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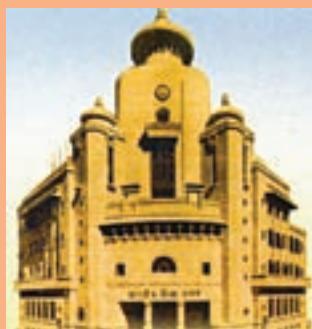
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EDITORIAL

Any good beginning is providential. The thought process to start a business journal began two years ago. Several business journals, a critical look revealed, are function-specific or general, covering the whole gamut of business. Further exploration made it clear that there is a need for a journal which documented the patterns and processes of management practices. This led to the birth of **DHARANA** – BHAVAN'S BUSINESS JOURNAL.

In Yogavasistha's Yoga Sutra, the sage expounds three states of mind which are the processes of evolution. The first is *Dhyana*, the state of concentration. The mind of the seeker of knowledge converges overtime to explore the inner world. The mind reaches a state overtime, wherein the senses are held together. When that happens, the state of *Dharana* is reached. The same mind progresses towards the state of *Samadhi* – the state of realisation.

Dharana is interpreted as – 'Nature Holds us Together'. In an organizational setting, people consolidate their contribution by maintaining individuality and collective wisdom.

People work together to contribute in an hierarchical set up. Yet they differ! In gender dominated organizations differences appear more pronounced leading to splits. Procedures, practices and people orientation hold them together. Such settings ensure perpetual succession and smooth long time survival, experiencing vicissitudes of change. The questions that are to be probed are:

- *Why people differ?
- *What makes them live with differences?
- *What forces hold people together?
- *What management practices can be considered vital for long time survival?

DHARANA documents thought processes of researchers, practitioners and the like. This is a long journey. **DHARANA** is with people who can contribute to thinking on management practices. Let us join to codify thinking in this area of management.

Management Perspectives of ICDS Program

■ *Malathi Somaiah**
■ *V.Vijayalakshmi #*



Abstract

The Integrated Child Development Services (ICDS) was launched in 1975 by Government of India. In Karnataka, the programme covered one project in 1975 (33 in the country) and currently has 185 projects with 40,031 centres in operations. The focus of ICDS is to improve the nutrition and health status of pre-school children (3-6 years), pregnant and nursing women below poverty line.

The single window delivery package of ICDS is Anganwadi center, which is managed by an Anganwadi worker with her helper. UNICEF, besides providing appropriate interventions in the implementation of ICDS activities has commissioned a number of social assessment studies in some states of India, to identify the areas of improvement. IIMB conducted UNICEF funded study of Social Assessment of ICDS in Karnataka during 2003-05. This paper is the analytical summary of the empirical study carried out in the four districts of Karnataka.

The Integrated Child Development Services (ICDS) is a visionary scheme, providing interventions in nutrition, health and education concerned with the holistic development of children. The Development objective is to accelerate the pace of improvement in the nutrition and health status of pre-school children, including children under 3 years of age and pregnant and nursing women, focusing on households with income below the poverty line. Government of India launched ICDS in 1975. Initially, the program covered 33 projects in the country, (one in Karnataka). The one project of Karnataka in 1975 consisted of 100 Anganwadi Centres (AWCs), which increased to 185 projects, with 40,031 centers in operation by 2003. Of 185 projects, with 40,031 centers, 35,898 are located in rural areas, 151 in urban areas and 3252 in tribal areas.

The National Policy on Education and the program of action of 1992 places a great deal of importance on Early Childhood Care and Education. (ECCE). ECCE is a crucial input as a feeder and support program for primary education and a support service for working women of the disadvantaged sector of the society. One of the programs under ECCE has been the integrated child development services (ICDS), currently the biggest program of early childhood development covering children of 0-6 years and pregnant and lactating mothers of the disadvantaged sector of the society.

The program of action emphasizes the need for the system of monitoring and evaluation of the ICDS programs where professional institutions and expert bodies will be involved to carry out independent and objective evaluation in order to identify the gaps and problems in its implementation.

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ICDS is centrally sponsored through the department of Women and Child Development (DWCD) in the Ministry of Human Resources Development, Government of India, administered by the State Governments. Anganwadi Centres (AWCs), which are village based early child development centres, are the focal point for delivering ICDS services. AWCs are often located in small rented rooms or in open courtyards and are staffed by a locally recruited woman, the anganwadi worker (AWW) and a female helper (AWH). Government of India and the State share the cost of the program. Government of India provides training and operating cost including salaries, equipment, supplies, petrol and oil expenses and medical kits. The state Governments meet the cost of supplementary food.

ICDS is a multi purpose intervention that addresses early child development in a holistic, integrated way. It has six major components:

- Supplementary nutrition
- Immunization
- Health check ups
- Referral services
- Pre-school non formal education
- Nutrition and health education.

The major objectives of ICDS program are as follows:

- To improve the nutritional and health status of the children in the age group of 0-6 years.
- To lay foundation for proper psychological, physical and social development of the child.
- To reduce the incidence of child mortality, morbidity, malnutrition and school dropouts.
- To achieve effective coordination of policy and implementation amongst various departments to promote child development; and

- To enhance the capability of mother to look after the normal health and nutritional needs of the child through proper nutrition and health education.

The AWC, managed by the Anganwadi worker (AWW) with her helper (AVH), is the single window for delivery of the entire package of services offered by the program. On an average, an AWC covers a population of 1,000 (700 in rugged terrain and tribal tracts). It caters to children below 6 years and women in the reproductive age group (15-45 years) especially pregnant women and lactating mothers. Since 1990s, a special program to addressing the needs of adolescent girls (11-18 years) has been included in ICDS program. The ICDS package of services are enumerated in Table A:

Table A

Beneficiary	Services
Children 6-12 months & 1 – 3 years	SNF, Health check up, Immunization, Referral, growth promotion, vitamin A drops, iron-folic supplement.
3-6 years	SNF, health check up, immunization referral, growth promotion, vitamin A drops, iron-folic supplement and non-formal pre-school education
Pregnant women Lactating Mothers	Health check up Immunization Referral Growth promotion Vitamin A tablets Iron-folic supplement Nutrition and health education Antenatal and postnatal care
Adolescent girls (11-18 years)	Supplementary nutrition Health check up Referral Growth promotion Vitamin A tablets Iron-folic supplement Nutrition & Health education Literacy recreation and Skill development

Many evaluation studies have been conducted by organizations and individuals to assess the effectiveness of ICDS programme, (NIPCCD, 1984-85, 1991-92, Tandon, 1989, Nutrition foundation of India – 1988, Coonam PS, Mohan 1985. Mathew A, 1994, Carie, Amer, Gibbons, Micheal, 1994, IIRM, Jaipur, Meera Sansthan, Jodhpur, 1996 etc.) The scope of many of these studies is restricted to small/specific regions and confined to a study of selected components of the ICDS. The only detailed report at the national level is that of NIPCCD (1992) based on a sample of 100 ICDS projects (54 rural, 28 tribal and 18 urban projects).

A concurrent evaluation of ICDS by NCAER (1996), the report prepared in 2001, was another major nation-wide study. The study was undertaken

on behalf of Department of Women and Child Development (DWCD). The findings reported in 2001 are preliminary and represent the first phase of the nationwide evaluation. The completed study is expected to provide useful policy lessons.

There is a need to find out the extent to which institutions of ICDS are able to implement the projects successfully. UNICEF, besides providing appropriate interventions in the implementation of ICDS activities, has commissioned a number of social assessment studies in some states of India in order to identify the areas of improvement. The study of Social Assessment of ICDS in Karnataka was conducted by Indian Institute of Management Bangalore (IIMB) with UNICEF funding during 2003-05.

Objective of the study :

- To review the social infrastructure consisting of cultural, educational and political conditions prevailing in the chosen districts for effective delivery
- To identify major stakeholders/ beneficiaries of the ICDS program
- To study attitudes, values and beliefs of stakeholders about nutrition, pre-schooling and mothers.
- To obtain information about the existing practices and accessibility/ adequacy / quality of services/ intervention and
- To explore the current capacity of ICDS projects, utilization including institutional capacity to serve the targeted beneficiaries or stakeholders.

Sampling Design

Four Districts were selected from 4 revenue divisions in Kolar (Bangalore division), Dharwar (Belguam division), Gulbarga (Gulbarga Division and Mysore (Mysore division). Two

projects were selected from each of these selected districts, they are: Begepalli and Malur in Kolar district, HD Kote and Nanjangud in Mysore District, Hubli Dharwar (Urban) and Navalgund from Dharwad District, Sedam & Jevargi from Gulbarga district. Altogether eight projects were selected which included one tribal and one urban project to capture their uniqueness. In each of the project 30 AWCs were selected. Thus, altogether data was collected from 241 AWCs in the study.

Data Collection tools

The components considered for the social assessment study are – Social analysis and Institutional Analysis. Social analysis examined the functioning of ICDS and its relevance to different stakeholders. Major components included, AWWs activities, acceptance and assimilation of the program components, knowledge gained and transferred by AWWs, assessment of perception, attitudes, values of different stakeholders and integration with other institutional structures within the village. In each selected AWC, data from AWW, AWH, and selected members of grampanchayat were collected (through questionnaire) by directly visiting each of the AWCs. The questionnaire designed were pilot tested and modified after receiving the feedback from AWWs and AWHs. Since most of the grassroot level functionaries (AWW & AWH) are local people and well versed with state language i.e. Kannada, the questionnaires were translated to Kannada.

In each of the 241 AWCs visited, the field staff conducted a PRA exercise by mobilizing the beneficiaries and stakeholders of the respective AWC. The members present in the PRA meeting included parents, some older

siblings of pre-school children, ANMs, gram panchayat members, members of self help groups (SHG). The field staff were provided exclusive training to conduct PRAs. Two of the senior members of the study team from IIMB actually conducted two PRA meetings in each of the taluks chosen for the study. While the field staff observed these PRA meetings, they were also given additional inputs to conduct future PRA meetings. Besides, another three more PRA meetings conducted by the field staff were observed by the senior members of the study team and necessary feed back was provided to the field staff after the meetings. These inputs were extremely helpful to the field staff to gain competence to conduct subsequent PRA meetings.

Institutional analysis included direct contact and interaction with, Joint Director of DWCD; Deputy Director in DWCD selected districts, program officers of selected district, CDPOs/ACDPOs of selected districts, supervisors and officials of panchayat raj institutions. The sampling frame for the institutional analysis consisted of Secretary, DWCD, Director and Jt. Director (ICDS), Dy.Directors/Asst. Director of the selected districts, program officers, CDPOs, ACDPOs, Supervisors and functionaries of Panchayat Raj Institutions, through a structured questionnaires, as well as field information, formal and informal interaction, interaction with district and taluk level officials, focus group discussions and stakeholders workshop.

Participatory Rapid Appraisal (PRA): The expectation of stakeholders and beneficiaries from the ICDS program was captured through a PRA exercise conducted in each of the 241 AWCs. The tools used included opinion mapping, social mapping, wealth

Table 1:

Distribution of AWCs Across Population (Consolidated)

Location of AWCs									
Within Village	Outskirts	School Premises	SC / ST Colony	Temple	Community Hall	Post Office	Others	Total	%
15	3	2	7	2	2	0	1	32	13.28
35	5	20	8	2	1	0	1	72	29.88
36	8	16	4	1	2	1	1	69	28.63
13	4	3	6	2	1	0	1	30	12.45
20	4	5	5	2	1	0	1	38	15.77
119	24	46	30	9	7	1	5	241	100

Table 2.

Reasons for absence of children to the preschool (Consolidated Eight taluks)							
	<500	500-1000	1000-2000	2000-3000	>3000	Total	Percentage
Private Schools in the village	1	9	7	11	18	46	16.31
English	3	14	19	10	12	58	20.57
Kannada	1	1	0	3	1	6	2.13
Van Facility	1	1	5	5	3	15	5.32
English	1	1	4	2	1	9	3.19
Kannada	3	6	4	1	1	15	5.32
Fear of contacting diseases	4	4	4	1	2	15	5.32
Problem of Drinking water	7	3	4	3	3	20	7.09
Distance of Centre from residence	0	0	3	0	1	4	1.42
Inferior quality of the mid day meal	4	4	4	2	1	15	5.32
Facilities to take care of children at home	8	25	26	13	18	1	0.35
Place to sit	6	7	1	3	2	19	6.74
No benches or planks	5	2	3	2	2	14	4.96
No good building	5	5	2	4	2	18	6.38
No facilities to play	4	5	5	2	2	18	6.38
Proximity to main road	3	7	5	5	1	21	7.45
Total	49	97	96	79	50	282	100.00

ranking, resource map and Venn diagram. The information collected through these tools were analyzed to capture the opinion of stakeholders on various activities of AWC and how different activities were ranked in terms of importance of the stakeholders.

The present paper is an assessment of ICDS functioning on the basis of the Karnataka Social Assessment Study findings during 2003-2005

by IIMB study. The assessment is from management perspective and considers the extent of effectiveness in terms of the impact of training on functionaries, inter-sectoral linkages, infrastructural facilities, self-help groups (SHGs) and the involvement of Panchayati Raj Institutions. The paper specifically looks at issues of planning resources, logistics and coordination of different components of ICDS. For a successful implementation of

ICDS, different functionaries and departments working at the village level have to come together for increasing the operational efficiency of AWCs. Some of the crucial departments are health, education, gram panchayat and the community. The existence or otherwise of their support and participation will determine the effectiveness of the ICDS programs in the respective villages. Besides, one section of

this paper exclusively deals with the current status of pre-school education, problems thereon and methods and strategies to over come these problems. This aspect has been widely analyzed in this paper from a management perspective.

The findings of the study on Social Assessment of ICDS in Karnataka are broadly classified under the major service components namely, pre-school, distribution of SNF/ARF, health check up and immunization, community participation. Other aspects considered in the assessment are , the infrastructural facilities, inter-sectoral linkages and the role of PRIs.

The study, in all respects revealed inefficient management. As indicated by many respondents, pre-school is the weakest component in the ICDS program. Since the AWWs have to spend a lot of time on various added responsibilities other than ICDS activities (assisting ANMs in administering polio drops, Stree Shakti activities etc). AWWs stated to have insufficient time to concentrate on the pre-school activity. Stree Shakti, which has considerable political patronage in rural Karnataka, is considered to be more important. AWWs are to assist the women of the village in bank transactions. Since many of the women are illiterate, AWWs have to assist them in filling in the correct challan and depositing the money. The preschool activity which is to be conducted at least for two-hours a day was rarely seen in the AWCs visited by the study team. The unsatisfactory condition of pre-school activity was found in a substantial number of AWCs. There has been a considerable demand from the parents that the AWC should provide reading and writing skills as part of the preschool activities. The

presence of other private schools offering English and Kannada medium education, provide reading and writing skills at the pre-school level. This has encouraged the parents to demand similar services from the ICDS. Many of the AWWs, who are to be recruited from the community/village were found to be commuting 4-12 kms to attend AWCs. This resulted (in most cases) incomplete and inefficient performance, either due to delayed arrival or being absent.

Education Department , which is expected to work in coordination with ICDS especially on the pre-school education component, is found to lack the expected coordination. One of the core objectives of the pre school is to inculcate habit of schooling among children of 3-6 years. If this habit is reinforced, it should result in low or no dropout in the primary school. Mid-day meals are introduced in the primary school to check school dropout. It is recommended that all the AWCs should be located in the school building in order to provide the desirable linkages to school education.

As could be observed from the table, large number of AWCs are located with a population of less than 2000 (70%). Only about 21% of AWCs are located in the school premises while 45% are located in the village.

As can be seen from the table, the presence of private schools and teaching through medium of English have been the main reasons for absence of children to the preschool. Due to the introduction of mid-day meal scheme in all the government primary schools, parents tend to put their children in the first grade by manipulating the date of birth. Thus, under aged children are taken away from the AWCs and admitted to local

primary schools. When parents were further probed on this issue during the PRA discussion the following reasons for absence of children surfaced.

- Many working parents leave home at 8 am advising the children to go to AWC at 9 am. After the parents leave home, children do not go to AWC.
- Teachers at AWC insist on cleanliness and hygiene.
- AWH does not volunteer to fetch the children.
- Parents apathy
- Parents feel that AWC is meant only for feeding
- Some children attend convent/ private English medium schools
- Lack of commitment and motivation of AWWs
- Anxiety that SNF may not be good and children may fall ill.

Parents apathy towards low quality of pre-school education, lack of imparting PSE which includes oral skills, language skills, games, environmental learning and lack of emphasis on reading and writing, are the factors contributing to low emphasis on pre-school education in ICDS program.

Distribution of supplementary nutrition food is one of the core services of the ICDS activities. The grass root level workers, (AWWs), the supervisors and CDPOs (taluk level functionaries) who responded to the questionnaires, identified a number of problems in this area. Major issues identified are as follows:

- Lack of supply of SNF/ARF in many centers during April-June every year (the reason cited is that the current year financial budget not being sanctioned and the tender process is yet to begin).

- Lack of storage facilities in many AWCs.
- In few centers, number of beneficiaries found to be more than the quota available to that center (both mothers and children). The allotted quantity is prepared and distributed to all the beneficiaries.
- The ARF powder is infected and sometimes it is distributed without proper cleaning.
- Specific amount paid to AWH for fuel is either not sufficient or has been misused. Lack of fuel to cook is the major limitation mentioned by many AWWs and AWHs.
- There is no provision in ICDS program to transfer the registration of a pregnant woman from the village where she is registered to another village where she delivers the baby and is under post-natal care. As a result pregnant women, who move from villages of registration to villages of delivery, are denied SNF during the critical months of their pregnancy.

Linkage with health department

Lack of proper coordination between DWCD (in charge of ICDS program) and Health department is an indication of inefficient management both on the part of ICDS functionaries and health department functionaries. This lack of coordination was explicit

from the fact that many children are not getting the timely immunization as per the health norms. While polio administration, which is in a mission mode, is successful, the immunization program is not. The polio administration is as per the target with the able cooperation of ANMs and AWWs. When it comes to immunization, there is a lack of cooperation of the health department, health camps are not conducted regularly. The health department officials state lack of transportation to visit AWCs is a major hurdle. Besides the health manpower available in the PHCs and PHUs are fully occupied with OPD in the morning and are not able to visit AWCs. It is evident that AWCs do not work in the afternoons and it has not been possible to motivate AWWs to arrange health camps in the afternoons. It is important to note that a number of volunteers, ANMs and NGOs are mobilized for a polio program which is non-medical in nature. When it comes to immunization, AWWs have no option but to depend exclusively on the health personnel of the department. As could be observed from table-3, health officers more frequently visit village with higher population than those with less than 500 population. Infrequent visits by medical officers and para medical staff to AWCs as well as ignoring

'AWCs' referral note given to parents from the respective villages at the PHCs when they visit, indicate the lack of coordination/meaningful linkage between Health Department and DWCD.

An analysis of infrastructural facilities revealed that many AWCs do not have proper building. 63% of AWCs (of 241) were functioning in the old building, 21% of the AWCs were found to be donated (free). Of the other 40 AWCs covered in the study, 10 were found to be functioning in community hall and others were rented, or functioning in primary schools. About 3 AWCs were found to be functioning in private houses.

The status of AWC building was worse in Hubli-Dharwad urban project. Of the 30 AWCs under study, only 7% were found to be functioning in their own building and 13% in community hall. As many as 47% of AWCs are functioning in donated lands. Many AWCs were found to be located in temples and mosques, which creates a problem for space as well as lack of kitchen and storage facilities. Some of the related tables are presented below:

Among the eight AWCs located in rented buildings, DWCD pays rent for 5 centres, AWWs for 2 centres and Gram Panchayat for one center.

Table .3

Visits by Health Personnel (Consolidated Eight Taluks)									
		Population	<500	500-1000	1000-2000	2000-3000	>3000	Total	
Health Visitor (female)		Visits per year		63	116	233	130	166	708
Nurse (Female)		Visits per year		401	576	1026	356	754	3113
Presence of birth attendants		Yes		9	27	29	8	10	83
		No		23	45	38	22	29	83
Health Officer		Visits per Quarter		28	55	59	16	44	157
		Total	524	819	1385	532	1003	202	
		Grand total						4263	

Table 4. Building status of AWCs with reference to population Consolidated (Eight Taluks)

Population Range	<500	500-1000	1000-2000	2000-3000	>3000	Total	%
Own	10	49	54	19	19	151	62.66
Rented	2	3	1	1	3	10	4.15
School	1	5	3	0	0	9	3.73
Private House	4	2	1	1	3	11	4.56
Community Hall	4	1	3	1	1	10	4.15
Free/Donated	11	12	7	8	12	50	20.75
Total	32	72	69	30	38	241	100.00
Who pays the rent?							
AWW	1	0	0	0	1	2	
DWCD	1	2	1	0	1	5	
Panchayat	0	0	0	0	1	1	
Total	2	2	1	0	3	8	

Table 5. Building status of AWCs with reference to their location

Consolidated	Within the village	Outskirts	School Premises	SC/ST Colony	Temple	Community Hall	Post Office	Total	%
Own	73	21	36	21	0	0	0	151	62.66
Rented	7	1	0	2	0	0	0	10	4.15
School	1	0	8	0	0	0	0	9	3.73
Private House	6	0	0	1	0	0	0	7	2.90
Community Hall	4	0	0	1	0	5	0	10	4.15
Free/Donated	27	2	2	6	9	2	6	54	22.41
Total	118	24	46	31	9	7	6	241	100.00
Who pays the rent?									
AWW	2	0	0	1	0	0	0	3	
DWCD	5	0	0	0	0	0	0	5	
Panchayat	1	0	0	0	0	0	0	1	
Total	8	0	0	1	0	0	0	9	

One major concern is the construction of buildings for AWCs. Once the funds are sanctioned to Zilla Parishad (ZP), for the construction of AWCs, the engineering section of ZP outsources this activity to a contractor identified by the elected representative. The location of the site, transfer of ownership of the land/site to ZP/DWCD (in case of the land donated by a member of the community), the space utilization of the land for AWC is not discussed with the concerned

CDPO (at taluk level) or DD (at district level). There have been cases of the owner, after donating the land for ICDS activity, refused to hand over the completed building over to the CDPO/DD concerned. This is because of absence of a gift deed from the donor. In some instances, identified by the study team during their field visit, buildings built are not as per the requirement of CDPOs and some are in such depilated conditions, that it is risky for the children to sit there.

Irrespective of the condition of the building (or status of completion) ZP releases the entire cost of construction to the contractor without checking with the CDPO even when CDPO refuses to take over the building as they are unusable. The study team found inconsistent /improper planning in AWC construction in many districts. ZP, TP or GP generally decide the location without consulting CDPOs (at taluk level) or DD (at the district level) who are in charge of ICDS

program. The buildings of AWCs are shrouded with 3 major issues (a) lack of coordination between PRIs and ICDS officials (b) lack of supervision or monitoring the construction of AWCs by CDPOs and DDs and (c) absence of gift deed of land donated for AWC construction.

Lack of transportation facilities poses a major limitation for the timely monitoring of the ICDS activities. While some CDPOs complained about lack of jeep (in working condition) or has a jeep but lack of resources for fuel purchases or non availability of driver, few other CDPOs stated their inability to use the jeep allocated to them. Many a times, local politicians or taluk Panchayat (TP) officials borrow the jeep for their use. Vehicle repair is another problem. CDPOs and DDs have to undergo a long bureaucratic process to get a sanction for the same. The supervisors' major complaint was distance between two AWCs and lack of transportation, which hinder their monitoring activity. They are not able to visit all the centers assigned to them within a month because of transportation problem, large number of centers and too much of administrative functions. Though lack of transportation is mentioned as the major problem, DWCD officials were not found to consider it seriously.

The Panchayat Raj Institutions (PRIs) which were evolved to facilitate rural development are found to be functioning with political clout. They are extremely indifferent to the ICDS activities, which is the backbone of rural development. When the study team interviewed them, neither the ZP (at district level) nor the TP (at taluk level) nor the GP (at village level) evinced any interest about ICDS program. The ZP officials (right from the President) consider it important for

DD, Programme Officer and CDPOs to attend the monthly meetings at ZP whether their presence is required or not. Many a times these functionaries are asked to share some information or the target achieved and it just takes five minutes and that would be the last item in the agenda. Their presence is required more for information sharing rather than participating in decision making. For this small input, a whole day of the functionary is wasted in the meetings. During the interaction with CDPOs by the study team, the CDPOs/DDs expressed their reluctance to attend meetings at TP/ZP as it is a waste of time. The ZP never listens to the suggestions /appeals made by CDPOs/DDs however relevant or reasonable they are. DDs have failed to convince the ZP of the futility of CDPOs attending monthly meeting at the ZP office.

The grampanchayat (GP) of a village (of a taluk with predominant tribal population) was found to be wielding power in that village. The land allotted to building constructed specifically for AWC was temporarily closed for major repairs. Even after 18 months of completion of the repairs, AWC was not handed over to the respective AWW & AWC was found to be functioning in a room, which is to function as the post-office. One corner was AWC and in another corner was the post office. AWW expressed her difficulties of conducting PSE and other AWC activities in that post-office.

The CDPO, DD of the respective taluk and district had in no way have been successful in influencing GP to help in retrieving the AWC building. The community members also expressed their inability to influence GP to return. This is the classic case of mismanagement of GP power and

lack of efficient management of ICDS officials with PRI.

The indifference of PRIs is further strengthened by the fact that TP lacks any information system of the taluk about the ICDS program. ZP lacks any information about ICDS program at district level and GPs are indifferent to ICDS activities unless they are interested community member in the welfare of the village.

The TPs visited by the study team were found to be completely lacking in information system regarding ICDS program, be it the status of AWC buildings, budget for ICDS, number of grass root level functionaries in the taluk, number of Primary schools, number of health camps held, number of (and status of) primary health centers and primary health units or sub centers. They directed the team members to respective departments (Education, Health etc) rather than they providing it from their offices. ZPs also have not collected these information. Thus, the purpose of establishing PRIs does not seem to serve the purpose.

The ICDS program when analyzed from a management perspective, revealed the incompetence of all concerned with it from the grass root level worker (AWW) to the district level officials (DD). The major areas of incompetency are as follows:

- Poor imparting of pre-school education
- Little or no toys and meager teaching aids at AWCs
- Insufficient training imparted to AWWs to conduct pre-school activity.
- Poor distribution of SNF/ARF (in terms of quality, quantity, timely distribution and storage facilities)
- Poor coordination with Health

Table. 6. Ranking of Activities according to importance by the Stakeholders

	Activities of ICDS	General - Six Taluks						Urban	Tribal
		Southern Karnataka			Northern Karnataka				
Bagepalli	Malur	Nanjangud	Jeevargi	Navalgund	Sedam	Hubli Dharwad	HDKote		
Supplementary Food (SNF+ARF)	8	8	7	1	1	1	1	3	
Pre school	7	4	5	7	2	3	7	2	
0-3 children	3	7	4	6	5	6	6	6	
Pregnant women	4	1	6	5	4	5	5	7	
Nursing Mothers	5	5	8	2	3	4	2	8	
Adolescent Girls	6	6	1	3	6	2	3	1	
Mahila Mandali	2	3	2	8	8	8	8	4	
Stree shakti	1	2	3	4	7	7	4	5	

Note: Ranking is in descending order where number 1 is highest and 8 is lowest.

department and Education department

- Inhabitable AWC buildings
- Lack of transportation hindering CDPOs and supervisors' monitoring of AWWs
- Poor management information system
- PRIs not functioning in compliance with the activity mapping of ICDS program (Karnataka Gazette, 2004).

Normally Anganwadi Centers are positioned by the local community as Food Distribution centers, even though AWCs perform many other related functions. This issue was probed in detail in each of the PRA workshops conducted by the study team. During the PRA exercise, the stakeholders ranked the various activities of ICDS in all the Anganawadis studied. These rankings is consolidated in the following table (Table 6). As can be seen from this table, all the AWCs in Northern Karnataka consider supplementary food as highest and working with Mahila Mandal is lowest. Some of the

Southern Karnataka Regions have ranked services for pregnant women, adolescent girls and Sri Shakthi as highest and surprisingly have ranked supplementary food as low in terms of importance.

RECOMMENDATIONS

Based on the data collected from 241 AWCs and the in depth interaction with the concerned functionaries of the ICDS and PRI institutions, the following recommendations have emerged.

- Computerization in CDPOs and DDs offices are necessary. They should be trained in the use of computer.
- As far as possible locate AWCs in the school premises (primary schools) of the villages in future.
- AWCs to be built with proper toilet facilities, storage facilities, kitchen and drinking water.
- Clean drinking water must be made available (within $\frac{1}{2}$ km distance to AWCs).
- Necessary toys, charts, play materials need to be supplied to all AWCs to strengthen the pre-school component. AWWs can persuade some of the community members/villagers to contribute for these materials.
- The AWCs functioning in religious places (temples, mosques) to be shifted to the more desirable buildings.
- The additional time spent by AWWs in the activities of Stree Shakti groups are coming in the way of preschool activity. This should be taken away from the job profile of AWWs.
- Need for effective coordination between education department and ICDS functionary at grass root level (AWWs), taluk level (supervisors and CDPOs) and district level (DDs/Ads). Mutual dissemination of information is necessary for effective management.
- Need for better coordination between ICDS functionaries and Health department. The medical officers of PHCs should ensure periodical visits to AWCs in their

taluks, immunization status from the ANMs and LHV regularly. AWWs referrals should be acknowledged. Maintaining a complete informative record by ANM/LHV and MO of PHC and AWWs of AWCs are necessary.

- PRIs should develop better and effective linkages with ICDS functionaries. ZPs should identify the shortfalls in ICDS activities through ZPs and CDPOs and accordingly take actions.
- AWWs and supervisors must ensure effective community participation. In this regard, Stree Shakti groups may prove to be useful.
- AWWs must be brought under some form of disciplinary procedures to eliminate undesirable practices.
- Supply of standing scales to weigh pregnant women be made available in all AWWs.
- When two AWCs are merged in one center, it gets crowded and results in the absence of the workers of one center. Besides, when the nearby AWC is merged with the distant one, it causes problems for children to commute. It also substantially reduces the quality of services. Therefore, it is recommended that only one AWC should be housed in a building.
- Better vehicles and budget for diesel be provided.
- ZP should work closely with CDPOs to ensure quality of construction of AWCs.
- Transfer of land to ICDS should be ensured through proper deed/document before construction.
- Supervisors and CDPOs require better transportation to facilitate a wider coverage of AWCs for monitoring in a given period of time. Supervisors are assigned AWCs, which are in the same catchment area or route to enable them to

monitor AWCs better.

- Telephone facilities for supervisor require urgent attention by DWCD.
- The TP offices require a well planned Management Information System (MIS) designed. The same holds true for offices of DDs and CDPOs.
- MIS designed not only about numbers of PHCs, PHUs, schools etc, but also, must include the status of the facilities available and how they support the ICDS program.

Conclusions

ICDS is a comprehensive program with the aim of integrating related government departments in providing supportive services to the programs. For it to continue and sustain as one of the largest outreached community based programs, effective inter-sectoral linkages with more active role of PRIs, improved infrastructure and effective management by DDs and CDPOs are necessary.

The management of both physical and social infrastructure in a planned manner calls for urgent changes in the way ICDS is currently administered. Quality of time spent by supervisors who are the critical manpower in this program needs to be looked into. The emphasis on participation of families of disadvantaged sectors of the society needs to be deliberately catered to. While the services are delivered at the grassroots level its quality needs to be improved and sustained. This refers to the quality of preschool education, the type of SNF and ARF served, the efforts made to reach the pregnant and lactating mothers are of great concern to the program. The existing norms to open one AWC in a tribal area need to be flexible in order to reach a large number of tribal women and children. Periodical monitoring and

evaluation of the program as part of implementation needs to be looked into. There has been tremendous conflict at the village level between the elected representatives and the program functionaries. It is desirable that the elected representatives are trained to understand their role and accountability as representatives of the community and be a bridging gap between the ICDS program and the stakeholders.

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Product **Differentiation**, Attribute **Substitution** & Hedonic **Pricing**

■ **S.BISALIAH***

Abstract

Two powerful concepts in Economic Theory could open up a treasure house for research in Management Sciences, especially in the area of marketing. First, the concept of product differentiation, articulating that products are similar but not identical. Second, the concept of attribute substitution, emphasizing that goods are a bunch of attributes, and consumers substitute attributes and not products as such. This has led to the concept of implicit or hedonic pricing. The paper is an attempt to examine the relationship between product differentiation and attributes based pricing. It also attempts to derive Attribute – Induced Innovation of product Development, by eliminating undesirable attributes in the product and by grafting desirable attributes into the product through R&D efforts.

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1.0 THE THEME:

Consumer theory has been the product of long process of refinement from the nineteenth century theorists though the Marshallian Utility theory (introspective cardinal approach, Majumdar, 1961), the Hicksian indifference – preference theory (introspective ordinal approach, Hicks 1959 and 1972), Samuelson's revealed preference analysis (Behaviourist ordinal approach, Samuelson 1970, Majumdar 1961, and Baumol 1968), the Neuman-Morgenstern Utility index (Behaviourist Cardinal approach, Majumdar, 1961), and Armstrong's Marginal preference theory (introspective cardinal-revival approach, Armstrong 1948 and Manmohan Singh 1963). One of the basic propositions under-pinning all these approaches has been that:

"Goods are goods, and goods are the direct objects of Utility".

The theme of this paper is to discuss an alternative approach to consumer behaviour, and to indicate how this alternative approach could be a treasure house for research in Management Sciences.

2.0 Two Conceptual Building Blocks of Alternative Approach:

To explore an alternative approach crucial for R&D in product and factor marketing and for opening up a treasure house for research in Management Sciences (especially in marketing), two conceptual building blocks viz., product differentiation and attribute substitution (and hence hedonic pricing) pilot the way.

2.1 The concept of product differentiation is a major theoretical construct in Chamberlin's (1956) path breaking work viz., Theory of Monopolistic Competition. Product differentiation and selling cost (other

than the cost of production) would form two of the crucial dimensions of corporate marketing "culture". Four propositions are derived from this approach. First, products are similar, but not identical. Hence products are not remote substitutes, and there is not one homogeneous type of automobile, soap, television sets, business schools etc. Second, the companies producing these products "enjoy" some degree of market power. These companies have "ability" to raise their product prices without loosing all their customers. Third, higher the value of cross price elasticity, smaller the market power, and vice-versa.

Fourth, demand curve (Average Revenue curve) facing these companies is downward sloping, and Marginal Revenue Curve is below Average Revenue Curve. Each company tries to differentiate its product so as to make it unique. This could be done by differences in technical properties of the product, services offered by the sellers, quality of inputs, exclusive patented features, design, colour, style and so on. This is called "real" product differentiation. The concept of "fancied product differentiation" is created by advertisement, and differences in salesmanship packaging, location etc. Selling costs are incurred on advertisement, salesman's salaries, window display and other expenses of sales department. These selling costs are incurred to alter the position or shape of demand curve for a company's product. In view of the above, two major policy variables of the company are product differentiation through R&D and selling activities. The shape of selling cost curve is an empirical question, amenable for research to sort out net effects of various components of selling costs.

2.2 The new theory of consumer behaviour (Lancaster, April 1966, May 1966 and 1975), emphasizing product attributes, rests on the following propositions:

- The good (service) per se does not provide utility to the consumer; the good possesses characteristics (attributes) and these characteristics give rise to utility. Hence goods/services could be defined as a bunch of attributes, and consumers demand is for attributes of goods/services. Utility derived from the good/service can be decomposed among several attributes. For example, refrigerators are generally judged by size, freezer capacity, attractiveness, durability and energy efficiency. Biological capital (say work bullocks) could be defined as composition of attributes such as age, breed, colour and auspicious/inauspicious marks. Rice could be defined as a bunch of attributes such as grain size, colour, aroma, cooking quality, keeping quality, and so on. A Business School could be catalogued based on its physical and intellectual landscape, and performance in placement etc. Demand for land is derived from attributes such as distance to land from village/town, distance to main road, quality of land, distance to water-harvesting structures and so on. Choice of housing is related to number of rooms, extra bathrooms, exterior design, interior decoration, quality of different fixtures, types of floor, air-conditioning and location, in addition to rent. Choice of occupations could also be explained in terms of hours of work, responsibilities and challenges in the job, availability amenities (like health care, canteen, conveyance etc). Hence, choice of housing and

occupation implies selection among a variety of attributes.

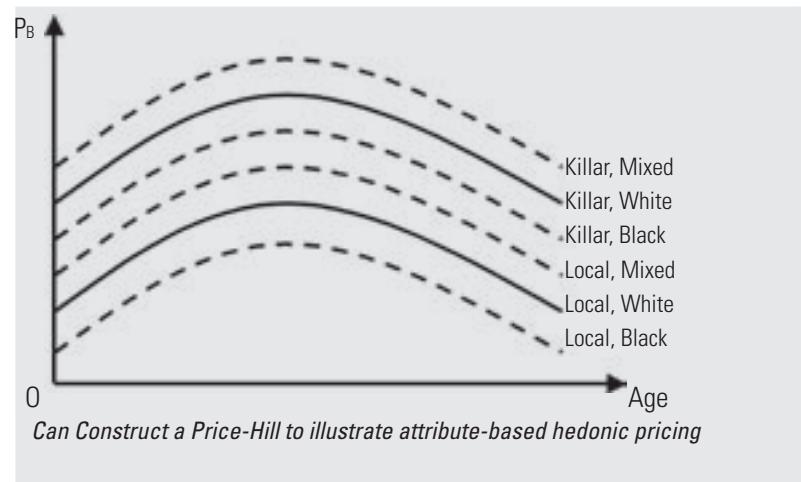
- In general, a particular good/service possesses more than one characteristics, and many characteristics are shared by more than one good/service.
- Goods/services in combination may possess characteristics different from those pertaining to the goods/services separately.

Lancaster's approach is a landmark in the theory of demand. This attribute approach to the consumer demand emphasizes the rate of attribute substitution instead of rate of commodity substitution. This implies that consumer seeks to choose that combination of attributes that maximizes his satisfaction. This approach "bridges" the gap between economic theory of consumer behaviour and marketing analysis of the same phenomenon. Then the prices of different brands and models of goods can be explained by estimating hedonic (implicit) prices for attributes. The basic premise of hedonic pricing model is that consumers ultimately derive satisfaction (utility) from attributes of goods/services, and hence prices paid for marketed goods/services (also inputs) are related to attributes. Hence, this model is a versatile technique to relate values (prices) to attributes. This approach gives a better explanation of how a new product is successfully introduced in the market, the concept of product differentiation, the notion of implicit prices, and the concept of substitutes and complements in addition to establishing the law of consumer behaviour.

3.0 Empirical constructs:

The relationship between product differentiation and attribute-based

Table 1.



hedonic pricing could be illustrated as below:

3.1 Attribute-Based pricing of Biological capital:

Using the concepts of product differentiation and choice of attributes reflected in hedonic pricing, the study by Rathod, S.Bisalih and K.C.Hiremath (1978) has illustrated the mechanics of hedonic pricing. The model postulates that price variation of work bullocks is related to age, colour (black, mixed, red and white), and breed (khillaar and local), among other things like season, year, horn shape, walking style, and auspicious/inauspicious marks. In this model age, colour and breed are considered. Price (dependent variable) and age (independent variable) are quantitative variables, but colour and breed are qualitative independent variables. The net effects of qualitative variables could be captured through an econometric device called dummy variable technique (Kontsoyiannis, 2001). Further, it is postulated that age of the work bullocks and their price could be explained in terms of a quadratic equation, implying that price of the work bullock increases with age in the beginning, then

reaches maximum value at some age and declines as the work bullock gets older (Rathod and Bisalih, 1982). In case of qualitative variables such as colour and breed, the nature of relationship (positive or negative) with price, has been treated as an empirical question. The model specified in the study is as follows:

$$PB = a + b1 x1 + b2 x21 + b3 x2 + b4 x3 + b5 x4 + b6 x5 + b7 x6 + i$$

where:

PB = Unit price of bullock

a = Constant term

b_i's = Regression coefficients

x₁ = Age of the bullock, measured in years

x₂ = breed intercept dummy variable with a value of one for Khillaar and zero for local

x₃ = Colour intercept dummy variable with a value of one for red colour bullock and zero otherwise

x₄ = Colour intercept dummy variable with a value of one for black colour and zero otherwise



$X5$ = Colour intercept dummy variable with a value of one for mixed colour and zero otherwise

ϵ = Random error independently distributed with zero mean and finite variance

In this model, white colour is treated as the base in the dummy variable set up. Further, slope dummy variables could have been used for qualitative variables, in addition to intercept dummy variables. It is also postulated, rightly so, that negative regression coefficient would imply a price discount for "undesirable" attribute of the animal, and positive coefficient would imply a price premium for a "desirable" attribute. This empirical study has led to the inference that:

- Khillar breed commands a price premium against local breed. The buyer would place a price discount on red and black colour animals; and mixed colour would command a price premium over other colours.

In other words, while the local white colour bullocks fetches average prices, Khillar breed fetches price premium. When the local white colour bullock fetches average prices, the red and black colour depress the prices below average, and the mixed colour brings price premium. The mechanics of these relationships are illustrated in the following diagram, relating the effects of breed and colour on price. *See Table 1.*

These inferences have "messages" not merely for scientists in animal breeding, but also for the corporate sector where consumer preference structure for product/service attributes would also set the trend for R&D efforts to eliminate "undesirable"

attributes and to graft "desirable" attributes.

3.2 Attributes-Based pricing in Rice Market:

Rice market, for that matter market for any product (including service), could be examined for attribute-based pricing. Consumer preferences for different rice varieties depend on very many factors such as price, grain size, colour, cooking quality (ex. time taken), aroma, keeping quality (including shelf-life), and protein content. Price (dependent variable) of a given variety of rice and protein content (with the analysis for bio-chemists) are mainly quantitative variables, and all other independent variables are qualitative in nature. Hence price variation across different varieties of rice (similarly different brands of a given product/service) could be explained in terms of one/some quantitative variables and other qualitative variables, using dummy variable techniques.

In fact, both the dependent and independent variables could also be qualitative variables. *A priori*, it is possible to postulate the relationship between price (dependent variable) and other independent variables. For example, it could be postulated that price and size of the grain are negatively related, price and protein content positively related, and price and keeping quality are positively related. Accordingly, a consumer places price premium on a "desirable" attribute and price discount on an "undesirable attribute". It is recalled that whether the attribute is "desirable" or "undesirable" could be read from the sign of the regression coefficient. Hence, consumer preference structure could set the ex-ante basis for product development (S.Bisalath, 1997-98) in the corporate sector through R&D efforts.

3.3 The models stated under the preceding sections are meant to illustrate how powerful the two concepts viz., product differentiation and attribute-based pricing of goods/services are in conducting empirical studies. With corporate sector rising to the fore across the globe, relevant research studies by management scientists would provide practical insights into policy and programme making at the company level. There are research areas like price variation in different brands of a product, variation in salary package offered to MBA graduates of different Business Schools (of course accounting for variation in salary package to suggest "desirable" and "undesirable" attribute of Business Schools) with both inter-school and intra-school analysis. Salary package offered to faculty (perhaps similar to the pricing of biological capital), variation in rental value of housing, and even attribute-based pricing (dowry, even though not legal) in marriage market are a few examples of possible research areas using the concepts of product-differentiation and attribute-preference structure and the dummy variable technique. These empirical studies would be suggestive of "corrective" measures required through appropriate interventions like R&D investment and expenditure on selling costs.

4.0 Concluding Observations:

The theme of this paper has been to examine alternative approaches to consumer behavior, and to drive the message that the concepts of product differentiation and attribute-based pricing could provide conceptual framework for many research studies in Management Sciences. Further, the operational mechanics of these two concepts has been illustrated through the empirical studies/models.

It is also possible to relate the messages of this paper to Induced Innovations (Binswanger and Ruttan, 1977) in technology, institutions and development. One of the basic propositions of Induced Innovations in technology is that technology needs to be developed to facilitate the substitution of relatively abundant (hence cheap) factors of production for relatively scarce (hence expensive) factors in the economy.

Analogues to Induced Innovation Model is what could be called Induced Innovation Model of Product Development (IIMPD, Bisaliah, 1997-98). It is possible to hypothesize that product development path in terms of "attributes" depends on price premium and price discounts.

Advances in product development represent a necessary condition for releasing the quality dictated market imposed restrictions on the purchase of new product. Product development needs to take place so as to facilitate the substitution of desirable (hence commanding price premium) attribute for undesirable (having facing price discount) attribute.

For capturing the market, modified/ new brand must be acceptable to consumers apart from its functional utility. Decision by consumers to buy the modified / new product / brand, their continued use or otherwise depends on the relative strengths of the price premium / discount and the 'desirable and undesirable' attributes respectively, as perceived by them.

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Target Costing as an Effective Tool for Retail Pricing

An Exploratory Research

■ B.V.Rudramurthy*



Abstract:

Retail Pricing is a key issue of concern to Retailers. In order to sustain the existing market share and to face the new emerging challenges, which is inevitable. This paper tries to find out the effectiveness of Target Pricing Techniques in the arena of Indian Retail Industry. An attempt is made to work backwards from traditional cost plus method of pricing to Target Pricing Technique. This paper is based on what the customer is willing to pay on his perceived product attributes. An attempt is made to study the cost structure by the process of Value Engineering and a model is suggested to work upon minimising or eliminating the non value added costs in the overall Retail Pricing System.

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Source: 1. Presentation to FICCI by MBN Rao (Chairman, Indian Bank): "Strategy for Financing Service Sector" Sept.15, 2004.
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INTRODUCTION

Retailing is an interface between the producer and the individual consumer buying for personal and non business use. Retailing is a process involving selling of goods and services by manufacturer himself or wholesaler or retailer to consumers for personal consumption. Retailing can be in person, through telephone, vending machine, Internet, etc and it can be through stores or non stores means.

Indian Retailing Industry:

The growth in Indian Retailing is phenomenal. At Kearney, the well-known international management consultancy, India is identified as the 'Second most attractive retail destination' globally from among thirty emerging markets. Trade or Retailing is the single largest component of the services sector in terms of contribution to GDP¹. The Retail Industry in India is dominated by Un-organised sector in comparison to Organised Sector. Organised Retailing refers to trading activities done by licensed retailers, who are registered for sales tax, income tax etc. These include the corporate backed super markets and retail chains and also the privately owned large retail businesses. Un-organised Retailing on the other hand refers to the traditional kirani shops; Proprietor managed general stores, convenience stores, Pan beedi shops, Pavement vendors, Hand cart shops etc. Un-organised Retailing is by far the prevalent form of trade in India constituting 98% of total trade while the remaining 2% is occupied by Organised Retail sector². The employment opportunities whether taken by chance or by choice in Retail sector are growing at an alarming rate. About 4%-6% of total population is dependent here for their lively hood.

Retail Pricing:

Retail Pricing plays a predominant role in the determination of market size and share for a product or service. Demand and supply forces exert great influence on the determination of Retail Price levels. Demand and supply factors are influenced by 3C's namely; Customers, Competitors and Costs.

a) Customers:

Customers influence prices through their effect on demand. Too high a price may cause customers to reject a company's product and may them shift to substitute product or service.

b) Competitors:

No business can operate in vacuum. Companies must therefore always have an eye on their competitors pricing strategy. At one extreme, competitors affect demand forces through alternative and substitute products and at the other extreme, business without rival in a given environment can be the price setter instead of price seeker.

c) Costs:

Costs influence prices because they affect the supply side. The lower the cost relative to the price, the greater the quantity of product the company is willing to supply. Understanding the cost structure and its classification is very important as it makes companies to set prices that make the product attractive to customers while maximizing companies operating profits.

Time Horizon of Pricing Decisions:

Most of the pricing decisions are either short run or for long run. Short run decisions typically have a time horizon of less than a year and include decisions such as pricing a one time special order with no long run implications, and adjusting

product mix and output volume in a competitive market. Long run decisions involve a time horizon of a year or longer and include pricing a product in major market where there is considerable leeway in price setting.

Target Costing For Target Pricing:

Target pricing is an important form of Market-based Pricing, which allows the forces of demand and supply to determine the true price. A Target Price is the estimated price for a product or service that a potential customer will be willing to pay.

Target price is generally estimated based on an understanding of customer's perceived value for a product and competitors responses. A company's sales and marketing organization, through a close contact and interactions with their customers, will be in a better position to identify customer needs and their perceived value of the product or service. Based on the above interactions, Target Prices are fixed.

Target Costing technique is an indirect method of costing when compared to traditional method of Cost Plus Pricing. Under traditional method of Cost Plus Pricing, Retailers determine the selling price of the product based on its Total Cost and a certain percentages of markup added to it. It is a cost driven approach and retailer is the Price maker. Under the Target Costing approach, Selling price is determined based on the prospective customers willingness to pay for the perceived product attributes and deducting the expected profit margin, Target cost is worked backwards. It is popularly called as Target costing technique since Cost is the main target which a retailer should shoot for. It is a Sales or Market driven

Source: ³. A study adapted from Management Accounting research group, "Investigation"; Blayney and Yokoyama, "Comparative Analysis"; Grant Thornton, "Survey"; Cornick, Cooper, and Wilson, "How do Companies"; Mills and Sweeting, "Pricing Decisions"; and Drury, Braund, Osborne, and Tayles, "A Survey"

Table A

Method	US	INDIA	JAPAN	IRELAND	UK
Market based 2	2	1	1	1	1
Cost based	1	1	2	2	2

approach where retailer is a Price Seeker.

RESEARCH OBJECTIVES:

The specific objectives of this research are as follows:

1. To examine the effectiveness of Target Pricing as a tool for Retail Pricing.
2. To identify the critical value added and non value added factors in Product Costing.
3. To assess the expected reduction in Selling Price from current levels by minimizing the costs incurred on non value added factors..
4. To examine the sustainability of competition through effectiveness of Target pricing strategies.
5. To assess customer delight and long run relations.

RESEARCH BACKGROUND: (EMANATING FROM LITERATURE REVIEW)

The following literature survey introduces some of the key issues related to this study and will lay the foundation for the proposed Research Model.

Surveys of financial officers of the largest industrial companies in several countries indicate similarities and differences in pricing practices around the globe. The use of cost based pricing appears to be more prevalent in the United States, India, than in Ireland, Japan and the United Kingdom.

Ranking of factors primarily used as a starting point to Price products (1 is most important) (See Table A)

Japanese companies use value engineering more frequently and

involve designers more often when estimating costs³.

The above study indicates the various countries like India and US primarily using Cost Based Pricing whereas countries like Japan, Ireland and UK primarily using Market based (Target Pricing) Pricing.

RESEARCH MODEL

The conceptual research model given below, attempts to study the use of Target Pricing as a tool for Indian Retail Pricing scenario. Target Pricing is a Market Based Pricing technique where Selling Price is determined based on the potential customers willingness to pay. Keeping the expected operating margins constant, Retailers should try to shoot the Costs target set by the market driven Target Price. The following equation is used to arrive at the Estimated Target Cost:

$$\text{Target Costs} = \text{Target Price} - \text{Target Operating Margins.}$$

The research model given below shows that Value engineering techniques are used to keep the target cost under control. Value Engineering can be classified into Design and Process engineering.

a) DESIGN ENGINEERING:

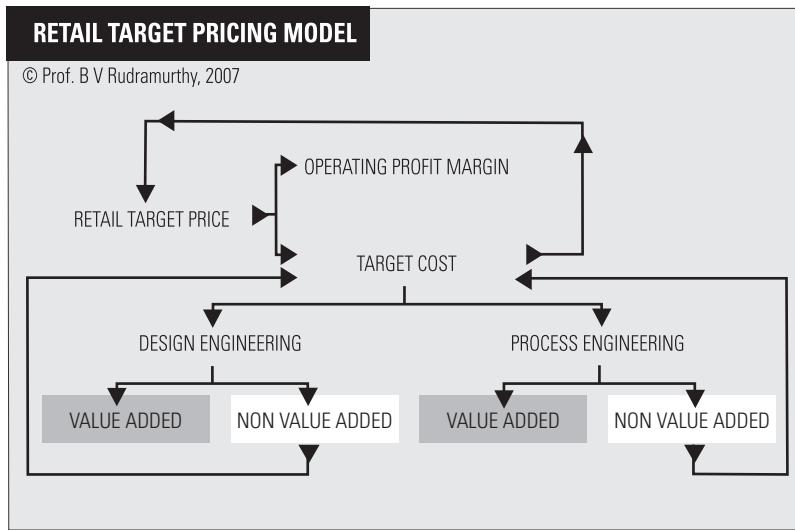
It is a process through which a re-look into the Product design is done.

b) PROCESS ENGINEERING:

It is a process of complete re-look into the Production process.

Costs can be further re-looked into Value added costs and Non Value added costs. A Value added cost is that cost, if eliminated, would reduce the value or utility that customers obtain from using the product or service. Examples are Quality of the Product, after sale service, Warranty, Durability, Reliability etc. A Non Value added cost is that cost, if eliminated, would not reduce the value or utility that customers obtain from using the product or service. Examples are Secondary Packing, Fancy display, Air-conditioned shore room etc.

An attempt is made to either minimize or eliminate the non value added cost component in the total cost so as to



achieve the target costs set above. A Non value added cost is a cost that the customer is unwilling to pay for and if eliminated or minimized, it will result in optimum customer utility for a given level of Target Price.

Even after necessary iterations of reducing the Non value added cost component in the Total cost of the product, if the Retailer is unable to achieve the Target Cost set, operating margins can be sacrificed to the required extent to remain competitive in the market rather than increasing the Selling Price.

SUGGESTIONS

The following points have to be kept in mind for an effective implementation of the Target Pricing Strategies into the Retail Pricing System:

- A deep insight into Potential buyer's attitudes and perceived Product attributes is a key to Target Pricing. A company's sales and marketing organization, through a close contact and interactions with their customers, will be in a better position to identify customer needs and their perceived value for the product or service.
- A close look into competitors pricing strategy is a must as they affect demand forces through alternative and substitute products.
- To also keep in mind the Target Operating Profits expected by the Top Level Management.
- To undertake a deep study of Value Engineering insights of the Product Costs.
- To differentiate costs into Value added and Non Value added costs.
- To minimize or reduce the non value added cost component.
- Reduction of Non Value added cost results in reduction of Actual total

costs and helps the organization in meeting its Target Costs.

- If targets costs are still not achieved, it is suggested to cut down the operating profit margins, rather than affecting the Target Prices.
- The above model may help the Retailer to sustain competition, and acquire better market share in comparison with the existing share.

LIMITATION OF THE STUDY

- The above model is an exploratory model and a working paper yet to be tested with market data.
- Difficulties in Identification of Cost structures and its classifications.
- Reduction in Non Value added costs may not be the only factor which contributes for achieving the Targeted costs.
- Adaptability of Target costing techniques in Indian Retail Pricing Situations.

Differences in Retail Buyers perceived Product attributes. Keeping in mind the above limitations, their exists ample scope for further Research into the unforeseen areas.

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E-Tailing Paradigm

(A Diagnostic and Prognostic Study of E-tailing Practices in Bangalore Metropolitan Area)

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■ K V Prabhakar#



Abstract

The Electronic Retailing (E-Tailing) market in India is still considered to be in its infancy, despite having been around for one decade. The share of online retailing in the \$180 billion Indian retail market is insignificant despite the deep penetration of the Internet incrementally over the years. It has become imperative to convert "online visitors" to "online customers".

As the E-tailing concept in India is still relatively new, there is a limitation to availability of information. While substantial amount of research has gone into retailing in India and elsewhere, not much research has been undertaken on the dynamics of the E-tailing paradigm in India. The current literature available appears to be inadequate to cover the entire gamut of the E-tailing paradigm.

A novel model based on the generic "Technology Acceptance Model (TAM)" was developed and empirically tested to understand whether 'credibility', 'security', 'privacy', 'communication', and 'gullibility' affect a customer's 'perceived trust', and whether 'perceived trust', 'perceived value-for-money', 'perceived navigability', and 'perceived quality of E-services' affect a customer's 'confidence for buying', and whether 'confidence for buying' and 'technological comfort' affect 'actual online buying'. This was done because it was felt that there is a necessity to integrate constructs from E-tailing practices with TAM to present a model of acceptance of E-tailing to provide a rich understanding of the acceptance and technology use of this specific class of technology.

The findings of the study indicate that 'security', 'communication' and 'gullibility' are the antecedents of 'perceived trust'; 'perceived trust', 'perceived value-for-money', and 'perceived quality of e-services' are the antecedents for 'confidence for buying'; and 'confidence for buying' and 'technological comfort' are the antecedents for 'actual online buying'. The findings further suggest that 'credibility' and 'privacy' do not affect 'perceived trust' and 'perceived navigability' does not affect 'confidence for buying'.

Keywords : E-Tailing, Technology Acceptance Model, E-Tail Acceptance Model

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1.0 Introduction: Concept of E-tailing

E-tailing consists of computer-interactive retailing activities over the Internet. It involves a website maintained by the E-tailer for buying and selling of products and services via computer networks.

E-tailing is the electronic version of non-store retailing. Consumers can shop from their homes or offices by using computers to interact with retailers using the Internet. The number of Internet websites, or "store-fronts", where products can be ordered has been growing very rapidly. A few years back, www.amazon.com (the most prolific E-tailer) was only an Internet bookstore, but today shoppers can find thousands of items ranging from toys to sporting goods to consumer electronics products at this web site.

The Internet, with its worldwide "audience", is dramatically changing the nature of retailing. Its impact is so great that it finds a place in the "focus areas of special importance" in the retailing business. Traditionally, the focus areas of special importance have been merchandise assortment, location, atmospherics, customer service, store image, and database management.

While everyone - expert analyst and eager entrepreneurs alike mourned the demise of the Web as a business proposition towards the end of the year 2000, E-business has been slowly and steadily growing. And, remarkably, the wildly astronomical predictions and estimates made by analysts during the peak of the dotcom boom have, in fact, turned out to be rather conservative. Forrester Research reported E-commerce worth \$3.9 trillion worldwide in 2003; a figure that is almost double of

predictions made back in 1999. More than 40 % of the 450 plus Internet companies that went public have turned around and become profitable.

2.0 Problem Statement

The E-tailing concept in India is still relatively new. Hence, there is a limitation to availability of information. There is a need to study and analyze the problems being faced by E-tailers, and the marketing dynamics involved in the E-tailing process. In order to do so, it is imperative to develop an understanding of the online consumer that can impact marketing and operational strategy for the E-tailer.

As the practice of E-tailing in India matures, a deeper and more complete understanding of the nature and relationships of the three critical components – BUYERS, SELLERS, & TECHNOLOGIES that bring them together has become very essential. While some firms have been led astray by technology and IT, the truly successful have used the net to apply the core concepts of traditional marketing in a new and powerful way. There is a paradox here – "Customer Focus" is traditional thinking, but its application on the net involves new and non-traditional approaches.

3.0 Research Objectives

The failure of a large number of E-tail companies during the "dotcom bust" period epitomizes the challenges of operating through virtual channels and underscores the need to better understand key drivers of online consumer behavior.

The specific objectives of this research are as follows:

1. To identify the antecedents of customer confidence in E-tailing, leading to actual online purchase
2. To identify the critical success

factors, including technological factors, of making online sales

3. To identify the product / services profiles that hold promise in the electronic market
4. To examine, analyze, and evaluate the important marketing issues facing firms that want to compete in this revolutionary and dynamic new media environment
5. To assess wants, needs and unmet expectations/opportunities specific to E-tailing products and services

In summary,

The study is an attempt to

- *introspect the past,*
- *retrospect the present &*
- *prospect the future*

of E-tailing in India using Bangalore as a representative city

4.0 Research Background

The following sections will introduce some models and issues related to this study and will lay the foundation for the Research Model.

The Theory of Reasoned Action (TRA), shown in *Figure 1*, attempts to predict and understand an individual's intended behavior (Ajzen and Fishbein, 1980). An individual executes a unique behavior that is decided by his or her behavioral intention (BI), which in turn is determined by his or her attitude (A) and a subjective norm (SN). External variables were considered in TRA to be related to a person's behavior (Ajzen and Fishbein, 1980).

The Technology Acceptance Model (TAM), shown in *Figure 2*, is based on the TRA model (Davis et al, 1989). It was developed to understand and predict an individual's Information System (IS) acceptance behavior based on perceived usefulness, defined as "the degree to which a person believes that using a particular system would enhance his or her job

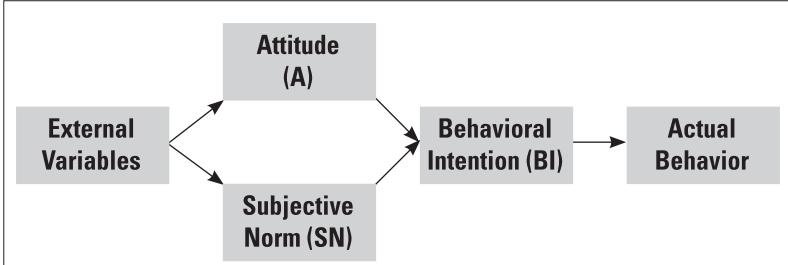


Fig 1: Theory of Reasoned Action (Ajzen and Fishbein, 1980)

performance", and perceived ease of use, defined as "the degree to which a person believes that using a particular system would be free of effort". Consistent with the TRA model, the TAM states that the two beliefs affect the attitude towards using "IS" and the attitude leads to behavioral intention to use "IS". Finally, behavioral intention to use leads to actual "IS" use.

While TAM focuses on beliefs about "perceived usefulness" and

(Gefen, 2003), and computer self-efficacy for Web-Based Learning (Gong et al, 2004). These variables have exhibited significant impact on behavioral intention to use). A Model of Consumer Trust shown in Figure 3 was developed to explain consumer trust in an online store (Jarvenpaa et al, 2000). The trust factors are "perceived size" (the store's size from customer's perception), and "perceived reputation" (the store's reputation from customer's perception). Their research indicated that there are no

strong effects with antecedents of trust, but the perceived trust in the online store is correlated individually with attitude and risk perception in the consumers' willingness to buy from an E-tailer's online store.

Ramnath and Pavlou (2002) introduced customer trust in an E-commerce transaction model shown in Figure 4 to predict consumer intentions to use online shopping. The conceptual framework was the perceived security effect of encryption, protection and authentication, reputation and Trust in E-commerce transactions in the model. The key finding was the relative strength of perceived security on trust in customer adoption of online shopping.

Dahlberg, et al (2003) introduced a Trust-Enhanced Technology Acceptance Model shown in Figure 5 to explain mobile payment solutions. The trust factors are perceived

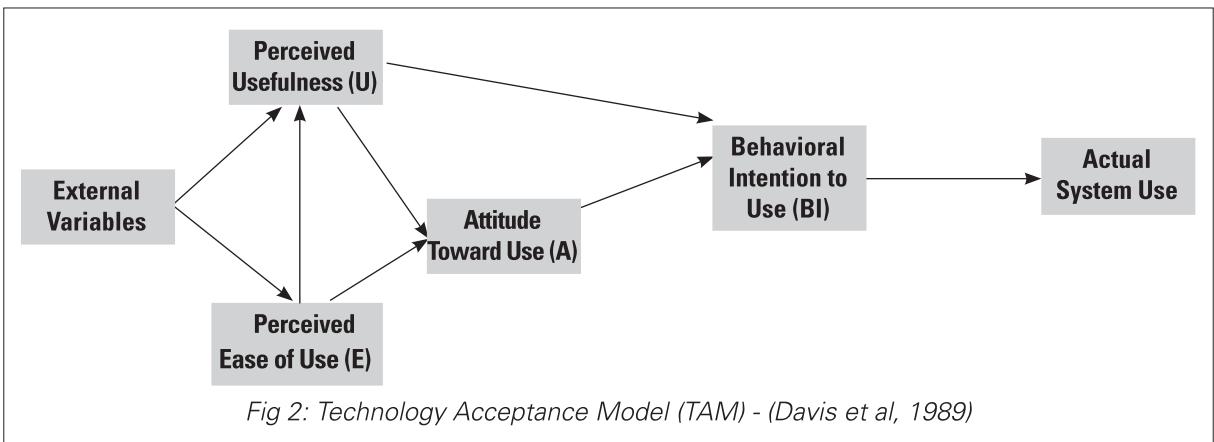


Fig 2: Technology Acceptance Model (TAM) - (Davis et al, 1989)

"perceived ease of use" to influence the "behavioral intention to use" becoming "actual behavior", some external variables like "computer self-efficacy" and "trust" may influence behavior. Examples of such external variables are - trust for Internet banking (Suh and Han, 2002), trust for online shopping (Gefen et al, 2003), habit for online shoppers

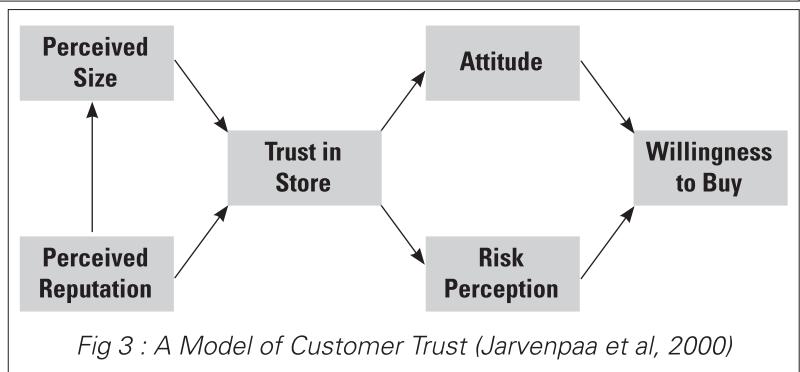
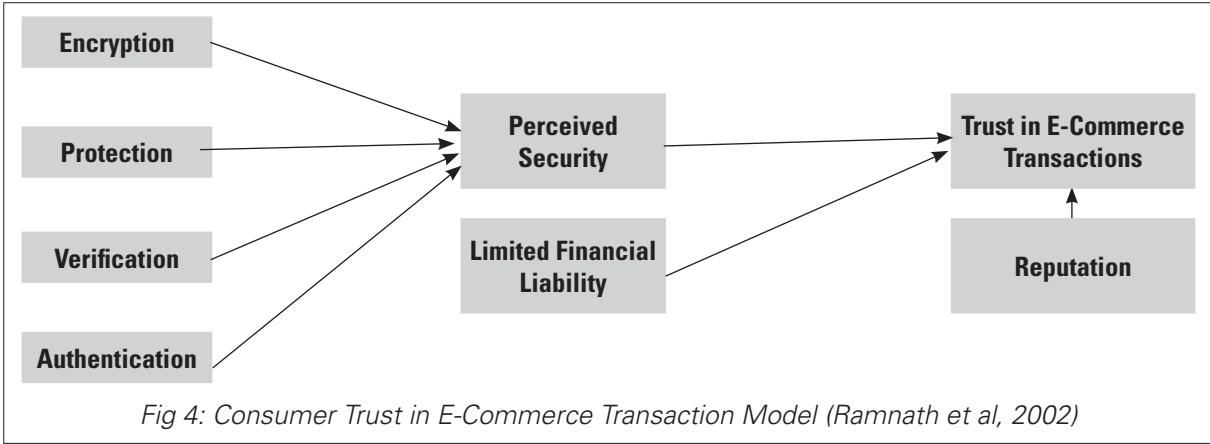


Fig 3 : A Model of Customer Trust (Jarvenpaa et al, 2000)



trust, (the degree to which a person perceives a particular technology solution as secure and trustworthy), and disposition to trust, (the extent to which a person is willing to trust others). The findings indicate that the proposed trust factors play an important role in customer adoption of mobile payment solutions.

An Extended Technology Acceptance Model shown in *Figure 6* has been used to understand consumer intentions to use online purchasing (Heijden et al, 2003). The conceptual framework includes trust in the online store, perceived risk, perceived usefulness, perceived ease of use,

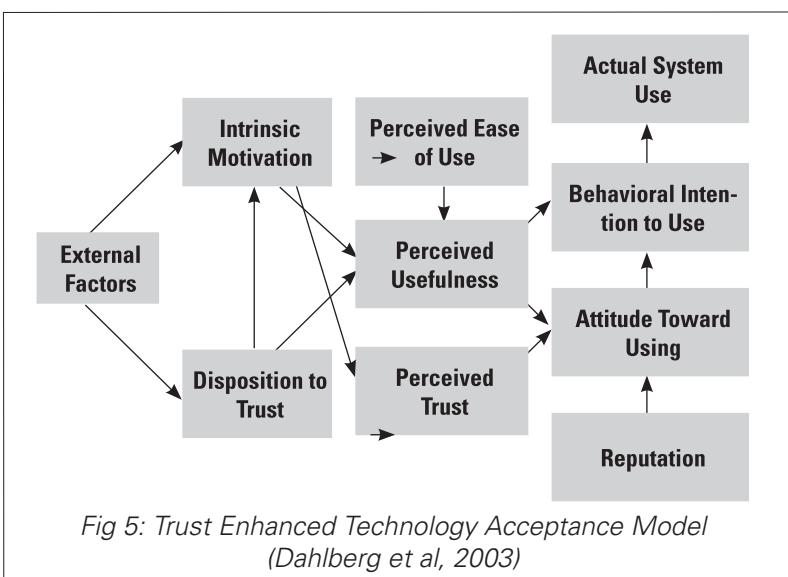
attitude towards online purchasing, and online purchase intention in the research model. The key finding was the relative strength of trust in customer adoption of online purchasing.

Vijayasarathy, (2004) introduced an Augmented Technology Acceptance Model shown in *Figure 7* to predict consumer intentions to use online shopping. New variables in the model are privacy (the degree to which personal information is protected), and security (the extent to which a consumer believes that making payments online is secure). The findings indicated that the proposed

privacy and security play an important role in customer adoption of online shopping.

A review of scholarly research on IS acceptance and usage suggests that TAM has emerged as one of the most influential models in this stream of research. The TAM represents an important theoretical contribution toward understanding IS usage and IS acceptance behaviors.

TAM has been applied to a wide range of technologies and has been very predictive of individual acceptance and technology use. One of the criticisms of TAM has been that although it can effectively predict system acceptance, it is not particularly useful in providing explanations that can be used to design interventions that foster acceptance (e.g., Venkatesh and Davis 1996, 2000). While it is widely recognized that perceived usefulness and perceived ease of use affect acceptance, until we better understand what determinants affect perceived usefulness and perceived ease of use, it will be difficult to provide actionable and practical guidance from TAM. There has been some research on a set of general determinants that apply to a wide range of technologies and classes of technologies (e.g., Venkatesh 2000;



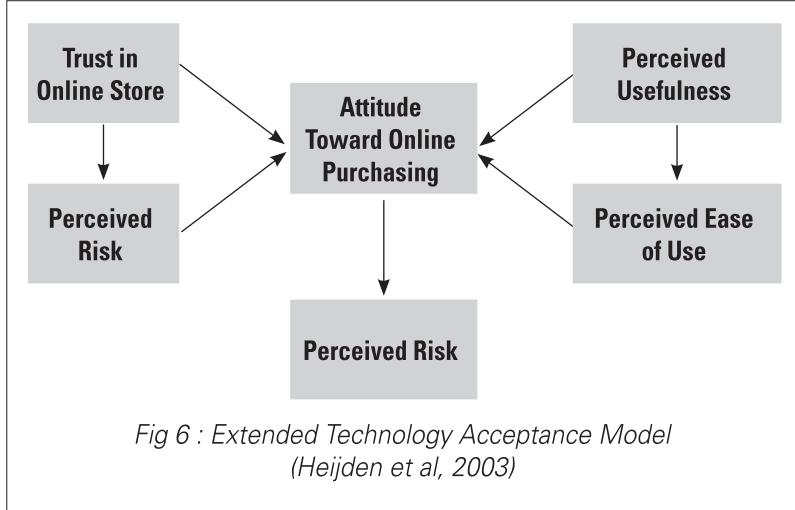


Fig 6 : Extended Technology Acceptance Model
(Heijden et al, 2003)

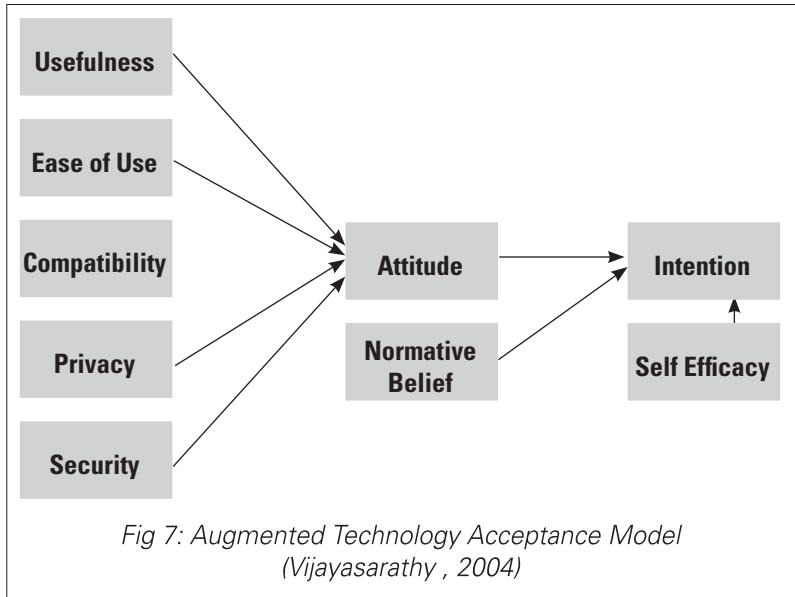


Fig 7: Augmented Technology Acceptance Model
(Vijayasarathy , 2004)

Venkatesh and Davis 2000). However, in using TAM for actionable guidance, it is essential to identify determinants that are tailored to specific classes of technologies that capture the nuances of the class of technologies and/or business processes (Benbasat and Zmud 2002). Thus, as a first step, it is important to extend TAM toward specific classes of technologies (Dennis and Reinicke 2003). A model focused on a specific class of technologies will produce a narrower but stronger model

rather than a general model that attempts to address many classes of technologies simultaneously (Newell 1969). Given this background, there is a necessity to integrate constructs from E-tailing practices with TAM to present a model of acceptance of E-tailing to provide a rich understanding of the acceptance and technology use of this specific class of technology.

Technologies that facilitate interactions via electronic means

have become an essential component of day-to-day life. Thus, it is not surprising that this class of technologies has received considerable research attention over the past five years (Vessey et al. 2003). However, several prior studies have been mainly in the field of collaboration technologies such as voice mail, E-mail, and group support systems (e.g., Adams, Nelson, and Todd 1992; Chin and Gopal 1995; Straub, Limayem, and Karahanna 1995). These studies are nevertheless important because they established TAM as one of the cornerstones of IS literature and a theoretical model applicable to a wide range of technologies.

A model that integrates technology acceptance with E-tailing practices is lacking, a void that this research seeks to address.

5.0 Research Model & Hypotheses

The conceptual research model, shown in *Figure 8*, is an extension of the above-mentioned models and their enhancements, customized to the specific and unique characteristics of E-tailing. As explained earlier, the generic model of technology acceptance has inherent limitations and there is a necessity to extend this model to address each class of technology usage individually. The research model given below shows that the major factors that influence 'actual online buying' are 'confidence for buying' and 'technological comfort'. The antecedents of 'confidence for buying' are 'perceived trust', 'perceived value-for-money', 'perceived navigability' and 'perceived quality of E-services'. The antecedents to perceived trust are 'credibility', 'security', 'privacy', 'communication', and 'gullibility'.

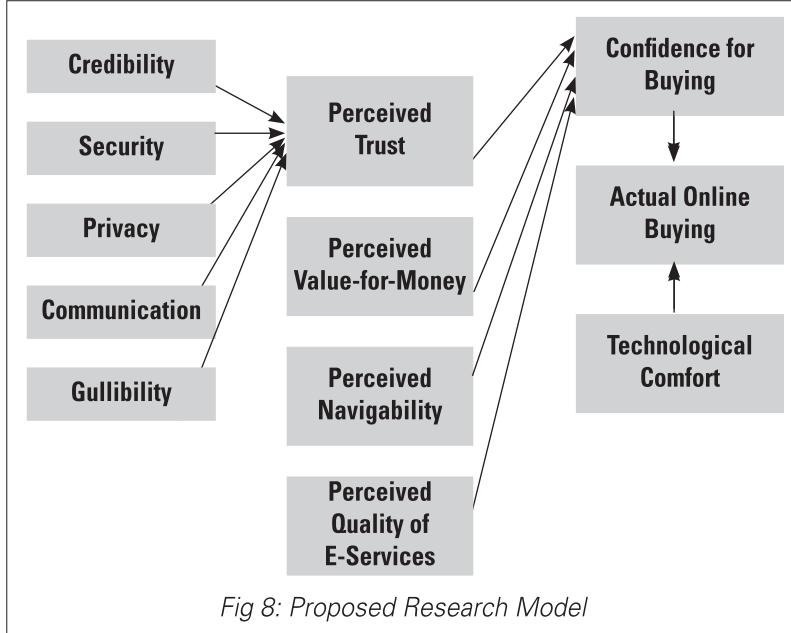


Fig 8: Proposed Research Model

There is a general agreement among researchers (e.g., Cheskin Research, 2000; Cheskin Research & Studio Archetype/Sapient, 1999; Fogg, Soohoo, Danielson, Marable, Stanford, & Tauber, 2002) on the significant importance of "perceived trust" in online activities.

There are several definitions and interpretations of trust, so much so, that it makes the concept confused across research areas. In this study, the definition of trust has been adapted from Mayer et al, 1995 & Jarvenpaa et al, 2000 - trust is "the willingness of a consumer to be vulnerable to the actions of an online store based on the expectation that the online store will perform a particular action important to the consumer, irrespective of the ability to monitor or control the online store". The following antecedents of perceived trust have been identified:

1. Credibility

This is defined as the extent to which the reliability, trustworthiness, existence of physical store and

reputation of the E-tailer is ensured.

Derived Hypothesis:

H1 : There exists a positive association between credibility and perceived trust.

2. Security

This is defined as the extent to which protection of customers' sensitive data from "hackers" and "crackers" is ensured

Derived Hypothesis:

H2: There exists a positive association between security and perceived trust.

3. Privacy

This is defined as the extent to which customer's belief that the E-tailer will not divulge his/her personal information to 3rd parties, willy-nilly, is maintained.

Derived Hypothesis:

H3: There exists a positive association between privacy and perceived trust.

4. Communication

This is defined as the extent to which customer's belief that the E-tailer will

be in constant communication with him/her before, during, and after the E-tail sale transaction is maintained

Derived Hypothesis:

H4: There exists a positive association between communication and perceived trust.

5. Gullibility

This is defined as the extent to which customers get influenced and form opinions based on word-of-mouth communication from others.

Derived Hypothesis:

H5: There exists a positive association between the individual's gullibility and perceived trust.

The research model suggests that perceived trust, perceived value-for-money, perceived navigability and perceived quality of E-services are the antecedents to establishment of confidence for buying.

6. Perceived Trust

As explained earlier, perceived trust is defined as the extent to which the consumer is willing to be vulnerable to the actions of an E-tailer, based on the expectation that the E-tailer will perform a particular action important to the consumer, irrespective of the ability to monitor or control the E-tailer.

Derived Hypothesis:

H6: There exists a positive association between perceived trust and confidence for buying.

7. Perceived Value-for-Money (VFM)

This is defined as the extent to which the consumer's belief that E-tail purchase would offer more convenience, faster processes, better bargains etc. as compared to any other form of purchase is maintained

Derived Hypothesis:

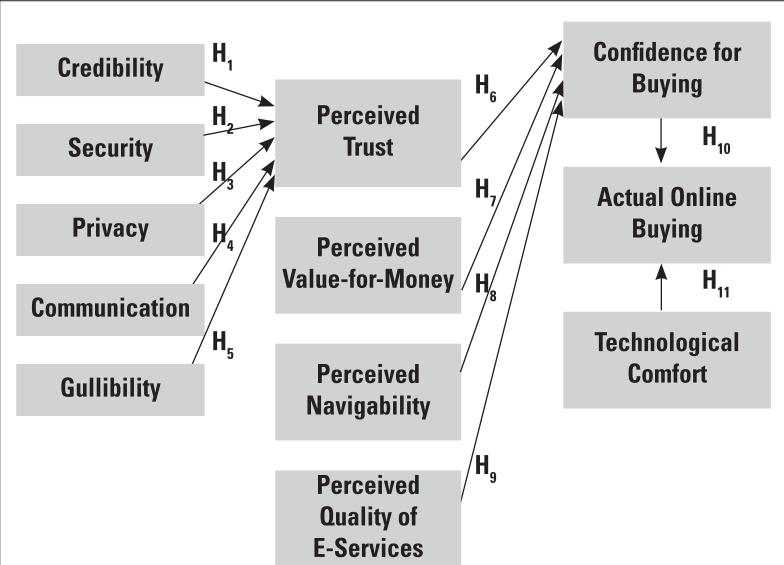


Fig 9 : E-tail Acceptance Model showing the derived hypotheses

H7: There exists a positive association between perceived value-for-money and confidence for buying.

8. Perceived Navigability

This is defined as the extent to which the consumer's belief that the E-tail purchase process is "free of effort" is maintained

Derived Hypothesis:

H8: There exists a positive association between perceived navigability and confidence for buying.

9. Perceived Quality of E-Services

This is defined as the extent to which consumer's belief in service quality of the E-tailer in terms of fulfillment, efficiency, responsiveness, grievance-handling, interactive decision aids (presence technology, 3D presentation, online help, etc.) is maintained

Derived Hypothesis:

H9: There exists a positive association between perceived quality of E-services and confidence for buying.

The research model further suggests that confidence for buying is an

antecedent for actual online purchase

10. Confidence for Buying

This is defined as the extent to which the consumer's confidence in making a purchase in an E-tailing environment is established

Derived Hypothesis:

H10: There exists a positive association between confidence for buying and actual online buying.

11. Technological Comfort

This is defined as the extent to which the consumer is comfortable using the computer and other electronic gadgets relevant to E-tailing

Derived Hypothesis:

H11: There exists a positive association between technological comfort and actual online buying

Figure 9 below shows a diagrammatic representation of the derived hypotheses:

6.0 Research Methodology

The behavior of online customers is central to this study, as it is important to understand the dynamics of

purchases made over the Internet. Hence, the major focus of the study was to understand whether credibility, security, privacy, communication, and gullibility affects a customer's perceived trust, and whether perceived trust, perceived value-for-money, perceived navigability, and perceived quality of E-services affects a customer's confidence for buying, and whether confidence for buying and technological comfort affects the actual online buying.

6.1 Data Collection Instrument

One of the greatest challenges in collecting data for research is the creation and formatting of a questionnaire. In order to minimize misinterpretations in this endeavor, a preliminary questionnaire was initially distributed to a pilot group of 25 subjects, selected on the basis of convenience sampling. This pilot group not only answered the questionnaire, but also suggested changes in nebulous, fuzzy areas of the questionnaire. The group also made suggestions in the order of the questions. This process had a significant impact on the original questionnaire, narrowing the scope of the questions and eliminating redundant and irrelevant questions.

The final questionnaire used for data collection contained close-ended questions to measure the various constructs depicted in the research model. This enabled respondents to answer questions quickly, yet objectively. The perceptions of the respondents were collected objectively using 5-point Likert scales thus reducing the complexity involved in collecting subjective data. Various items within the same construct group were randomized to prevent systemic response bias. An E-mail survey method was selected to float

the questionnaire due to the following three considerations:

1. E-mail surveys (a derivative of the standard mail survey) are well suited for measuring respondents about self-reported or beliefs or behaviors (Neuman, 2003). It provides a quick and efficient way of gathering large amounts of data from the population with a relatively low cost in comparison with other collection methods (Neuman, 2003). In this study, email survey was used to obtain information on the customer's demography and their perceptions on the factors that have influenced actual customer purchase.

2. The use of a mail survey increases reliability of responses by eliminating interviewer bias (Neuman, 2003). As this research attempted to identify factors that influence the actual buying behavior by testing the interrelationship of different variables, the E-mail survey was highly suitable.

3. An E-mail survey allows the researcher contact with inaccessible respondents. It allows respondents to complete the questionnaire at their own convenience and at their own pace. With this flexibility, the respondents can take time to think and answer the questions. Therefore, the E-mail survey method was an appropriate way to collect the data.

Moreover, as this research dealt with Internet-based electronic retailing, it was assumed that using email mode for collecting data would not generate any kind of bias in the sample. Indeed, every online purchaser is also an Internet user and could therefore access emails.

6.2 Sample Frame

The population for this research comprised Bangalore-based Internet-savvy consumers, who are all working professionals.

6.3 Sample Size

Sample size has a direct bearing on how accurate the findings are relative to the true values in the population. Therefore, determining an appropriate sample size for this research was considered to be of paramount importance.

The required sample size was calculated using the following formula:

$$\text{Sample Size} = \frac{\{(Z\alpha) * (p) * (1-p)\}}{C^2}$$

where:

Z = no. of std. deviations a point on a distribution is away from the mean (e.g. 1.96 for 95% Confidence Level)

p = percentage picking a choice, expressed as a decimal (p = 0.5 is used for calculating required sample size)

C = confidence interval expressed as decimal (e.g. 0.04 = + 4%)

Assuming, Confidence Level = 95% & Confidence Interval = 7%, the required sample size identified was:

$$\frac{1.96^2 * 0.5 * 0.5}{0.07^2} = 196$$

A response rate from an E-mail survey might be normally expected between 10 % and 50 % (Neuman 2000). Therefore, to ensure that sufficient data was collected to allow in-depth analysis, and accurate inferences could be drawn from the data, it was decided to send email questionnaires to five times of the sample size (approximately to 1000 subjects).

6.4 Sampling Method

The concept of E-tailing is of recent origin in India. Hence, E-tail database

of consumers is not publicly available (ala directories). Individual E-tailers do have their own customer databases but generally, they are not at liberty to disclose the list due to the security issues involved in the E-tail purchases.

As a result of the stringent privacy policies adopted by the E-tailers it was extremely difficult to locate samples by absolutely random means. The sampling method chosen was "snowball sampling" (sometimes referred to as "network sampling"). Snowball sampling is a non-probability method used when the desired sample characteristic is rare. It may be extremely difficult or cost prohibitive to locate respondents in these situations. Snowball sampling relies on referrals from initial subjects to generate additional subjects. In the absence of a publicly available database, this was the only technique that could be used. Snowball sampling came at the expense of introducing bias because the technique itself reduces the likelihood that the sample will represent a good cross section from the population.

It was practically impossible to track the number of respondents who finally received the questionnaire, as the questionnaire was sent as an email attachment with a request to forward it to as many Bangalore-based subjects as possible. Initially, it was sent to 137 respondents directly but there is no way that one can estimate how many subjects ended up with a copy of the questionnaire in their mailbox.

219 responses were received till January 23, 2007. Out of these, 17 responses were rejected, as they were incomplete. The balance 202 responses were retained for data analysis. Kaiser-Meyer-Olkin

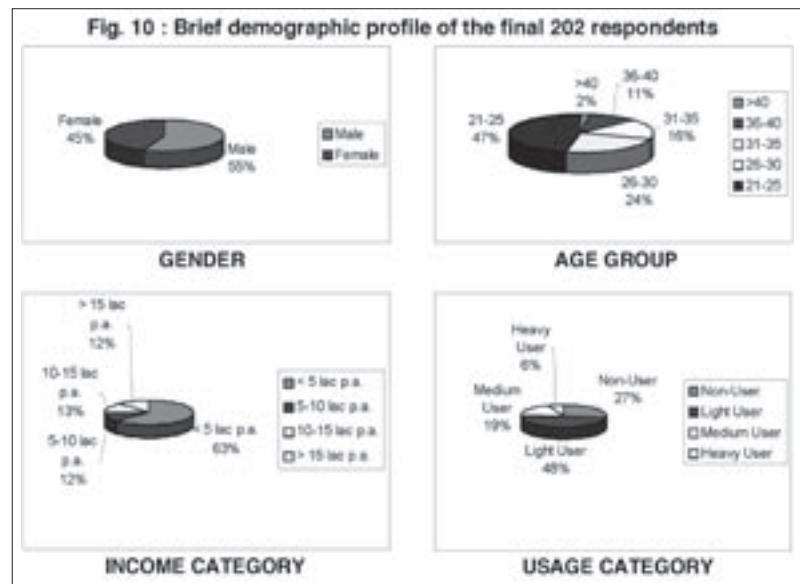
(KMO) Test was used to measure the sampling adequacy. The KMO measure obtained was 0.785 and as this is more than the cut-off value of 0.5, sampling adequacy was established.

6.5 Data Analysis : The Preliminary Steps

This section discusses the initial screening of the data, the examination of the data for missing values and outliers, and the selection of analysis methods.

6.5.1 Data Screening

After collection and compilation of the data, the analysis process commenced with data screening. Prior to analyzing the data, a critical first step was to examine the basic characteristics of the data in order to assist with the application of a multivariate analysis model as well as interpretation of the results (Hair et al, 1998). The data from the survey were first screened to identify out-of-range values by examining the minimum and maximum values for each question. Descriptive statistics ensured that the means and standard deviations were credible



(Table 1).

The next step was to examine the data for missing values, outliers, and reliability. The investigations of these three areas are discussed in the following sections.

Missing values

Using the missing value analysis function in SPSS, the number of cases or variables having missing data was

identified. None of the cases and/or variables in the final 202 responses exhibited a high level of missing data and hence, all of them were retained for further analysis.

Outliers

An outlier is an observation that lies an abnormal distance from other values in a chosen sample. Outliers may occur for a number of reasons: a

Sl.	Variable	Notation	N	Min	Max	Mean	Std. Deviation
1	Credibility	CRE	202	2.00	4.91	3.8245	.47247
2	Security	SEC	202	2.40	5.00	4.0020	.53233
3	Privacy	PRI	202	2.33	5.00	4.1238	.53052
4	Communication	COM	202	2.00	5.00	4.1574	.47991
5	Gullibility	GUL	202	1.80	4.60	3.2901	.60938
6	Perceived Trust	PT	202	1.25	5.00	4.1460	.58831
7	Perceived Value-for-Money	PVFM	202	1.17	5.00	3.4257	.76925
8	Perceived Navigability	PN	202	1.54	5.00	3.6413	.58571
9	Perceived Quality of E-services	PQ	202	1.55	5.00	3.9595	.54793
10	Confidence for Buying	CB	202	1.80	5.00	3.5851	.71095
11	Technological Comfort	TC	202	1.50	4.83	3.2129	.67945
12	Actual Online Buying	AOB	202	2.00	5.00	3.3000	.60000

Table 1 : Descriptive Statistics of Various Constructs

Scale	No. of items	Cronbach's Alpha
Credibility	11	0.7242
Security	5	0.7165
Privacy	6	0.7021
Communication	10	0.8201
Gullibility	5	0.7104
Perceived Trust	4	0.8075
Perceived VFM	6	0.8408
Perceived Navigability	13	0.8820
Perceived Quality of E-Services	11	0.8489
Confidence For Buying	5	0.7042
Technological Comfort	6	0.7319
Actual Online Buying	3	0.7020

Table 2 : Cronbach's Alpha Scores for Reliability Measurement

procedural error (e.g. data entry error), etc. No outliers were detected during the examination and hence, there was no need to eliminate any of the 202 responses.

Reliability

To assess reliability, the Cronbach's alpha score for each construct was examined. The alpha score was greater than 0.7 (Numally 1978) in all constructs and hence, the constructs were reckoned as reliable (*Table 2*).

6.5.2 Data Analysis

The data was then subjected to rigorous quantitative analysis

using SPSS 11.0. The hypothesized relationships depicted in Figure-9 were tested using multiple linear regressions. Three models were initially tested.

Model 1 : The dependent variable (perceived trust) and independent variables (credibility, security, privacy, communication, and gullibility) were entered into a hierarchy for testing hypotheses (H1, H2, H3, H4, and H5). The hypothesized relationships can be represented in terms of the following regression equation:

$$PT = +1CRE + 2SEC + 3PRI +$$

4COM + 5GUL

where : PT = Perceived Trust, CRE = Credibility, SEC = Security, PRI = Privacy, GUL = Gullibility.

Model 2 : The dependent variable (confidence for buying) and independent variables (perceived trust, perceived value-for-money, perceived navigability, and perceived quality of e-services) were entered into a hierarchy for testing hypotheses (H6, H7, H8, and H9). The hypothesized relationships can be represented in terms of the following regression equation:

$$CB = + 1PT + 2PVFM + 3PN + 4PQ$$

where : CB = Confidence for Buying, PT = Perceived Trust,

PVFM = Perceived Value-for-Money,

PN = Perceived Navigability,

PQ = Perceived Quality of E-services.

Model 3 : The dependent variable (actual online buying) and independent variables confidence for buying, and technological comfort) were entered into a hierarchy for testing hypotheses (H10, and H11). The hypothesized relationships can be represented in terms of the following regression equation:

$$AOB = + 1CB + 2TC$$

where : AOB = Actual Online Buying,

Coefficients

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
Model 1	(Constant)	.108	.311		.347	.729		
	CRE	-4.872E-02	.076	-.039	-.638	.524	.626	1.598
	SEC	.206	.058	.187	3.558	.000	.857	1.167
	PRI	3.745E-02	.067	.034	.556	.579	.638	1.568
	COM	.482	.086	.393	5.571	.000	.474	2.111
	GUL	.378	.051	.391	7.379	.000	.838	1.193

* Dependent Variable: PT

Table 3a : Coefficients for Model - 1

CB = Confidence for Buying,
TC = Technological Comfort.

6.5.3 Results of Regression Analysis

Model 1 : PT versus CRE, SEC, PRI, COM, GUL

The regression equation is

$$PT = 0.108 - 0.0487CRE + 0.206SEC + 0.0374PRI + 0.482COM + 0.378GUL$$

Tables 3a, 3b, and 3c indicate the following:

- PT (perceived trust) showed positive association with SEC (security), COM (communication), and GUL (gullibility) @ 1%, 5%, and 10% significance levels. Thus, hypotheses H2, H4, and H5 are supported. Hypotheses H1, and H3 are rejected.

- The model is powerful because the 'P' value of 'F' is significant @ 1%, 5%, and 10% levels.

MODEL 2 : CB versus PT, PVFM, PN, PQ.

The regression equation is

$$CB = 2.3 + 0.136PT + 0.237PVFM - 0.142PN + 0.519PQ$$

Tables 4a, 4b, and 4c indicate the following:

- CB (confidence for buying) showed positive association with PT (perceived trust) @ 5%, and 10% significance levels. It showed positive association with PVFM (perceived value-for-money), and PQ (perceived quality of E-services), @ 1%, 5%, and 10% significance levels. Thus, hypotheses H6, H7, and H9 are supported. Hypotheses H8 is rejected.
- The model is powerful because the 'P' value of 'F' is significant @ 1%, 5%, and 10% levels.

MODEL 3 : AOB versus CB, TC

The regression equation is

$$AOB = 2.67 + 0.216TCT + 0.637CB$$

Tables 5a, 5b, and 5c indicate the following:

- AOB (actual online buying) showed positive association with CB (confidence for buying), and TC (technology comfort) @ 1%, 5%, and 10% significance levels. Thus, hypotheses H10, and H11 are

supported.

- The model is powerful because the 'P' value of 'F' is significant @ 1%, 5%, and 10% levels.

After conducting regression analysis on the three models, test for multi co-linearity was undertaken with the intention of conducting a stepwise regression analysis, if multi co-linearity existed.

Correlation coefficients exceeding 0.75 were considered significant.

Table 6 shows that all the coefficients are less than the threshold value of 0.75, and hence, there was no need to conduct step-wise regression analysis.

A summary of the hypotheses test results is presented below:

7.0 FINDINGS & SUGGESTIONS

- A positive association has been established between security and perceived trust. Thus, E-tailers need to beef up their website security measures to instill confidence in the buyers. The following measures are suggested:

- The E-tailers need to procure "security certifications" from trusted third parties like
 

for their website transactions and display them prominently on their website.

- Warnings of new fraudulent means adopted by hackers need to be displayed prominently on the website on a regular basis.
- Dynamic electronic keyboards should be provided on the website to prevent "keyboard stroke capturing". An example of such a key board is given below:

Such security features are being provided by the E-banks for online banking transactions only. E-tailers

Model Summary

Model 1	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.734	.538	.526	.40487

* Predictors: (Constant), GUL, SEC, CRE, PRI, COM

Table 3b : Summary of Model – 1

ANOVA

Model 1		Sum of Squares	df	Mean Square	F	Sig.
	Regression	37.438	5	7.488	45.677	.000
	Residual	32.129	196	.164		
	Total	69.567	201			

* Predictors: (Constant), GUL, SEC, CRE, PRI, COM

* Dependent Variable: PT

Table 3c : Analysis of Variance (ANOVA) for Model – 1

Coefficients

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model 2		B	Std. Error	Beta		
	(Constant)	2.298	.389		5.906	.000
	PT	.136	.098	.112	1.380	.017
	PVFM	.237	.073	.257	3.267	.001
	PN	-.142	.115	-.117	-1.236	.218
	PQ	.519	.134	.400	3.885	.000

* Dependent Variable: CB

Table 4a : Coefficients for Model - 2

need to adopt this feature on their websites.

- All information required to complete an online transaction, including payment are available on the card itself, i.e. Card Number, Expiry Date, and CVV Number. This is a major concern as card theft has become very rampant. Furthermore, in merchant establishments, very often the cards are taken out of view of the customer for swiping. Any unscrupulous person can note down the above three details and make fraudulent purchases. It is suggested that appropriate biometric technologies be brought in to authenticate the person making the online purchase. This would give a major boost to trust in online sale transactions. Till then, the E-tail website should automatically generate a password and send it to the email ID / mobile number of the concerned person. No transaction should be completed without the password being entered on the E-tail website. Very recently, Citibank introduced this feature to authenticate online transfer of money from banking accounts.

- Mobile phones can be integrated into the E-tailing paradigm, as mobile phones are much more personal than computers. The huge penetration of mobile phones could

Model Summary

Model 2	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.368	.135	.118	.66787

* Predictors: (Constant), PQ, PVFM, PT, PN

Table 4b : Summary of Model – 2

ANOVA

Model 1		Sum of Squares	df	Mean Square	F	Sig.
	Regression	13.723	4	3.431	7.691	.000
	Residual	87.872	197	.446		
	Total	101.595	201			

* Predictors: (Constant), PQ, PVFM, PT, PN

* Dependent Variable: CB

Table 4c : Analysis of Variance (ANOVA) for Model – 2

Coefficients

Model 3		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	2.674	.211		12.648	.000
	CB	.637	.063	.688	10.052	.000
	TC	.216	.066	.223	3.258	.001

* Dependent Variable: AOB

Table 5a : Coefficients for Model - 3

Model Summary

Model 3	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.594	.353	.347	.53129

* Predictors: (Constant), TC, CB

Table 5b : Summary of Model – 3

ANOVA

Model 3		Sum of Squares	df	Mean Square	F	Sig.
	Regression	30.701	2	15.351	54.384	.000
	Residual	56.171	199	.282		
	Total	86.872	201			

* Predictors: (Constant), TC, CB * Dependent Variable: AOB

Table 5c : Summary of Model – 3

be tapped and channeled into an efficient E-tailing service.

- A positive association has been established between communication and perceived trust. This indicates that the E-tailers must be in constant communication with customers before, during, and after the sale transaction. The following measures are suggested:

- The E-tailers need to inform customers about the payment status as soon as it is over through automated email.
- Courier details should be emailed automatically to the customer as soon as the goods are shipped.
- E-tailers should respond to complaints related to late / non-arrival of goods promptly.

- A feedback should be taken after the goods are received and the customer has had time to use the product.

- A positive association has been established between gullibility and perceived trust. This indicates that the E-tailers must cultivate opinion leaders and consider mass advertising.
- A positive association has been established between perceived value-for-money and confidence for buying. This indicates that the E-tailers must offer better bargains; better bulk discounts vis-à-vis retailers. In other words, there should always be a price differential in favor of online purchases. The price advantage should be prominently displayed on the website. Other cost savings like transportation, parking, time costs, etc. should also be highlighted. Institutional membership maybe considered, wherein a member-institute's employees could be

Correlation Matrix

	Pearson's Correlation Coefficient	CRE	SEC	PRI	COM	GUL	PT	PVFM	PN	PQ	CB	TC	AOB
CRE	ζ	1											
SEC	ζ	.252	1										
PRI	ζ	.425	.316	1									
COM	ζ	.602	.326	.581	1								
GUL	ζ	.277	.226	.254	.384	1							
PT	ζ	.367	.404	.403	.600	.582	1						
PVFM	ζ	.298	.307	.381	.415	.430	.370	1					
PN	ζ	.436	.403	.543	.517	.383	.426	.486	1				
PQ	ζ	.631	.452	.560	.705	.390	.569	.487	.695	1			
CB	ζ	.204	.186	-.030	.204	-.045	.195	-.078	.084	.258	1		
TC	ζ	.290	.215	-.019	.301	.105	.178	.066	.221	.354	.554	1	
AOB	ζ	.259	.213	.002	.162	.187	.462	-.007	-.067	.185	.565	.158	1

Table 6 : Correlation Coefficients of all the Constructs

Hypotheses Path	Hyp.	Coeff.	t-Test	Decision
Credibility -> Perceived Trust	H ₁	-.039	-.638	Not Supported
Security -> Perceived Trust	H ₂	.187	3.558	Supported
Privacy -> Perceived Trust	H ₃	.034	.556	Not Supported
Communication -> Perceived Trust	H ₄	.393	5.571	Supported
Gullibility -> Perceived Trust	H ₅	.391	7.379	Supported
Perceived Trust -> Confidence for Buying	H ₆	.112	1.380	Supported
Perceived Value-for-Money -> Confidence for Buying	H ₇	.257	3.267	Supported
Perceived Navigability -> Confidence for Buying	H ₈	-.117	-1.236	Not Supported
Perceived Quality of E-services -> Confidence for Buying	H ₉	.400	3.885	Supported
Confidence for Buying -> Actual Online Buying	H ₁₀	.688	10.052	Supported
Technological Comfort -> Actual Online Buying	H ₁₁	.223	3.258	Supported



Fig. 13 – An example of dynamic electronic keyboard

offered good deals if they shop online.

- A positive association has been established between perceived quality of E-services and confidence for buying. This indicates that the E-tailers must provide efficient E-

services that are superior to offline mode. The following measures are suggested:

- E-tailers need to ensure that order fulfillment takes place on or before the promised date. This is a serious concern as the results of one

delayed receipt could adversely affect future online purchases.

- The E-tailers need to continuously invest in innovative technologies to provide better and better quality E-services. Presence technology, 3D presentations of products,

interactive decision aids, etc. should be considered as starters.

- A positive association has been established between technological comfort and actual online buying. This indicates that the E-tailers must invest in innovative user-interface technologies that would put the user at ease and not intimidate him/her. Voice-based E-tailing services could also be considered.

8.0 CONCLUDING THOUGHTS

E-tailing is one of the critical business models for E-commerce in the competitive business environment. Without a theoretical model for analyzing E-tailing success, it is very difficult for E-tailers to achieve their business goals. An "E-tail Acceptance Model" was developed to enhance and advance the traditional model. This new model has identified the critical factors leading to customer confidence and eventual purchase

in an E-tailing environment, thereby contributing to the rising body of knowledge concerning the determinants of customer confidence in an electronic environment. Many companies today are trying to increase their website sales. The theoretical framework that has been developed in this study will help to convert 'online visitors' to 'online customers'.

The results of this study provide at least two theoretical contributions to E-tail adoption research. First, the study presents four empirically tested, reliable, and valid constructs that were found significant in predicting E-tail use, namely gullibility, perceived value-for-money, perceived quality of E-services, and technological comfort. Second, the results corroborate the fact that specific technology acceptance models have to be developed for specific classes of technology use. The general

model may not be adequate enough to explain the adoption and use of different types of technologies wherein the specific features of the technology play an important role.

Although this study makes contributions to the body of knowledge in the E-tailing domain, there are a number of limitations associated with the research, as follows:

- E-tailers have not been segmented while conducting the study and have been treated as generic. Specific categories of E-tailers need to be considered to check whether the empirically tested model is valid across all categories.
- The sample selection using snowball sampling has limited the ability to generalize the finding to the overall population, due to its non-random nature.



Fig. 14 – A typical credit card with all details embossed on it



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Self Reporting Method in Business Surveys

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Abstract

This article reviews the role of self reporting (SR), by survey respondents in business research, given the now widely spread web and online facility with readily accessible panels. In this context, it outlines (a) the effects of response format (b) uses of SR information (c) dropout pattern on the web, together with affecting factors and (d) dual frame sampling for rare groups.

Relevant empirical evidences, wherever necessary, are cited.

Key words and phrases

Dual frame sampling; self reporting; Telephone cluster sampling; web based design.

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Introduction

With the facility for web and online surveys, use of self-reporting (SR) is becoming increasingly common as a mode of data collection. This may be used to determine whether a person has ever engaged in a specific behaviour, owned a particular product or experienced an event of interest. Examples are, respectively, use of a scheduled drug, owning of a digital camera and experiencing harassment by tax officials. The difficulties in obtaining accurate information in SR surveys has been pointed out (e.g., Lee, Ju and Toh, 2000). It has also been indicated that, for behaviours with objective bench marks, SR information preserves both Order and Relative frequency with a fair

degree of correspondence of reality. SR serves many functions; e.g.; as a screening tool to determine what questions to ask the respondents, subsequently. SR product ownership serves an important role, ranging from behavioral surveillance to market sizing studies. Thus many business surveys in market research, rely to some degree on SR of behaviors or events.

2. Common formats

Two formats are common in SR surveys.

A) Yes / No grid, where a respondent is presented with a series of items for which the answer is either a Yes or a No.

B) A multiple response list from which the respondent selects all that apply to him. This often includes a 'none of these' response too. Both formats are on vogue in visually presented (paper-pen / mail or web based) SR surveys.

3. Effects of format

The context of response formulation affects responses. In fact, both the range and availability of response options have been shown to affect response choices. With dichotomous response formats in web-based surveys, Thomas et.al. (2003) reported higher endorsement rates with yes / no grids as compared to multiple response lists. Thomas and Klein (2006) analysed five experiments conducted using the Harris Interactive panel (Harris Pool Online.com) which has over 7 million members. The respondents were all aged 18 years and more and the questions concerned purchase behaviour, consumption of product

The sample size was at least 900 each of the experiment and corporate prolist actions.

Ownership of different kitchen appliances the authors conclude mainly as follows.

1. The response format has significant effects on online survey behaviour across the various topics.
2. Yes/ No grid response format leads to higher levels of endorsement than multiple response lists.
3. The differences noted are robust across multiple time frames, different types of activities and information with a wide range of salience to individual respondents, and also across question formats requiring different recall strategies.
4. The same trend was found across

different countries and languages spoken.

- However, the endorsement frequencies were ordered similarly between the two formats, with a Correlation of about 0.98 between proportions of endorsements under the two different formats.
- The presence or absence of the 'None of these' category is unlikely to alter the above findings.

5. Comparison of formats:

A variety of factors can affect memory and recall of respondents, which include the time frame, the salience of the topic and event priming. It is also possible the yes / no grid and multiple response lists activate different recall strategies. Also the yes / no grid has a mandatory nature which forces the respondent to one of the two diametrically opposite responses. In contrast, with a multiple list format a response for only a minimum of one element is needed to advance to the next question on the screen. Thus the respondents tend to glance at the elements rather than reading them carefully. This process of minimally reading a list and answering items that most stand out (known as satisfying), may result in choice of the first reasonable option, rather than the most appropriate option. In this sense response endorsement demands more effort than non-endorsement with a multiple list, while these efforts are equal with a yes / no set up.

6. Other uses of SR information

- SR data have been used as a weighting function to adjust data to be more representative of a larger group. For example, ownership of products can be used to determine size of a social class.
- SR data can help in deciding the size of the sample to be drawn in the main study. For instance, if the

number of persons who engage in a behavior is lower than anticipated, more respondents will be needed to obtain the necessary base in the main study for valid inferences about the population. Contrary will be the case with a higher than anticipated incidence rate.

7. Dropouts on web:

Dropouts pose specific challenges to web survey research. Decision field theory, a dynamic theory of decision making developed by Busemeyer and Townsend (1993), helps in understanding how changes in respondents' subjective experience during a survey affect their behaviour. A basic concept here is that of the inhibitory threshold, the point which determines when the difference in the preference for one or the other action is large enough to provoke behaviour. Two aspects of respondents' subjective experiences matter: interest in the questions and burden experienced while answering them.

8. Empirical Evidence

Galesic (2006) conducted a study that sheds some light on the dynamics of respondent behaviour in a SR survey, which was part of a larger, unrestricted, banner advertised online survey on unemployment in Croatia. A total of 2339 participants started the survey; 959 stated that they were unemployed and were included in the main study. This had about 180 questions divided into 20 blocks, each of which occupied one web page and contained questions on a related topic – everyday activities, financial situation, use of internet, health, social support etc. To control the effect of question position on tendency to drop out, the order of question blocks was randomized. At the end of each block, the respondents were asked how much interesting the block was and the burden experienced

while answering it, both on a seven point scale.

The announced length of the survey and the motivation of the respondents were varied within a completely randomized experiment. The 3 announced lengths were 10,20 and 30 minutes. All three groups received the same questionnaire, but, for ethical reasons, the 10 minute group received – after the 5th block or approximately one third of the survey a message that the main part was now over but those who desired could continue. The same message was shown to 20 minute group after ...12th block.

9. Factors affecting dropout

Cox proportional hazards regression model was used to test whether survey design, respondents' demographics and their experiences with the survey affect dropout behaviour, with the proportion of total number of blocks in each time group as the dependant variable. Hierarchical multi level linear

Modeling was used to examine correlates of changes in momentary interest and burden, both on a 7-point scale.

The following main points emerged:

- Besides the announced length of the questionnaire, respondents' subjective experience during the survey significantly affected chances of dropout.
- Respondents who dropped out after a certain block often reported significantly worse subjective experience with that block than the respondents who stayed.
- It was possible to objectively observe respondents' tendency to dropout, even before they actually gave up, which is in line with decision field theory. Likewise respondent preference to

complete a block depended on their subjective experiences with the preceding block.

d) The overall dropout rate was about 42%. Also, these respondents had a somewhat lower overall response rate and they gave shorter answers to open questions.

e) Enjoyable items tended to improve the quality of answers to the questions that followed.

10. Dual frame sampling for rare groups

Blair and Blair (2006) have considered the conditions under which dual frame web-phone designs (Kalton, 2001) may be cost effective for sampling rare groups say no more than 20% within a general population. Here the screening costs dominate the total cost. The methods used for cost efficiency of reaching rare groups include cluster, disproportionate stratified, network, and dual frame sampling, particularly in telephone data collection, because of its combination of moderate cost, excellent population coverage and reasonable response rates.

The logic of web based data collection for rare groups is that the web has lower screening costs than other methods because no incremental labour or postage is needed to contact potential respondents. Blair and Blair (2006) have compared costs of telephone interviewing using cluster sampling with analogous costs of web based data collection with two scenarios: participation solicited from members of a) opt in lists and b) online panels.

11. Telephone cluster sampling (TCS)

The TCS procedure works as follows:

a. A random number \oplus is dialed within a bank of telephone numbers, via list assisted random digit dialing (RDD) or any other convenient procedure.

b. If r is not a member of the target group, then no further sampling is done within the bank. Otherwise, further sampling is done until a pre-specified number (no) of group members are identified.

This procedure has the effect of rapidly dropping telephone banks with no target group members and 'fishing where the fish are' for additional members of each cluster. The usefulness of TCS for sampling a rare group depends on the extent to which the group is geographically clustered. Otherwise, sampling of opt-in web lists is likely to be cheaper

Opt-in online panels consist of persons who have consented to participate, and typically, these contain at least 200,000 members. Empirical study by Blair and Blair (2000) has shown that substantial savings may result from using web panels to study rare groups if the target group is very rare and / or a large sample is desired. Dual frame web-phone designs will typically offer savings over telephone only designs if one has access to an online list in which target group's prevalence rate is at least as high as in the general population.

12. Biases in web-based sampling

One may mention three bias related issues in this context. These are, scope for

- Coverage bias due to that several population units may not be online,
- Volunteerism bias due to that available sampling frames cover only a fraction of online population and
- Non-response bias because of possibly low response rates, at least for opt-in samples.

12. Conclusion

A notable feature of dual frame web-phone designs is that they allow

a comparison of web and phone results. If serious bias is suspected, it might be managed through post-stratification, possibly based on information obtained in telephone sample. Thus, there is an attractive cost-saving role for the web in studies of rare groups, in conjunction with telephone or other methods. Also there exists a good platform for empirical research studies.

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Impact of Cross Culture Training on Business Due Diligence in the corporate sector - *A diagnostic study*

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■ K.V.Prabhakar#



Abstract

The definition of organizational effectiveness has changed drastically over the last decade. Operating in a global environment throws up unfamiliar challenges. The people are unfamiliar, and, their work ethics are unfamiliar. Once these gaps are delicately bridged, business synergy would become a practical reality. The result: a rising interest in cross cultural training for employees.

Cross cultural training programs aim at bringing an awareness of the cultural differences and prepare individuals and groups to interact with business associates across borders more effectively. The impact of culture shock is reduced and conflicts due to misunderstandings are avoided.

Keywords: Organizational effectiveness, cross cultural training, misunderstandings

1. Introduction

The milestones and ambitions of organizations are expanding like never before. Companies are no longer satisfied with achieving leadership in local geographical territories because the world is now their 'oyster'! The unfamiliarity of people, language, the different work ethics and the manner in which these need to be delicately bridged are causing organizations to look at cross cultural training with a lot of rising interest. And, this trend is not limited to organizations based in the West.

With shrinking boundaries and multi-cultural employees, the importance is growing fast. Present day business needs and globalization requires constant movement of people across national borders. Cultural barriers should not be a hindrance.

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They should be overcome by using sound organizational practices.

There has been many an instance where, the misunderstandings arising out of interaction between two or more cultural groups have caused project to be dropped and business deals to be cancelled.

Cross cultural training programs aim at reducing the gaps amongst multi cultural interactions and in making business synergy a practical reality.

1.1 Significance of the study:

The present day business scenario requires a thorough understanding of the sensitivity to culture and commands a considerable amount of managerial attention and resources. Leaders and Managers across the globe are expected to demonstrate the competency in cross cultural effectiveness. In order to ensure personal and professional success, individuals must be more flexible in adapting to the different practices of different cultures.

Cross cultural training basically involves sensitizing people on how to get 'onto the same wavelength' with those they are communicating with. In different parts of the world, people do things differently. These people could be – our colleagues in our company, a customer, business partner or a sales prospect. The reason cultural training is so important, is that, 'people buy people first'. The business follows afterwards. If we do not connect right at the beginning, it is very difficult to conduct business effectively. For example, when dealing with Japanese companies, respect is very important. There is also a very elaborate procedure for giving and receiving business cards. If we break this protocol, we are seen as very rude or manner less persons, someone that

Illustration 1

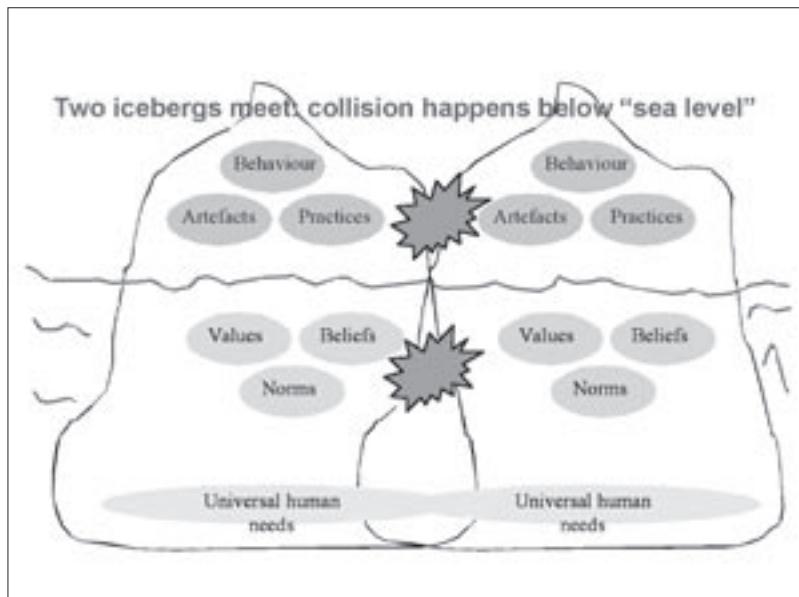
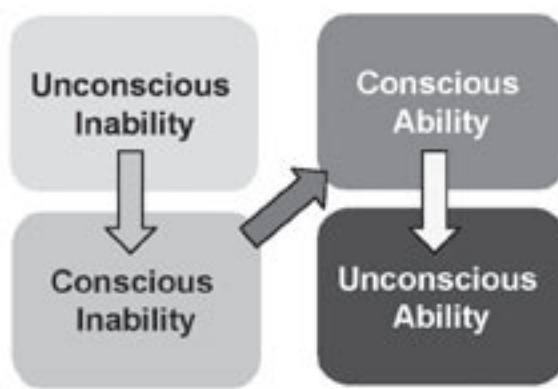


Illustration 2

Ability development path



they would really not want to interact with, too much.

Most organizations may not have confronted this complex issue of culture and also the need to leverage culture to establish and maintain a competitive advantage. Leaders may have lacked a reliable database that could help in the development of

specific, business and management applications.

There have been several efforts by researchers such as Edward T Hall and Geert Hofstede to introduce the cross cultural diversity to the present day manager. A visible lack of data on the impact that cross cultural training has on organizations has prompted the choice of topic.

1.2 Literature review:

This research paper sets off the investigation adding to the work carried out by notable cultural anthropologists, sociologists and social researchers such as Edward T Hall (1990), Clifford Geertz (1973), Geertz Hofstede (1980), Charles Hampden-Turner and Alfons Trompenaars (1993) and others. Several research based books mention the cultural diversity based on the iceberg model which is shown in *illustration 1*.

There are two clashes that happen as suggested by the iceberg model, which are also very well supported by the learning from practice. While the clash above the surface of water- the ones that are plainly visible may be avoided quite easily, it is not easy to avoid the clashes which are unseen and hidden as suggested by the under-water point. A well oriented training is found to reduce the severity to a large extent. It must always be remembered that a crisis brings out the best as well as the worst in people. People working in teams roll up their sleeves to get over the crisis and all differences are forgotten. Observance of the behavior patterns during a crisis has been one of the key points in the design of the training program on cross culture.

1.3 A few insights:

In the present global scenario and in the context of global outsourcing, the boundaries are shrinking and the cultural barriers will have to disappear fast, to enable different cultural groups to work together effectively. Let's take a look at the fundamental changes that people go through during a learning process. Outlined in the four blocks shown in *Illustration 2* are the summarized changes.

The analogy that one may think of is as follows- When one is very young (a baby), we are unable to identify a car,

Illustration 3

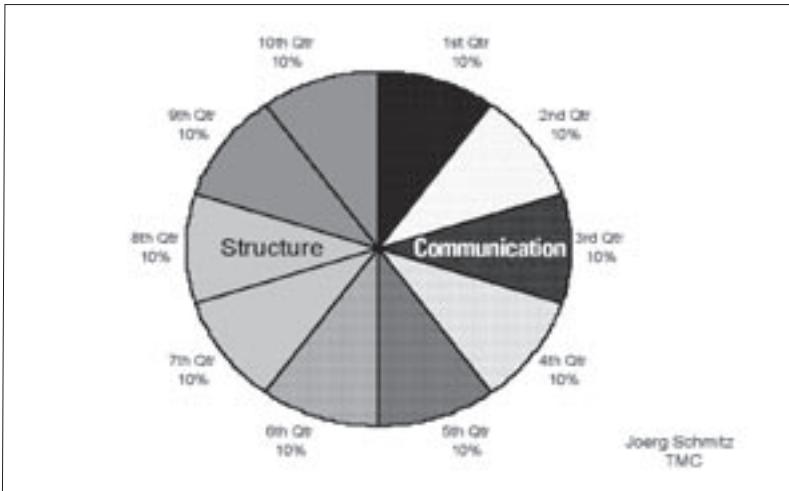
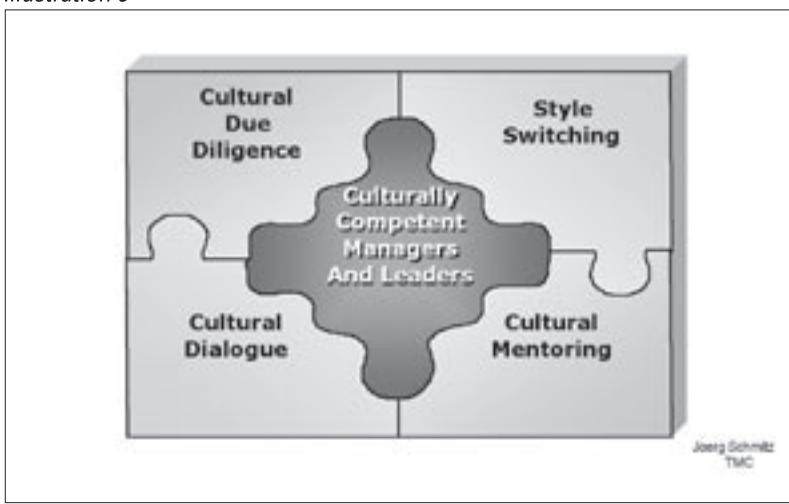


Illustration 4 - CULTURAL ORIENTATION MODEL (TM)



Illustration 5



let alone driving it, which makes it an unconscious inability. Later we pass onto the stage where cars fascinate us and we also learn to identify the brand names. We also wish that we could drive them; however, we are unable to do it which makes it a conscious inability. At the adolescence stage we learn to drive the car, but will have to exert a lot of care to keep it going properly on the road. This becomes a conscious ability. Finally after having learnt to drive a car efficiently on the roads and with growing experience, it becomes an unconscious ability, meaning that it almost becomes a reflex action. Similarly, the existence of cross culture differences and finally learning to manage them can be compared to this process.

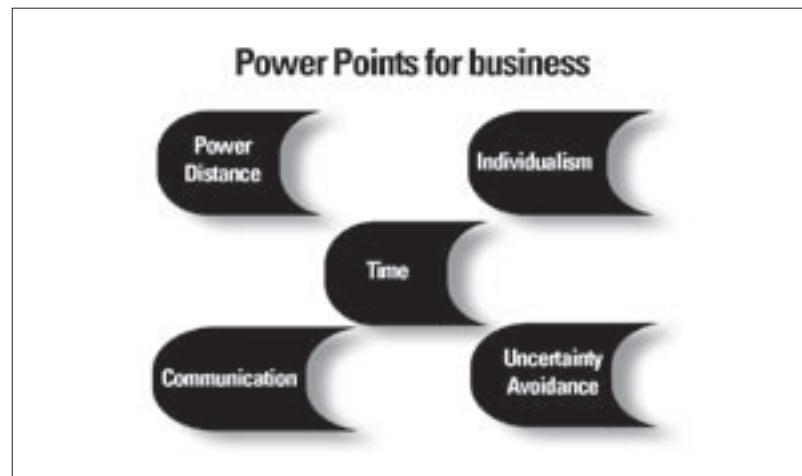
2. An existing study and framework:

The framework shown has been due to the efforts of Joerg Schmitz of the Training Management Corporation, New Jersey, and USA and provides a very good base on which to bring in the nuances of the cross culture training. Each of the 10 aspects of the framework has subdivisions and each nationality has clusters of these subdivisions which become typically characteristic of them. This makes it easier for a global manager to understand the cultural aspects across borders, thus making the manager truly global. (See illustration 3).

Cultural orientations model (TM)

The following attributes are the hallmark of a global manager and helps the manager in acquiring the necessary skills to combat the cultural differences. (Ref Joerg Schmitz, TMC). The concepts come from "The Cultural Orientations Guide" by Joerg Schmitz, published by Princeton Training Press, 5th edition (See illustrations 4 & 5).

Illustration 6



Culturally competent managers and leaders of today have to possess the competencies shown in the diagram above to be able to move across boundaries and handle cultural differences. Conflicts reduce and teams will be able to work seamlessly. The cultural due diligence is the initial research and study made about different cultures. The style switching is the ability to manage the changes required while dealing with different cultural groups, thus making the differences reduce to a very large extent and vastly reduce the areas of conflict. The cultural dialogue can be set up easily with two or more culturally competent managers or leaders while the Cultural mentoring is effectively done by managers and leaders who have gone through the other three aspects.

3. Orientation to Business:

While all the ten aspects of the cross cultural framework are important, some of them are inherent and some others need change management before being effective. The training methods take into account the need to appraise the managers/leaders about the aspects requiring change and enhance the awareness, as well

the abilities to minimize the clashes due to interactions with different cultural groups. Care however, should be taken to capture the expectations of the group being trained, while also being aware of the cultural nuances of the cultural group(s). The following are the primary "hot buttons" to be considered.

1. Power distance
2. Individualism
3. Time
4. Communication
5. Uncertainty avoidance

3.1 Power Distance:

The power distance is an indicator of the delays that might occur in the flow of communication or orders from a person holding the highest rank to those below and reporting to this person. The power distance varies between cultural groups. There is also a difference seen between organizations, as well as government and non-government organizations. Training brings in the awareness to offset the delays caused by power distance and thereby help avoid the delays caused in business.

Most Asian managers view corporate hierarchies with respect that can

translate into giving the supervisor the center stage in meetings. Actions that symbolize power are more obvious than in Western cultures. Power rather than competence will take center stage.

A sense of obligation towards the customer makes the team stretch and meet the customer's demands. Information regarding slippage in time schedules may take a back seat. Suitable training in this regard would help both the cultural groups interacting to achieve better results while avoiding time delays.

Western cultures are more direct in their dealings and therefore the communication gaps and delays are less. However, there is a difference between the USA and the European countries. Difference are seen amongst the European countries too (See illustrations 6).

3.2 Individualism:

Self or group orientation is the indicator here and helps identify the power points of decision making. It tells us how individuals define their identity. The natures that are defined within are the individualistic or the collectivistic. Most Asians exhibit the collectivistic nature, while those in the western world exhibit an individualistic nature. Translated to business terms – the individualistic person who comes to the discussion table is empowered to take decisions, while, the collectivistic person would need time to get back to the bosses before conveying a decision. The results are obvious – delays caused due to the channel in the collectivistic method. Training brings in the necessary preliminary preparation required for empowering the collectivist or in the creation of a channel for speedy clearances before decision. Business benefits. The 'community' factor

becomes stronger with the distance from home for a collectivist.

3.3 Time:

Across the world the nature of time of time and its use is perceived differently. A lot of misunderstandings arise in business if the concept of time for various cultural groups are not understood. Broadly this maybe classified into two compartments – polychromic and monochromic

While in the first case, less emphasis is placed on schedules and deadlines, the second is deadline driven. Two culturally different groups here would find it very difficult to arrive at a consensus. Imparted training bridges the gap and avoids misunderstandings.

Asians understand two months to be a continuous period where time overlaps. Most of the west sees two months as "60 days". Chunks of time that are limited and bound.

3.4 Communication:

An indicator of the manner in which individuals express themselves, can be divided into the High context communicator and the Low context communicator. The High context communication uses the indirect form. Trust and relationship comes first. They take affront at being addressed directly and do not take kindly to direct criticism. The Low context communicator is more direct and open to criticism. High context communicators turn out a good job if the entire context of the problem being dealt with is known . The Low context communicator is comfortable working on the need to know basis.

3.5 Uncertainty Avoidance:

This indicates the ability to take risks. If the uncertainty avoidance is HIGH, then the person is more ideological and less pragmatic. They tend to fall back on history,

emphasize ritual behavior, rules and stable employment. LOW uncertainty avoidance indicates that the person is more pragmatic and less ideological. These tend to look at what the future holds for them, and emphasize personal goals.

4. Conclusion

It has been found from experience that a suitable designed training program that takes into account the different cultural groups working together, eliminates most of the misunderstandings. Cost , effort and time are saved, resulting in an efficient delivery of the project on hand. The managers/ leaders are culturally competent and understand the weak points better and will be able to filter down the instructions/communications more effectively. This has also erased the boundaries created by culturally different groups/nationalities.

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* *Personal experience in delivering cross culture training programs across the globe.*

Biography of Pooling of Interest Method in accounting for Amalgamations¹

■ J. Shankar*

Abstract

'Pooling of interest method' of accounting for amalgamations is a unique concept among accounting practices. Its uniqueness is in ignoring the historical cost concept, a fundamental concept for recording transactions in accounting. In this practice the evidence of cost provided by the transaction of amalgamation is ignored in accounting for the amalgamation. Defined in Indian Accounting Standard 14 para 10 as "Under pooling of interest method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts"

This article attempts to find the logic that could have given birth to the 'pooling of interest method' in accounting for Amalgamations. In tracing the logic, the following five steps are taken. To start with, identify the first transaction of business combinations. Second, examine how these early business combinations could have been accounted for. Third, analyze how 'pooling of interest method' accounting for business combinations evolved in United States. Fourth, trace how 'pooling of interest method' of accounting reached India. Finally conclude by the evaluating the reasons for the demise of 'pooling of interest method' in accounting for amalgamations and examine in what form could 'pooling of interest method' survive going forward.

Introduction

'Accounting is a pragmatic trade'
— J Kitchen

India was ranked the third largest market in the Asia Pacific region, after Japan and Australia for mergers and acquisitions (M&A) in the first half of calendar year 2006². Growth of M&A in the India has been phenomenal. Grant Thornton, investment bankers engaged in M&A tracked 740 deals valued at \$26 billion in 2006³. This was an increase in value by 44% from \$18 billion in 2005. Measured by the number of deals, the growth in 2006 was 58% from 467 deals in 2005.

While mergers and acquisitions activity on the one hand is growing phenomenally, the debate on the effectiveness of merger and acquisition transactions in creating shareholder value on the other hand continues to be hotly contested. Meta research on measuring effectiveness of mergers and acquisitions have not provided conclusive evidence on value creation to the shareholders of acquiring companies⁴ (Illustration 1).

Proponents of the M&A-value-creation view argue that a rational buyer exploiting stock market irrationality reflected in valuations can create value for shareholders. Some also believe that one need not depend on stock market irrationality as reflected in valuation for M&A transactions to create value. Rational buyer by themselves seeking to build competitive business advantage can create value for shareholders by creating synergy. Synergy is when one business plus one business, totals more than the two businesses individually. Source of synergy is from

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¹ Amalgamation is the term used in UK and India for "merger of two or more companies whose shareholders are issued with appropriate number of shares in the new company".

² Asia-Pacific M&A Bulletin: Setting the pace for an outstanding year, Mid year 2006 review of Price Waterhouse Coopers.

³ Reported in Deccan Herald page 15 on December 25, 2006.

Illustration 1



sharing resources and creating economies of scale and economies of scope or complementing each other strengths and negating weaknesses.

The logic of the people who believe that M&A destroys value arises from their view that markets are rational and businesses are valued fairly. They believe that it is the irrational buyer blinded by 'hubris' meaning pride, and belief in their own superior managerial ability to the incumbent management that induce them to buy fairly valued businesses at a premium. The origin for rational market-irrational buyer is in the 'hubris hypothesis of corporate takeover' forwarded by Roll⁴. In this hypothesis, a single decision maker overwhelmed by his self confidence and pride thinks he can do better than the existing management and buys the businesses, contributing to M&A deals.

The second reason for the belief that pursuing M&A strategies destroy value is in the assumption that both the market and the buyer are irrational. Empirical evidence for this is advanced by the waves of mergers and acquisitions that are

seen mainly during the bull runs in the stock markets. The popular practice of studying M&A by analyzing merger waves provide some support to this view.

The rational buyer-irrational market view is based on the premise that markets do behave irrationally

by undervaluing some businesses and overvaluing some others. This provides opportunity for the overvalued businesses to buy undervalued businesses and create shareholder value.

The rational-buyer-rational-market view is what triggers most of the companies to pursue M&A transactions. The acquirer intends to create competitive advantage by pursuing M&A strategies. Opportunity for creating value arises as flux in socio-political environment like deregulation, trade liberalization, geopolitical changes and demographic changes; economic changes like, dramatic changes in demand and supply situations, changes in capital markets and innovations in technology and financial markets provide an agile management with the opening.

Business rationale apart, accounting and financial reporting methods have also influenced the growth of mergers and acquisitions. Among the exogenous factors influencing mergers, accounting was seen as a prime driver. Accounting and financial reporting methods have been more

of an accelerator rather than ignite M&A deals. Pooling of interest method occupies the prime position as an accounting and financial reporting accelerator of M&A deals. "Pooling avoided dilution of earning brought about by the recognition and mandatory amortization of goodwill, when a merger was accounted for as purchase" states the prominent US M&A lawyer Martin Lipton in his Davies Lecture of 2006 in Osgoode Hall Law School, York University.

'Pooling of interest' a term which for the first time was used in the US Federal Power Commission case in 1943⁵ ruled the M&A world till June 2001, when it was finally discarded in US, its birth place. Pooling of interest method of accounting, starting from its birth in United States spread to other parts of the world reasonably quickly. It had a shorter life in most other parts of the world, compared to its birthplace.

A.Tracing origin of business combinations

Tracing the origin of any event historically, is at best a point of view that is highly subjective dependent on the capability of the individual searching, their frame of reference, diligent application, resources available and the extent of work done earlier by others in this area. Given this fact, the first transaction in business combination identified herein needs to be assessed in the context of circumstantial evidence.

Indian Accounting Standard 14 deals with Accounting for Amalgamations. It came into effect from April 1, 1995. In Para 1 the standard states "This statement is directed principally to companies although some of its

⁴ Does M&A Pay? A survey of evidence for decision makers, by Robert F Bruner.

⁵ Roll,R (1986) 'The hubris hypothesis of Corporate Takeovers" Journal of Business 59; 197-216

⁶ Frank R Rayburn and Ollie S Powers, "A history of Pooling of Interest Accounting for business combinations in the United States," Accounting Historians Journal, December 1991, page 155-192

requirements also apply to financial statements of other enterprises.” Given this strong link between companies and accounting for amalgamations, the search is for the first combination of two companies.

Adam Smith in his *Wealth of Nations* first published in 1776 distinguished a joint stock company from private co-partneries, or partnership as we know them now, on three counts⁷. First, in a joint stock company, “no member can demand payment of his share from the company; but each member can without their consent, transfer his share to another person, thereby introducing a new member.” Second, “each partner is bound only to the extent of his share” and finally “the trade of a joint stock company is always managed by a court of directors.” He further recognizes two forms in which a company can come into existence: by royal charter or by act of parliament.

Satisfying the three conditions of transferability of shares, limited liability of members and separation of management from owners, the first company to exist with these distinctive features is Muscovy Company that was granted its charter in 1555⁸. The famous French historian Fernand Braudel commenting on the first recorded English joint stock company writes “...one could say that Europe had some very early examples of the joint stock company, well before the creation in 1553-5 of the Muscovy Company, the first recorded English joint stock company, though other may have preceded it by a few years⁹.

The first merger of two corporate entities that I have been able to identify was in Amsterdam on March 20, 1602, within fifty years of the first company formation. Compagnie van Verre (Company of Distant Lands) merged with Verenigde Oostindische Campagnie (VOC) into a single body. The united company had a Dutch monopoly for all trade with Asia¹⁰. This merged company remained in existence for 198 years till 1799, when it was dissolved on December 31, with the Dutch government taking over the company¹¹.

The spread of company as a form of business organization was quite slow in the initial years. Before 1690, there were only some fifteen joint-stock-companies with a total capitalization of £0.9 million in England; by 1695 there were about 140, with a capital of £4.5 million....¹² It was only in the eighteenth century that companies and stock markets that traded company shares came into their own.

The first acquisition of one corporate entity by another that I have been able to find is on May 23, 1719 in Paris¹³. In August 1717, the French Monarch had approved the statute that formed the Company of the West with the right to all trade between France and its Louisiana colony for twenty five years. This company was given the authority to maintain its own army and navy and to mine and to farm. This company was popularly known as the Mississippi Company.

On May 23, 1719, a Sunday, Mississippi Company acquired the

French East India and China Company, to establish an enterprise with global trading rights. The new company was named the Company of the Indies. This acquisition was paid for by issue of 50,000 shares priced at 500 livres each, issued at par.

In U.S., the largest economy for M&A, economists and historians have classified mergers and acquisitions into M&A waves¹⁴. Four waves are recognized in the 20th century and one wave each in the nineteenth and twentieth century, which is tabulated in *Illustration 2*.

Co-relating the merger waves with stock market booms, a clear pattern emerges (*See Illustration 3*). Five distinct market peaks are visible in the twentieth century. The peaks were in 1901, 1929, 1966, 1987 and 2000¹⁵. The period of merger waves also coincides with the periods of stock market booms, giving a reasonable assurance that the first acquisition could have occurred in first stock market boom.

One of the earliest books dealing with stock market booms was published in 1841 written by Charles Mackay, titled “Extraordinary Popular Delusions and the Madness of Crowds”. This book deals with two stock market booms, the ‘Mississippi madness’ of 1719 and 1720 in France and the South Seas bubble of 1720 in England.

The other two prominent books on financial speculations and financial crises are the book written by Edward Chancellor, ‘Devil take the hindmost: A history of financial speculation’

⁷ Page 940-941, *Wealth of Nations*, by Adam Smith, published by Bantam Classics, Edition March 2003

⁸ Page 26, *The Company, A short history of a revolutionary idea*, by John Mickelthwait and Adrian Wooldridge published by Weidenfeld & Nicolson, 2003

⁹ Page 439, *The Wheels of Commerce: Civilization & Capitalism, 15th -18th Century Volume 2*, by Fernand Braudel, Phonex Press, edition 2002

¹⁰ Page 39, *The Corporation that Changed the World*

¹¹ Refer website www.oldest-share.htm referred on December 5, 2006

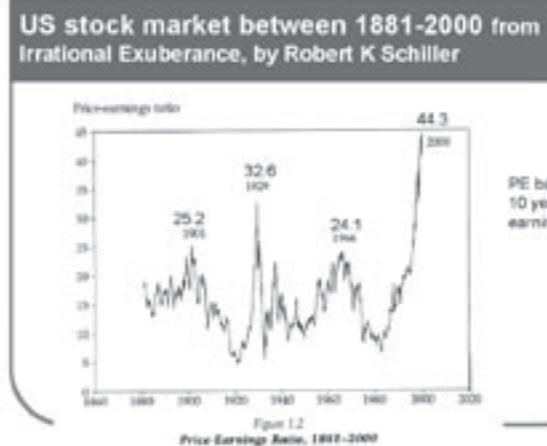
¹² Page 7,

¹³ Page 135, *Millionaire, The Philanderer, Gambler, and Duelist who invented modern Finance* by Janet Gleeson, Published by Simon & Schuster

¹⁴ Martin Lipton, *Merger Waves in the 19th, 20th and 21st Century*, in the Davies Lecture, Osgoode Hall Law School, York University, September 14, 2006

Illustration 2

Merger waves of the 19th, 20th and 21st century ¹⁵			
Wave	Period	Driver	Prominent Companies
First	1893 to 1904	Horizontal mergers in basic manufacturing and transportation industries like steel, oil, mining, railroad	US Steel Corporation, Standard Oil & Erie Railroad
Second	1919 to 1929	Vertical integration in industries like automobile, power utilities	General Motors Ford
Third	1955 to 1967-73	Diversification to leverage common management resources	International Telephone and Telegraphs (IT&T)
Fourth	1974-80 to 1989	Hostile takeover and Leveraged Buyouts (LBO)	RJR Nabisco
Fifth	1993 to 2000	Global view of markets and high stock valuation leading to use of stock as acquisition currency	Time Warner & AOL
Sixth	2002 onwards	Emergence of strong national and global companies supported by low rate interest financing	Mittal Steel & Arcelor

Illustration 3

and 'Manias, Panics and Crashes: A history of financial crises' by Charles P. Kindleberger. Both the authors

Considering the above, there is reasonable justification to believe that the first merger could have

occurred in and around 1602 and the first acquisition in and around 1719. It is also reasonable to believe that the first merger was of the two Dutch companies. If not the first, then this was among the first few mergers and likewise, the first acquisition if not among the first few acquisition was in France involving the Mississippi Company.

B. Early Accounting methods for business combinations

One can only speculate on how early mergers and acquisitions were accounted for, in my search there was no document available on this issue. Therefore it is logical to work back from where we are today, to as far as we can dig into the yesteryears.

Today, accounting for mergers and acquisitions are mandated by accounting standards. The two dominant schools of accounting today are US Generally Accepted Accounting Policies (US GAAP) and International Generally Accepted Accounting Policies (IGAAP). The first standard on accounting for business combinations in United States was Accounting Research Bulletin 40 issued in 1950. International Accounting Standards Committee issued its first standard on accounting for business combinations in 1983.

Accounting standards do not emerge in a vacuum. They are a product of experts deliberating on alternative contemporary accounting practices. The trigger for formulating accounting standards in UK and US were divergent practices followed by leading businesses. Both the divergent practices were endorsed by leading audit firms creating confusion among the investors and public.

¹⁵ Tabulated from Martin Lipton's The Davies Lecture, Osgoode Hall Law School

¹⁶ Page 8, *Irrational exuberance*, by Robert J Shiller, Broadway Books, 2000 edition

¹⁷ Page 224, *Manias, Panics, and Crashes: A history of financial crises* by Charles P Kindleberger, fourth edition

Accounting standards in US was triggered by the divergence in the accounting treatment followed by joint venture partners General Motors and Standard Oil when they sold their interests in Ethyl Corporation for a profit of \$40 million each. General Motors accounted for the proceeds as part of its trading income for the year, while Standard Oil took the surplus directly to the reserves without impacting profit and loss account. These two large industrial organizations were audited by two of the most highly respected international firms of accountants¹⁸.

In UK the trigger for formulating accounting standards was a controversy following the hostile takeover of Associated Electrical Industries (AEI) by General Electric Company (GEC). While resisting the takeover, ten months into the year, incumbent management had forecast a profit of £10 million for AEI for that year. Following the takeover by GEC, financial statements of AEI published under GEC management reported a loss of £4.5 million. The former joint auditors of AEI attributed the difference of £14.5 million to 'matters substantially of fact' £5 million and the balance £9.5 million to 'matters substantially of judgment' arising from variations in accounting policies¹⁹.

Accounting standards are also preceded by eminent experts writing on the subject holding forth their point of view. Given this, writings on accounting practices provide a logical point of search for early accounting of business combinations.

The book 'Methods of Amalgamation' written by A E Cutforth and published in England in 1926 is recognized as one of the earliest writings on this subject²⁰. Writing in the preface, the author remarked "no book on the subject of amalgamation appears to have been published in this country, although many amalgamations of industrial and other concerns have taken place within the recent years."

In this book, three methods of amalgamation, as mergers in England were called, are described; Profit pooling schemes, a temporary method and two permanent methods of holding company schemes and direct amalgamation.

1. Profit pooling schemes

The most enduring forms of profit pooling schemes found today are found in Anglo-Dutch firms represented by marquee companies like Royal Dutch/Shell, Unilever and Corus the company currently in news as the target of Tata Steel's acquisition plan.

This structure is best illustrated by Royal Dutch/Shell. 'Royal Dutch/ Shell were a merger of operations only; the group is still 60% owned by Dutch parent, 40% by its distinct British one²¹.' Detailing this structure further of Unilever, Datamonitor Plc, describes "Unilever NV and Unilever PLC are the twin parent companies of Unilever group. They have separate legal entities and separate stock exchange listing for their shares, but operate as a single entity; the Unilever group or Unilever. Also Unilever NV, Unilever PLC and their group companies constitute a single reporting entity for presenting consolidated accounts"

2. Holding company schemes

Prevailing practices of accounting for holding company is comprehensively captured in the 1922 lecture given by Gilbert Garnsey to the members of Institute of Chartered Accountants of England and Wales in London. Garnsey a partner in Price Waterhouse & Co. was speaking on "Holding Companies and their published accounts". His lecture was reproduced in The Accountant of January 1923.

In his lecture he describes four methods of accounting for holding company:

1. Reflect investments made in subsidiaries as investment, and account for dividends received in their profit and loss account. In India this method of accounting was practiced prior to the passing of the Companies Act of 1956.
2. Present holding company accounts as in 1 above and in addition present the accounts of the subsidiary companies. This method of accounting was introduced in India with the passing of the Companies Act of 1956.
3. Present holding company accounts as in 1 above and in addition present a statement of the assets and liabilities of all the subsidiary companies taken together. This method of accounting was introduced in India with the passing of the Companies Act 1956.
4. Present holding company accounts as in 1 above and a consolidated balance sheet of the whole undertaking combining the assets and liabilities of all the subsidiaries with those of holding company along with a consolidated profit and

¹⁸Page 385, an extract from Accounting Standards by John Blake, reproduced in Mergers et al: Issues, implications and case laws in corporate restructuring, by S Ramanujam,

¹⁹Page 202, Chronology: The Development of Company Financial Reporting in Great Britain 1844-1977 by C W Nobles and R H Parker, in the book, The Evolution of Corporate Financial Reporting by Lee and Parker

²⁰Page 100, The Acc

²¹From rivalry to mergers., Economist December 2, 2005

loss account combining the profits and losses of all the companies. This method of accounting was introduced in India for companies listed on stock exchanges from April 2001.

In England, one of the earliest companies to publish consolidated accounts was Nobel Industries Limited for the year ended December 1920, in their annual general meeting held in 1922 along with their 1921 accounts²². The practice in England was to a large extent influenced by the practice in U S, which was leading the way in presentation of consolidated accounts. United States Steel Corporation which started business on April 1, 1901 reported from its very first year in 1902 consolidated undivided surplus of the company and its subsidiaries²³.

3. Direct amalgamation

The method of accounting for direct amalgamation or mergers has a more interesting history. Distillers Company Limited, the 27th largest company in UK by turnover for 1972-73 contributed its annual reports from 1881 to 1973 in response to an appeal made by Scottish Committee on Accounting History, a committee of the Institute of Chartered Accountants of Scotland.

In analysis of these reports, it was noticed that in 1908, an existing subsidiary was put into voluntary liquidation and its assets and liabilities were absorbed into the holding company²⁴. English Electric Co Ltd also followed an identical method of absorbing subsidiary companies, indicating that liquidating acquired companies to amalgamate them was not a unique event.

English Electric Co Ltd was formed in 1918 to acquire controlling interest in five businesses, The Phoenix Dynamo Manufacturing Co Ltd, Dick, Kerr & Co Ltd, the United Electric Car Co Ltd, the Coventry Ordnance Works and Willans and Robinson. The company announced in its 1924 accounts that it would present consolidated accounts from the year 1925 as 'arrangements having been made to liquidate ... (or)... to complete the liquidation of' the companies²⁵.

Looking at the above practices it is quite possible that early acquisitions could have been accounted for using similar methods of liquidating the acquired companies. For example, the Mississippi Company after acquiring the French East India and China Company could have liquidated the acquired company and absorbed their assets and liabilities.

In the case of the first merger in 1602 involving the Dutch companies, it is probable that the two companies were liquidated and the merged entity was created by the royal charter. Support for this view can be drawn from the writing of Edward Chancellor "In 1602, the United East India Company, the first joint stock company to receive an official government charter, was established with a monopoly over Eastern trade"²⁶ highlighting the fact that it was the first joint stock company to receive an official Dutch government charter.

C. Evolution of 'pooling of interest method' of accounting for business combinations in United States

Today, two alternative methods of accounting for business combinations

are available; the purchase method and the pooling method. The contrast between the two methods is best illustrated by the two acquisitions in the Telecom industry with similar financial profiles that took place within a short span of time, i.e. Northern Telecom (Nortel) acquiring Bay Networks and Lucent acquiring Ascend Communications²⁷.

Nortel acquired Bay Networks on August 31, 1998. The acquisition was valued at \$6.9 billion based on shares of Nortel issued at their prevailing market price. For this consideration, Nortel acquired \$1,881 million of tangible assets and took over liabilities of \$475 million.

Lucent acquired Ascend Communication on June 25, 1999. This acquisition was valued at \$20 billion based on shares of Lucent issued at the prevailing market price. Lucent acquired \$2.8 billion of tangible assets and took over liabilities of \$0.5 billion.

Nortel as a Canadian company had to account for the acquisition using purchase method and Lucent the US Company used the pooling of interest method of accounting. The salient aspects of accounting in the two transactions are tabulated in *Illustration 4*.

Using the pooling of interest method of accounting gave Lucent an accounting advantage of reporting better performance at two levels. First by not accounting for intangible assets, prospective return on investments were exaggerated, second by not accounting for intangible assets, amortization or impairment of these assets were also

²² Page 101, The Acc

²³ Page 58,

²⁴ Page 24, Company Financial Statements by T A Lee, in the book The Evolution of Corporate Financial Reporting by Lee and Parker

²⁵ Page 101,

²⁶ Page 9, Devil take the hindmost: A history of financial speculation by Edward Chancellor, published by Penguin Group, June 2000 edition

²⁷ The End of pooling envy by Claude P Lanfrancon and Darroch A Robertson, in Ivey Business Journal, July/August 2000

Illustration 4

Description	\$US billion	
	Nortel	Lucent
Consideration paid valued at market price of shares	6.90	20.00
Liabilities taken over	0.48	0.50 ²⁷
Gross consideration paid	7.48	20.50
Tangible assets taken over	1.88	2.80 ²⁸
Consideration paid for intangibles	5.60	17.70
Intangibles accounted for by acquirer	5.60	0.00
Market value of shares issued & not accounted for	-	17.70

as of March 31, 1999 and not the date of acquisition, to that extent not comparable

not charged to the profits thereby inflating the profits reported.

What could have led to the emergence of this method of accounting that moves away from the basic concept of historical cost in recording transactions?

While companies as a form of business organization emerged first in Great Britain, regulating accounting practices for the companies developed earlier in United States. Regulation of accounting practices in Great Britain was through legal decisions in general and for specific industries, through legislative enactments. Among the first few regulations in England was mandating 'Double Account system' of accounting for Railways by the Regulation of Railways Act 1868²⁸. It was only in 1942 that Institute of Chartered Accountants of England and Wales issued its first two Recommendations on Accounting Principles. It took another twenty eight years before Accounting Standards Steering Committee was formed in England²⁹.

1. Fair price for general public

In United States, regulation of accounting practices began by prescribing the accounting methods and practices to regulate fair prices. It started first for interstate transport companies, who were regulated by the Interstate Commerce Commission, established in 1887. The next significant regulation was the enactment of the Securities Exchange Act 1934. A year later, SEC appointed a chief accountant, who initiated the drive to narrow the range of diversity in accounting practices³⁰.

The birth of 'pooling of interest method' of accounting for acquisitions goes back to 1887. The lineage can be traced to Interstate Commerce Commission and Accounting for Earned Surplus. US Federal Power Commission acted as the midwife delivering this concept³¹.

Interstate Commerce Commission (ICC) was set up in 1887 to regulate price by fixing fair rates for interstate transport. ICC was given the power to prescribe the system of accounting

that the carriers had to maintain. Not only did they prescribe the system of accounts to be maintained, they prohibited any other system of records to be kept. "The Commission may in its discretion prescribe the forms of all accounts, records, and memoranda to be kept by the common carriers, to which accounts the commission shall have access. And the act makes it unlawful for the carriers to keep any accounts, records, or memoranda other than those prescribed by the commission.³²"

Fair price was maintained by the commission by fixing fares based on 'rate base' on the principle of 'rate parity'. Rate base was the capital employed in the business and 'rate parity' was achieved by fixing a rate of return on the capital employed by the common carrier.

The principle of maintaining a fair price in United States by capping the return on capital employed was well etched in industries where general public were the consumers.

2. Capital preservation to protect creditors

Limited liability is the feature that distinguished the advent of company as a form of business organization, from the earlier forms of business organizations. For Companies to survive and flourish, it was critical that the interest of creditors be protected. The primary form of protection offered to creditors was capital preservation.

In the Exchange Banking Co. case in 1882, Jessel MR, clearly summed up this principle "The creditor has no debtor but that impalpable thing that

²⁷ The End of pooling envy by Claude P Lanfrancon and Darroch A Robertson, in Ivey Business Journal, July/August 2000

²⁸ The origin and emergence of double account system: an example of accounting innovation, by J R Edwards, in Abacus, Volume 21, Number 1, 1985

²⁹ Page 197, Chronology: The development of Company Financial Reporting in Great Britain 1844-1977, in the book Evolution of Corporate Financial Reporting, by Lee and Parker

³⁰ Page 209, Chronology: Developments in the Establishment of Accounting Principles in the United States, 1926-1978, in the book Evolution of Corporate Financial Reporting, by Lee and Parker

³¹ Inferenc

³² Extract from the US Supreme Court judgment in Interstate Commerce Commission vs. Goodrich Transit Company, 224 US 194, (1912)

corporation, which has no property except the assets of the business. The creditor, therefore, I may say, gives credit to that capital, gives credit to that company on the faith of the representation that the capital shall be applied only for the purposes of the business and he has therefore a right to say that the corporation shall keep its capital and not return it to the shareholders...³³

The need for creditor protection had resulted in classifying the surplus in business into Paid-In surplus, i.e. paid in by the shareholders and Earned-Surplus, a result of the decision to retain profits in the company and not declare it as dividends. In subsequent years, dividend could not be declared out of Paid-In surplus, while Earned-Surplus was available for dividend declaration.

This clarity between Paid-In Surplus and Earned-Surplus began to blur on merger between two existing companies. When two existing companies A and B came together and both had Paid-In Surplus and Earned-Surplus, the question arose on how to consider the two surpluses on merger.

Two schools of thought emerged, as is the case in matters involving judgment, when the same issue is viewed from opposing angles. Those who viewed the merger as only a change in form favored carrying forward earned surplus and wanted to retain the Earned-Surplus after merger. Others viewed the resultant entity as a new company and held that a new company could not start with Earned-Surplus.

Both these views had sound logic and two forms of business combinations

began to be recognized; one that resulted in a 'new economic enterprise' and the other that was 'continuation of the old business'.³⁴ Four criteria were identified to distinguish the two forms:

1. The relative size of the predecessors –if significant, earned surplus of the surviving company should be carried forward
2. The degree of affiliations –if wholly owned subsidiaries were being combined or subsidiary combined with holding company, earned surplus could not exceed the combined earned surpluses
3. The extent to which there was change in ownership
4. The nature and extent of prior business relationships between the two companies

In mergers involving, holding company with their wholly owned subsidiary or merger of two or more wholly owned subsidiaries, earned surpluses were being carried forward on the basis that it was continuation of old business, and the change was in form only and not in substance. This gave rise to the accounting practice of recording the assets and liabilities of the merging company at the cost at which they were being recorded in the company prior to merger. This practice can be seen as the seed that germinated into the 'pooling of interest method' of accounting for amalgamations.

3. The birth of pooling of interest method

In 1935, Federal Power Commission was given powers to "regulate electricity utilities wholesale rates and transactions" by the Federal Power Act, 1935³⁵. They followed the

method of regulation based on the precedent set by Interstate Commerce Commission of rate parity and rate base.

Holding companies controlled large segments of the utility, railroad, and entertainment business in United States³⁶. With introduction of rate regulation, the holding companies saw a way of enhancing their rate base by merging wholly owned subsidiary companies with the holding company or merging two subsidiary companies at values higher than their book values by exchange of shares.

Federal Power Commission saw through design, that resulted in asset write up increasing the capital employed and termed the merger of closely affiliated companies as 'pooling of interest method' and held that valuation on the basis of securities exchanged was improper and no new value should be attached to the assets since no change in substance had occurred³⁷.

The first accounting standard on business combinations Accounting Research Bulletin 40 issued in 1950 differentiated between two accounting methods and described them as 'pooling of interest' and 'purchase'. The conditions prescribed for a transaction to qualify for pooling method was similar to the conditions prescribed for carrying forward Earned-surplus. It also stated that using pooling method required that the retained earnings of the acquired corporation be carried forward to the acquiring firm.

Thus 'pooling of interest method' of accounting for business combinations was born. While the conditions to be met to qualify for 'pooling of interest

³³ Page 867, Guide to the Companies Act, A Ramaiya fourteenth edition, 1998

³⁴ Speech of SEC Chief Accountant William W Werntz reported in The history of pooling-of-interests method in the jurisdictions of G4+1 member organizations

³⁵ Regulation: the fight which saved the nation by Richard Freeman and Marsha Freeman published in American Almanac, February 2001

³⁶ Page 183, The Great Crash 1929, by John Kenneth Galbraith

³⁷ Page 22, Accounti

method' varied over the period, the concept in itself flourished for the rest of the century.

D. Tracing how 'pooling of interest method' of accounting for business combination reached India

Indian accounting practices in the last three hundred years and the Indian Company law from birth have shadowed developments in United Kingdom. In fact, early company law in India is legislation for British India³⁸. The Indian Statute could be mapped section by section to the British Companies Act. The Companies Act, 1956, was enacted by Independent India, but placed considerable reliance on the UK Act of 1948³⁹. Therefore pre-independence history of accounting in Corporate India would be a shadow of the accounting practices in United Kingdom.

Looking at the post independence period, it is only since 1972-73, that mergers and acquisitions concluded during the year have been reported⁴⁰. The year 1972-73 is also seen as a logical point for reporting, as the three key triggers to monitor and regulate business control in the hands of few were activated. The managing agency system was abolished from April 3, 1970⁴¹, the enforcement of Monopolies and Restrictive Trade Practices Act of 1969 from July 1, 1970 and the nationalization of banks in 1969.

In my view prior to this the need for mergers and amalgamations was not felt as managing agency system provided an adequate mechanism for managing multiple companies under common control.

The only exception to the reporting of mergers and acquisitions prior to 1972-73 is of bank mergers under the direction of Reserve Bank of India in 1960's. This initiative saw the number of commercial banks reduced from 566 in 1951, to 292 at the end of 1961, to 100 at the end of 1966 and 85 by the end of 1969. Correspondingly during the same period non-scheduled banks also declined from 474 to 210 to 27 to 14⁴².

The first merger and acquisition transaction that I have been able to trace in the post independent India is in the birth of Hindustan Lever Limited. In November 1956, Hindustan Vanaspati Manufacturing Company private Limited, the first subsidiary of Unilever Company set up in 1931, merged with Lever Brother India Limited established in 1933 and United Traders Limited established in 1935 to become the Hindustan Lever Limited⁴³.

Incidentally, the history of Hindustan Lever is rich in mergers and acquisitions. Starting with its birth in a merger, the company has sought mergers as a way of growth too. In 1993, HLL merged with TOMCO. This was followed by a series of merges within the group companies. In July 1993, Broke Bond India Limited merged with Lipton India Limited to form Broke Bond Lipton India Limited. Three years later on January 1, 1996, Broke Bond Lipton India was merged into HLL. In 1998 Pond's (India) Limited was merged into HLL. In January 2000, HLL acquired 74% stake from Government of India in Modern Foods Limited, a public sector unit.

Earlier Broke Bond India Limited in 1992 had acquired Kothari General Foods and in 1993 acquired Kissan from UB Group and Dollops Ice cream from Cadbury India.

But our interest is in the birth of Hindustan Lever in November 1956 and more specifically in how this merger was accounted for.

In October 1994, the Institute of Chartered Accountants of India announced the Accounting Standard 14: Accounting for Amalgamations, prescribing it as a mandatory standard and stated that the standard should be followed in respect of accounting periods commencing after April 1, 1995⁴⁴.

The standard prescribes two methods of accounting for amalgamations, namely the pooling of interest method and the purchase method. The use of pooling of interest method is restricted to amalgamations that meet the five criteria specified in the standard:

- i. All assets and liabilities of the transferee company are part of amalgamation
- ii. Shareholders holding not less than 90% of the face value of equity shares become equity share holders of the amalgamated company
- iii. The consideration of amalgamation is equity shares of the transferee company
- iv. The business of the transferee company is carried on by the transferee company

³⁸ Para 1 of the Indian Companies Act, 1882,

³⁹ Page 8, Guide to Companies Act, A Ramaiya, fourteenth edition, 1998

⁴⁰ Page 11, An analy

⁴¹ Page 2370, Guide to the companies Act, A Ramaiya, fourteenth edition, 1998

⁴² Bank M&A: Stability and Synergy, by A Vasudevan, Business Line November 11, 2004

⁴³ Website www.hll.com; in the section heritage, subsection milestones

⁴⁴ Page 384, Mergers et al: Issues, implications and Case laws in Corporate Restructuring, by S Ramanujam

v. No adjustment is intended to be made to the book value of the assets and liabilities of the transferre company when they are incorporated in the books of the transferee company

Amalgamation of Tata Oil Mills Company Limited (TOMCO) with Hindustan Lever in 1995 and in the same year amalgamation of Wipro Infotech Limited and Wipro Systems Limited with Wipro Limited are two prominent instances of accounting for amalgamation using 'pooling of interest' method.

Prior to April 1, 1995, accounting for amalgamation was based on the Guidance note on Accounting Treatment of Reserves in Amalgamations issued by the Institute of Chartered Accountants in 1983⁴⁵.

It was also in 1983, that International Accounting Standards Committee issued its first accounting standard on business combinations. This standard was a result of the Steering Committee appointed in 1978⁴⁶. This committee prepared a discussion outline, in which they evaluated three potential methods of accounting:

- The purchase method, in which acquirer recognizes the difference between the cost incurred and the fair value of net assets acquired,
- The pooling method, in which the acquirer does not recognize the difference between the cost incurred and the fair value of net assets acquired,
- The new entity method, in this method, both the acquirer and the acquired restate their assets and liabilities to fair value on the date of acquisition.

The third identified concept, of new entity method of accounting was discarded as it went against the historical cost convention. Purchase method was recommended in situations where a buyer and seller could be distinguished.

Pooling method was identified for those rare transactions of amalgamations, where a buyer and seller could not be distinguished. The objective of pooling method was described as being to consolidate the pooled companies with minimal changes to their individual financial statements, on the basis that the separate businesses continue as before, though now owned and operated as a single unit.

The second draft issued in 1980, identified three categories; Uniting of interest, Uniting of equal interest and Acquisition. Shares exchanged to combine enterprises of similar market worth were recognized as uniting of interest. Uniting of equal interests was when none of the combining entities individually had controlling interest in the new entity. Acquisition was recognized as a business combination that was not uniting of interest.

In my view this classification seems logical considering the three methods of accounting for acquisition identified. Acquisition would require purchase accounting, uniting of interest would require pooling of interest method and uniting of equal interest would require new-entity method.

However, when the accounting standard IAS 22: Accounting for Business Combination was issued,

it had only two methods; purchase and pooling. Pooling method was to be used only in rare circumstances of uniting of interest, in all other cases purchase method was to be accounted. Not defining uniting of interest precisely was the loop hole that gave a lease of life to Pooling. Since uniting of interest was not defined precisely, it permitted amalgamations which were basically acquisitions with purchase consideration in the form of shares to be considered for pooling.

Prior to these discussions and deliberations, what was the thinking on accounting for merger and acquisition? How was the merger of three companies that gave birth to Hindustan Lever Limited accounted for? The options:

- Did it follow the traditional English practice of liquidating the companies being merged, or
- Was the new-entity method followed with assets and liabilities accounted for at their fair values, since along with the merger 10% of shares were being offered to the Indian public by Unilever Limited, London, or
- Was purchase method used, with one company buying out the other two companies by issue of shares or
- Was pooling of interest method adopted, of accounting for the assets and liabilities of the merging companies at the value at which they were carried in the merging company

From the scrutiny of the Annual report of Hindustan Lever Limited, 1956,

⁴⁵ Page 2560, Guide to the Companies Act, A Ramaiya, fourteenth edition 1998

⁴⁶ Page 31, The History of the Pooling of interests methods in the Jurisdictions of G4 +1 member organizations

which was titled Report and Accounts, 1956, we can gather the following information from the directors' report:

- i. Was converted into a public company on October 27, 1956
- ii. Changed its name from Lever Brothers (India) Limited to Hindustan Lever Limited on November 1, 1956
- iii. By Bombay High Court order on October 8th, 1956, but with effect from the close of business on December 31, 1955, the three companies were amalgamated under section 391 and 394 of the Companies Act, 1956. The three fully owned subsidiaries of Unilever London, Limited that were merged are:
 - 1) The Hindustan Vanaspati Manufacturing Company Private Limited
 - 2) William Gossage & Sons (India) Limited
 - 3) Joseph Crosfield & Sons (India) Limited
- iv. Two wholly owned subsidiaries of Lever Brothers (India) Limited were voluntarily liquidated
 - 1) The North West Soap Company Private Limited
 - 2) The Premier Soap Company of India Private Limited
- v. The company took over the soaps and toilet preparation business of its wholly owned subsidiary company United Traders Private Limited and United Traders ceased to carry on any business for the time being.
- vi. 2 million equity shares of Rs.10 each was allotted to Unilever in consideration of the vesting of assets of the merged company
- vii. 1.57 million Equity shares of Rs.10 each was allotted as bonus shares by capitalizing Rs.15.7 million profits.

viii. Unilever Limited sold by an Offer of Sale to public in India 557,000 shares of Rs.10 each

ix. The figures reported for the previous year in Balance Sheet and Profit and Loss account are of Lever Brothers (India) Limited and are not of the combined merged entity

The following inferences can be drawn based on information listed above and other information available in the Annual reports:

1. The amalgamation under section 391 and 394 of the Companies Act, 1956 resulting from the court order was effective close of business hours, December 31, 1955, a full three months before the Companies Act, 1956 came into force. The Companies Act, 1956, was notified vide Notification No. SRO 612, dated March 8th 1956 in the Gazette of India, Extraordinary, 1956, to come into force effective April 1, 1956⁴⁷.
2. Three distinct types of transactions can be observed, as tabulated in Illustration 5:
3. Taking over the business of United Traders, the fully owned subsidiary did not require any accounting, as no consideration was paid for it. United Traders appears to be the selling agent of Lever Brothers (India), since the profit and loss account of United traders reflected only finished goods inventory and trading profits are transferred to the holding company in 1955 accounts.
4. The liquidation of the two subsidiaries of Lever Brothers (India), The North West Soap Company Private Limited and The Premier Soap Company of India Private Limited seem to be accounted as a pure sale of assets with the profit on sale of Rs.300 thousands being reported separately.

5. On a scrutiny of the balance sheet and comparison with figures of the previous years which are for the standalone company prior to the merger, the consideration of Rs.20 million appears to be for the net assets taken over on merger, as reflected by increase in assets of Rs.25 million detailed below all of which are not accounted for by the increase in operations of the combined entity (*Illustration 6*).

6. The balance sheet of Lever Brothers (India) for 1955 had Trade Marks & Goodwill of Rs.0.3 million. With the merger of three companies, there is an addition to Trade Marks & Goodwill of Rs.0.323 million in the year 1956. This could be the existing value of Trademark and Goodwill in the books of the three companies.
7. The above mentioned factors indicate that this merger could have been accounted for as a pooling of interest method of accounting for amalgamations. In hindsight this looks a fair decision as the companies being merged were all fully owned subsidiaries of Unilever Limited, London. The merger was only a change in form and there was no new business that was being created. Therefore it is possible if not probable, that the first merger approved by the courts under the Companies Act, 1956 was accounted under the pooling of interest method of accounting.

E. Demise of 'pooling of interest method' of accounting for business combination

Almost with the birth of this concept, discomfort with using 'pooling of interest method' of accounting for business combinations began. American Accounting Association published "A statement of Basic Accounting Theory" in 1966. In this document, it called for discontinuance of pooling, reasoning "it is more than

⁴⁷ Page 1, Guide to the Companies Act, 1956, A Ramaiya, fourteenth edition, 1998

Illustration 5

Sl. No.	Transaction type	Consideration
1	Three wholly owned subsidiaries of Unilever merged with Lever Brother (India) Limited	2 million equity shares of Rs.10 each; the three companies merging into Lever Brothers (India) Limited were valued on par with Lever Brothers (India). The paid up equity capital increased from Rs.20 million, pre-merger level to Rs.40 million post-merger
2	Liquidation of two wholly owned subsidiaries of Lever Brothers (India) Limited	A profit on liquidation of subsidiary companies of Rs.0.307 million is reflected in the profit and loss account. Cost of investment in these two companies was reflected in 1955 balance sheet at Rs.3.199 million.
3	Lever Brothers (India) Limited taking over the business of its wholly owned subsidiary United Traders Private Limited, which ceased to carry on any business, for the time being (emphasis in italics by the author of this report)	No consideration was paid.

Illustration 6

Balance Sheet classification	December 31		Rs.Million	
	1955	1956	Increase	% of 1955
Net Fixed Assets	27.918	35.193	7.275	26%
Loans and Advances	2.497	6.521	4.024	161%
Current Assets	26.82	58.133	31.313	117%
Cash and Bank balances	5.811	9.718	3.907	67%
Unsecured loans	0.000	1.388	-1.3877	N.A
Current liabilities and Provision	12.849	32.77	-19.921	-155%
Total	50.197	75.407	25.210	

questionable that such a treatment which essentially ignores the new exchange values created by a significant market transaction such as combination of two companies can be said to be relevant for investment decision.”⁴⁸

Objection to ‘pooling of interest method’ of accounting for business combinations arose due to the following consequences:

i. Creditors’ interest adversely affected as it can lead to reduction of capital: On sale of assets acquired on merger, subsequent to merging separate balance sheets at book value,

accounting profits can be shown although no profit would have been reported if the fair value of transaction had been used for accounting.

ii. Prospective Shareholders’ adversely affected as there would be overstatement of profits: As the assets after merger are accounted at the historical cost to the acquired company, depreciation and amortization is under provided resulting in overstatement of profits.

iii. Regulators and investing public interest affected as the performance between similar companies rendered incomparable due to differing

yardsticks used for recording capital employed.

Today pooling of interest method of accounting for amalgamations is withdrawn under both the dominant schools of accounting, the US GAAP and the International Accounting Standards.

In fact, FASB when they concluded that only the purchase method, should be used to account for all transactions that meet the definition of business combination, listed the advantages as enhanced relevance, reliability and comparability⁴⁹, well illustrated in the Nortel and Lucent acquisitions.

Similarly, International Financial Accounting Standard 3 on Business Combinations explained the reason for issuing this standard as “....analyst and other users of financial statement indicated that permitting two methods of accounting for substantially similar transactions impaired the comparability of financial statements.”⁵⁰

In India, Indian accounting standards 14: Accounting for Amalgamations is what prevails. In para 42 dealing with treatment of reserves specified

⁴⁸ Page 12, The history of the pooling of interest method in the Jurisdictions of G4+1 Member organizations

⁴⁹ Page 1, of Earnest & Young’s, guidance note for Clients and Friends on FASB 141 and 142 dt, February 2004

in a scheme of amalgamation states "where the scheme of amalgamation sanctioned under a statute prescribes the treatment to be given to the reserves of the transfer company after amalgamation, the same should be followed." The only additional requirement is specified by the general clarification 4/2002 issued by the Accounting Standards Board of the Institute of Chartered Accountants of India. This requires that the treatment given to reserves be described and highlight the deviation from the treatment required under Accounting Standards 14.

Conclusion

Evolution of the 'pooling of interest method' of accounting for amalgamations clearly demonstrated, that when accounting practices and accounting standards depart from basic accounting concepts, like in this case historical cost convention, they have a limited shelf life. Life span in these cases is directly proportional to who is benefited by this practice and how much are they benefited. The power of the beneficiaries and the extent of benefit derived by them is demonstrated in the how vociferous and vigorous their involvement is in its defense.

This aspect was reflected in accounting for stock options too, where costs were not recognized on the principle that it could not be precisely quantified. However changes of these magnitudes were made consequent to crashes following the stock market booms. These stock market booms were fueled to a significant extent by these accounting policies.

In fact it is appropriately remarked that in bull markets people talk of business and valuation models and in bear markets people talk of accounting policies and accounting principles.



Brand Positioning: A Study on Microwave Ovens

■ M. R. SHOLLAPUR*
■ ANITHA R.#

Introduction

The microwave oven is one of the great inventions of the twentieth century. Microwave ovens are popular because they cook food incredibly quick. Compared to the conventional cooking time, microwave cooking takes only 30% of the time. Besides, microwave cooking helps retain the nutrients in the food. Further, microwave ovens offer great cooking flexibility. They are safer and cheaper to operate than the conventional ovens and turn off at a predetermined time. Most microwaves have a touch pad for programming operations. Microwaves have become an increasingly visible presence in the Indian homes. With the phenomenon of nuclear families becoming a reality and with women moving out of their households in order to augment their family income, a microwave comes in handy to share the burden of household chores.

Kelvinator was among the first to introduce the microwave ovens in India. Today, major brands include BPL, IFB, KENSTAR, BOSCH and Daewoo. BPL has been marketing its range in India for a long time. Microwave marketers are, however, trying innovations to entice customers. Some models of BPL and Samsung ovens have facilities for grilling and others have facilities for browning. A player like LG has positioned its microwaves as a health care product.

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The information relating to the market share of the leading brands of microwave ovens is given in the Table below :

Market share of leading brands of microwave ovens

Brand	Market share (%) (Jan-Dec 1999)
LG	20.9%
BPL	19.1%
Kenstar	18.2%
Samsung	18.2%
IFB	9.1%
Others	14.5%
Total	100

Source: *TV Veopar Journal (indiainfoonline.com)*

Table 1 reveals that LG has a maximum market share followed by BPL, Kenstar, Samsung, IFB, etc. With competition heating up with increasing capacities and players, companies with the ability to cater to the requirements of middle income households will emerge winners in market.

A case for perceptual analysis

To compete successfully in today's competitive markets, marketers must attack niche markets that exhibit unique needs and wants through market segmentation to improve the company's competitive position and better serve the needs of the consumers. In the real sense, marketers sell along with the products, the competence of the product to offer expected use, performance and satisfaction. The consumer should be so satisfied with the product that he should think that there cannot be any substitute in place of this brand. The strategy must be to create a perception for the brand in the consumers' mind so that it stands apart from competing brands and approximates much more closely to what the consumers want.

Positioning is the pursuit of differential advantage. Brands can create franchises of loyal consumers only when they are seen to be different in some way which is persuasive for the target segment. Customers buy not only 'physical' product but also economic and mental satisfactions. Hence, marketers must define their market in terms of product functions i.e., what the consumer expects from the product. The selling points of a product are identified as the physical attributes, utilities, brand, package and label, design (colour, style, finish, beauty etc.) price, services, company image, safety to users, etc. If the actual performance of the product exceeds the expectation, the customer will be satisfied and the seller's mission is said to be fulfilled.

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Against this backdrop, this paper Brand Positioning: An Empirical Study on Microwave Ovens identifies the image that a brand of microwave oven has in the minds of the consumers and helps to understand the differences

Table 2

PROFILE OF CONSUMERS OF MICROWAVE OVEN

	Consumers	
	F	(%)
Age group		
20-30	12	24
31-40	22	44
41-50	12	24
51 & above	4	8
Total	50	100
Income Level		
Below Rs15000	2	4
Rs 15000 - Rs 25000	9	18
Rs 25000 - Rs 35000	15	30
Rs 35000 & above	16	32
Not mentioned	8	16
Total	50	100
Gender		
Male	25	50
Female	25	50
Total	50	100

Survey data

among various brands in creating a favourable image in the consumers' minds. This study is carried out with the following objectives.

1. To determine the position of leading brands of microwave ovens as evidenced by the consumer's brand-ownership.
2. To evaluate the satisfaction level of the consumers.
3. To identify the product attributes that influence the positioning of the brands.
4. To ascertain the ranking of product attributes as perceived by the consumers.

Methodology

The study is based on the primary data personally collected from fifty consumers of microwave ovens in Bangalore city. Structured questionnaire was prepared for the

Table 3**Brands owned by the consumers of microwave ovens**

Brand	Frequency	Percentage	Rank
LG	12	24	1
Sharp	6	12	3
Kenstar	8	16	2
BPL	4	8	4
Philips	3	6	5
IFB	3	6	5
Others	12	24	6
Not specified	2	4	-
Total	50	100	

Source : Survey data

Table 4**Consumers' acquaintance of the microwave ovens**

Mode	Frequency	Percentage	Rank
Demonstration	2	4	4
Advertisement	26	52	1
Showroom	7	14	3
Friends	15	30	2
Total	50	100	

Source : Survey data

Table 5**Brands recalled from advertisements**

Brand	Frequency	Percentage	Rank
Kenstar	12	24	1
LG	10	20	2
BPL	9	18	3
Samsung	3	6	4
Sharp	2	4	5
Philips	1	2	6
Others	3	6	7
Not seen advertisement	10	20	-
Total	50	100	

Source : Survey data

consumers of microwave ovens. Published data have also been utilised for developing a general background of this study. The sources of secondary data include official records of the Confederation of Indian Industry (CII), Bangalore, records of the dealers, newspapers, magazines, journals, etc. Besides, a number of websites were also browsed.

An exhaustive list of all the members of population is not available at one place nor is it feasible to develop such a sampling frame for the entire range of households in the city of Bangalore. Hence, non-probability sampling method is used in the present study. The information relating to the profile of the consumers covered under this study is presented in Table 2.

For the empirical analysis, the statistical tools like Percentages, Rank analysis have been used.

Analysis and Discussion

The discussion on the theme chosen for this empirical study is carried out from the following points of view:

- 1 Brand ownership
- 2 Acquaintance of microwave ovens
- 3 Brands recalled from advertisement
- 4 Awareness of product features
- 5 Ranking of product attributes
- 6 Perceptions of the best brand.

1. Brands owned by the consumers of microwave ovens:

It is essential to ascertain the positive image that a particular brand of microwave ovens has created in the minds of the consumers. Among others, a popular criterion would be the number of consumers who own and use a given brand. It helps to understand the image that it has earned for itself in the minds of the consumers. Hence, a need to examine the brands owned by the consumers.

The information relating to the brands owned by the consumers of microwave ovens is given in Table 3.

Table 3 shows that 24% of the respondents own LG, 16% own Kenstar, 12% own Sharp, 8% BPL and the like. LG has more consumers for its product in the market. This may be due to the features offered by LG which are far ahead of other brands. Kenstar and Sharp have also occupied a distinct place.

2. Acquaintance of microwave ovens:

The marketer must know the consumer's acquaintance of the product and accordingly use the best acquaintance channel in order to attract the prospective buyers. The

Table 6**Awareness of the features of microwave ovens**

Features	Aware (%)	Unaware (%)	Total (%)
Retains nutritional value in vegetables	82	18	100
Sustains erratic power supply	50	50	100
Saves cooking time	100	-	100
Cannot cook Indian dishes as it involves	64	36	100
Automatically shuts when the cooking is	92	08	100
Less messy, no fume and sweat	94	06	100
No oil is used	88	12	100
Does not provide the satisfaction of actual	56	44	100

Source: Survey data

Table 7**Ranking of factors while buying microwave oven**

Factors	Rank I(%)	Rank II(%)	Rank III(%)	Rank IV(%)	Rank V(%)	Not ranked (%)	Total	Rank
Price	20	26	14	10	14	16	100	2
Performance	58	16	10	4	-	12	100	1
Capacity	-	20	18	32	18	12	100	4
Convenience	6	18	40	18	6	12	100	3
Appearance	-	8	6	24	50	12	100	5

Source: Survey data

Table 8**Consumers' perceptions of best brand**

Brand	Frequency	Percentage	Rank
BPL	11	21.25	1
IFB	7	14	3
Kenstar	6	11.25	4
LG	10	20	2
Samsung	4	8	5
Sharp	4	8	5
Others	3	7.5	7
Not specified	5	10	-
Total	50	100	

Source: Survey data

choice of an appropriate medium strongly influences on creating the awareness for the product. Since the microwave oven is a latest addition to the array of white goods, the mode of acquaintance of microwave ovens by the consumers assume a special attention. Hence, a need to know acquaintance of the microwave ovens

by the consumers.

The information relating to acquaintance of the microwave ovens by the consumers is given in the Table 4.

Table 4 shows that more number of consumers (52%) have established acquaintance through advertisement. 30% have acquainted through

demonstrations and 14% through showrooms. Only a very few (2%) have been influenced by demonstration. It can be inferred that advertisements plays a significant role in the positioning of microwave ovens.

3. Brands recalled from advertisement:

Recalling a brand by the users, signifies its ability to draw attention of the consumers. The more a brand is recalled by a consumer, the greater is the brand's ability to create an effective image and vice versa. Hence, a need to ascertain customers' ability to recall advertisements of microwave ovens.

The information relating to the recall of brands of microwave oven is given in Table 5. Table 5 shows that 24% of the respondents can recall Kenstar advertisements, 20% can recall LG advertisements. The other brands that follow include BPL and Samsung.

4. Awareness of the features of microwave ovens:

microwave ovens: It is essential that the users should be aware of the features of the product while purchasing it. Microwave ovens are upcoming products. It is necessary to ascertain the extent of awareness of the product features. The marketers should focus on those features which are not yet known by consumers and create a competitive advantage for the products. Hence, the need to study the extent of awareness of the features of microwave ovens.

The information relating to the consumers' awareness of the features of microwave ovens is given in Table 6.

Table 6 shows that all the consumers are aware of the time saving feature of microwave ovens. Less messy, no fume and sweat and programming features are known to more than 90% of consumers. The other features which are known to most of the consumers include non usage of oil, retention of nutritional value in vegetables etc. The brands should project more on those features which the consumers not yet aware.

5. Ranking of product attributes:

The important attributes of microwave ovens are the price, performance, capacity, convenience and appearance. These attributes strongly influence on creating an image of the brand concerned. Hence, a need to know the consumers response for these attributes.

The information relating to the ranking of factors by consumers while buying a microwave oven is given in Table 7

Table 7 shows that Performance is a key attribute in selecting a microwave oven, followed by Price. Other factors in order of importance include convenience, capacity and appearance. These insights enable

producers and marketers to position their brands strongly.

6. Perception of the best brand:

A brand is strongly positioned when the consumer thinks that it has offered the desired value. The perception of the best brand depends totally on the user's judgement and the comparative analysis with other brands. Consumers are the best judges who rightly decide the best brand that fulfils their expectations. It signifies the strong brand positioning. It is important for the marketers to know whether their brand is perceived as the best by the user. Hence, a need to ascertain consumers' perception of the best brand of microwave ovens.

The information relating to consumers' perception of the best brand is given in Table 8.

Table 8 shows that BPL and LG have positioned themselves strongly in the minds of the consumers. The other brands that follow are IFB, Kenstar, Samsung and Sharp.

Conclusions and suggestions

1. Most of the respondents own LG, Kenstar, Sharp, and BPL.
2. Maximum number of consumers has established acquaintance through advertisement.
3. Most of the respondents can recall Kenstar advertisements. LG, BPL and Samsung are other few brands which respondents recall.
4. Quick and easy to cook feature has greatly aroused interest in microwave ovens. Time saving and nutrition maintenance are the other factors influencing consumers.
5. All the consumers are aware of the time saving feature of microwave ovens. Most of the consumers also know that microwave ovens are less messy, no fume and sweat and possess programming features.

6. Performance and price are the strong points considered by consumers while selecting a microwave oven.

7. BPL and LG have positioned themselves strongly in the minds of the consumers.

The microwave industry has to create more awareness among the users.

Most of the Indian consumers do not know much about this product. Brand managers has to carry out perceptual mapping to understand the position of his brand, to discover ideal points or preferred positions of his target consumer; to explore combinations of physical and other manipulable features that can best create the desired perception for his brand. Analysis of market helps the manager to understand the customers, the competitors, the organisation and the brand itself.

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The Employability Enigma

■ Selvan D *

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Introduction

The first three to four days of the campus placement season gives a lot of importance to Academic performance of students as seen by the CGPA scores or the percentages scored.

However, after these three days it is a known fact that in many Institutions only a third of the students get offers. What happens to the remaining two thirds - are they really employable or not.

This enigma gets even more compounded when in that circle often you see that a typically bright student does not get a deserving job and many a time someone who is considered as an average performer walks away with a prized job.

What differentiators are employers looking for when pure CGPA and percentages no more matter. Whether it is through a technical test, aptitude test, personality test, Group Discussion, Interview or any selection process that they employ what makes employers reject someone and pick on the other.

The Problem

To understand the above problem better, a survey was done on 56 Managers cutting across various businesses of IT to understand as to what are the specific behavioral characteristics that they look for from a fresh recruit. PAPI parameters were used to score on a 10 point scale and the results are as in Table A.

The four key parameters that have emerged from this survey that have a high average and a low standard deviation are:

- 1. Need to finish a task**
- 2. Need to belong to groups**
- 3. Need to achieve**
- 4. Hardworking**

While this has brought out that what the Industry is looking for is a highly productive team player, another survey

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Table A

Needs	Mean	SD
Need to Influence others	4.16	2.02
Need for rules & supervision	6.20	1.97
Need for change	6.95	1.74
Need to finish a task	8.84	1.17
Need to be noticed	5.93	1.78
Need to belong to groups	8.07	1.49
Need to relate closely to people	7.70	1.57
Need to be forceful	5.63	1.83
Need to achieve	8.45	1.29
Need to be supportive	5.73	2.05

Roles	Mean	SD
Leadership role	4.91	2.24
Organized type	7.38	1.77
Integrative planner	6.88	1.62
Attention to detail	7.71	1.61
Conceptual thinker	6.77	1.82
Social harmonizer	6.93	2.13
Ease in decision making	5.79	2.30
Work pace	7.84	1.47
Emotional restraint	6.54	2.00
Hardworking	8.50	1.33

Source: Field Investigation

was done among the Academia to understand their perspective of what they felt that Industries were looking for. This survey which was conducted across Placement Officers ratified the above four parameters and added a new dimension of Higher Level of Thinking Skills as another attribute that was being looked for in Students.

As a comparison, if we relate this to the survey done by National Central Regional Education Lab (NCREL) in the US which looked at what 21st Century Learners should focus on for survival in the Global Digital Community, there



is a direct correlation of their findings to our study. Below is the framework that they presented which gives the three quadrants beyond Academics as Higher Thinking Skills, Teaming and Productivity as the key parameters for overall Academic Achievement.

The above sets directions for three key stakeholders in the Industry Academia landscape, namely students, Academia and the Industry.

As part of their education, students need to focus on developing the above three areas and more importantly demonstrate them socially so that they are extremely successful. Academia need to create the environment and the thrust to develop these dimensions among the aspiring students. Industry should not hesitate to invest in nurturing these skills among the fresh recruits in the Learning arena.

Summing up

Incorporating new learning paradigms that would promote employable skills as an integral part of the curricula can be the solution to the Employability Enigma. This will result in a win-win for all stakeholders and would help them reap the benefits of the investments that each of them make.

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Policy Towards **Novice, Serial and Portfolio** Entrepreneurs

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Introduction

It is an interesting proposition to examine whether entrepreneurship has an addictive feature, in the sense, will an entrepreneur having tasted success in his endeavor, repeat his attempt again or even 'again and again'. Will setting up a business becomes a habit to such a person like any other mundane habits in his daily chore. The answer selectively is 'yes'. In other words, there are a class of entrepreneurs who enjoy the creation of enterprises and having once established a successful one, go on to start others. Such entrepreneurs who establish multiple enterprises are called "habitual entrepreneurs" as compared to one time entrepreneurs who may have started only one enterprise in their entire entrepreneurship career. For an one time entrepreneur, his maiden effort is an end by itself. However, for a habitual entrepreneur, each effort is a step in learning. Each subsequent effort is likely to be better than the previous one. Such multiple enterprises owning entrepreneurs may have handed over their ventures to professional managers before starting the new ones or may be managing multiple ventures concurrently.

Entrepreneurs are broadly classified into three categories viz.: Novice entrepreneurs, serial entrepreneurs and portfolio entrepreneurs. As the name suggests, novice entrepreneur is one, who is venturing into entrepreneurship for the first time. Obviously lack of prior business ownership experience is the criterion. If an entrepreneur owns multiple businesses sequentially i.e. establishes next one after closing or disposing of the previous, he is called a serial entrepreneur. Currently he has only one enterprise but the

number of his ownership experiences is more than one. Interestingly, he may have failed in one or more of the previous businesses. An entrepreneur who owns multiple businesses simultaneously is called portfolio entrepreneur. The latter two categories are called habitual entrepreneurs since they have prior business ownership experience though to start with they may have been novice entrepreneurs.

Society and entrepreneurship

An entrepreneurship generally results in wealth creation i.e. economic prosperity to the society in which it is coming up in addition to the growth of wealth of the entrepreneur and other stake holders. Entrepreneurship generally results in reduction in unemployment. It is even described as driver of economic growth. Wealth creation is therefore considered as a positive contribution to the society. While making a social cost benefit analysis (also called economic analysis) of any project, the cash flow entries are taken into account not at the financial invoice prices but at the shadow prices which take into account the cost of impact on society. Adverse effects like environmental damages, utilization of scarce resources of the society such as institutional concessional finance, preferred duty structure etc will make the shadow price higher than the market price and thus increase the ostensible cost of the project. However the benefits rendered to the society like employment or infrastructure created will beneficially add to the profitability estimates of the project and can make a financially non viable project as an economically viable project under the social cost benefit analysis. Many of the mega projects undertaken by Governments or governmental undertakings fall

under this category. Wealth creation and in particular dispersed wealth generation are considered as positive features of a new project under this method of project appraisal.

Having realized that growth of entrepreneurship is in the interest of the society, States tend to support such activity by extending hard or soft incentives i.e. financial or non financial supports. I.e. Such policy support for business growth can be either in the form of direct financial support or incentives or in the form of other proactive policy measures. Financial support will include tax benefits, providing institutional credit facilities at concessional or liberal terms including earmarking quota of public institutional funds for preempting by these entrepreneurs, concessional availability of factors of production like land, raw materials, energy and other inputs, preferred labour regulations etc. Non financial policy initiatives include industrial training facilities, procedural simplifications including 'Trade Facilitation' {one of the four Singapore issues agreed under the WTO negotiations}, sectoral reservations, credit enhancement measures like guarantees extended by credit guaranteeing institutions for export or domestic credits and such other protective measures.

Extending policy support to entrepreneurial growth can be a debatable issue depending on the political system prevailing in the country. While the underlying principle of employment generation, economic growth etc are subscribed by all systems, the intended means to achieve the same are different. Countries world over have different approaches for handling economic policies starting from socialistic approach of economic equality to complete freedom with a hands

off policy by the government. Besides, policies themselves have been frequently changing in most geographies, generally with a bias from the former to the latter policy mentioned above. The diversity in depth and scope of States' involvement in growth of entrepreneurship therefore does not enable a uniform measurement of the States' policies towards entrepreneurship and in particular its discriminative treatment towards the three categories.

It should be noted that not many entrepreneurs are capable of wealth creation. Some may not be interested in the benefit that will accrue to others in the society. The capability, speed and volume of wealth creation agreeably differ depending on the type of entrepreneurs viz.: Novice entrepreneurs, serial entrepreneurs and portfolio entrepreneurs. E.g. it can be easily argued that for faster and higher results, the policy should be favouring the portfolio investors whereas a socialistic approach would vote for policy preferences towards novice entrepreneurs. There is large statistics to prove that novice entrepreneurs have made better contributions towards employment generation at least in numbers. Thus if State were to form a policy to support entrepreneurship, an obvious dilemma would be, should it have bias to anyone of the three categories and if so what are the logical formulations to support that policy.

Present constraints

There is considerable difference in the requirements of and environmental scanning results for the three categories of entrepreneurs. While the novice entrepreneur generally is likely to be a fresher with limited financial, managerial and technical

experience, the other two categories will have abundant expertise. A serial entrepreneur however may not be having financially useful experience if his earlier units had all closed down one after the other. The resources available with the three categories may also be different. The portfolio entrepreneur is likely to have relative advantage in human resources and perhaps also may have financial flexibility and acceptability in the market. Even trade credit may be available to him much easily and on better terms. The serial entrepreneur's position depends on his past experience and his ability to recall it. If his earlier units had failed, he may be hesitant to associate those names. His earlier contacts may be counter productive and may not help in securing even normal trade credit. However a positive achievement could be a great advantage like in case of several software entrepreneurs, who have successfully launched, sold and started some other enterprises. Venture capitalists will be queuing to support.

The confidence level will be the highest with the portfolio entrepreneur. It could be equally high or at the lowest with the serial entrepreneur depending on his past experience. The novice entrepreneur is likely to be either highly conservative with no risk appetite or an adventurous stunt man with no risk barrier. The lenders' appraisal of the 'riskiness' also will thus accordingly vary with the category of the entrepreneur. This will effect both the cost and ready availability of financial resources and hence the viability of the enterprise.

Both the serial and portfolio entrepreneurs have the great advantage of knowing the market dynamics. Thus they have the

advantage over novice entrepreneur in sourcing, marketing, shipping and other logistics. The first mover advantage will be of great help. While serial entrepreneur is likely to move in the same product range for his new ventures, the portfolio entrepreneur will be having a bouquet of industries of wider variety with or without any common thread. But both of them are likely to have the product and market knowledge for the new venture being taken up, which will be a major handicap for the novice entrepreneur.

Policy support

Since the environmental background is varied, the policy support requirements for the three categories of entrepreneurs will also be different. The novice entrepreneur will look for adequate financial support from lending institutions and guidance or hand-holding from the State in his start-up. He may require supportive policy for competing against other two categories of advantaged entrepreneurs. E.g. reservation of certain categories of industries exclusively for small sized entrepreneurs and concessional rates of interest on institutional lending up to defined ceilings are some such supportive steps. Government being one of the largest entities, in any country, its purchase is always large in volume and could alter the market dynamics. If there is a preferential policy for buying a part of its requirements or purchasing at preferential rates, that could be a great advantage for a novice entrepreneur. Another of the four deadlocked 'Singapore Issues' pushed by Japan and the European Union under WTO negotiations talks about the 'greater transparency in government purchasing, which might help foreign companies win public sector business'. But logic behind this

preferential treatment is applicable *mutatis mutandis* to purchases from novice entrepreneurs also. An assured market can be the greatest confidence building measure for a beginner.

The serial entrepreneur may look for financial support like a novice though may not be so desperate. However he may not look for any support for his marketing efforts or to face others' competition. This is because of his prior market knowledge. However, where his earlier ventures had failed, there may be stigma attached to him. E.g. in accessing capital markets, in availing institutional finance etc. He may have been included in any prohibited lists maintained by the State regulators controlling this. Failure of an enterprise should not be confused with entrepreneurial failure. If his past business failures are on genuine accounts, an exit route is what he will be looking for. While a blanket permission may not be advisable, a policy discrimination on a case by case is desirable in such cases.

The portfolio entrepreneurs are likely to be with managerial competence in view of their owning more than one enterprise. They may have been progressing towards industry leader status in select areas of activities. Their demands would be with greater muscle power and even with industry cartels backing. Support they demand may include policy changes in rules relating to taxation, cross border trade, employee relationships, monetary and fiscal policies. While their demands may look exaggerated, they can not be ignored. It should be noted that portfolio entrepreneurs generate the maximum wealth with highest efficiency of resources utilization among the three categories. This category has the ability to venture into 'risky' and

'greenfield' areas. Enterprises with higher initial capitalization have higher chances of success. Portfolio entrepreneurs generally fall under this category and therefore wastage of financial resources is low with such entrepreneurs. For a developing country where capital is scarce and precious, this is an important decision enabling criterion. If political climate permits, countries may wish to have only such portfolio entrepreneurs. However such narrow partisan approach is not advisable.

Policy perspectives in India

If enterprise can be loosely taken as an industrial activity for the purpose of this analysis, there are interesting observations to be made on the policy initiatives prevailing in India over the period of time. The official industrial policy resolutions pronounced by the Government of India from time to time (from April 1948 to July 1991) clearly indicate the changing philosophy. State owned heavy industries and protected small industries in private sector were considered as the only feasible combination in early days. Any exception was only through industrial licensing resulting in what is popularly known as the 'licence and permit Raj'. In tune with global trends, the Country's approach also changed and the industrial licensing and pampered domestic industrial sector gave way to free industrial growth with doors open even to foreign capital in most sectors subject to sectoral and statutory caps. These policy changes as affecting the entrepreneurship can be summarized as under:

Policy summary

The novice entrepreneur continues to be treated with having a primary role in industrial growth with availability of concessional finance, exclusive

earmarking of institutional funds, reservation of industrial activities to avoid competition from larger habitual entrepreneurs, preferential tax treatment etc. There are even guidelines aiming to protect the novice entrepreneurs who are the sub suppliers to larger portfolio entrepreneurs. A further policy impetus was given by identifying smaller of the novice entrepreneurs by carving out a category called tiny industries and providing still better market conditions. There are additional supportive policy measures benefiting women novice entrepreneurs and novice entrepreneurs belonging to certain neglected strata of society. However after the reforms process commenced, there has been a slowdown in increase of state owned initiatives in supporting them. The growth of knowledge based enterprises like in software services has also reduced the importance of State support as such entrepreneurs are able to grow without much policy support.

It should be clearly realized that there are no official statistics of entrepreneurs belonging to the three categories. In particular, the data relating to serial entrepreneurs obviously will not be available, as none would like to admit about his failed earlier ventures. However there are specific policy measures governing rehabilitation of industrial units since it is well realized that starting a new enterprise is much more difficult than rehabilitating an ailing unit and closure always leads to economic distress on several families in the society. Financial institutions and banks in particular have been repeatedly advised by the central banking authority to consider settlements, compromises and rehabilitations rather than closures

as means of recovery. Enactments like Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests Act 2002 are specifically aimed at such curative measures. Thus serial entrepreneurs are provided with reasonable backrests by treating failure of a unit and failure of an entrepreneur as distinct. However to ensure public welfare, stringent measures are in force to prevent intentional failed entrepreneurs from accessing public funds for their subsequent activities. Portfolio entrepreneurs generally would have reached a stage where protection is not needed. In fact some of the larger enterprises formed the 'Bombay Club' to face the onslaught of international competition when cross border reforms were introduced.

Government policies are framed in consultation with all interested parties including portfolio entrepreneurs. E.g. during formation of each annual budget, the finance minister personally meets the larger (i.e. portfolio) entrepreneurs and implements their suggestions to the extent feasible. Such entrepreneurs have their own associations like Chambers of commerce which submit memoranda to the Government annually prior to the budget and in between as and when there are issues. Policy formation is done taking into account these inputs also. Reserve Bank generally publishes the draft guidelines on new issues seeking comments before implementing them. Thus policy formulation in India is generally based on a consultative approach.

Extracts of Industrial Policy Resolutions in India pertaining to Small scale industries

1. Industrial policy resolution dated 6th April, 1948

- This first policy laid the foundation of the policy for industrial growth.
- Highlighted the very important role Cottage and small-scale industries in the national economy.
- In view of the likely non availability of getting capital goods for large scale industry, recourse to small-size industrial co-operative throughout the country.
- The system of taxation will be reviewed and readjusted where necessary to encourage saving and productive investment and to prevent undue concentration of wealth in a small section of the population.

2. Industrial policy resolution dated 30th April 1956

- Speeding up of industrialization as a means of achieving a socialist pattern of society
- Policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector by differential taxation or by direct subsidies will continue.
- The State will concentrate on measures designed to improve the competitive strength of the small scale producer.
- Many of the activities relating to small scale production will be greatly helped by the organisation of industrial cooperatives.
- To meet development of the village and small scale industries, proper managerial and technical cadres are being established.

3. Industrial policy statement dated 23rd December, 1977

- Laid emphasis on decentralisation and on the role of small scale, tiny and cottage industries
- Within the small scale sector, special attention will be given to units in the tiny sector
- Schemes will be drawn up for making available margin money assistance especially to tiny units in the small scale sector as well as to cottage and household industries.
- Government will consider introducing special legislation for protecting the interest of cottage and household

industries with a view to ensuring that these activities which provide self-employment in large numbers get due recognition in our industrial Development.

- To extend this important organisational pattern to all the districts in the course of the next four years. Suitable financial and organisational support will be provided to the State Governments to achieve this objective.
- Banks will also be expected to earmark a specified proportion of their total advances for promotion of small, village and cottage industries.
- To see that no worthwhile scheme of small or village industry is given up for want of credit.
- Measures such as purchase preference and reservation for exclusive purchase by Government Departments and Public Sector Undertakings will also be used to support the marketing of these products.
- The role of large scale industry will be related to the programme for meeting the basic minimum needs of the population through wider dispersal of small scale and village industries and strengthening of the agricultural sector.

4. Industrial policy statement of July, 1980

- Focused attention on the need for promoting competition in the domestic market, technological upgradation and modernization and to achieve export base and encourage foreign investment in high technology areas.
- To reverse the trends of creating artificial divisions between small and large-scale industry under the misconception that these interests are essentially conflicting.
- To promote the concept of economic federalism with the setting up of a few nucleus plants in each district identified as industrially backward, to generate as many ancillary and small and cottage units as possible.
- Small is beautiful only if it is growing.
- The enhancement of the limit in terms of investment in plants and machinery to help genuine small scale units and to facilitate long over due modernisation

of many of the existing small scale units.

- To strengthen the existing arrangements to facilitate the availability of credit to the growing units in the small scale sector.
- Unless it is apparent that the purpose is being served, Government will review the system of incentives.

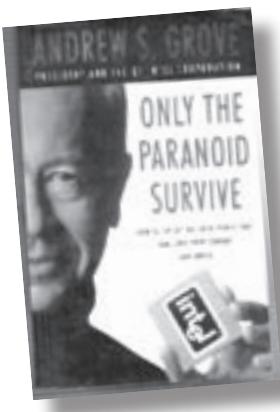
5. Industrial policy 1990

- The investment ceiling in plant & machinery for small scale industries increased.
- A new scheme of Central Investment Subsidy exclusively for the small scale sector in rural and backward areas capable of generating higher level of employment at lower capital cost would be implemented.
- A number of technology centers, tool rooms, Process and Product Development Centers, testing centers, etc. will be set up under the umbrella of an apex Technology Development Centre in Small Industries Development Organisation.
- A new apex bank known as SIDBI established to ensure adequate and timely flow of credit to the small scale industries.
- A targeted approach will be adopted to ensure implementation and to facilitate monitoring this objective.
- Bureaucracy controls will be reduced so that unnecessary interference is eliminated. Further, procedure will be simplified and paper work cut down.

6. Statement of industrial policy dated July 24, 1991

- Government will review the existing portfolio of public investments with greater realism in respect of industries based on low technology, small scale and non-strategic areas etc.
- Industries reserved for the small scale sector will continue to be so reserved.

Book Review



Only the Paranoid Survive

by Andrew S Grove

**Harper Collins Business, London,
1988, ISBN 0 00 638827 2
Price UK Pounds 9.99.**

This book has been authored by Andrew S Grove, President and CEO of Intel Corporation. Andrew S. Grove emigrated to the U.S from Hungary in 1956. He is one of the co-founder member of INTEL (Integrated Electronics). In 1979 he became the president of INTEL and thereafter in 1987, the Chief Executive.

Intel is one of the most successful Computer Chip Producer and Semiconductor Company in the world. It provides for the brain of the Personal Computer (PC) and their microprocessors power roughly half of the world's PCs used by consumers, worldwide. Under Grove's leadership, Intel has emerged as the world's largest computer chip maker and is one of the most admired companies, globally.

The book is an anecdote of Intel and its struggle to get over crises which

the company experienced due to fierce competition from the Japanese, the drama of the Pentium flaw, and unforeseen changes brought on by the Internet. This book depicts the experiences of the CEO and the people within Intel and the philosophy and strategy employed by the CEO to ride over the crises and emerge successful.

The Book has been organized in a manner that is reader friendly and at the same time follows a structure which makes the reading easy for the lay person not probably acquainted with the world of computers and microchips. It begins with a preface and contains nine chapters in totality. From the very beginning Grove takes a direct approach in coming to the point by mentioning that this book is about managing the whirlpool of change which every company and manager would have to undertake in any form of business. He says that in managing business one has to constantly deal with customers and partners and 'speculate about the intentions of competitors'. In doing so, one needs to constantly draw on observations based on interactions on daily basis with all stakeholders who make a difference in the success and failure of business. As he says "what this book is about is the impact of changing rules. It's about finding your way through unchartered territories". The whole idea Grove opines is to provide a framework though which cataclysmic changes can be dealt with and this book which is based on his and his company's experience in doing so is a case in the point.

"Only the paranoid survives " as the name suggests, is a book which tells us how to cope up with this crisis. Such crises are termed by the

author as "Strategic Inflection Points "(SIP). According to this book there are two important points of strategic management namely, strategic plans which deal with unforeseen change and strategic actions which take place in the present.

In explaining what causes an SIP Grove uses the six forces analysis (mostly based on Michael Porter's work) and opines that a SIP is caused by 10X change in one of the following forces:

- Competition (e.g. a big super store - Wal-Mart - comes to a small town and closed down small retailers)
- Technology (e.g. when sound took over silent pictures)
- Customers (e.g. what Intel itself faced)
- Suppliers (e.g. Airlines pointing out to ticket agents that the commissions are going down)
- Complementors (e.g. changes with the internet and share broking)
- Regulation (e.g. the Federal break-up of AT&T in the USA in 1968)

The vital question which arises here is that how does one survive in the wake of unexpected change which one cannot foresee? Grove in this book suggests three steps in the transition from what he terms as pre-SIP environment to "the other side of valley of death":

- Enduring the period of chaos and confusion and trying to make sense of what is going on?
- Let chaos happen for sometime while efforts are made to find novel ways of getting back to business

- Ride through the chaos though single- minded determination and try to reset goals, however, nebulous they may be initially

For Intel, the realization that it could not compete with the Japanese in the memory business made them redirect their entire strategic intent and plan which proved to be a turning point for the company where it decided to limit its scope of activities only to the chip business. This strategic decision changed the long- term direction for good. The decision to shift manufacturing facilities from memory business to chips by managers and supervisors down the line itself acted as a strategic decision which affected operational decisions within the firm and triggered a series of lesser decisions when the actual shift took place.

The book can serve as an excellent case study to understand and learn

about concepts and practices relating to management and strategic leadership, communication and empowerment of people. It also gives an insight into why a company must listen to its customers to survive and sustain in times of changing needs and preferences. More importantly it needs to listen to its people who are in actual contact with the customers who play a vital role as a major stakeholder in business.

The book also provides examples of companies who have both succeeded or failed in surviving through changing times. Companies like Intel, HP, and IBM provide excellent cases of survival, whereas the likes of Wang Labs, Mostek and others portray pictures of gloom and failure. Groves' skepticism about gee- whiz technological innovation like

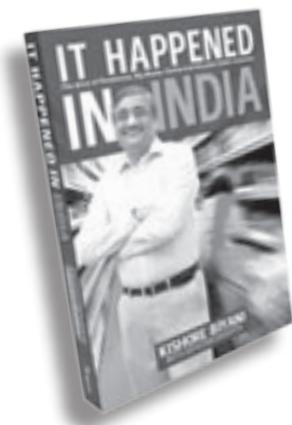
"Internet applications" provides an excellent example of how Intel

maintained its strategic focus to ride over the hump before it tasted its sweet share of success.

As far as the organization of the book is concerned one must appreciate the anecdotal style which has been used by the author to make the book more reader- friendly. It is also not a thick book and therefore can be used as carry book for reading with enjoyment without having the hands to carry a load full of pages. The chapters are neatly organized and limited and that makes for easy reading of the book.

Overall, a must read for all those who are intimately interested and connected with business.

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Bangalore.



***IT HAPPENED IN INDIA : The story of Pantaloons, Big Bazaar, Central and the Great Indian Consumer* by Kishore Biyani with Dipayan Baishya**

Rupa & Co., New Delhi-110 002, 2007, pp1-268.

The book under review is a business travelogue very intimately woven in a sequence of ten chapters. The book is not just Kishore Biyani's (KB) personal-

ity or success story. It is neither another family business growth revealed nor unfolded. KB's story is of success brought about by a business family supported by internal customers and the society. KB as an adolescent was a rebellion. His ability to question anything which is not amenable to logic and searching for solutions built up the entrepreneur who was ready to take on challenges! Business, time and opportunity waits for none! KB waited to strike at! The story begins with created and excited customers in a queue for picking up products to optimize their baskets in two major cities- Kolkata and Mumbai.

KB moves on to narrate his childhood- people at home, family influences and relationships and his *dandiya* experiment which gave an insight as to how to manage a crowd. KB was

interested in thinking new, while his family members were interested in sustenance and presentation. When sporadic growth is foreseen, creation and destruction consistently moves assets and liabilities.

KB had internship with the support of family members. As an intern he failed in several businesses which he took up at once. Failure in many of these businesses made him realize the best option under circumstances. He had been experiencing the environmental changes which made him assess the requirements of a challenging business. The challenge is to assess risk and face it. KB did this admirably well! Selling products to customers is not easy. Ideas have to be generated. Some of these ideas need to be converted into designs to match with the patterns in consumers' mind. KB realized one of the basic principles of marketing-product nature evolves the marketing system. Retailing requires several products of varying natures that need be sold under one roof. The real challenge is in designing an attractive format to make consumers come, buy and buy repeatedly. This was attempted well by placing consumers in a pivotal position around whose needs the design and format was attempted. KB observed existing chains in Mumbai (Akbarally and Benzer), Chennai (Spencer) and Bangalore (Kids Kemp and Nilgiris). He further looked at national chain stores - Raymond and Bombay Dyeing. Pantaloons, Big Bazaar & Central were thus born! '*Observation*' - what a great intangible instrument it is! KB was able to manifest new ideas by continuously observing consumers and the existing formats in retailing. *Mandis* and *Melas* are places and occasions wherein consumers of all diversities will have unifying shopping experience. In a country where

shopping is a societal joy, wholesaling or retailing were never places of harmonious relations. KB's mind works here on backward linkages with suppliers. The idea KB has is establishing co-makership to ensure continuous supply, there by assessing availability of products to consumers. KB adhered to meeting another principle of marketing availability (opening retail chain 24x7 is another great idea). KB's idea of integrating wholesale functions with retailing is an evidence in itself of failure of wholesaling institutions such as Agricultural Product Market Committees (APMCs). Supply chain through co-makership and contracting would ensure rewriting the roles of existing wholesaling institutions.

APMC Acts are being changed to ensure entrepreneurship takeover the governmental regulations. India, in the years to come will have many more KBs to manage supply chains. The narration of KB never speaks of profit. KB speaks of value created utility, based on social values. One can feel KB as an entrepreneur-leader to business and a man who has the nation and society in his mind.

Business cannot continue successfully unless decisions are made at different levels at appropriate time. Timing of decisions can be likened to timing of ball and bat in cricket. A wrong timing or a mismatch may cost heavily or lead to loosing an opportunity. Business need to go on at the speed of thought! KB demonstrates this in decisions on location choice, product selections, HR decisions and establishing rapports. His investment decisions are based on not just gut feel, but on trust and futuristic feel - the relationship. Consumers would react impulsively on a day of national importance. *Sab Se Sasta Din* on 26th January – the Republic Day turned out to be a success because of availability

of time, and an environment created for a unique shopping experience. The overcrowding at these places reflect consumer interest in buying cheaper, better and trustworthy products. KB has introduced Indian Consumers to a new shopping style drawn from formats well knit to Indian Societal fabric. Such experiences need be replicated on all days of festivals – religious, national or otherwise!.

The two decade story of KB is unfolded by as many as 46 friends and colleagues who made things possible. The narrative support had obviously been one of praising KB for his success, while the scripts of Rama Bijapurkar and Darlie O.Koshy looked to me an objective and a careful assessment.

The 268 page book is presented with appropriate chapter titles and quotations. The book should have had narrations in italics (which was conspicuous on page 215-216). The reviewer could see one mistake on page 213, III, line one. The narrator Dipayan Baishya has done a great job in presenting this book to the readers.

A business leader need be a learner! KB has also been influenced by books. Those books have found a place suggesting the forthcoming entrepreneurs and business leaders to find time for reading and updating. The world of business expects many such documentation from KB, the Retail Maharajah!

N.S.Viswanath, Resident Director (Academics), Bhavan-Marshall MBA Programme, Bangalore

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