart from the others in the crowd. Many B-schools all over the world and especially the ones in India and the South-East Asia, are bringing differentiators for the Post-Graduate programs that they offer. Courses that have social-relevance and giving-back-to-the-society, is the theme of the paper. Many B-schools partially or in totality have offerings that bring these aspects. The paper looks at these schools and the related courses they offer. One such differentiator-initiative taken by SDMIMD was to introduce a two-credit course as part of their Post Graduate Diploma in Management (PGDM). The course strives to bring in the societal values into the management realm. How is a manager made into a well-rounded person overall, who would be sensitive to society needs and respond accordingly and putting into use their managerial skills that they learn? How this course operated and what are the benefits at the end of the course iterations? These are some of the questions that the paper attempts to bring forth.


**Key words:** Social Responsibility, Management Education, Innovation

## Introduction

The number of B-Schools in India is anybody's guess. And the curriculum design of the Post Graduate Diploma in Management-PGDM, (or MBA) that these B-schools offer has all the relevant courses required for a student to be empowered with the knowledge in all aspects of Management. The B-Schools also undertake a curriculum review activity well before the beginning of every academic year to keep the curriculum apace with the changes in the industry, economy and countries. To repeat a cliché, in age of globalization and knowledge economy, information related to financial savvy mega-transactions are splashed in the front-page of business newspapers, we see front-page stories in the business press praising their financial savvy. More the success of the story the more it is discussed. The *Hows* and *Whats* of the deal are dissected by experts, offering insights to replicate the success elsewhere.

Indeed then, the business management students feel that acquiring market-based, transactional knowledge is the core to their PGDM education. Needless to say, an understanding of markets is an essential part of a management education, and mathematically based economic models are the best tool needed to provide various dimensions of the market behavior and the actors

within them. But, going by the kind of front-page business news-stories that have been splashed in the business newspapers, these models and mathematical equations are not the only aspect of corporate business that the students need to be educated in. A recent book by Srikant M. Datar, David A. Garvin and Patrick Cullen, ***Re-thinking MBA,*** also proves the point in this respect.

But if we look at the other end of the spectrum, the social, ethical and cultural value lend more meaning than any measurement of the kind of work deals struck by mega corporations. These values are crucial to helping business people achieve a deeper understanding of markets and their own organizations. The values inculcated steer the students towards meaningful work at the places of work, and non-monetary worthiness, along with the societal obligations that come with it. It is with this intention that B-schools should innovate with their curriculum to bring the aspect of socially sensitizing, ethics and values.

The paper looks at the initiatives taken by Indian B-schools in incorporating the Socially Relevant Projects as part of the two-year B-schools Program, the PGDM. It also brings forth the issue pertaining to foreign B-schools, what is their level of assimilation of the bringing in the social sensitivity as part of their Program offerings. Finally its brings into focus the ***Socially Relevant Project*** undertaken as credit course at SDMIMD, Mysore, and how very appropriate it is for the Institute to have taken this specific aspect into its curriculum.

## How are Indian B-schools faring?

Indian B-schools are fast catching up with the changes that need to incorporate in this direction.

**SP Jain Institute of Management & Research (SPJMIR)** in its two-year PGDM program has a course, where every year their students undertake socially relevant projects for 6 weeks. Project requires a student to work in the social sector with an NGO and to provide management inputs gathered from the classroom learning to the non-profit sector. The models of the projects undertaken are submitted to the Corporate/NGO involved.

**Narsee Monjee Institute of Management Studies (NMIMS)** launched '***We Care***' project where, students of their Core MBA programme are placed in social sector organizations. They work on diverse range of social issues like housing, domestic violence, health, education, micro finance, economic empowerment and other related areas.

The scope of projects ranges from implementation of projects to strategic support to managing the future transitions as well as assessment of social impact. Along with the specific support, the students learn about the specific social concerns the enterprise addresses, go through available literature on the social problems and develop sensitivity on issues of concern for inclusive growth. This synergy of managerial skills and social sensitivity finally creates a win-win situation for all the stakeholders.

Unlike SPJIMR and NMIMS that have integrated the Socially Relevant Project in a full-fledged manner in their PGDM / MBA program **Indian Institute of Management (IIM) Indore** has set up social sensitivity cell, called ***Pragat-I***. This is an initiative of students at IIM Indore which works on social development projects and attempts at spreading awareness about various social causes. As in the case of the previous B-Schools, a student utilizes this platform to amalgamate their ideas for the benefit of the society.

Such exchange, consultation and participation in social sector projects will bring the community and the academia into a new and fruitful working relationship. This kind of engagement will facilitate both faculty as well as students to look at the society from a social angle rather than the professional podium and be ready to learn as well as contribute.

## What are Foreign B-Schools doing?

Many foreign B-schools have a Corporate Social Responsibility course, but not a credited course as part of a larger Post Graduate programme. Bainbridge Graduate Institute, ***Bainbridge Island Washington, USA***, offers a an MBA in *Sustainable Business*, which is in a way related to Socially Responsibility of the student of the MBA.

The most distinctive element of the MBA offered by ***Presidio Graduate School, San Francisco***, California, USA, follows an integrated curriculum. The degree in business administration connects rigorous management theory and practice with social responsibility, ecological awareness, systems thinking, and leadership within an integrated framework of sustainable management. As a unifying concept, sustainability weaves the core elements of the program together in ways that help students make connections, promote innovation, and create transformative solutions in service of a more sustainable future.

The ***International Organizations of MBA (IOMBA)*** is a consortium of universities in ***Geneva, Switzerland***. It offers an MBA that is an intensive 13-month programme consisting of a ten-month academic curriculum and a three-month internship or consultancy project within an International Organization, NGO or a Social Enterprise. Social Entrepreneurship is one of the electives / courses as part of the programme.

***Antioch University New England's in New Hampshire, USA***, offers a *Green MBA* that it projects as its flagship course and promotes it, as the ideal way to prepare oneself for working in the new green economy. Whether one works in Not-for-profit Organizations, small to large corporations, NGOs, government, education or health care, the Antioch University MBA, promises to prepare one for the emerging field of sustainability.

Nearer home, in Asia, ***The Asian Institute of Management, in Phillipines***, has incorporated some elements of the Social Relevance as part of their MBA curriculum.

Having presented some pertinent B-schools that have in cursorily, or partially, or totally integrated the social relevance in their programs as evident, the paper now looks at what is being done at SDMIMD, Mysore.

## What is SDMIMD Doing?

In the current business milieu, wherein corporate social responsibility is gaining prominence, it is apt that management students are sensitized to societal issues and social responsibility. Realizing this and in line with SDMIMD's stated values and goals, a new element was added to the PGDM curriculum from 2008, namely the *Socially Relevant Project (SRP)*. Like most other management institutes, the programmes offered by SDMIMD are inclined towards corporate business. But SRP is one among many other distinguishing factors, which has helped SDMIMD to carve a niche for itself.

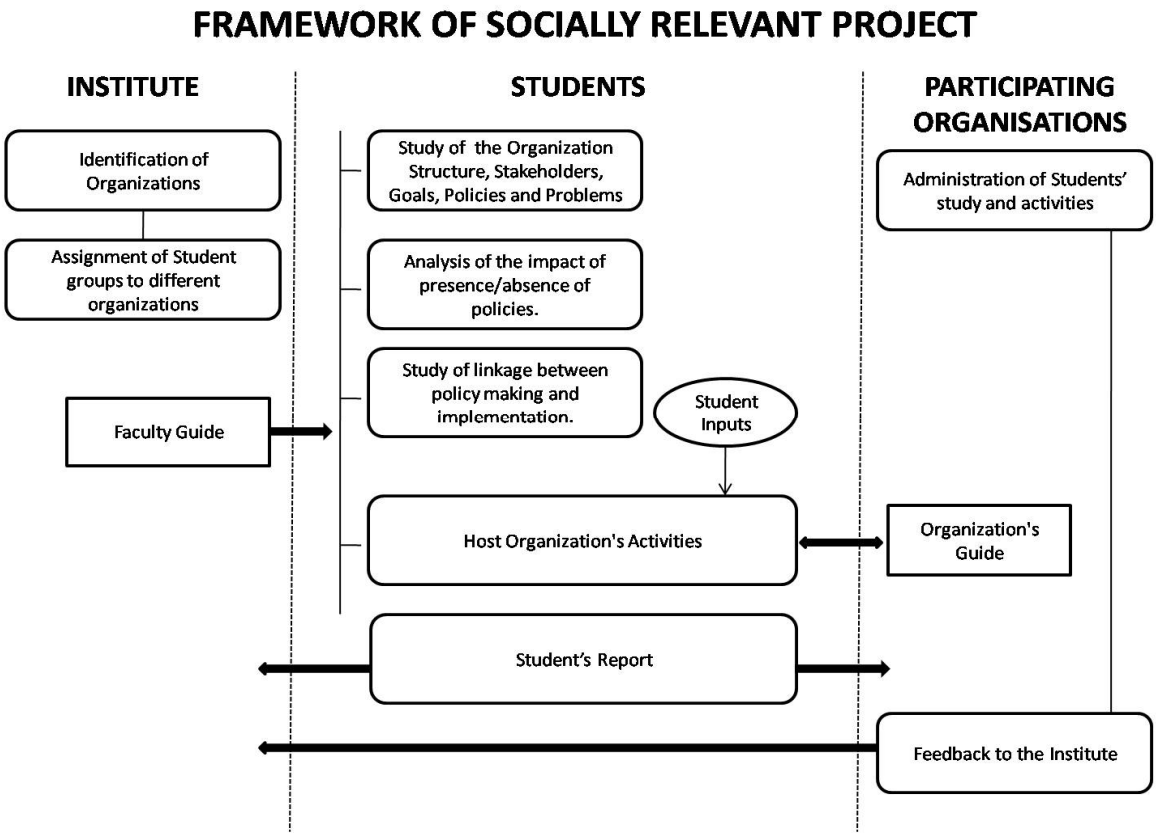
The primary goal of introducing SRP is to instill and develop ethics, social responsibility and philanthropy – values for which SDM Educational Trust is reputed for. SDMIMD strongly

believes in making students responsible and good human beings along with good corporate leaders.

SRP not only helps SDMIMD students to get sensitized to social responsibility, it also helps them to get acquainted with non-corporate organizations and aids in gaining a deeper understanding of the field of management itself.

## Objectives

- To expose the students to non – commercial organizations, government organizations and NGOs to help them understand the system and interact with the stakeholders.
- To make students aware of the relevance of policies and the impact of the absence of the same. To help students understand the links between policy making and implementation in the development sector.
- To serve as a curtain raiser to students who might consider Social entrepreneurship as a career option.
- To familiarize the students about the application of management concepts and principles to social issues.




## What would a student group do as part of SRP?

- All students would report to the coordinator of the host organization by a specific date in their term.
- Initially the host coordinator would provide an understanding of the origin of the organization, the stakeholders, the activities and problems they endeavor to address.

- Subsequently, in consultation with the coordinator, students can undertake depth interviews of key staff in the host organization to understand the nuances and constraints involved in implementation of various programmes.
- Where necessary, the student groups can observe activities and make field visits under the guidance and permission of the host coordinator.
- Each group would submit a report on their learning (a copy of the same would be sent to the host organization).

The framework elucidated pictorially in Fig 1.0 brings forth the involvement of all the primary players who are involved – the student, the faculty guide and the most important – the external participating organization.

## Conclusion

After persisting with the *Socially Relevant Project* Course for three years, the concerns of SDMIMD were:

*One*, when SDMIMD started the course it was purely with the intention of aligning its institutional goals with the larger goals of its parent organization the SDM Education Trust that is into various social activities ranging from philanthropy to rural micro-financing to self-help groups. Has this course really look at these aspects during the course delivery and its structure?

*Two*, keeping in mind that SDMIMD is a B-school and one of the measures of validating its institutional success is its Student Placement process, does this course help towards that end?

*Three*, the course started with much trepidation. SDMIMD has an open culture, and the stakeholders, in an informal feedback expressed the need and soundness of including such a course as part of a PGDM programme, has the course been able to objectively & operationally answer the concerns (probably misplaced) - of the stakeholders?

The answers to these concerns after applying the framework (for partially meeting those defined concerns), were pleasantly surprising:

- Students not only got exposed to non corporate setup, it also helped them understand better the management of the same.
- It helped widen the student's mind to the impact of / absence of policies.
- It gave insights to students on the links between policy making and implementation in the development sector.
- It helped them to see that part of the Indian society where the fruits of progress are yet to reach.
- It provided a curtain raiser to students who might consider Social entrepreneurship as a career option.
- The framework (Fig 1) partially answers the questions raised by the stakeholders in terms of operationalize and structure of the course.

To conclude, the SRP course of such a genre, needed much thought and background work before commencing it. In that respect, SDMIMD has succeeded. Business Enterprises are entities of the society in large and it should respond to the demands of the society. If the B-

schools do not react to these changes and do not inculcate the societal values as part of their "*Being*" education (Re-thinking MBA citation) to the students, they will churn out the typical managers who work with *numbers*, *market, technology* and *people,* and not a well-rounded manager. A complete manager not only understands the values that connect Management and Society but also can contribute at large to the inclusive growth of the nation.

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# Annexure 1: Profiles of few participating organizations in SDMIMD – Socially Relevant Projects:

| | |
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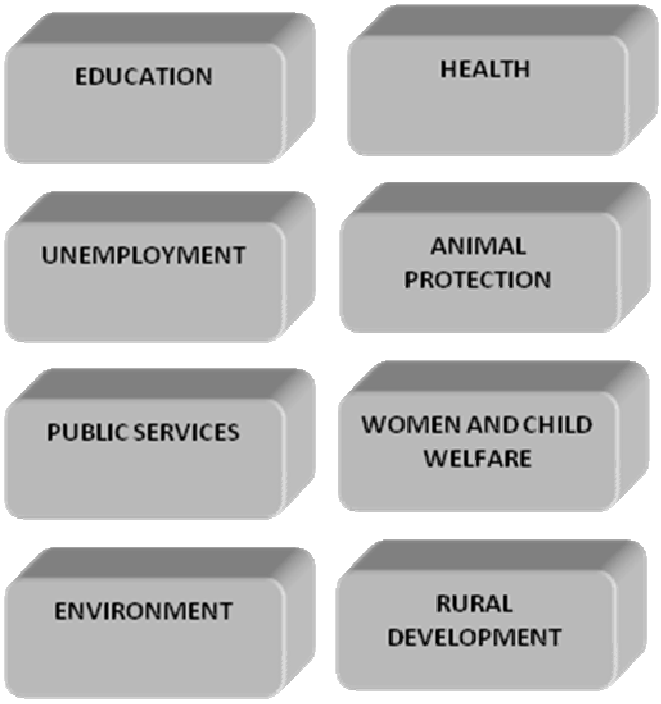
| ATREE | Ashoka Trust for Research in Ecology and the Environment (ATREE) promotes *socially just* environmental conservation and sustainable development by generating rigorous interdisciplinary knowledge that engages actively with academia, policy makers, practitioners, activists, students and wider public audiences. |
| KARUNA ANIMAL WELFARE TRUST | Karuna offers the services like providing Shelter and Rescue Home to Animals, Ambulatory Services, Health Camps, Human Education, Cruelty cases, Night Emergency Services and Snake care Service in Karnataka India. |
| CHILD RIGHTS TRUST | It is advocacy and resource centre on child rights issues. The trust has been reaching out to Government, media and the public in India through training, consultations, research, advocacy, lobbying etc |
| JANAAGRAHA | Janaagraha is a Bangalore based not-for-profit organisation that works with citizens and government to change the quality of life in India's cities and towns. |
| ODANADI | **Odanadi Seva Trust** is a pioneering social organization based in Mysore, South India, working for the rescue, rehabilitation and reintegration of trafficked women and children. |
| RUDSETI | It is a unique initiative in mitigating the problem of unemployment taken jointly by Sri Dharmasthala Manjunatheshwara Educational Trust, SyndicateBank and Canara Bank under the visionary leadership of Padmabhushan Dr. D. Veerendra Heggade, Dharmadhikari of Dharmasthala. RUDSETI is involved in training and hand holding activities for the unemployed youth |
| SKDRDP | Shree Kshethra Dharmasthala Rural Development Project (R) (SKDRDP), was conceived by Dr. D. Veerendra Heggade, the Dharmadhikari of Shree Kshethra Dharmasthal. The main components of SKDRDP are Rural development, Community development,Urban Community Development |
| Sri Dharmasthala Manjunath Swamy Temple | Sri Dharmasthala Manjunatheshwara Temple is renowned as a center of justice and religious tolerance where charity is a way of life. Presided over by the hereditary Dharmadhikari known as Heggade, Dharmasthala, as the name suggests is a place of Truth, Communal harmony and Cultural Tolerance. Manjunatha Temple attracts a large number of pilgrims from all parts drawn from all castes and creed. Shree Kshethra Dharmasthala is not only a great pilgrimage centre of South India but also a unique embodiment of Dharma. It is renowned for its 'Annadana', 'Vastradana', 'Aushadhadana', 'Vidyadana', rural development and social service. |
| Cheluvamba Hospital, Mysore | It is a government hospital in Mysore which provides medical services primarily to the lower and lower middle income groups. It is tertiary referral center and teaching hospital attached to the Mysore Medical College |
| DIET and DDPI | These are Government departments related to Education. They are responsible for the planning, development and administration of schools. |
| Pinjrapole Society | Prominent society in Southern India that takes care of cows and other animals those are physically handicapped and sick. |
| DC Office | Headed by the Deputy Commissioner & District Magistrate (Revenue Department), this department is in charge of the general administration of the entire district and is responsible for maintaining law and order in the district. |
| Government Horticulture Department | Besides maintenance of horticultural farms and nurseries, this is also responsible for the propagation of planting materials and also for implementation of various state sector and central sector schemes. |
| MYMUL | The objective of Mysore Milk Union Limited(MYMUL) is socio-economic reformation of the farmers in the rural areas through Dairying as main subsidiary occupation. |
| PRATHAM | PRATHAM is a community based grass root organisation promoting the cause of educating the underprivileged children |
| Pollution Control Board | It is government department committed to a pollution free environment for a better quality of life. |
| Women and Child Welfare Department | It is a government department responsible for the welfare and development of women, children, and elderly and disabled in the State. |
| Zilla Panchayat Office | This office is responsible for the decisions regarding the financial, social and developmental matters of the whole district. |

| | |
|---|---|
| Divya Deepa Charitable Trust | Divya Deepa is a special school with the concept " School for Children rather than Children for School". The school functions without a formal syllabus and trains the students independently based on their interests and learning capacity. |
| Sneha Kiran of Mysore Spastic Society | It is a special school that provides rehabilitation and education to students with cerebral palsy. |
| Asha Kiran Hospital | Originating as counseling cum care clinic for People Living With AIDS (PLHIV) in 1997, Asha Kirana evolved into a full-fledged hospital in 2004, with facilities for general healthcare as well as specialty care for PLHIV. The hospital is today a major reference point of the healthcare of Karnataka, receiving a number of HIV/AIDS referrals from different parts of the region. |
| Manashanthi | It is a special and rehabilitation centre providing treatment cum education to mentally retarted children. Cases like mild to severe mental retardation and schizophrenia are being treated here. |
| NABARD | National Bank for Agriculture and Rural Development is an apex development bank in India. It has been accredited with "matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas in India". |

## Annexure – 2 (Sectors Covered)



# Leading Change: The Winning Edge for Global Competitiveness

❑ **Poonam Puri**
Institute of Management Studies, Bundelkhand University, Jhansi, U.P., India.

## Abstracts

Globalization has made the world boundary-less, by creating an interaction and integration among the people, organizations, and different countries, giving a faster pace to the international trade and investment, aided by information technology. This process has created a challenge for the business organizations to STAY PUT WHERE THEY ARE. The Economic Reforms of 1990s (LPG – Liberalization, Privatization and Globalization) in India have opened the economy, domestically and internationally. The global giants are taking advantage of these new opportunities in India as well as in other foreign markets, and are aggressive as never before. All this has created a challenge for not only the smaller players in the industry but also for the giants. And the key to meeting these challenges is – ***"Run As Fast As You Can To Stay Where You Are" and further it can be supported by the paradigm that*** either Excel or Exit. To survive one has to strive and thrive to prove the Darwin's principle of Survival of the fittest, which has now been transformed into survival of the Fastest and this theory has lately been transformed into survival of the most competitive. Therefore, no organization can achieve world class excellence without resistance to and management of various issues relating to its work culture and environment and changes thereof. In their present day the managers have to either EXCEL OR EXIT. The organizations constantly working towards excellence are there to stay. Since the initialization of economic activities and trade cycles, participation of human resource has been the source as well as application of complexities.

This paper is an effort to make a conceptual study of the factors that give the competitive edge to the winning organizations in this era of global competition where right from the employee to the customer to the markets is global.

## Introduction

Globalization has made the world boundary-less, by creating an interaction and integration among the people, organizations, and different countries, giving a faster pace to the international trade and investment, aided by information technology. This process has created a challenge for the business organizations to STAY PUT WHERE THEY ARE. The Economic Reforms of 1990s (LPG – Liberalization, Privatization and Globalization) in India have opened the economy, domestically and internationally. The global giants are taking advantage of these new opportunities in India as well as in other foreign markets, and are aggressive as never before. All this has created a challenge for not only the smaller players in the industry but also for the giants. And the key to meeting these challenges is – ***"Run As Fast As You Can To Stay Where You Are" and further it can be supported by the paradigm that*** either Excel or Exit.

Managers today want or should want, their organizations to become world class. To some people, striving for world class excellence, seems a lofty, impossible, unnecessary goal. But it is a goal that is essential to survival and success in today's intensely competitive business world. Becoming world class does not mean merely improving but it means becoming one of the very best in the world at what you do. World class companies create high value products and earn superior profits over the long run. They demolish obsolete methods, systems and cultures of the past and apply more effective and competitive strategies, structures, processes and management of human resources. The result is an organization capable of competing successfully on a global basis. To survive one has to strive and thrive to prove the Darwin's principle of Survival of the fittest, which has now been transformed into survival of the Fastest and this theory has lately been transformed into survival of the most competitive. Therefore, no organization can achieve world class excellence without resistance to and management of various issues relating to its work culture and environment and changes thereof. In their present day the managers have to either EXCEL OR EXIT. The organizations constantly working towards excellence are there to stay. Since the initialization of economic activities and trade cycles, participation of human resource has been the source as well as application of complexities. Organizations, however big or small experience the need to change every now and then. Those which successfully cope up with this need to change- **survive** and move towards the winning edge over its cotemporaries. Since development is a continuous process, therefore to develop high performance in organizations and to move from adequacy to excellence, change has to be welcomed in the organization along with due consent of its human resource. Change is inevitable in the history of any organization. Organizations that do not change or keep pace with the changing environment suffer from entropy and soon become defunct.

Some of the changes which have affected almost all organizations in past few decades can be illustrated as follows:

- Multiple technological innovations
- Products and know how are becoming fast obsolete.
- Sharply increased competition.
- Reduced decision making time due to computer and communication ways and means.
- Highly influential environmental and consumer interest groups.
- Increasing drive for social equity.
- Apparent economic interdependence among countries.

## Literature Review

According to the Oxford English Dictionary, the word 'globalization' was first employed in a publication entitled *Towards New Education* in 1952, to denote a holistic view of human experience in education.

An early description of globalization was penned by the American entrepreneur-turned-minister Charles Taze Russell who coined the term 'corporate giants' in 1897, although it was not until the 1960s that the term began to be widely used by economists and other social scientists. The term has since then achieved widespread use in the mainstream press by the later half of the 1980s. Since its inception, the concept of globalization has inspired numerous

competing definitions and interpretations, with antecedents dating back to the great movements of trade and empire across Asia and the Indian Ocean from the 15th century onwards.

The United Nations ESCWA says globalization "is a widely-used term that can be defined in a number of different ways. When used in an economic context, it refers to the reduction and removal of barriers between national borders in order to facilitate the flow of goods, capital, services and labour... although considerable barriers remain to the flow of labor... Globalization is not a new phenomenon. It began towards the end of the nineteenth century, but it slowed down during the period from the start of the First World War until the third quarter of the twentieth century. This slowdown can be attributed to the inward-looking policies pursued by a number of countries in order to protect their respective industries... however, the pace of globalization picked up rapidly during the fourth quarter of the twentieth century..."

Thomas L. Friedman has examined the impact of the "flattening" of the world, and argues that globalized trade, outsourcing, supply-chaining, and political forces have changed the world permanently, for both better and worse. He also argues that the pace of globalization is quickening and will continue to have a growing impact on business organization and practice.

Finally, Takis Fotopoulos argues that globalization is the result of systemic trends manifesting the market economy's grow-or-die dynamic, following the rapid expansion of transnational corporations. Because these trends have not been offset effectively by counter-tendencies that could have emanated from trade-union action and other forms of political activity, the outcome has been globalization. This is a multi-faceted and irreversible phenomenon within the system of the market economy and it is expressed as: economic globalization, namely, the opening and deregulation of commodity, capital and labour markets which led to the present form of neoliberal globalization; political globalization, i.e., the emergence of a transnational elite and the phasing out of the all powerful nation-state of the statist period; cultural globalization, i.e., the worldwide homogenisation of culture; ideological globalization; technological globalization; social globalization.

## Change– An Overview

Change is a complex process. A number of models explains change and its management. One school of thought suggest that change takes places when the forces favoring a particular innovation become stronger than those opposing it. Another model suggests that change results when an individual, a group of people or an organization recognizes a problem and succeeds in finding a solution. Another model suggests that change occurs through the borrowing of ideas and practices from people of other societies or cultures. Still another is that within an organization, group or society, some people or institutions move out ahead of the rest who, eventually, imitate the innovators and general change occurs. Regardless of the model of change dynamics that seems appropriate in each situation, the task of the sponsor or manager of change is to stimulate, reinforce and promote those social forces and activities which seem to promise successful movements in the direction of proposed change, and to discourage those which do not.

A change can be unplanned as well as planned. Unplanned change occurs spontaneously and without any directions whereas planned change is intentional and is the result of specific efforts by a change agent. For successful change, careful handling of its process is required.

Phases of planned change as recommended by Kurt Lewin are as follows:

**Unfreezing:** Unfreezing is the managerial responsibility of preparing a situation for change. The aim at this stage is to motivate and make the individual or the group ready to change. It is the breaking down of customs and traditions- the old ways of doing things- so that individuals are ready to accept new alternatives.

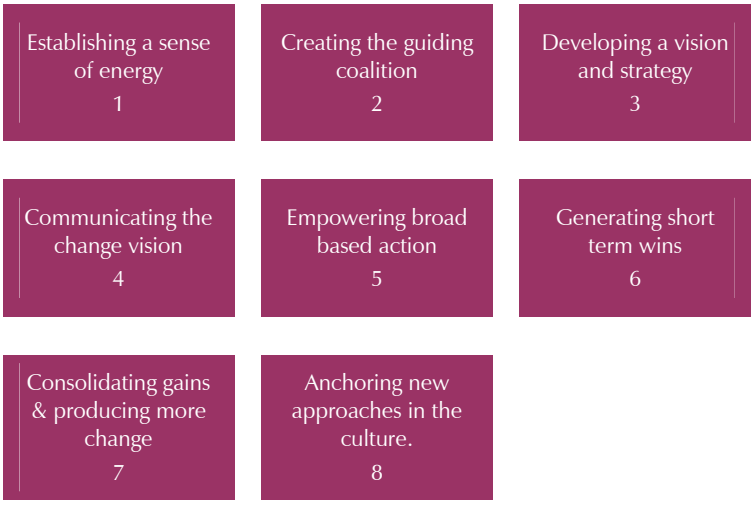
**Moving:** Moving is the stage in which specific actions are taken to create change. It is the stage in which a vision of where the company is heading is established. This stage involves taking action to modify a situation by changing things, such as the People, tasks, structure or technology of the organization.

**Refreezing:** Refreezing is the final stage in planned change process in which changes are reinforced and stabilized. Refreezing means strengthening the new behaviours that support the change. The changes must be diffused and stablised throughout the company. It involves implementing control system that support the change, applying corrective action when necessary and reinforcing behaviours and performance that support the agenda.

## Leading Change

The success of change in organizations depends in part on the leader who leads and supports the change processes. Although change agents sometimes are outsourced as consultants, any manager or leader in today's dynamic times is expected to act in a change agent capacity. Indeed, this responsibility is increasingly defined even more specifically as essential to the leadership role. Leading change in the organization with a humanistic approach requires due concern for the employees and to fulfill this, the leader has a vital role to play. Here, the leadership style of the manager is of key importance too. Though never constant, the different styles imply that managers need to be flexible and should adopt participative style of management for leading change effectively.

Successful change requires managers to actively lead it and essential activities for the same are:




### Establishing a Sense of Energy

To introduce change leaders need to examine the current realities and pressures in the marketplace and competitive arena, identify both crisis and opportunities, and be frank and honest about them. To create urgency the manager can talk frankly about weaknesses

compared to competitors, making a point of backing up statements with data. Managers can put employees in direct contact with unhappy customers and shareholders, distributing worrisome information to all employees and highlighting future opportunities that exist but has not persuaded.

### Creating a Guiding Coalition

To make change successful a powerful coalition is required with effective leadership from top management, working as a team. But over time the support must gradually expand outward and downward through out the organization wherin the contribution of middle managers and supervisor is essential.

### Developing a Vision and Strategy

This would direct the change effort. Developing a vision and strategy implies determination of idealized, expected state of affairs after the changes implemented. Because confusion is common during a major organizational change, the clearest possible image of the future state must be developed and conveyed to everyone. This image or vision will be a target or guideline that can clarify expectations, dispel rumours and mobilize people's energies. The power of a compelling vision is one of the most important aspects of change and should not be underestimated or underutilized.

### Communicating the Change Vision

To communicate the change vision, it is vital to use every possible channel and opportunity to talk up and reinforce the vision and required new behaviours. Minimization of communication gap would be of key importance in successful implementation of change of which the leader should consciously take care of.

### Empowering Broad- Based Actions

The leader while leading the change has to intelligently get rid of obstacles to success, including systems and structures that constrain rather than facilitate. He/she should encourage risk taking and experimentation, and empower his/her team by providing information, knowledge, authority and rewards.

### Generating Short- Term Wins

Successful change requires results with minimum time spent on waiting for the ultimate grand realization of the vision. As small victories accumulate, one makes the transition from isolated initiative to an integral part of the business. The Change leader should plan for and create small victories which would indicate to every one that progress is being made. The leader should recognize and reward the people who made the wins possible, doing it as visibly as possible so that people notice and the positive message flows across the organization.

### Consolidating Gains and Producing More Change

With the well- earned credibility of previous things should be changed in ways that support the vision. People who will further the vision should be hired, promoted and developed.

**Anchoring new approaches in the culture:** Positive results should be highlighted, connections between the new behaviours and improved results should be communicated and new change agents and leaders be encouraged. The leader should increase the number of people to join hands to bear the responsibility for change.

To gain the winning edge and to respond to a new challenge in complex and changing environments, organizations need to re-examine and redefine its mission, create a vision for

the members of the organization, and develop broad strategies of mobilizing energies of its people to move into the future. In complex organization the process of change is one of the transition from present to the future where vision becomes an important process of collectively creating models of the future and helps most people to move towards these models. Changes are complex, involving the structure, systems, processes and new norms and behaviour. Continuous monitoring is needed and change has to continuously balance innovation with stability.

Organizational change being a collaborative effort involves several roles and individuals performing different functions. They make their specific contribution to the designing and implementation of organizational change. The leader has a responsibility which should not confine only to discuss the problems and make recommendations but also monitor and ensure proper implementation.

For effective organizational change, transformational/ visionary/ strategic/ charismatic leadership is of immense importance. Transformational leader should highlight substantial and discontinuous change to shape the structure and nature of organization along with incremental adjustments and tuning up current situations. He/she should carefully identify external as well as internal forces causing change and should concentrate on deep as well as pervasive change. Finding and implementing new and creative methodologies through team members should be one of the main objectives of change leader for effective implementation of change. He/she should have the courage to challenge the processes, inspire a shared vision, enable people to act for that by playing participative role. The structural rearrangement, persuasive communication, detecting and exploiting unrevealed opportunities, demonstrating and enabling the means for optimum utilization of resources and controlling the key factors should be the focus to attain the winning edge.

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# The Face of CSR (Corporate Social Responsibility) at the Village Level

**Susanta Mandal**
School of Business & Human Resources, XLRI Jamshedpur, India

An engine for social progress, CSR helps companies live up to their responsibilities as global citizens and local neighbors in a fast-changing world.[1] CSR with time has reinvented and re discovered itself by moving from the fringe to a mainstream business issue to the front lines of a commercial transaction. Real change can already be seen in reporting practices, and collaborations rooted in social responsibility are flourishing.[2] in the light of it touching upon dimensions like environment, economy, stakeholder relationship and voluntariness [3]. Speakers on forums related to CSR have admitted that where poverty fades, markets grow. Where companies can access qualified and healthy employees, productivity and competitiveness improve. Therefore, pursuing CSR is worth while for a sustainable future. [4]

## Objectives of the Paper

Discover the initiative from a village or a group of villages or groups of villages under the umbrella of a federation in wooing investments from corporate and firms in setting up units, shops and offices by creating policies and providing necessary facilities to the investor in return for revenue to the exchequer, creation of possible employment and balanced all round socio – economic development of the region under the garb of CSR. Discover new ways of sustaining CSR by touching upon consultation, stakeholder engagement, employment equity, and cash profit, dual share structure taking financial inclusion and social cohesion to new levels.

## Significance with Reference to the Objectives

In addition to pursuing profit implementing a responsible business practice ensures high stakes on its reputation, employee loyalty, employment, activity efficiency and sales volumes[5]. Other than the process of winning the society's favour by the village or its federation the risk of its business operation will stimulate the organization's innovation and creativity to find easier ways to attract external sources of sponsorship, situations for business development to successive levels[6]. Be it the model of Five Forces in the light of micro and macro environment discerning fluctuation, and their outcomes on the company's policies or where external benefits get identified with the competitive ability against the model of Recourses Approach or the assessment of a participants work in the so called Nets or Relations Approach where the companies commitment to CSR gets measured indirectly if not directly.[6] As an index for social

trust Consumption though not seen as a utility in the developed world but still people pay attention to values by paying more for goods produced through greener processes[7]. The real test for the village federation lies in stimulating companies to work in improving comparative CSR reporting in various formats through modern technologies [7].

## Should Contemporary Developments negate CSR against the Objectives Outlined?

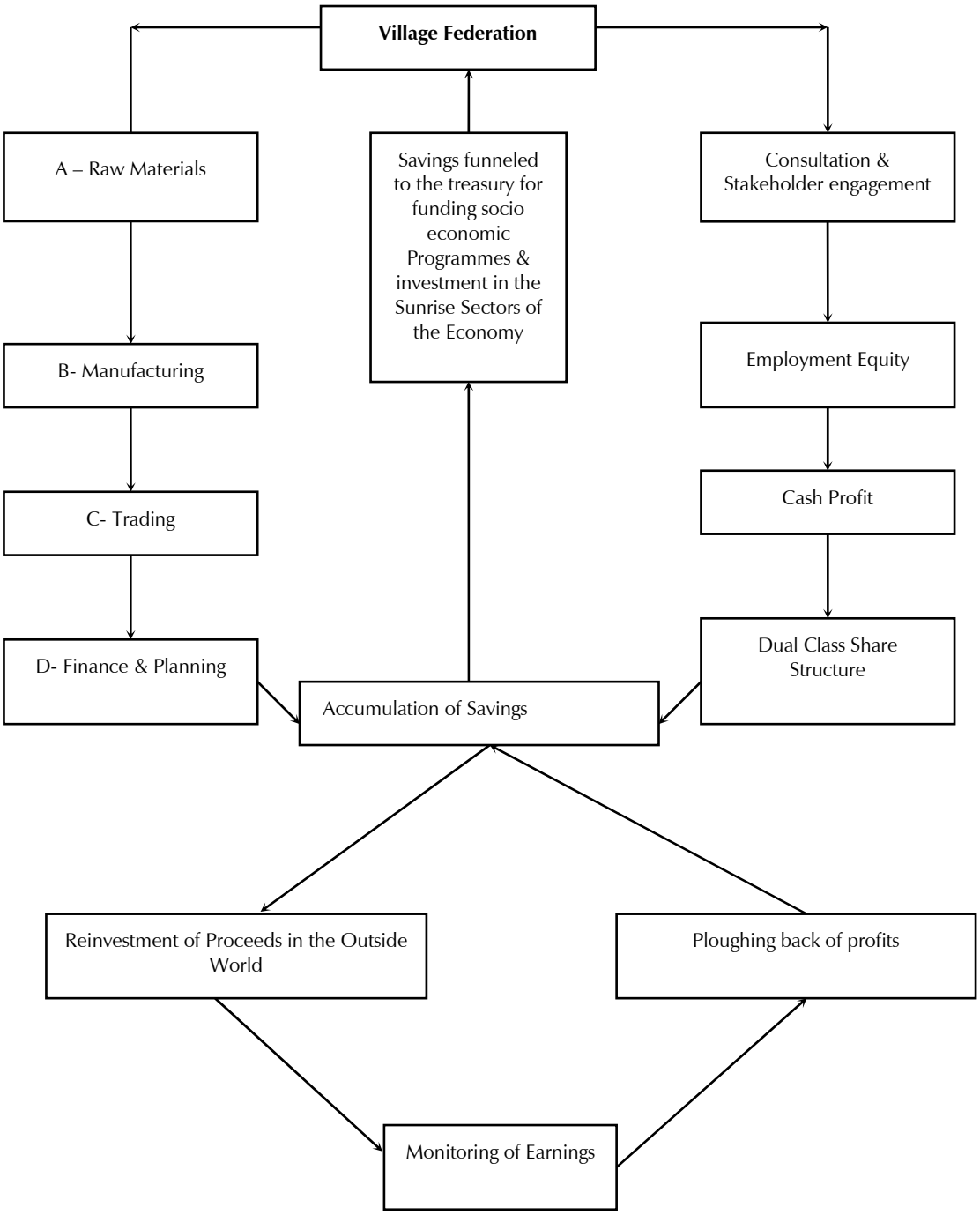
It is paradoxical to say that Globalization leads to a select concentration of power beyond borders for Multinationals where as on the contrary they are becoming more vulnerable to the opinion of stakeholders and other pressure groups.[8] Interactions with Heterogeneous stakeholders with separate objective markets of the companies based in these block of villages trading with partners in outside countries passing through different levels of development in the form of political and legal systems in place, values systems, working ethics, varied cultural habits, traditions of consumption and the influence of non-governmental organizations' in those respective societies should not hold the village federation and its companies back as Globalization is the concern for and recognition of the environment, languages, cultures, social development and economic sustainability of the home-based markets as well as regions seemingly distant and remote.[8]

It is here that the role of this village or village federation becomes important in the light of creating an environment to project itself as an attractive CSR destination as the cause for CSR is increasingly influencing concerns like investment, purchase decisions, choice for new partners and locations for trading followed by labor rights, corruption, human rights, community health, and land rights amongst Multinational enterprises. The achievement of this idea is measured when large companies come forward to invest with larger comparative procedures in place and companies get involved in social issues beyond their premise gates and seek partnership with local governments and civil societies[8].

## How does CSR work at the village federation level

Let us assume that there are four blocks viz A, B, C and D with each block having a substantial number of villages under its control performing a separate set of tasks or operations assigned to it. Now each village has an elected government which in turn elects and reports to the Block level Government and each Block level Government in turn elects and reports to the Village federation level government. The shape of federation becomes necessary wherein question gathering funds and resources becomes beyond the comprehension of a single village.

## Two Step Village CSR Sustainability Model




**Source:** As computed by the author

## Village Level Block – A (Raw Materials Procurement)

The Villages here are entrusted with the task of supplying raw materials either by sourcing them from mines or from plantations, forests, cultivated fields, orchids or even serving as an anchor point/depot /dump receiving station for assembling all the incoming raw materials either meant for a single industry or type of industry in a particular line of trade or a group of industries in different lines of trade. Villages serving as anchor point/depot /dump receiving station in encouraging practices like sustainable purchasing, through cost-benefit analysis like – accepting transshipments from outside and inside parties in bags rather than boxes for being

smaller and lighter as far as possible easing long haul trucking pressure against parameters like weight and volume in face of environmental and financial costs signaling "triple baseline" being followed allowing returns flow to the wider world[9]

Villages engaged in timber production from the nearby forests must highlight that timber production is much more than becoming an issue of fundamental consideration to a habitat management or a regional development therefore timber harvest turns out to be a tool rather than an objective for shifting the focus to ecological community management. But economic revenue can be enjoyed by the villages by selling this idea of the prevalence of ecological community based practices in the region to the people and companies of the outside world sourcing wood for re -use and make of furniture [10.] Further prosperity can be seen in letting contracts within the park lands get modified as services get requested on the basis of landscape management outcomes that allow operators to post significant bonds with time [10.] The forest prone areas of the villages in block –A can step up logging activity by build new trails for mountain bikers, motorcyclists and ATV (All terrain vehicle) riders[10.] Timber industry representatives, ranchers and recreational groups can work together and find appropriate places to harvest timber, graze cattle, ride four-wheelers and still support wilderness for solitude and wildlife habitat [11.]

By having a good policy in finding loggers cutting wood but not along trails and leave species such as maple should be the trick, and miners mining out ores minerals but not exceeding limits where redevelopment of any kind is not possible and regeneration of species becomes impossible.10. Humankind benefits from a multitude of resources and processes that are supplied by natural ecosystems proving clean drinking water and processes such as the decomposition of wastes. Therefore both Mining and Timber Companies or units should use up to date technology irrespective of project cost overrun or delay in lieu of making windfall profits by using technology playing up with the natural ecosystems because it will take a heavy toll on its community consent efforts like divesting the pension fund for restoring the loss caused or losing the social license to operate and getting involved in international lawsuits either for overseeing respective national interests or causing damage to the environment 12.

The Mining companies here should rely on. Institutional Assessment during mine feasibility studies and baseline information collected during Environment and Sociological assessment integrated with initiatives already in place to learn local development needs, priorities, funding gaps in their quest for sustainable mining[13].because in decentralizing countries local governments "Panchayats " undertake development as a mechanism to meet their increased responsibilities towards the community in addition to the support created by legislations[13.] Working at the local level becomes important to support sustainable mining[13] As Conflicts arise when national governments oversee mining concessions and rights without seeking consent of local governments and communities potentially affected by the mining development [13]. Good causes like a played out mine flooded to create a lake or develop recreational facilities will work wonders as [14]the environment has value because it gives us – water, medicines,shelter and what it cannot give is open space and untrammeled wilderness[15.]

## Village Level Block –B (Manufacturing)

Now it is quite possible that apart from huge finances it would require a lot of space as manufacturing in the form of ancillaries or full fledged units installing complex tiny to huge machines need certain amount of attention in the form of temperature, timely maintenance, feed stock support etc.Moreover in the manufacturing of a particular finished product like a car would require manufacturing of a large no of parts that would go into the making of that

finished product. Now to give such a big idea a shape it may be beyond the capacity of a village therefore the viable alternative may be to rope in a group of villages and give it the shape of a block if required involve a series of blocks under the banner of a zone to channelise the stepped up efforts to fruition with funds raised to create an environment to attract a large variety of talent, investors and workers in this capital cum labour intensive sector especially globe trotters who contribute to the development of multinationals[16].

Backed by strong legal and Institutional environments with strong low minority shareholder protection, sound accounting standards, high creditor protection, less concentrated ownership, high stock market capitalization, healthy economic development in terms of infrastructure catching up and high corruption control will create a healthy atmosphere for investment and Mergers and Acquisitions[17]. Companies in the manufacturing sector have to be identified on the basis of high or low family control because companies with low family control will give rise to agency problems between owners and managers resulting in conflicts between the family and minority shareholders with large shareholders extracting private benefits more easily from minority shareholders even at the cost of the companies CSR activities.because factors like building long term reputation and decision making horizons appear to be missing[17]. Companies in the Manufacturing owing to their engineering capabilities are able to do some amount of equipment tooling and software internally rather than buy them from abroad on a turnkey basis therefore the question of not moving up the value chain to higher-level does not arise, but real benefits would come in when all the industries in various sectors of the region are able to do so. Pharmaceuticals demand huge application of scientific skills to cost-effective R&D.and going beyond the manufacturing of cheap, bulk drugs to developing new pharmaceutical products, requiring clusters of related and supporting industries, demanding huge investments, and long-term staying power[18].

However software outsourcing industry cannot possibly be expected to create jobs on a large scale to make a dent in the regions massive unemployment problem. Only labor-intensive manufacturing has the potential to create millions of jobs.[18] The Manufacturing sector is driven by compulsions to respond swiftly and flexibly to the progress of technological innovations and address fluctuations in production on account of the demand for manufacture of cutting edge products and products that go through frequent model changes[19]. Now these calls in for agreement between purchasing people and the engineers before vendors are called in and briefed as frequent late engineering or specification charges will take a negative toll on company vendor relationship[20].

It is also not surprising to note that most of the key components inside products assembled into the finished article at production plants overseas may also be manufactured and supplied by the villages of this region also. As the pace of technological innovation accelerates and the model change cycle shrinks therefore the more possible it would become to manufacture in overseas motherland based regions those parts and products directly affected by these changes[19]. Therefore manufacturing units in these villages i.e. block –B should be prepared to retool their plants to possible extent and switch over installing to new manufacturing lines of production manufacturing new products as per market demand[19].

## Village Level Block – C (Trading & Logistics)

Village here will be handling trading (buying and selling), logistical operations. In addition to education and training for logistics development, villages here must also support development of IT solutions in supply chain management and in the operation of local distribution and logistics hubs[21]. It should also have mechanisms to speed up permits, customs clearance and

other documentation pertaining to the export and import by putting them all on a single platform on the lines of TradeNet in Singapore. Other added features with time should also get connected to this system where access to various services of Airport and Seaport is ensured through this common platform as this will draw hordes of 3PL (third party logistics) providers, air cargo agents, consolidator and shipping lines that would generate employment for the region and contribute more funds for the growth of CSR activities[21]

With the businesses in the blocks A and B growing up the task of CSR in easing pressure by installing mechanisms that would maximize on the velocity of the information through supply chain in the EPCOM (Engineer, procure,construct,operate and maintain) cycle and suggest alternate ways of transacting business in case the flow of information is choked[22]. Now this can be done by improving traffic live ability and forcing back damages to nature and the environment. Having differentiated road pricing mechanisms in place according to place, time, type, goods and environmental impact, Putting in place an integrated network management for rail, tram and bus operations with Easy access ensuring single ticket or travel pass instead of multiple tickets on multiple venues of transportation on the lines of Eu rail pass[23]. CSR can be achieved by integrating ticket, tariff and supply in and around the city Supported by a qualitative network for trucks, traffic flows and bicycle routes with the aim at bringing down levels of pollution[24]. Not only this CSR can also be achieved by means of a combination of a smart parking policy, limited or car free zones, fixed truck routes and restrictions in case of peaks of ozone and particulate matter[24].

Different Traffics bundled will avoid empty rides coupled with higher seat occupancy of passenger cars along with stimulation in carpooling (car-sharing, ride-sharing, lift-sharing) and company transport, support teleworking and intra-district tuning[24]. Village Federation under the banner of CSR promotion can also call for reforming of car taxes calling for variabilisation of the registration and circulation tax based on $CO_2$, Particulate matter, $NO_x$ against the light of the vehicle's ecoscore[24]. The real challenge of CSR here would be to design market – based solutions for alleviating inconvenience, drudgery implying profitable businesses provide socially beneficial products and services to the people that genuinely improve the quality of their lives[25].

### Village Level block –D (Finance & Planning)

Villages here should house offices handling operations relating to accounts keeping, settlement, fundraising and planning operations for itself and all the other blocks of the region. It can also take the shape of a financial centre with minimum regulatory framework capable of handling both onshore and offshore services for the federation but the cost of setting itself up as a financial sector will have to compared and subtracted against the development impact it will have for the region[26]. The Pool of important benefits that would flow in, like local access to hard currencies, development of local financial skills and markets, and generation of local employment and government revenue. International banks setting up offices would have multiplier effect by making available to local borrowers a pool of hard currency funds that have historically been used for state owned development purposes.

Aside from trade credit, many overseas companies can make extensive use of the longer-term regional bond market as well as the secondary market for negotiable certificates of deposit. Small and Medium enterprises in other regions like – AB and C can also have access to the different rates of interests on deposits as well as loans[26]. The new financial centre would provide a range of personalized financial planning solutions including cash management, trade, treasury and lending solutions including the time to time introduction of new cheque

and bill discounting products system for future receivables and a range of trade financing products supported by issuance of customized trade documents and credit for trade finance accounts. Thus by contributing to the growth of a financial sector in Village block –D CSR can be achieved by reaching out to the valued traders of the region with world class service in a timely fashion[27]. CSR can be also achieved by forming rules pertaining to the layout of office and buildings [28]coming up in the region by encouraging the extensive use of "Open Plan Office Format" easing set up and maintenance costs[29]. Pressure on consumption of utilities like heating, air conditioning and lightning recede owing to central location of items like office supplies and equipment for everyone to use as[28].

Open Space Contribution Under Incentive Zoning where beneficiaries pay to aid infrastructure development and bear social overhead and de congestion costs be taken up for enhancing lung space to be used for compensatory greening sounds pretty good[30]. Coming up with Building Management Systems incorporating all the multiple systems in a one single network and integrating it would mean Improved management in terms of energy consumption and eventually reducing training costs[31]. Banks are also coming forward to fund ecologically sustainable projects for infrastructure development[32].

## The Evolving Faces of CSR once the set up is established and the ball Starts Rolling

Consultation and Stakeholder Engagement CSR activities stepped up by gathering knowledge from and providing knowledge to stakeholder groups will increase credibility and trust along with the quality of decision-making and thereafter establishing legitimacy for decisions.[33] Engagement would also mean taking into account possible misgivings amongst policy stakeholder groups, in addition to avoiding expensive difficulties[33] like not taking risks owing to decline of trust and increase in complexity of interaction [34].

Research should be conducive to information for catchment management with workshop processes being flexible, allowing debate over 'assessment endpoints not only capturing systems', hearing multiple perspectives and being used for supporting, qualifying and/or refuting qualifying risk models and risk magnitudes[35]. Genuine engagement would mean including those who do not see as having stake in issues though hard to achieve along with handling the root problem of community development involving community-based 'popular education' community development' and 'social action' "participatory action-research' as an appropriate vehicle for developing skills amongst university students, 'in-service learning'. Approach background, actions- conversations, conversation outcomes and discussions of the implications of the findings are the areas that require attention for community education and practical community based initiatives for obtaining hard to the skin and down to the earth results of CSR [36] from either a scientific or technological viewpoint seamlessly interwoven with social, economic, cultural, spiritual, and political factors [36].

Now Does this cause require research to be fragmented at institutional, commercial and political level resulting in misunderstanding and conflict at various levels impacting the core issue that would crop up in the course of this much talked about CSR work.[36] The answer is in any collaborative project success lies in translating scientific ideas into a language that can be owned and developed by the community' [36]. It is fact that most of the 'tools' are premised on the failure of traditional organizing tools to reach the desired level leading to indignation amongst engagers but the more effective they are in mobilizing the small pool of indignation,

the more they would appear to drive away some sections of this 'apathetic' population of engagers owing to the failure in swaying large sections of the community in responding to the traditional 'activist' ways of seeking engagement highlighting that wrong tools be discarded rather than wear the label of apathy and gloom. These people are nevertheless 'stakeholders' in the outcome, without whose support action is either unlikely or likely to be actively or passively opposed[36].

Consultation events should allow stakeholders to express their own views as opposed to debating the merits of pre-determined positions. Event Facilitation should not influence a CSR stakeholder view. The design of workshops and focus groups should enable participants to identify the issues of importance to them in their own terms[37] including third party audits. Evidence-based practices will be particularly influential for campaign decision making, allowing efforts to be focused on target-audience needs[38].

## Employment Equity Initiatives

With diversity and equality coming into the picture men would face increasing competition in a more demanding world offering fewer rewards to achieve economic success and satisfy the provider role than their predecessors? Negative attitudes towards women's equality and progress would be found more in older men, less educated men, and men living in rural areas. The Organizations with time have to be prepared in having answers to questions like Women believing that in the past decisions have not always been merit-based and Men believing that current personnel decisions are becoming less merit-based when coming to rewards on performance[39]. Added to this a rise in a predominant male backlash against factors like age, level of education, organizational level, career progress compared to personal organization age norms, career satisfaction, years in present position, early socialization about male and female roles, ethnic group membership, attitudes towards women and attitudes toward equity[35]requires attention against the type of industry, credibility of the management on equity issues, education and skill levels in the workforce, number and location of women in the organization and the existence of women's groups in the organization[39].

Societal factors predictive of male backlash would include aspects of the macro-economy such as expansion, visibility of equity issues among the general public, as compared to micro economy the significance of events celebrating women's achievements or struggles[39]. While it will not be surprising for us to see that less-educated women predominantly holding down the lowest-paid jobs in the service sector (sales clerks, cashiers, servers, office clerks, and nurse's aides), rather than less-educated men occupying the better-paid jobs, being employed in the construction trades and as truck drivers, automotive service technicians, and truck and bus mechanics underlining the importance of occupation specific income where occupational segregation by sex is the most stable and equal access programs are ineffective[40]. It is not that we do not know better ways to proceed: for instance, the pay equity process can hardly redress inequities in organizations that are filled with female jobs, for example, primary schools, child care centers, and social service organizations, but also garment manufacturers, retail stores, big offices, personal service enterprises, and private home care and health organizations. Obviously, the women employed in such female-dominated organizations are underpaid, since similar jobs in organizations employing both men and women (e.g., municipalities) tend to be underpaid[40].

Pay equity bargaining follows the same pattern, because blue-and white-collar workers are usually in separate bargaining units, and blue-collar unions do not want their members to be

used in comparisons with clerical jobs. They feel this would violate the "fair comparison" principle. As a result, most corporations do not care about equity policy or else settle for some small-scale measures when subject to "contractual obligation," For women with a high school diploma or less, blue-collar jobs, far better paid than these women are accustomed to, represent an attractive option, but one to which it is hard for them to gain access. Training instructors must be trained not to reinforce negative stereotypes about women's inability to do men's work in addition to Making a particular effort to avoid assigning women to work sites, departments, or shifts where there are no other women; their isolation is exacerbated in a hostile work environment where the men do not talk to them or cooperate with them[40] apart from providing proper tools, protective clothing that fits and is ergonomically sound, and access to bathroom and changing facilities that are safe; when needed, providing sleeping accommodations that are safe and secure[40].

Taking anti harassment measures, with consequences and sanctions for hostile work environments, including sabotage, assaults, pornography, unwelcome sexual remarks, touching or asking for sex, and providing on-the-job mentoring programs to train and help women to deal effectively with offensive behavior whenever it occurs[40].with information infrastructure reducing inaccurate stereotypes at all levels. Resolving systemic barriers through family care policies such as a child care centre, paid days off to attend family obligations with child and elder care referral services but if 45% of the workforce who are women continue to experience discrimination, organizations will have to acknowledge their failure to capitalize on the skills and abilities of this significant proportion of the workforce necessitating the CSR card to be played[41].

There may be situations where the success of a woman is viewed by men as an example of pandering to the women's movement or socialist extremism rather than an acknowledgement of the qualifications of the individual to do the job but the companies have to play a balancing act with greater reciprocation from the federation to motivate organizations to adopt the principles and practices of employment equity without any intervention from the federation [41]. It has to be recognized that in an age of crushing public debt and weak growth on the revenue side, employment equity through self-regulation is a logical approach for governments desirous of managing labour force change as government interference tends to create more resentment with greater resistance to change and these are sensitive issues which the federation should take care of.[41] if it is interested in projecting itself as a global investment hotspot.

Motivating the organizations with the clearer definitions of standards and criteria for measuring equity being spelt out by federation would be highly welcoming. [41] Involving employee participation in the development and plan implementation process sounds sweet but what if their, recommendations and actions do not coincide with the objectives of the organization. Senior management may view their actions, if not their participation, as disloyal and cause for discipline or termination of employment[41].

Moreover building an effective dedicated team requires breaking down existing work relationships and creating new ones where with a mix of outsiders and insiders because Outsiders have no existing work relationships to break down prefer to start from scratch, as a bonus, outsiders naturally challenge assumptions because their biases and instincts are rooted in the experiences of other companies.[42] Once the IP policy is framed, all the employees from all the departments of the organization need to see it, review it and if necessary, make amendments and reach a consensus as this will let everybody accepting the IP policy and

abiding by it[43]. The Village federation should take on the role of an educationist through the development of position papers, seminars, brochures and identify where the formal systems are being sabotaged by the political and social realities of the informal systems and call for third party audit to provide assurance to participants, and maintaining consistency in address equity issues[41]with the only step remaining as to how to package all these elements.

## Cash Profit Sharing

Needless to say that introduction of a PSP (Profit sharing plan) may improve affective commitment in exchange for social rewards (e.g., support, fairness and identity) and economic benefits[44] as. a portion of employees' wealth becomes contingent on the firm's profits influencing outcomes,attitudes and behaviors that improve[44] with employee objectives and shareholders interests getting aligned through agency theory affecting firms performance. Success hinges to on how employees understand (instrumentality perceptions) and (expectancy perceptions) i.e. how profits work out and the benefits derived thereafter and for factors beyond their control the prospects of a plan obtaining desirable consequences diminishes[44]. Employee Participation is a broad concept encompassing several formal participation schemes, like task performance collecting suggestions from employees about workplaces and shop floor issues against their complementary or substitutive character highlighting the need for the consistent message to be sent to the workers and the level of focus required[44].

As firm size affects employees' perceptions of their ability to contribute to their firm's profits more observed amongst workers at the lower levels of the hierarchy. in a large firm Therefore the connection between the individual's effort in the workplace and the firm's profit would be less clear for workers in similar organizations of this region also. Even incentive schemes are tied to team performance may not be effective as compensation is shared. However affective commitment would be more from male workers with advanced age and tenure in particular from those in high positions of the hierarchy as compared to those in the lower and unionized segment[44]. Even though the SEP (Simplified Employee Option) is the popular choice for clients who are not interested in saving a large amount of their income from the second job though it may not be the best choice as there are other options for this situation. [45]. As a general rule the SEP will cost less to establish and administer than the profit-sharing plan whereas there are fewer impediments to retrieving money prior to retirement when it is saved in a SEP than saved in a profit-sharing plan[45].

There are, however, a few advantages for a profit-sharing plan like a profit sharing plan allows for plan loans unlike SEP. The profit-sharing plan may also be a better choice if the sole practitioner is thinking of expanding and adding some employees[45]. Finally, if future employees are a consideration then the profit-sharing plan can use a cross-tested formula. This formula allows the owner of the growing small business to skew the majority of plan contributions to him/her. In a SEP, the only ability to skew benefits is to integrate the plan with Social Security producing a far less effective contribution allocation from the owners perspective[45]. Companies have to find intelligent ways to fund CSR and has to look out for ways in the war between pension or to a profit-sharing plan where same rules regarding eligibility, contribution limitations, distributions, and vesting as other defined contribution plans follow but differ chiefly in funding mechanisms where pensions are funded under a pension formula whereas profit sharing enjoy discretionary funding[46].

Now companies can rollout Profit-sharing plans with contributions allocated with some limits, under same rules applicable to target-benefit pension plans. It should be noted that the maximum employer deduction for a profit-sharing plan is limited to certain fixed percent of the total eligible pay, while pension plans can fund up to the lesser of stipulated percent of pay. Under some circumstances, it is possible for an older participant to receive a higher percentage of-pay allocation in an age-weighted profit sharing plan as compared to contribution deduction being limited to a fixed percent of total eligible pay — something no other profit sharing or money-purchase pension plan can achieve. It is usually seen that employer deduction for a profit-sharing is limited as compared to pension plans [46].

Defined-benefit plans specify the amount of monthly benefit to be provided at normal retirement age (NRA), This retirement benefit may be a percentage of pay multiplied by years of participation (say 2 percent of pay for each year) or a fixed percentage of pay (say 40 percent of final years' pay). In determining funding, an actuary)' converts the monthly benefit for each participant at normal retirement age into a lump sum. Then, based on a review of the current plan asset values and liabilities, funding is calculated over each participant's career to arrive at the projected lump sum value at retirement[46]. On the other hand, target-benefit plans ignore any actuarial gains or losses other than for benefit increases due to plan amendments and changes in a participant's pay. Thus, if a plan's binding is calculated on a 7.5-percent interest rate, but earns

15 percent, there is no reduction in contribution. Annual contributions are calculated by using actuarial factors defamed in the plan document. These factors are based on Regulator-defined interest rates and actuarial cost methods[46].

## Dual Class Structure

Even though firms with dual-class share capital structure are accused of diverting large sums of money, doling out inadequate compensation, cornering minority shareholder interests but enjoy the advantage of having easy access to manageable resources for promoting CSR activities[47]. Despite facing risks about any change in its capital structure, board independence, competence of its directors, financial health of a firm, transparency, executive compensation but the beauty in running the show lies in its ability to project its noble CSR activities and allow external auditors to play a key role in alleviating agency costs arising from the separation of cash flow rights and control rights despite paying high audit fees and minimizing investor risks[47]. Some studies do find that family-controlled firms, many of which have dual-class share structures, exhibit better stock market performances than widely-held firms because heirs generally take forward the vision of a founder or entrepreneur.

Though Dual Class shares on being transformed to a single voting class enhances firm's equity and reduces the cost of capital but it exposes the risks of a takeover bid following suboptimal firm [47]. Presence of coattail provisions work wonders allowing the holders of the non-voting or restricted voting shares the right to convert their shares into an equal number of the superior voting shares to retain control and protect minority stockholders in a takeover situation.[47] Though the economic bonding relationship with the auditors in a dual class structure is generally high because of agency problems and managerial entrenchment characterized by levels of ownership and divergence between cash flow rights and voting rights but doubts are cast on the audit negotiation process and financial reporting quality but receive more attention from regulators and researchers demanding for documenting the empirical link between

ownership of control and no audit purchases but company stands to gain as the focus of its vision does not get diluted as most of its supercritical trade secrets hardly get exposed[48].

Differential-votingright share classes allow managers to concentrate their holdings in the SV (Superior Value) share class, and the security of tenure thus obtained relieves them of the need to expand valuable corporate resources on resolving conflicts that might arise between themselves and other shareholders because of heterogeneous expectations, asymmetric information, or other market imperfections.[49] Substantial insider shareholdings may also be perceived as positive signals of firm value in this setting, just as they are expected to be in a single-class firm. Since managers can acquire voting power (and security of tenure) disproportionate to their personal financial investment, they may choose to invest more of their own capital in the firm than diversification motives sounds optimal.[49] RV (Restricted Value) shares will usually be created through relatively small cash issues that increase the operating capital of the new dual-class firms.[49] If investors are not fully informed of management's plans (perhaps for reasons of confidentiality),concentrated voting shareholdings allow managers to concentrate on a policy that maximizes long-term firm value even if the short-term implications of such a plan are negative[49]

## CSR for a Brighter Tomorrow for the Children of This Village Federation

### Should the income derived be reinvested?

The income flowing in from the four regions ABCD pouring into the coffers in the form of taxes, duties, service fees should used to invest in economies that have just opened up by removing the control on interest rates, by removing the ceilings on deposits on both domestic and foreign currency, by taking steps to enlarge the inter bank money market and fresh rules relating to capital adequacy, loan concentration, provisioning and interest accrual come up in addition to removing subsidized central bank rediscount operations if any[50]. Given that such economies would liberate but the village federation has to be careful by investing only in State Owned banks or Institutions because as a part of financial reform process these economies will allow expansion of foreign, state and private branch networks including Non Banking Financial Institutions signaling competition which with time would bring down the interest rates and the benefit of Early Bird Interest Margins cannot be had by the beneficiary in real terms and the federation has to look for other areas to invest as bold measures like devaluing of the exchange rate, further trade deregulation, elimination of direct instruments of monetary control with further development of the government debt market for its open market.operations [50]along with CBLO[51] where risks becomes higher with uncommon platforms of transaction supported with uncommon regional data infrastructure, uncommon risk controls and uncommon reporting tools in the repurchase agreement, securities lending, and over-the-counter derivative arena's [52]which might lead to excessive glut of credit, funneling inflation urging the government of that region to reign in checks before any off – balance sheet deals come to light. The idea of investing in overseas region is important in the context as the villages in the federation will witness capital accumulation proceeding too rapidly will become victim of poorly allocation of capital earned being reinvested in too many projects with zero or negative marginal returns[53].

New and small ventures in transition economies use network embedded ness to decrease transaction and information acquisition costs and develop resources and capabilities needed for internationalization where one is assured of assured orders and easy access to external

resources, and knowledge. Vertical ties yield manufacturing productivity along the supply chain, while horizontal ties enable the access to collective resources and joint product innovation. These collective resources in turn served as competitive currencies for SMEs to access global markets[54]. Moreover, any activity or action in the bazaar, however social, cultural or political in its manifestation, inevitably has an economic rationale as we should not therefore forget that corrupt behavior is almost always rational behavior based on optimizing payoffs and avoiding losses[55].

### Factors that would Ensure Sustainability

If it is the right of every business to flourish, it is also its responsibility to assist the growth of its employees, the society and the nation [56]against all the initiatives taken as there would be some localities expecting rapid economic growth, others would be still struggling with underdevelopment or stagnation, therefore changes would become difficult to anticipate and are even more challenging to control where the villages role in the federation would be to ensure knowledge creation through active collective learning at all levels where every citizen is able to understand and appreciate difficulties rather than perspective transfer of codified knowledge that would require relations based on partnerships for collectively sharing, generating and testing based on the traditional principles of efficiency and control attributed to a hierarchical community[57].

Knowledge exchange and generation evolving around actions designed to address visionary goals apart from peer reviews and research based reflexivity should be embedded in its actions and experimentation as with time as Practicing CSR will invite less attention from civil and human rights activists but also from both Cooperative – action and Direct Action NGOs[58] but the success of CSR can only be seen in terms of the robustness of the PMI for the region is achieved covering areas like production, new orders, product prices, inventory levels, employment environment, supplier deliveries, new export orders and imports[59]and paving the way for a diverse society to come up with solutions[60], modern values[61], overriding the levels of exploration and cohesiveness of a religion[62] that would be highly welcome.

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# University/College/School Research and Educational Laboratory Establishment, Maintenance and Improvement Standardization

**AbuAhmad Ashshaaf Zahid Khokhar**
College of Engineering Sciences, Department of Chemical Engineering,
King Fahd University of Petroleum and Minerals Dhahran-31261, Saudi Arabia

## Abstract

Certification and standards are made and established for all kinds of scientific, medical equipments regarding human diagnosis, clinical laboratories or material testing and many more. Procedures have been established of working in commercial laboratories and industrial sectors. But a large and basic portion of research and development labs and working environment has been ignored. No certification, no risk analysis, no safety procedures/ standards have been set for establishing research labs at college, university level for students and for researchers for educational purposes internationally. There are regulations for individual work place varying from place to place made by experts but set certification is absent for all and among all these. The health of working people in these labs is always in danger. This study is concerned with the issue of standardizing these educational and research labs of individual or of some institution or of some school/college/university. There should be a standard procedure to establish, maintain and improve a particular lab where particular equipment are available with particulate standard name and a check list for these labs should be available to monitor routinely for their continuous development, health, safety and research and technical use.

**Key Words:** International accreditation and Standard methods, Research in universities, Laboratory establishment, scientific management, Education Management

## Introduction

It is not surprising to check and ensure safety at any place but is always necessary in human life. From childhood to old homes every human step, wheel foot or machine second are a source of construction and comfort in life or deterioration and death of life. A drop can be a source of saving hundreds of lives or a weapon of mass killing. Unseen gases, spoiled solids or hidden liquids for years may be researched accidentally and handled with no care resulting unpleasant situations at university/college/school research and educational laboratories.

Certification and standards are made and established for all kinds of scientific, medical equipments regarding human diagnosis, clinical laboratories or material testing and many more. Procedures have been established of working in commercial laboratories and industrial sectors.

But a large and basic portion of research and development and teaching labs and working environment has been ignored. No certification, no risk analysis, no safety procedures/ standards have been set for establishing research labs at college, university level for students and for researchers for educational purposes internationally. Accreditation programs are run with already set forms based on few established institutions without considering local environmental vista.

## Problem Statement

A large and basic portion of research and development laboratories and working environment has been ignored. No certification, no risk analysis, no safety procedures/ standards have been set for establishing research labs at college, university level for students and for researchers for educational purposes internationally. There are regulations for individual work place varying from place to place made by experts but set certification is absent for all and among all these. The health of working people in these labs is always in danger. This study is concerned with the issue of standardizing these educational and research labs of individual or of some institution or of some school/college/university.

## Motivation

This study is concerned with the issue of standardizing educational and research laboratories of individual or of any institution or of some school/college/university. There should be a standard procedure to establish, maintain and improve a particular laboratory where particular equipment are available with particulate standard name and a check list for these labs should be available to monitor routinely for their continuous development, health, safety and research and technical use.

Procedures have been established of working in commercial laboratories and industrial sectors. But a large and basic portion of research and development labs and working environment has been ignored. No certification, no risk analysis, no safety procedures/ standards have been set for establishing research labs at college, university level for students and for researchers for educational purposes internationally. Due to recent advancements and increase in collaborations among universities it is also necessary to have common standards and internationally certified and accredited standards every where for teaching and research laboratories. So that one should not spend time to read different manuals at different places, just a standard xyz will tell him that whether he is familiar with this laboratory or not. For example, if at a door there's written 'pull', and one is pulling following the message whereas door is opened by pushing who will tell him to 'push'? The answer is 'his common sense'. But it will take time; even consume time in some cases varying from person to person and situation to situation. Fireman arriving first time on emergency call may break the door whereas old user will gently push the door and enter. This study focuses to save time in University/college/schools' laboratories where not only time is important but life is also on risk during research and experimentations.

## Discussions

To ensure a safe learning environment for university/college/school students these laboratories present many more potential hazards than the conventional classrooms, and it makes sense from everyone's standpoint to prepare for never have to handle situations. [1]

Regulating the safe operation of research laboratories, all laboratory rooms, principal investigators and laboratory workers should be registered with special registration requirements for dangerous equipments. [2]. It is well worthy to discuss here different plans, and definitions which are scatter in the various places written by experts and observers at different time. Some discussions are typed bellow for follow up and making an international certification program acceptable every where in universities/colleges and Schools. Computer laboratories are also now become equivalent to chemistry laboratories. Imperial college defined rules about use of computers or other display screen equipment to protect the health of those involved following regulations which have been set for long. [3]

The University of Minnesota is one of the most comprehensive public universities. It has its own safety plans saying that a typical laboratory safety plan describes policies, procedures, equipment, personal protective equipment and work practices that are capable of protecting employees from the health hazards in laboratories and intends to meet the requirements of the any set government laboratory safety standard. [4] Likewise, many universities and research laboratories have their own plans.

The University of Singapore is defining the chemical laboratory a place for serious work where constant attention is required to avoid accidents arising from carelessness or ignorance and indicated some of the more important sources of accidents in a Chemical Laboratory, and how such accidents may be avoided forbidding unauthorised experiments and working in the laboratory outside of class hours without permission [5]. Kansas State University discussed safety with carcinogens in research and teaching with various notes to prevent inadvertent exposure of personnel and the environment to carcinogens developing and implementing campus safety standards for the safety of the students, faculty and staff in research and teaching laboratories. In its plan a department safety coordinator, appointed by each department head, is responsible for chemical safety, chemical spill notification, emergency contingency plans, general laboratory safety, hazardous waste disposal and liaison with the division of public safety. [6]

The Pennsylvania State University laboratory and research safety plan has three sections: the general safety plan, rules and procedures, and the unit specific section. It provides information and guidance to help conduct laboratory and research work safely and in compliance with environmental health and safety regulations and University policy. It is a useful training resource for investigators and supervisory personnel. The general safety plan serves as a reference source for a broad range of general safety issues for laboratories and research areas [7]. Iowa State University has defined the purpose of University Laboratory Safety Manual as to provide users with information designed to ensure health and safety in laboratories. For particular laboratory situations the manual is served as a supplement with specific procedures developed allowing access to all laboratory personnel. [8]

The university of western Ontario has been producing research and teaching laboratory manuals and revising those as per need for the safe operation of a laboratory providing the minimum general guidelines, procedures and requirements for the prevention of accidents and exposure to chemicals, at the University to meet the requirements government safety acts. In one of its manual, health and safety responsibilities within the university community are defined as specific policy application for laboratory operation with basic emergency procedures and provision of information and standards for the healthy and safe operation of research and teaching laboratory. [9]

Anthropology Teaching Laboratory produced a handbook giving knowledge of awareness of safety and the maintenance of specific minimum safety standards and recommended strongly to use as a guide to safe working practice in the Laboratory. It reported that much of the information is common sense and individuals should be concerned for their own safety and for the safety of others at all times [10]. Michigan State University has set many strict rules and procedures to work in research and The supervising researcher meets with the volunteer worker and reviews all laboratory specific hazards and safety precautions. It is recommended that the Biological Safety Checklist be completed during this meeting. [11]

Dalhouse University states in its manual that laboratory-based programs are a vital component which provide a safe and healthful environment in the University's research laboratories and it is a shared responsibility of all those involved in laboratory programs, including the University, departmental chairs, laboratory supervisors, staff and students. This policy manual is also helpful in teaching laboratories and is a guide to exercise sound, professional judgment following the policies together with a safety training program for laboratory staff and students [12]. These are few to mention available text from various sources for their own institution. It is also noted that these rules and regulations are not carrying any certification or accreditation to establish new laboratories, maintaining old ones or doing extensions and modifications to old ones, putting new equipment to already space planned laboratories. There are regulations for individual work place varying from place to place made by experts but set certification is absent for all and among all these. The health of working people in these laboratories is always in danger.

As groups and individuals are doing research on open environment, degradation of materials due to environmental conditions and studying after effects of the materials usages [13] and curriculum and suggestions are constructed for class works [14, 15], the research and teaching laboratories are basic desks and closed environments which should be given priorities because the workers working in these areas are selected out of public. It is necessary to set detail procedures and certificates for all in one file. This is also necessary due to recent advancements in collaborations among universities to have one standards and internationally certified and accredited standards every where. An international dimension [16] is necessary now in this regard and circumstances. Management development scenarios have been discussed [17] and can be applied forming international workforce and committees to touch this issue considering as a challenge to management and like social investment [18] it needs numerous as well as extraordinary involvement of public and private. Service Sharing [19] models may be used to enhance usefulness of certified and accredited research and teaching laboratories for student's sack.

Certification and standards are made and established for all kinds of scientific, medical equipments regarding human diagnosis, clinical laboratories or material testing and many more. There are regulations for individual work place varying from place to place made by experts but set certification is absent for all and among all these. The health of working people in these labs is always in danger. The main concern is the issue of standardizing these educational and research laboratories of individual or of some institution or of some school/college/university.

## Summary

The literature available to set up particular forms, check lists for certifications, individual studies as well as manuals are abundant in numbers. Going through this type of literature

many common and scattered suggestions and procedure may be collected at one place. Particular government department e.g., Public works department should also be assigned responsible to take care of management and maintenance conditions of these research and teaching laboratories providing institution in detail as it takes care of schools, hospitals and roads etc. Safety and security department should not only safe guard the humans, properties as well as situations in general and specific research and teaching work places. A timely round is necessary for these purposes. Computer viruses are a good example now a day which necessitates keeping clean the hard disk of working PC from viruses as it is required to clean dustbin during daily work. The similar phenomenon is taking place on laboratory desk and research cabin. Both need timely cleaning and inspection before and after their use especially where anxious students are working. International Accreditation should insist institutions to send proposals to plan for a single for all procedure which should be inspected by them time by time and a factor of University/college/school research and educational laboratory establishment, maintenance and improvement standardization should be included in ranking them. Researchers put 'don't touch' messages and forget to remove these for long and cause a stop for others to work as well as building up dangerous products, gases etc there if drawers or cabins contained useable chemicals or equipment or reactive contents. Any thing available at any place should be used by the permissions and any one having key to that premises is allowed to use any thing inside that premises. Specific notices should be placed for specific properties by having signatures of in charge or coordinator of that place on specific form with clear mention of start use time and end use time. Equipment made for specific purpose should be used for that purpose. The person who is working at a place is the first one who has the right to work on that place after having lunch or vacations or performing other duties. If two desks are occupied with working equipments of some ones, one should not find place or make space in between. Any corner should be used or empty space should be found elsewhere. Things under use of others should not be used without permission, even should not be touched. Major concerns out of many are briefly discussed bellow to straighten out and settle other all types of issues involved.

There are many challenges which should be considered in this state. In general one can say that one requirement is always conflicted with some other factor. Procedures and actions for this particular issue should be look like to meet the objectives without interfering with some other work. Growing demand of any thing anywhere makes the environment to overlook many procedure and cautions. Some insistence on control to increase productivity results into violations of set rules. Obviously, the implementation depends on information and judgment. Decision is made according to what is known. Fortunately knowledge about the teaching and research laboratory procedures are manualled very finely. One has to dig it out to make an international code and ethics for all and for every where. Classification may be done according to institution level and research and teaching level as well as productivity level. More precisely classification can be done according to laboratory establishment, maintenance and improvement and its standardization. The factors which may be find useful for establishing any program in this regard: written procedures and communication, established system, committee and budget. It always will be useful after recognizing any laboratory of set international standards after all.

## Conclusions

As institutions are accredited and certified for particular purposes of teaching and research degrees, it is needed to certify individually the research and teaching laboratories,

internationally. That is, there should be an international standard procedures to establish, maintain and improve a particular research and teaching laboratory where particular equipment are available with particulate standard name and a check list for these labs should be available to monitor routinely for their continuous development, health, safety and research and technical use. Collaborations among universities necessitated to have common internationally certified and accredited standards every where for all teaching and research laboratories.

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# Systematic Achievement of Training Outcomes with the Benefit of Diagnosis


- **Burugu W. Rose**
  School of business and economics, Department of Hotel and hospitality management, Moi University, Eldoret, Kenya.
- **Kipsat M. J.**
  School of business and economics. Dean of the school, Moi University, Eldoret, Kenya.
- **Nathan Zingoni**
  ZIMFLAME, Zimbabwe
- **Thomas. B. B.**
  Lecturer based at the school of business and economics, Moi University, Eldoret, Kenya.



## Abstract

**Purpose** - The purpose of this paper is to provide hospitality practitioners with the tools for setting up effective training systems, with a clear goal of achieving the desired outcomes as per set training objectives.

**Design/methodology/approach –** In line with the systems approach theory, the feedback loop indicates that the acceptance of outputs by society, gives inputs for revitalization and development of human resources. With further analysis of trained hotel employees (n=161) the paper seeks to support active experiential learning. The focus is on creating an environment where trainers can be stimulated to think and act in ways that will help them make good use of their experience and training, more so, in the use of effective methods to achieve the training objectives.

**Findings –** The choice of training methods is an important antecedent in achieving the training outcomes, but, it would be more feasible with significant managerial support and adoption of structured training needs analysis action plans.

**Originality/value -** This paper gives an understanding of the need to train with the benefit of a diagnosis, to effectively achieve training outcomes using real world systematic training process.

**Paper type** - Research Paper


## Introduction

In recent years, the rapid growth of the hotel industry has called for emphasis on the importance of training outcomes for individuals and practitioners. These outcomes have been well described in terms of employment, educational, community development and personal development outcomes. Similarly, there has been a lot of emphasis on the delivery of the training that takes place to produce those outcomes and the need for extensive training to be carried out.

As the economy turns down, employee-training initiatives decrease, contrary to the increasing corporate needs as firms attempt to re-engineer work, transfer people and meet performance goals with the available resources. There is inadequate research in place on the formative processes take place for participating, prior to and following on from training delivery. While training centres in a wide array of organisations seek to provide services that would ensure effective training outcomes both for the benefit of the organisation and its human resources, the procedures sought are recommended to fit the situation, be valid, reliable and be implement able.

This paper analyses the effect of training methods and determination of training needs on achievement of training outcomes, in relation to the systems approach theory. Three component factors are introduced; first are the methods of training. These methods seek to improve chances of achieving training outcomes by guiding hospitality executives and trainers in managing the training and human resource development processes. With few exceptions, the literature reviewed invariably describes success in terms of outcomes or outputs. For example, success for individuals is achieved on completion of a qualification, on a job outcome or achievement of new skills. For the industry, successful training is defined in terms of meeting skills needs for a productivity or risk management outcome. Similarly for other stakeholders in education and training, the issue of success is discussed in terms of what comes out of the training.

## Training Outcomes

Training is a planned process involving a series of stages, through which skills are imparted to achieve a firm's objectives. It can either be at the work place, in which case it could be on-the-job training or off-the-job. These outcomes therefore refer to the collective package of skills acquired, knowledge gained and attitude changes of employees towards work that arises from the training. The outcomes are specified when the training is planned to indicate where improvements or changes are required, to make the training effective. The method for achieving desired outcomes varies with the communication of information, reinforcing and testing for verification. It is a primary method for meeting organisational objectives with its outcomes expected to provide numerous benefits including employee development through increased and (or) improved knowledge, skills and employee attitudes. However, hotel managers have not been keen to support this initiative. Many high and low skilled cadre workers in hotels are forced to stagnate in low paying jobs, with poor benefits and limited opportunities for career advancement (Smith, 2001). For such workers, professional knowledge and qualifications obtained through organisational support for continuing education and training (C.E.T) would be regarded as powerful tools for gaining access to the rewards of economic development created by the knowledge economy. Furthermore, as hotel managers increasingly seek to effectively train employees, adoption of measures that can ensure effective analysis of training needs and adoption of appropriate methods that facilitate the training process, remains a challenge.

## Variations in Achievement of Training Outcomes

For hotels in the least developed countries, like Kenya, there is a greater need to push for increased training in order to achieve the desired organisation goals and enhance the knowledge gained, skills and attitudes required. Theorists have been behind the current human resource practices used in hotels, with complex organisations still adopting styles that

are dominated by the collective needs of the organisation rather than the personal needs of the employees. This has caused a rising tension between collective and individual priorities in the organisation.

While it is apparent from the literature reviewed that successful outcomes for industry are related to meeting skills needs, ensuring productivity and competitiveness, there is little in this literature that suggests what the determinants of success are. (Dawe, 2003) notes three key determinants: an organisational culture that supports learning; mechanisms to link training to the business strategy; and mechanisms to link training to workplace change. While there is a significant body of research that shows quite clearly that training produces a number of outcomes for participants, organisations and communities (Blom & Clayton, 2004; Kearns, 2004; Kral & Falk, 2004), there is not as much known about the ways and processes that produce these outcomes. Moreover, success in education and training was often considered simplistically and with assumed meanings. For example, the unstated assumption in the phrase 'successful course completion' could be one of a number of possibilities: graduation, passing, moving on to the next phase, competent, regular attendance or getting to the end (regardless of passing or failing).

Successful outcomes for individuals are often referred to in terms of relevance to employment, satisfaction, achievements against the desired purpose (NCVER, 2004) and completion of a training contract (Robinson, 2001). 'Competence' rather than graded performance is used for assessment, leading to subjective judgments about what constitutes excellence in employee training (SEWRSEBC, 2000; Smith, 2000). With this regard, hotel management and other practitioners further perceive that most catering and hotel jobs require little or no experience; a very erroneous perception. Employee training must be offered with the benefit of a diagnosis with hotel managers considering focusing tremendously on developing the most superior workforce, including lower cadres to ensure successful response to training programmes by employees. These training needs have to be identified and invested in, for the development of hotel's human resources within coherent and comprehensive frameworks and training methods. Competent employees will not only provide a significant competitive edge, but also ensure that skilled people are available and ready to meet the present and future needs of the rapidly growing market.

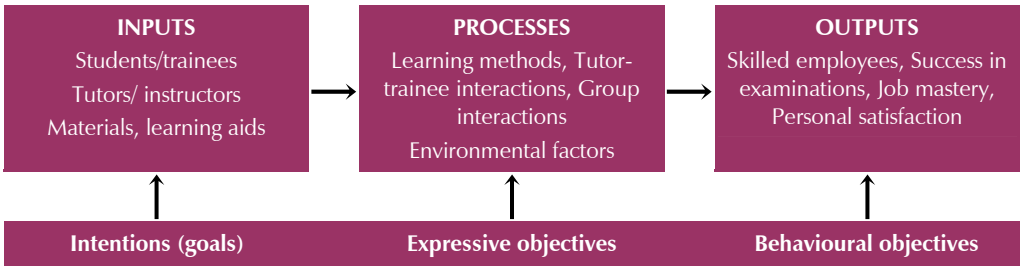
With the increase in the number of hotels and hence employees, it is expected that there should be sufficient and close follow-up by management in providing adequate support to the employees and the work processes. This enhances the direction, intensity and persistence of learning directed behaviour, whose importance and consequences have received little attention; and if left unchecked, could upset the desired outcome.

## Theoretical Model and Hypothesis

The systems approach theory is based on the concept that the organisation is a system or an entity of inter-related parts. It is used to regard an organisation as an open entity, one that interacts with the environment. The organisation transforms inputs into outputs and supplies them to the outside world. The feedback loop indicates that the acceptance of outputs by society gives the organisation new inputs for revitalization and expansion. The use of the systems approach to training is a traditional but productive way of undertaking employee training (Bennet, 1997). The rationale for using the systems approach in the training process derives from the fact that the hotel industry is a multifaceted phenomenon involving many

variables, activities and interest groups. Therefore, training the employees in the industry needs to be approached in an integrated and holistic manner.

**FIGURE 1:** Objectives in Learning (Cole, 2002)




**Source:** (Cole, 2002)

This systematic approach to training and development follows a logical sequence of activities commencing with the establishment of a policy and the resources to sustain it, followed by an assessment of training needs, for which appropriate training is provided and ending with some form of evaluation and feedback. If one part of the system is adjusted, the other parts will be affected automatically. The model as applied, traces the steps necessary in the training process: organizational objectives, needs assessment, are there a gap?, training objectives select the trainees, select the training methods and mode, choosing a means of evaluating and lastly administering the training. The last part of this process entails identification of new and on-going development needs and how they affect training outcomes in eventuality as the cycle goes round (Kenneth, 2001). There are various advantages of the adoption of a systematic approach to training. With a well trained workforce, the organization will deliver high standard of goods or services, probably in a more cost-effective manner than others and thus have a better chance of achieving organisational goals, be they profit-oriented or service-oriented.

It is therefore assumed that if a trainee expects that effort expended will result in valued outcomes, the trainee will be more motivated to learn the material presented in the training programme, further demonstrating higher levels of training motivation. Researchers have further found that a participant's level of training motivation will influence his or her preparation (Mathieu, 1992; Tannenbaum, 1991; Tracey, 2001); how he or she responds to a programme (Colquitt & Simmering, 1998; Mathieu, 1992); how much he or she will learn during the programme (Baldwin, 1991; Mathieu, 1992) and his or her performance levels (Hicks & Klimoski, 1987). This further affects, the level of knowledge and skills acquired during the training programme and transferred to his or her job (Axtell, 1997; Chiaburu & Marinova, 2005). This model also identified outcomes of training as learning outcomes, transfer and job performance. Employees with high self-efficacy set themselves challenging goals and maintain dedication to them. They approach threatening situations feeling assured, and they intensify and sustain their efforts when confronted with failure. Conversely, people with low self-efficacy have low aspirations and weak commitment to their goals. They dwell on their individual inadequacies and focus on all possible obstacles. When confronted with failure they lower their efforts and tend to give up sooner (Bandura, 1977).

## Factor Analysis Results

Factor analysis was significantly used in the quantitative analysis to facilitate the variables discussion in the first part of the paper which was largely qualitative. Both however, had deductive and inductive analysis strategies built in. Sixteen (16) indicators of the effects of methods on training were used to measure the extent to which they affected training outcomes. This led to the identification of key methods with differentiable characteristics, strengths and weaknesses: that would lead to excellence and desired training outcomes. Consistent with the qualitative nature of analysis of responses, correlation provided training methods that were significant and subjected further for factor analysis to reduce them into a few principal components. The research design allowed for exploration of more generalisable principles and adequate external validity (Merriam 1998:40; Stake 2000:437) so that findings could be applied to other African regional contexts. Essentially, the findings presented in this paper are drawn from the question of whether various methods of training enhanced achievement of training outcomes. Factor reduction provided three significant components considered as significantly affecting training outcomes in the research considering various methods adopted; derived from the five-point Likert scale type questions. Cronbach alpha analysis for reliability on the sixteen (16) items showed internal consistency. The determinant was 0.001, showing that multicolinearity was not a problem. The Kaiser-Meyer-Olkin of sampling adequacy was above the threshold of 0.5 (*KMO*=0.791) indicating that the sample size was adequate for the variables entered into analysis. Items loading greater than 0.4 for each component combined to form the three factors namely; inputs and processes in involved in the training method, the training environment and the training delivery process as factors affecting the outcomes of employee training in the hotel industry. Refer to table 1.1 below.

**TABLE 1:** Training methods total variance explained of factors affecting training outcomes survey data Nairobi, 2009

| Component factors | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1. Training Delivery | 4.364 | 39.674 | 39.674 | 4.364 | 39.674 | 39.674 |
| 2. Inputs and processes in methods | 2.593 | 23.572 | 63.246 | 2.593 | 23.572 | 63.246 |
| 3. Training environment | 1.098 | 9.979 | 73.224 | 1.098 | 9.979 | 73.224 |

Extraction Method: Principal Component Analysis.

**Source**: Survey Data (2009)

### Component factor 1: Training Delivery

With the need identified, effective motivators in place and adequate enablers to resource training present, training delivery had to be effective to track effective outcomes. The findings presented may not be necessarily absolute since it may be clearly difficult to delineate between the significant building blocks for effective training outcomes. The use of a diverse range of training methods was not conclusive. They had to relay the right content to meet the training needs and thus the training outcomes. Job instructions, written exams, learning from workmates, coaching, group discussions, case studies and written projects were among the methods widely used for training. It was critical though, to consider which method was best for each session and to have a training location that was free of any disturbance. Off-the-job training was considered very significant as all the time was devoted to training unlike training after work where trainees were exhausted and with very low concentration levels. The frequency of training was also considered and very essential to keep employees up to date with the industry trends. The hotels only offered training when organizational need arose and a 'dire' need for that matter, of which most of the employees felt they had a stake too in the success of the hotel and training processes. They required diverse training, over a period of

time, to learn and be equipped with more skills. Despite the fact that some department heads prepared training programmes which spread throughout the year, some management teams could not conceptualize the advantages and disadvantages of a variety of the programmes to specific units.

These un-systematic training procedures coupled by inadequate input from line managers and the training units, led to various set objectives not achieved including: Maintenance of a sufficient and suitable range of skills amongst employees, the development of adequate skills and knowledge in the workforce, the harnessing of work experience and other forms of on-the-job development in a planned way, achievement of improved job performance and productivity, improved product quality, improved service to customers, increased motivation amongst employees, increased job satisfaction, increased personal repertoire of skills, and increase in value of employee in the labor market and improved prospects of internal promotion. It is therefore very essential for management and personnel responsible for training, to develop and follow a systematic process where employee training needs are to be identified, relevant training carried out and evaluation done to provide solutions for improving future training sessions.

Despite the high proliferation of public and private hospitality training institutions offering certificate and middle level training being evident during the time of research and the hotel and tourism industry increasingly being well equipped with professional practitioners in all cadres, the level of education has to be further justified. Reason being, most of the training outcomes were viewed to be significantly affected by employee attitudes, motivational and environmental factors rather than the acquired level of education. The employees had very little impact on the training programmes offered and received very little information, if any, from the managers on the plans on various training sessions. The training programmes were developed and presented for implementation of which some of the training content was not directly related to the desired outcomes for various tasks. Furthermore, despite the fact that most of the employees were graduates, they were recruited to perform odd jobs that were more hands-on like reservations, clerks and not relative to stipulated job descriptions. This led to significant irrelevance of the training programmes and employees were not in a position to precisely gauge the expected level of outcome after training since programmes were tightly structured and imposed unilaterally for the organisation to achieve training outcomes. It was really essential for management to consider participative forms of training, where trainees jointly decided with trainers and management on their training needs coupled with flexible training methods and programmes.

Furthermore, due to the seasonal nature of the hospitality and tourism products and services, the diverse range of skills required by different number of personnel may not be achieved and quickly developed by relying on work experience or employees trying to learn together, given the high turnover facing the industry. Some of the tasks are highly specialized and complex and this was the case when dealing with property management systems, kitchen production for the chefs, business centre computerisation and engineering. Some of the employees were unable to master the skills on their own initiative at a reasonable speed. Moreover, hotels having learning needs common to a number of employees to be met sought for properly planned training programmes. This will enable for critical information to be imparted to employees, to meet expected training outcomes. Also, there were significant variations in employees' levels of education. A critical analysis of these situations would help management improve employee training motivation and employees' level of satisfaction. It would be a good cause of action to improve the negative attitudes shown by some of the employees,

management and trainers during and after training. Moreover, convenient time schedules should be developed to facilitate a better environment and framework for continuing education and training.

Outsourcing training facilities on the other hand plays a big role in acquisition of diverse skills from experienced human resource practitioners who seek to bridge the gap of 'monotony in knowledge sharing'. It is highly recommended as a way to enhance the achievement of up-to-date training outcomes in hotels that suit the ever-changing business environment. However, due to the highly expensive rates on contracts that come with this endeavour, there has been far less research and use of the decisive processes prior to and following employee training delivery. To offset this discrepancy that sees inadequate achievement of the desired training outcomes experiential learning, 'where the learner has freedom of choice, action and capacity to initiate rather than simply respond to circumstances' is essential to oversee evident change in training.

Hotel managements should aggravate the data collection procedures and interpretation of the training needs to achieve desired training outcomes. The hotels adopted very few if any sufficient methods for determining training needs. Failure to meet job targets by employees, materials wastage and high employee turnover were some of the factors considered significantly in determination of training needs. However, there is need for hotels to include and increase the use of appraisal records, training reports, aptitude tests, customer complaints and observations or otherwise determine the best that suit their environment to ensure effective training preparation as the central plank to achieve desired training outcomes. They ought not to stick to the training culture of the organisation, which at times does not meet the set employee and organisational needs for training. Lastly, the training needs survey action plan should be adequately prepared. This will make sure that the concerned employees clearly understand the need to achieve the training objectives – from the process of data collection, interpretation of the needs, development of an action plan and possible recommendations made. Such a measure ensures that the objectives to be met are achieved, without any form of bias in any function in the hotel and with a lasting impression with the use of off-the-job training methods inclusive of case studies, written projects and group discussions. However, off-the-job training methods should be adopted despite the nature of hotel operations where employees work in shifts and the need to minimize on costs of training by the management. Moreover, adequate guidance should be provided to inform hotel training teams on suitable methods to use in various training sessions. It is also desirable that once training needs are appropriately ascertained and relevant programmes developed, training methods should be appropriately selected and not almost by default as it was the case to reduce the discrepancies occurring in the achievement of desired training outcomes.

The managers' support for training was found to be a significant factor affecting employee-training outcomes. Without managerial support, a lot of the essential procedures that oversee effective training outcomes are neglected. Most of the managers had the basic command on the facts of training which made decisions on training tilted more on achieving the organization's needs rather than the occupational and job level goals of the employees. Despite the fact that executives listened to employee proposals and were committed to training, they should further seek experts to deliver training to enhance effective training processes. However, there should be a balance in the training of various employees. All line managers given the responsibility to train should give employees an equal opportunity for training and thus stay motivated at work. This would not only improve the psychological contracts, made between the employees and employers to achieve the specific goals of the hotels but also seek to attain occupational

and job-level goals as they develop their careers. Managers have over the years tried to assess employee performance, but they are yet to develop and adopt measures that would give equal opportunity to employees for development and thus effectively achieve set objectives. Despite the fact that the choice of training methods is often deemed insignificant and identified as the least factor influencing achievement of training outcomes in comparison to the employee training needs and managerial support for training, it remains a significant factor affecting training outcomes as depicted in this research.

### Component Factor 2: Inputs and Processes for Effective Training Outcomes

Training methods essentially discuss the means by which the management-training units intend to communicate information, ideas, skills, attitudes and feelings to the learners. These methods are crucial elements in the trainers' success. There is need for these methods to be critically identified while clearly distinguishing the appropriateness of the methods to communicate and disseminate the desired knowledge, develop employee skills and attitudes. Without appropriate consideration of when different training methods may be effectively used, by different employees and the type of training to be carried out, its inputs and processes, training outcomes were seen not be achieved. Three important precursors to effective training outcomes were identified; needs identification, motivators and enablers, which were discussed in light of the systematic process of training. The results suggest that it's a paramount step to identify employee-training needs from the individual, organization, provider and community at large, in order to establish a reliable basis for training.

A key ingredient of the programmes cited by respondents was seen to be portraying values particular to hotels and tailor-made to meet set objectives and strategic goals of a single function in the various categories of work. Indeed, the hotels saw the need and the trainers worked hard to fulfill it, but only ended up achieving specific needs set by the organization. As a foundation for achieving training outcomes, the training teams have to identify the needs and correctly match a training program to meet the same. Furthermore, it is essential for creation of a foundational level, in the personal plane other than a general perspective bound to the organization, as this would enhance trainee-employer aspirations. Being practical and offering lots of personalized services, the chefs and cooks in the hotel industry were appropriately trained contrary with the same methods used in the training of the engineering staff, human resources or marketing and thus inability to achieve training outcomes in the later departments. The kitchen, restaurants and house keeping departments preferred on-the-job training methods because of the technical and more practical aspects of the job. However, off-the-job training was a preference to all, with the obvious assumption that the technical departments would be provided with working labs away from the workplace.

### Component Factor 3: The Training Environment

If the identification of needs provides the reason for training, motivators and other environmental factors would certainly provide the impetus for training. This came from a number of sources including, the individual; management; community and other financial incentives. They were generally applied to individuals in the form of increased income and profitability of the firm through improved productivity. Some of the respondents identified their personal desire to attend the trainings and need for vocational training as factors that enhanced their self esteem and more so their loyalty to the organization. Having a better environment would enhance achievement of training outcomes. Despite the fact that government was not seen to be leaders in terms of generating impetus through leadership,

they were a motivator in provision of funds; a significant incentive, especially for providers. It was not just 'funding' but 'long term funding'.

## Conclusion

The findings point to a number of inputs and processes required to make training outcomes effective. First, a need has to be identified by stakeholders, including participants, to establish the reason for training. Second, there must be an adequate motivator or incentive to establish the impetus for training. Third, there must be enablers, which provide the human, physical and financial resources to ensure the training can be effectively delivered. Respondents indicated that effective delivery means more than 'good content'. It needs to be characterised by a variety of things including flexibility, enjoyment, engagement and adequate support. It also needs to be accompanied by a number of processes, including development of positive relationships, effective coordination, proper planning and evaluation processes and worthwhile recognition for participants. Finally, effective training delivery will lead to positive identity formation. Training that does lead to a meaningful application— paid or unpaid—is often accompanied by an improved sense of self worth and the ability to contribute to the intended purpose above and beyond what was previously thought to be impossible. The findings presented in this paper therefore suggest that in order for the desired training outcomes to be effectively achieved; the above factors have to be considered. Despite the fact that training methods were least identified as affecting training outcomes, it is paramount to ensure that the choice of training method is feasible and affordable to avoid imposing methods that may not effectively achieve training outcomes. Furthermore, employees' response to training methods remains an important antecedent affecting the achievement of employee training outcomes in hotels.

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# Human Resource Practices and Organizational Performance: A Study of Nepalese Banking Sector

❑ **Dhruba Lal Pandey**
Faculty Member, Central Department of Management, TU

## Background of the Study

Over the last few years, a number of debates have taken place in the field of human resource management (HRM) such as the difference between personnel management and HRM (e.g., Schuler & Jackson, 2005; Wright, Snell, & Dyer,2005); the strategic nature of HRM (e.g., Martin-Alcazar, Romero-Fernandez, & Sanchez-Gardley, 2005; Schuler & Jackson, 2005); HRM as a source of competitive advantage (e.g., Chan, Shaffer, & Snape, 2004; Delery, 1998); and the extent to which HRM can help to improve the firm's performance (e.g., Paauwe, 2004; Paauwe & Boselie, 2005; Schuler & Jackson, 1999, 2005). In relation to the last debate, three perspectives emerge from the existing literature—universalistic, contingency, and configurational (e.g., Guest, 1997; Hoque, 1999). The universalistic perspective posits the "best practice bundle" of HR practices, implying that business strategies and HRM policies are mutually independent in determining business performance (Arthur, 1994; Brewster, 1999; Claus, 2003; Huselid, 1995; Ichniowski, Shaw, & Prennushi, 1997; Pfeffer, 1994). The contingency perspective emphasizes the fit between business strategy and HRM policies and strategies, implying that business strategies are followed by HRM policies in determining business performance (Gomez-Mejia & Balkin, 1992; Huselid, 1995; Schuler & Jackson, 1987; Youndt, Snell, Dean, & Lepak, 1996). The configurational perspective posits a simultaneous internal and external fit between a firm's external environment, business strategy, and HR strategy, implying that business strategies and HRM policies interact according to organizational context in determining business performance (Arthur, 1994; Delery & Doty, 1996; Guest & Hoque, 1994; Huselid & Becker, 1996; Ichniowski et al., 1997).

The literature also highlights that most studies examining the relationship between HRM and organization's performance have been conducted in the United States and United Kingdom. Recently, a few investigations have been initiated in other parts of the world, especially in emerging markets such as China (e.g., Ahlstrom, Foley, Young, & Chan, 2005; Deng, Menguc, & Benson, 2003) and in transitional countries such as Slovenia (e.g., Zupan & Kase, 2005). Nevertheless, although it is well accepted that HRM is positively related to organizational performance, there is a great need for additional robust and quantitative evidence to support the HRM-performance link (Gerhart, 2005) and investigations from different contexts (e.g., Ericksen & Dyer, 2005; Wright et al., 2005).

The universalistic perspective posits the "best practice bundle" of HR practices, implying that business strategies and HRM policies are mutually independent in determining business performance. Claus (2005) makes an appropriate comment in this regard: "This is a concern because it seems unlikely that one set of HR practices will work equally well no matter what context."

To fill this gap and to further examine the existence of such a relationship, it is important to conduct research in non-U.S. /U.K. contexts. The universalistic model of HRM, as an ideal set of practices, suggests that a specified set of HR practices (the so-called "best practices") will always produce superior results whatever the accompanying circumstances. Proponents of the universalistic model (e.g., Claus, 2003; Huselid, 1995; Pfeffer, 1994) emphasize that "internal fit" or "horizontal fit" or "alignment of HR practices" (i.e., the case when the organization is developing a range of interconnected and mutually reinforcing HRM policies and practices) helps to significantly improve an organization's performance. In this regard, the works of Delaney, Lewin, and Ichniowski (1989), Terpstra and Rozell (1993), Huselid (1995), Pfeffer (1994, 1998), Delaney and Huselid (1996), Ichniowski et al. (1997), and Huselid et al. (1997) highlight a number of lists of "best practices" that constitute "best practice bundles" or the "high-performance work systems," which are accompanied by high business performance, and thus, support this type of fit.

The universalistic approach identifies HR practices that are universally applicable and successful. The convergence thesis, to a one best way of doing things, has received support from the universalistic paradigm, dominant in the USA (Brewster 1999). The argument here is that competitive pressures will push nations to correct flaws in their system by adopting global "best practices" (Groenewegen 1997). Another approach is contextual approach. The contextual paradigm, common in Europe, has been best on the assumption that contextual factors can contribute to a distinctive form of HRM all over the world or in the different clusters of the countries (Brewster and Larsen 2000). This approach considers to the cultural and institutional aspects of the countries or organizations. This approach examines the interactions between HR practices, contingency factors and firm performance. Industry, sector of activity, size, ownership, organizational strategy and structure are some of the factors that influence HR activities and performance (Delery and Doty 1996; Fombrun, Tichy and Devanna 1984; Schuler and Jackson 2005). This study followed the best HR practices and outcomes of HR practices. In Nepal, various studies are conducted in the field of HR separately like; Adhikari (2003) suggests that there have been no significant changes at firm level HR policies and practices even after the changes in the economic and political priorities in the last decade. Nepal is still at the initial stage of development of human resource management. Personnel management system is still preoccupied with operational issues rather than managerial one. HR planning and practices are not in the priorities of Nepalese managers. Nepalese decision makers are still in position to hold power rather than delegate. Adhikari (2010) found that in order to manage PM in Nepalese organizations a clear link between organizational objectives and outcomes should be established by developing a human capital base in organizations. HRD professionals help to integrate HRD functions and organizational objectives by creating a learning environment. Pant (1993) found that Nepalese manpower had not been able to take full advantages of the new jobs created by development activities because they had not had sufficient opportunities to learn the requisite skill. Country was not investing in human capital and organization takes training as a cost. No HR policies and opportunities to improve their educational and skill level. Rai (2008) found that no training and development and promotion policies were set in the tea industries of Nepal and low priority is given to planning, recruitment, selection and development of HR in the tea sector of Nepal. Pandey (2008) found the positive relationship between expected training benefits and organizational commitment as well the financial performance, but impact of HR practices linking organizational performance is untouched one. Thus, this study is new study considering to the Nepalese sample. Simultaneously, these sorts of studies were conducted in US and European continent. Recently this sort of studies were undertaken in the Asian countries which have a sound economic

position like India, China, Singapore but this study helps to generalize the universalistic thesis in the least developed country's settings too.

This study used universalistic approach of HR practices to study the impact of Human Resource Management and contingent approach to study performance outcome (commitment, satisfaction, high productivity, innovation). This study saw the impact of HR practices on performance based on these two approaches. The present study addresses a central research question: how do human resource management practices contribute to performance? Main aim of this study was to see the impact best HR practices bundle on the organizational performance domains as proposed by the study.

## HR Practices

Some of the researchers have attempted to categorize HR practices in terms of a high performance work system. A number of scholars have provided the required rationale for the inclusion of HRM policies to these key areas:

- *Resourcing:* recruitment (Boxall, 1996; Horgan & Muhlau, 2005; Marchington & Grugulis, 2000); selection (Phillips, 1996); separation (Foot & Hook, 1999); and flexible work arrangements (Foot & Hook, 1999)
- *Development:* individual and team training and development (Boxall, 1996; Dolan, Mach, & Olivera, 2005; Horgan & Muhlau, 2005; Marchington & Grugulis, 2000; Pfeffer,1998); monitoring training and development (Fey, Bjorkman, & Pavlovskaya, 2000; Foot & Hook, 1999); careers (Fey et al., 2000; Paul & Anantharaman, 2003); work design (Patterson et al., 1997); and performance appraisal (Koch & McGrath, 1996; Latham & Wexley, 1981; Pfeffer, 1998; Snell & Dean,1992; Terpstra & Rozell, 1993)
- *Reward:* job evaluation (Foot & Hook, 1999; McNabb & Whitfield, 2001); compensation (Dolan et al., 2005; Paul & Anantharaman, 2003); promotion arrangements (Guest, 1997; Pfeffer, 1995); incentive schemes (Gomez-Mejia & Wellbourne, 1988; Horgan & Muhlau, 2005; Marchington & Grugulis, 2000); and benefits (Mowday, Porter, & Steers, 1982; Paul & Anantharaman, 2003)
- *Relations:* employee participation (Harel & Tzafrir, 1999; Pfeffer, 1994); employee involvement (Marchington & Goodman, 1992); communications (Marchington & Grugulis, 2000; Pfeffer, 1994, 1998); and health and safety (Phillips, 1996)

Taking into account the arguments about the countless combinations of HR practices (Doty & Delery, 1997), the importance of focusing on possible HRM policies (Becker & Gerhart, 1996), and the systems view of aggregation of individual HR practices (Ferris et al., 1998), the approach followed in this study is to consider all the HRM policies indicated above. After all, the most commonly mentioned HR practices could be used to elicit different role behaviors under different circumstances (Becker & Gerhart, 1996). Further, considering that the evidence with respect to organizational convergence and divergence in contingent employment practice in Europe suggests that the used HRM practices remain distinct across Europe (Tregaskis & Brewster, 2006), and that the generalizability of HR practices across countries depends on the characteristics of the specific country (Brewster, Sparrow, & Harris, 2005; Gerhart & Fang, 2005).

The chief strategic goal of a business is higher financial performance or maximization of wealth for the shareholders (Becker & Huselid,1998; Horngren, Foster, & Datar, 2000; Paul &

Anantharaman, 2003). Although this is probably true for stock market quoted businesses, it may be not true for all Greek businesses where status and ensuring family succession would come before short-term profit objectives. However, achieving the organization's long-term ultimate objective (e.g., profits) will obviously depend on the degree to which its organizational performance is reached (Delaney & Huselid, 1996; Delery, 1998; Huselid, 1995). Organizational performance is usually indicated by indices as:

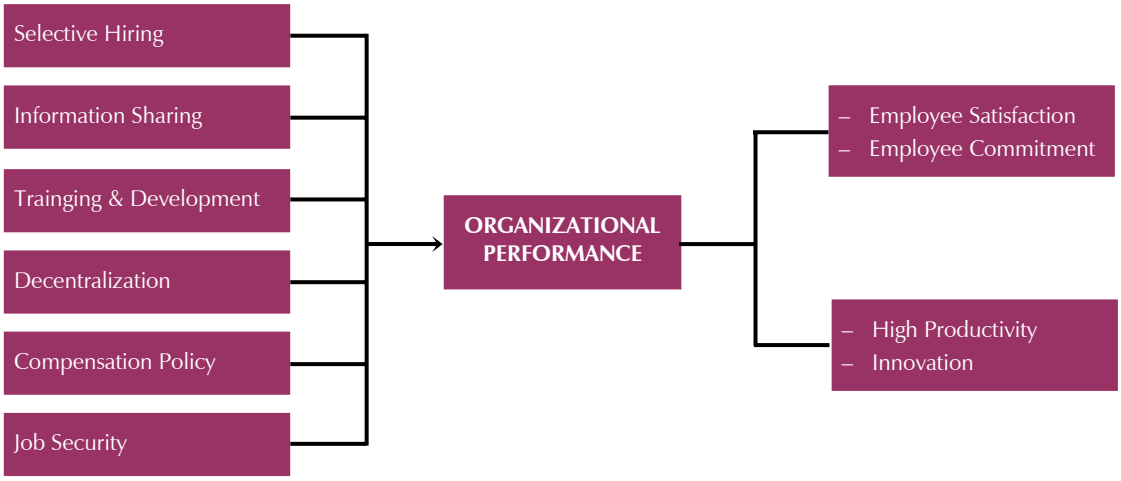
- *Effectiveness:* if the organization meets its objectives (Dyer & Reeves, 1995; Ostroff & Schmitt, 1993; Rogers & Wright, 1998)
- *Efficiency:* if the organization uses the fewest possible resources to meet its objectives (Dyer & Reeves, 1995; Ostroff & Schmitt, 1993; Rogers & Wright, 1998)
- *Development:* if the organization is developing in its capacity to meet future opportunities and challenges (Phillips, 1996)
- *Satisfaction:* of all participants; stakeholders, employees, and customers (Delaney & Huselid, 1996; Kalleberg & Moody, 1994)
- *Innovation:* for products and processes (Guest, 2001)
- *Quality:* % of products of high quality (Delaney & Huselid, 1996; Kalleberg & Moody, 1994; MacDuffie, 1995; Richardson & Thompson, 1999).
- *Commitment:* loyalty towards the organization ( Noe &wilks,1980)

## Theoretical Framework

A growing body of empirical research has examined the effect of certain HRM practices on organizational performance. Although there is a long list of best HR practices that can affect either independently or in bundles on the organizational performance, results are hard to interpret. In order to examine the effect of HR practices on firm performance in the Nepalese context, researcher chose to examine the effect of HR practices initially proposed by Pfeffer (1998) which, according to the literature, can be expected to influence the firm performance.

Pfeffer (1998) proposes the following seven HRM practices: (1) employment security; (2) selective hiring; (3) self-managed teams and decentralization of decision making; (4) comparatively high compensation contingent on organizational performance; (5) extensive training; (6) reduced status distinctions and barriers, including dress, language, office arrangements and wage differences across levels; and (7) extensive sharing of financial and performance information throughout the organization. A growing quantity of empirical evidence suggests that the HR practices proposed by Pfeffer (1998) have a significant effect on various setting. For instance, Ahmad and Schroeder (2003) attempted to generalize the findings of the impact of seven HRM practices, proposed by Pfeffer (1998), on operations management of the industries. The findings provide overall support for Pfeffer's HR practices. Guest ( 1997) proposed a typological model relating to the HR functions and their impact on HRM outcomes, behavioral outcomes, performance outcome and financial outcomes which is accepted by various researchers having empirical tests. Study of Apospor et al ( 2008) and Vlachos (2008) also supported to the findings of Pfeffer i.e. positive relationship between HR practices and organizational performance. Various studies supported to this typological model. So, the following theoretical framework is developed:

**FIGURE 1.** Relationship between HR practices and organizational performance




HRM practices should be designed to lead to HRM outcomes of high employee commitment, high quality staffs. High quality has been assessed using standard measures and based on the measures suggested by Mowday and Noe and Wilks. High quality staff refers to the capabilities and to the knowledge and skill of staff. Guest ( 1997) showed the relationship that HRM practices increases the commitment. Pfeffer in his study supported to the proposition. It is essential to measure impact of HRM practices to organizational performance. The theoretical framework showed the process how HR practices impacts to organizational performance. Guest (1997) Suggested that HRM practices do not directly impact on the organizational performance it goes through certain outcomes. First of all, it generates the HRM outcomes, and then behavioral outcome then performance outcome and ultimately the firm performance

## HR Practices and Employee Satisfaction

Employee satisfaction is one of the HRM outcomes that prevail according the HR practices in an organization. Guest and Conway (1999), based on a survey of 1,000 UK workers, were able to show the association with higher level of satisfaction. The study further intensified that the presence of the HR practices rather than the union had the major positive influence on level of job satisfaction. Guest (2002) showed evidence that workers' attitude and behaviors mediate the HRM performance relationship and that certain HR practices are associated with higher work and life satisfaction. Another study explore the idea that satisfied employees will perform their work more effectively which underpins many theories of performance, leadership, reward and job design (Batt,2002; Cherns, 1976; Hackman & Oldham, 1976; Pfeffer, 1991). Yu and Egri (2005) found that several HR practices were related to job satisfaction. Yu and Egri (2005) found that several HR practices were related to job satisfaction and affective organizational commitment of employees working in a JV and an SOE. Green et al. (2006) reported that organizations that vertically aligned and horizontally integrated HR functions and practices performed better and produced more committed and satisfied staff. So, the following hypothesis is developed:

**H1:** HR practice is positively related to employee satisfaction.

## HR Practices and Employee Commitment

Organizational commitment is one of the HRM outcome as mentioned in the framework given by Guest (1997) for linking HRM and performance. Organizational commitment basically reflects two dimension of human behavior, first the relative strength of an individual's identification with and involvement in, a particular organization. Employees are seen to be emotionally attached, identify with the organizations, and are therefore committed to pursue its goal. The research conducted in Nepalese perspective in this regards by Gautam (2003 ) shows high relationship between the HR practice and affective commitment and moderate in normative commitment, The nature of organizational commitment observed in Nepalese sample seems very favorable in management perspective. Hogg (1996) has suggested that best HRM practice as he termed internal marketing could be the answer to gaining employees commitment, succeeding where traditional internal communications program have failed.

Despite the limited empirical support for a job-involvement-turnover relationship, the potential importance of an interaction between organizational commitment and job involvement was proposed in recent theoretical work by Blau and Boal (1987). They predicted that various combinations of organizational commitment and job involvement will have distinct consequences for organizations. The presence of multiple empowerment-related practices is likely to signal a coherent organization wide commitment to employee empowerment (Bowen & Ostroff, 2004), which is likely to result in reciprocation in the form of in-role and extra-role behaviors. Theories based on the notion of employment as a social exchange (e.g., Blau, 1964) suggest that the availability of various inducements, such as pay, benefits, and internal mobility, can lead employees to perceive their organization as valuing their contributions (Allen, Shore, & Griffeth, 2003; Rhoades & Eisenberger, 2002) and oblige them to reciprocate by holding positive attitudes toward the firm and engaging in favorable job-specific and discretionary or citizenship behaviors (Wayne, Shore, Bommer, & Tetrick, 2002). When shared among employees, these favorable attitudes and behaviors can affect such performance outcomes as customer satisfaction, productivity, and sales (e.g., Schneider, Ehrhart, Mayer, Saltz, & Niles-Jolly, 2005). Therefore the following hypothesis is developed:

**H2:** HR practices are positively related to employee commitment.

## HR Practices and Innovation

One can expect a positive relationship between the cost, quality, and innovation strategies and financial performance (Huselid, 1995; Panayotopoulou et al., 2003). Firms pursuing an innovation strategy aim to make the organization the unique producer, thus suggesting that the organization gains and retains competitive advantage through adaptation to its environment (Segev, 1989). However, although the quality and innovation strategies are expected to reinforce organizational performance considering that the organization is capitalizing its intellectual capital and requiring its employees to become knowledge workers (Snell & Dean, 1994; Youndt et al., 1996). Birdi et.al (2008) suggested after the longitudinal study that HR practices have more impact on productivity than operational and lean management approach. Some researchers suggest that empowerment practices can influence employees' beliefs regarding the extent to which the firm is interested in the welfare of its workforce (Eisenberger, Huntington, Hutchinson, & Sowa, 1986), which lead them to reciprocate by developing positive, emotional bonds with (Shore & Tetrick, 1991; Shore & Wayne, 1993) and exerting discretionary effort on behalf of the firm (Eisenberger, Armeli, Rexwinkel, Lynch, & Rhoades, 2001; Piercy, Cravens, Lane, & Vorhies, 2006). These favorable

job attitudes and behaviors are likely to result in lower levels of turnover (Harrison, Newman, & Roth, 2006), in addition to positively influencing performance outcomes, including productivity and innovation (Kirkman & Rosen, 1999; Patterson, West, & Wall, 2004). Therefore, the following hypothesis is prepared:

**H3:** HR practices are positively related to innovation.

## HR Practices and Productivity

Some researchers suggest that empowerment practices can influence employees' beliefs regarding the extent to which the firm is interested in the welfare of its workforce (Eisenberger, Huntington, Hutchinson, & Sowa, 1986), which lead them to reciprocate by developing positive, emotional bonds with (Shore & Tetrick, 1991; Shore & Wayne, 1993) and exerting discretionary effort on behalf of the firm (Eisenberger, Armeli, Rexwinkel, Lynch, & Rhoades, 2001; Piercy, Cravens, Lane, & Vorhies, 2006). In addition to positively influencing performance outcomes, including productivity ( Kirkman & Rosen, 1999; Patterson, West & Wall,2004). Second, theories based on the notion of employment as a social exchange (e.g., Blau, 1964) suggest that the availability of various inducements, such as pay, benefits, and internal mobility, can lead employees to perceive their organization as valuing their contributions (Allen, Shore, & Griffeth, 2003; Rhoades & Eisenberger, 2002) and oblige them to reciprocate by holding positive attitudes toward the firm and engaging in favorable job-specific and discretionary or citizenship behaviors (Wayne, Shore, Bommer, & Tetrick, 2002). When shared among employees, these favorable attitudes and behaviors can affect such performance outcomes as customer satisfaction, productivity, and sales (e.g., Schneider, Ehrhart, Mayer, Saltz, & Niles-Jolly, 2005). Counterproductive behaviors, such as turnover, resulting from negative employee attitudes can result in the loss of firm-specific human capital, such as knowledge of products and procedures, and ultimately lead to the loss of customer satisfaction or loyalty (e.g., Batt, 2002; Kacmar, Andrews, Van Rooy, Steilberg, & Cerrone, 2006). Birdi et al. (2008) is interesting in suggesting in a longitudinal study that HR practices have more impact on productivity than operational and lean management approaches. Koch and McGrath ( 1996) reported that firms using more sophisticated staffing practices ( planning, recruiting and selection) had higher labour productivity. Huselid (1995) found that high involvement HRM practices to be strongly and positively linked to various measures of performance including work attachment, firm's financial performance and productivity. Therefore, the following hypothesis is developed;

**H4:** HR practices are positively related to productivity.

## Methodology

Research design is the plan and structure of investigation so conceived as to obtain answer to research questions. This study will follow descriptive and analytical research design to investigate and examine the use of best HR practices and their relation with organizational performance in the banking sector of Nepal. In this study, all the banks of Nepal were considered as the population and bank of Kathmandu, Laxmi Bank, Machhapuchhre Bank, Nepal Investment Bank, NIC bank, Everest Bank, Himalayan Bank, Nepal SBI Bank and Standard Chartered Bank were considered as sample organizations. Line managers and top managers were considered as the respondents because they only can understand HR policies. The banking sector is the focus of the study for a number of reasons. First; there is no empirical

research that examines the relationship between HR practices and organizational performance in Nepal. Second; banking sector in Nepal has experienced more HR practices but it is unknown that HR practices have any impact on the performance of the organization. Finally, understand the relationship between HR practices and organizational performance in the banking sector of Nepal.

Data were obtained from a sample banking companies. The primary data were used for the study. Primary data were collected distributing the structured questionnaires. Questionnaires were used as the main instrument for data collection. Respondents were asked to indicate their firm's HR practices and performance on a 5 point Likert scale ranging from extremely disagree (1) to extremely agree (5). 150 questionnaires were distributed out of them only 105 responses were properly filled up and returned. Those questionnaires were used for the study purpose. It is 70 percent response rate which is sufficient for the further analysis.

This study more or less followed the methodology used by Pfeffer (1998) and Vlachos (2008). The survey instruments were organized into two main domains; HR practices and organizational performance. Six best HR practices incorporated training and development, information sharing, selective hiring; Decentralization, compensation policy and job security and organizational performance were analyzed based on employee satisfaction, employee commitment, high productivity and innovation.

## Statistical Analysis

Three types of statistical analysis were conducted for this study. First descriptive analysis i.e. mean was used to see the level of practice of HR in the banking sector of Nepal. Second, regression analysis was conducted to examine the relationship between study variables as highlighted in the hypotheses. Third, the cronbach's alpha ( Cronbach & Furby,1970) was used to determine the reliability of all scales.

## Reliability Analysis

Reliability of all scales were analysed using Cronbach's alpha. The reliability score for HR practices variables ( Decentralization; 0.77, Compensation policy; 0.63, Training and development; 0.80, Information sharing; 0.66, Selective hiring; 0.84 and Job security; 0. 74) and performance variables ( Employee satisfaction; 0.72, Employee commitment; 0.80, High productivity; 0.76 and Innovation; 0.82) were compared and found to be consistent with the published estimates for pre-existing scales.

## Descriptive Statistics

### General Status of HR Domains

In this current study, six measures were selected as the HR practice domain to assess the HR practices in the Nepalese Banking industry, which were determined after the comprehensive review of the literature and previous study results. Hence, the following sections will discuss separately to each constructs of HR practices;

| HR Domains | Mean |
|---|---|
| Decentralization | 2.75 |
| Information sharing | 2.80 |
| Compensation policy | 3.20 |
| Training and development | 3.12 |
| Selective hiring | 2.56 |
| Job security | 2.72 |

Every HR domain's mean values are more than average but not substantially high so it can be concluded that use of HR domains in Nepalese banking sector is tentatively at average. It means that there is no extensive use of HR domains in the banking sector of Nepal.

### General Status of Outcome Domains

In this current study, four measures were selected as the outcome domains to assess the outcomes in the Nepalese Banking sector, which were determined after the comprehensive review of the literature and previous study results. Hence, the following statistical analysis shows the position of outcome domains in the Nepalese banking sector;

| Outcomes | Mean value |
|---|---|
| Innovation | 2.9 |
| Productivity | 3.2 |
| Employee satisfaction | 3.82 |
| Employee commitment | 3.79 |

In every domain mean values are more than average but employee satisfaction and commitment level seems higher in the employees of banking sector of Nepal and innovation seems poor. It means bank's main works are still traditional and they have not changed more.

## Relationship between HR Practices and Outcomes

This study also aimed to measure the effect of HR practices as decentralization, information sharing, selective hiring, training and development, compensation policy and job security to HR outcomes as innovation, productivity, employee satisfaction and employee commitment. A simple ordinary least square ( OLS) method was estimated for the purpose. The equations were set as:

**Employee satisfaction** = a0+b1 Decentralization+ b2 selective hiring+ b3 compensation policy + b4 information sharing + b5 training and development + b6 job security ……+ E……eq.1

**Employee commitment** = a0+b1 Decentralization+ b2 selective hiring+ b3 compensation policy + b4 information sharing + b5 training and development + b6 job security …… + E……eq.2

**Productivity** = a0+b1 Decentralization+ b2 selective hiring+ b3 compensation policy + b4 information sharing + b5 training and development + b6 job security …… + E……eq.3

**Innovation** = a0+b1 Decentralization+ b2 selective hiring+ b3 compensation policy + b4 information sharing + b5 training and development + b6 job security …… +E ……eq.4

## Relationship between HR Practice and Performance

| Independent Variables | Commitment | | Satisfaction | | Innovation | | Productivity | |
|---|---|---|---|---|---|---|---|---|
| | b | t | b | t | b | t | b | t |
| Constant | 1.820 | 9.737** | 0.702 | 3.756** | 0.847 | 4.551** | 0.935 | 4.665** |
| Decentralization | 0.252 | 4.33** | 0.214 | 3.99** | 0.221 | 3.332** | 0.13 | 3.113** |
| Selective hiring | - 0.146 | - 1.460 | -0.127 | -1.518 | 0.255 | 3.883** | 2.351 | 3.661** |
| Compensation policy | 0.361 | 10.605** | 0.123 | 3.616** | 0.126 | 3.839** | 0.435 | 4.991** |
| Information sharing | 0.396 | 4.312** | 0.433 | 4.717** | 0.388 | 4.112** | 0.365 | 3882** |
| Training & development | 0.136 | 3.631** | 0.030 | 0.815 | 0.202 | 3.212** | 0.229 | 3.664** |
| Job security | 0.255 | 4.211** | 0.298 | 5.582** | 0.167 | 3.446** | 0.321 | 4.259** |
| N | 105 | | 105 | | 105 | | 105 | |
| df | 6 | | 6 | | 6 | | 6 | |
| Adj R2 | 0.561 | | 0.583 | | 0.468 | | 0.662 | |

** Significant at the 0.01 level

* Significant at the 0.05 level

| Description | Coefficient | p-value | R2 |
|---|---|---|---|
| HR practices and employee satisfaction | .258 | .001 | .561 |
| HR practices and employee commitment | .295 | .001 | .583 |
| HR practices and innovation | .335 | .000 | .468 |
| HR practices and productivity | .233 | .000 | .662 |

## Findings and Conclusions

- Use of HR practices in the Nepalese banking sector is in average. It means that they are not still using extensively the HR activities so as to gain competitive advantages.
- Productivity, employee satisfaction and employee commitment in the Nepalese banking sector seems better but innovation seems little poor. It shows that Nepalese banking sector is still based on the traditional methods, techniques and activities.
- Results showed that there is positive relationship of all five domains of HR practices with commitment except selective hiring. All five variables are significant at 1 percent level of significance. Their explaining power is 56.1 percent. Thus, it can be concluded that five best HR practices influence to the commitment level of employees in the Nepalese banking sector. This finding is consistent with the findings of Gautam,2003Blau &Boal,1987 & Bowen &Ostroff, 2004.
- Results showed that there is positive relationship of four domains of HR practices with employee satisfaction except selective hiring and training and development. All four variables are significant at 1 percent level of significance but training and development and selective hiring are insignificant. Their explaining power is 58.3 percent. Thus, it can be concluded that four best HR practices influence to the satisfaction level of employees in the Nepalese banking sector. This finding is consistent with the findings of Guest, 2002; Yu and Egri,2005& Green et al.,2006.
- Results showed that there is positive relationship of all six domains of HR practices with innovation. All six variables are significant at 1 percent level of significance. Their explaining power is 46.8 percent. Thus, it can be concluded that use of best HR practices in

the Nepalese banking sector positively influence to the innovation. This finding is consistent with the findings of Snell & Dean, 1994; Youndt et al., 1996; Birdi et al., 2008 & West & Wall, 2004.

- Results showed that there is positive relationship of all six domains of HR practices with productivity. All six variables are significant at 1 percent level of significance. Their explaining power is 66.2 percent. Thus, it can be concluded that use of best HR practices helps to increase the productivity in the Nepalese banking sector. This finding is consistent with the findings of Birdi et al., 2008; Koch & McGrath, 1996 & Huselid 1995.

## Limitations of the Study

There are few limitations in the present research. Some of the major limitations are:

- This study considered only to the opinion of senior level employees not to the junior level employees so, it does not represent their opinion.
- Various HR practices and outcomes were developed by the number of scholars but it has considered to the best HR practices developed by Pfeffer and outcome variables by Guest.
- This study assessed the impact of best HR practices on performance in the banking organizations only. Findings of this research may vary with other non- financial organizations.
- Findings of the study may vary over time because of change in the behaviour of the employees.

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**EDITORS**

**Prof. Dr. Dev Raj Adhikari**
Head, Central Department of Management
Tribhuvan University
and
*President*
Nepalese Academy of Management

**Dr. Dhruba Kumar Gautam**
Tribhuvan University
Facility of Management
and
*Executive Director*
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**For details:** www.nam.org.np
P. O. Box: 12719, Kathmandu, Nepal

*President:* **Prof. Dr. Dev Raj Adhikari**
Nepalese_am@yahoo.com; Devraj@enet.com.np
Cell: 98510 52285

*Executive Director:* **Dr. Dhruba Kumar Gautam**
Conference_am@yahoo.com; dhrubakumargautam@yahoo.com
Cell: 9841367451/9813304401

# Editors

**Prof. Dr. Dev Raj Adhikari**
*President*
Nepalese Academy of Management
P. O. Box 12719, Kathmandu, Nepal
*Head*
Central Department of Management and
M. Phil. Program of Management
Tribhuvan Univrsity, Kathmandu, Nepal
devraj@enet.com.np
nepalese_am@yahoo.com

**Dr. Dhruba Kumar Gautam**
*Executive Director -*
Nepalese Academy of Management
P. O. Box 12719, Kathmandu, Nepal
And
Tribhuvan University, Faculty of Management
Kathmandu, Nepal
dhrubakumargautam@yahoo.com
conference_am@yahoo.com

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- Prof. Dr. Pravin Sinha, Executive President, National Laws Association, New Delhi, **India**
- Prof. Dr. R. Satya Raju, Dept. of Commerce & Mgmt. Studies, Andhra University, Visakhapatnam, **India**
- Prof. Dr. Rolf van Dick, Associate Dean, Goethe University, **Germany**
- Prof. Dr. Roy J. Adams, Ariel F. Sallows, University of Sankatchewan, **Canada**
- Prof. Dr. Stephan Laske, Department of Human Resource Management, University of Innsbruck, **Austria**
- Prof. Dr. Tsuyako Nakamura, Harvard University, and Stanford University, **USA**
- Prof. Dr. Yu Jin, Head- Department of Management, Business School of Hohai University, **China**
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