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Business Spectrum

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Editorial

With immense pleasure and intense pride, the Midnapore Branch of the Indian Accounting Association publishes the first issue of its bi-annual e-journal *Business Spectrum*. The long-cherished dream of providing the academics, professionals, practitioners and the burgeoning community of managers with a forum to exchange their views, knowledge and experience, on the thought-stimulating and emerging issues in the wider fields of accounting, management and other branches of business and commerce, finally gets a physical shape with the present issue of the journal.

This issue encompasses five scholarly papers covering a wide spectrum of contemporary marketing, financial, corporate and banking issues. The paper jointly contributed by L. Devika and Prof. K. Sasikumar provides an insight into the trend of development of organized retail marketing in India and its growth potential in near future with a special focus on the retailing scenario in Kerala. Dr. Navita Nathani, Dr. Anindita Chakraborty, Dr. Brajesh Rawat and Prof. Umesh Holani in their paper have made an attempt to evaluate the performance of different types of equity mutual funds in the context of the market-timing skill of the fund managers. Dr. Barnali Chaklader makes an empirical study to find out the relationship between the value of a firm and certain important parameters of corporate governance. The paper of Prof. Asok Kumar Banerjee sheds light on the role of branding in Indian retail industry. Mr. Nigamananda Biswas in his paper has made a threadbare discussion on the importance of green banking in the environment-conscious economic development of a country and the challenges encountered by it in the perspective of the present banking system in India.

We would like to mention that this is just the beginning of a long innings to be played by us to help create the building block of the knowledge economy through articulation and dissemination of knowledge and thoughts of eminent scholars, findings and suggestions of the researchers, and views and experiences of the professionals and practitioners on the current accounting, finance, management and other relevant business and socio-economic issues. In the process of accomplishment of this noble objective, we always solicit valuable contributions and constructive criticism from the learned authors and readers. Finally, we express our unlimited gratefulness to all the distinguished members of the Editorial Board for their invaluable suggestions and advice in publishing this issue and, of course, to all members of the Indian Accounting Association, Midnapore Branch, for their continous nurturing of this endeavour.

Prof. Jaydeb Sarkhel
Editor-in-Chief

Changing Trends in Kerala Retailing

Devika. L, *

Prof. K. Sasikumar * *

Abstract

Retailing is a consumer interfacing activity and acts as a last link in the supply chain. It is one of the largest sectors in the global economy is going through a transition not only in India but around the world. Retailing has emerged as one of the most lucrative sectors in India and has seen phenomenal growth in the last few years. A strong trend in favour of organized retail formats is being witnessed in both food and non-food sectors as people are showing preference to one stop shops. Organized retailing provides 3 V's to the consumer-Value, Variety and Volume to the consumer to create a 'customer –pull environment'. Overall socio-economic development and retail boom in India have altogether changed the customers expectation from retail outlets.

Key Words: Retailing, Global Economy, Supply Chain, Consumer-Value

Introduction

Indian Scenario

By the turn of the 20th century, the face of the Indian retailing industry has changed significantly .The retailing industry, which, until the early 1990's ,was dominated by the unorganized sector ,witnessing a rapid growth in the organized sector with the entry of corporate groups into the retailing market. Organised retailing could be classified into any one of the following formats namely shopping malls, departmental stores, hypermarkets, supermarkets, discount stores, specialty stores, branded stores and convenience stores. Retailing giants, the largest being Wal-Mart Bharti, Reliance, AV Birla Group and Future Group (pantaloon), plan to expand their share of organized retail from the current 3 percent to approximately 15-20 percent in 4 years by investing more than $25 billion (excluding real estate investment).A study by a leading industry chamber has reported that the boom in the Indian retail sector will continue and top $365 billion in 2008, against $300 billion a year before. Organised retail is projected to grow at the rate of 40 percent per annum to reach 50 USB Dollar by 2010.

Table 1
Share of Organized retail in total market (% of organized)

Retail segment	2004	2005	2006	2007
Clothing, textile & fashion	13.6	15.8	18.9	22.7
Jewellery	2	2.3	2.8	3
Watches	39.6	43.5	45.6	48.9
Footwear	25	30.3	37.8	48.4
Health & Beauty care	6	7.6	10.6	14.3
Pharmaceuticals	1.8	2.2	2.6	3.2
Consumer durables & home appliances	7.8	8.8	10.4	12.3

* *Research Scholar, Department of Commerce, University of Kerala*

** *Professor, Department of Commerce, University of Kerala , E-mail: keralasasikumar@gmail.com .*

Mobile accessories,services	6.5	7	8	9.9
Furnishing,furniture-home&office	6.7	7.6	9.1	11
Food & grocery	0.5	0.6	0.8	1.1
Catering	5.7	5.8	6.9	8
Book, Music & Gifts	9.8	11.7	12.6	13.4
Entertainment	2.6	3.3	4.1	5.3
Total	3	3.6	4.6	5.9

[Source: The Indian Retail Story, Images F&R Research, Indian Retail Forum 2008]

Table 1 shows that the food and grocery sector has the lowest organised retail penetration when compared to other categories. Thus, there is huge potential for the growth and exploitation of this sector in the coming years by the large corporate outlets. With a year- on-year growth of 30-35 percent the retail trade in India with top $440 billion by 2010, says a study by Associated Chamber of Commerce and Industry of India. A study by Indian Council for Research on International Economic Relations (ICRIER) suggests that the Indian retail sector is expected to grow by a staggering 83.22 percent to $590 billion in 2011-2012.Rising real estate prices are forcing many retailers to adopt the franchising route to expansion or target Tier II cities.

Moreover the retail sector, India's second largest employer after agriculture, is looking for industry status along with a minister to look after its interest to help it flourish in the coming years. It is also felt that a retail policy should also be considered for promugulation by the government which will help modern retailing grow in India. According to Government estimates, the total retail business is around Rs 1200000 crore, which is roughly one- third of the country's GDP. Of this, about 95 percent is accounted for by the unorganized sector. Several demographic trends are favourable for the growth of organised trade. The following table shows the percentage of organised and unorganized retail trade in different countries:

Table:2
Percentage of Organized and unorganized Retail Trade

Country	% of Organised Retail Trade	% of Unorganized Retail Trade
India	**6**	**94**
China	**20**	**80**
Vietnam	**22**	**78**
South Africa	**32**	**68**
Brazil	**75**	**25**
USA	**85**	**15**

[Source: EIU ,AT Kearney Analysis]

Table 2 reveals that Indian organized retail market has huge growth potential in the coming years. The reform of the retail industry is inevitable. The government argues that regulatory reforms will enable gains for customers through the reform of the supply chain systems. The number of jobs that will be created both in the front-end and the back end segments of the sector is likely to be more than to compensate for some amount of the displacement that may occur due to the policy change. The logic fuels the argument for the necessity of a retail revolution presented by extraordinary demographics, surging disposable income, increased urbanization, the propensity to spend rather than save, and the rise of a young affluent group of big spenders.

The FDI Debate

The retailing sector is witnessing an enormous excitement lately with the government debating to what extent FDI be allowed in retail. The government has earlier made noises about not allowing FDI in food and grocery as it was perceived to be detrimental to the interest of small retailers. Food retail trade is a very large segment of the total economic activity of our country, accounting for 63 percent of total retail sales in the economy, and due to its vast employment potential. FDI for retail developments is taking place by and large in sectors, namely clothing and textiles, consumer

durables and food and beverage covering major cities, metros as well as Tier-II and Tier III cities in India.

In early 2006, foreign investors were allowed to own upto 51 percent share in single brand outlets only. FDI is completely prohibited in multi-brand retail. From 2000-2008, FDI in organised retail was approximately INR 78 crore. The only exception to the restriction of FDI in the industry has been the food wholesale sub-sector where 100 percent FDI is allowed. FDI is permitted in cash-and-carry outlets, where goods are sold only to those who intend to use them for commercial purposes, like Metro and Shop rite. Even in this case protests have occurred from time to time. However it seems that, if organised retail in India has to grow as estimated, it require significant capital technology and application of latest global practices. In such cases restricted FDI regime may become an hindrance and one of the key steps to unleash its potential would be to open up the sector to FDI.

Retail Scenario in Kerala

In Kerala, there has been an explosion in retailing in the last few years. Organised retailing is spreading and making its presence felt in different parts of the State. The major national retail players in the State include the Spencer's, Reliance, Big Bazaar, and Fabmall alongside local chains like Margin Free Markets and Varkey's. In Kerala, a sector of people is opposing the retail giants because it will spoil the retail sector. But in Malabar region, a group of customers has decided to raise their voice in favour of the big retail chains if it means better bargains for them. In Kozhikode, the Upabhoktru Samrakshana Samiti (Consumer Protection Committee) in 2007 organised its first rally welcoming the entry of organized retailers about 2000 people participated and raised their voice in favour of a proposed retail outlet there. But however the consumer's demand goes diametrically against the stand of the Kerala Vyapari Vyavasayi Ekopana Samiti (KVVES) that are against the entry of big players into the retail arena. The Reliance Fresh outlets had to face many allegations and wide protests from the local traders for opening their stores in many parts of the State.

But it can be seen that though the agitation against organized retail in the State has taken a serious turn in certain parts, the trading community of Kochi, seems to be toeing a different line. In order to meet the challenges posed by big retailers, the traditional retailers in the city are redefining business strategies, organizing leadership summits and focusing more on service. They are of the opinion that personal attention and service is something that they can offer to the consumers. Sourcing of products according to the tastes of the consumers and making it available to them is the other aspect of retail that the small and medium retailers are focussing on. However today's consumers who are hard pressed for time will prefer to go to the market place which offers them best discount, finest ambience and utmost convenience.

Retailing in Kerala is a subject too subtle and relevant; as Kerala is known of more as a consumer State rather than a producer State. The introduction of Margin Free Markets has turned out to be a grand success resulting in it becoming one of the largest retail chains in the country. The future of retailing looks bright with the proposed entry of many major organized retailers. There are many who argue that small traders will be badly hit. Others argue that the farmers in the State will stand to benefit, while there will be choices plenty for the consumers. However, the present government in the State is in favour of the thousands of small retailers who are united under the banner of KVVES.

Views of Small Retailers and Customers

For knowing the impact of organised retailing on small retailers and customers a qualitative field survey was conducted among 50 small retailers and 50 customers in Thiruvananthapuram city.

80 percent of the small retailers reported a drop in sales since the upcoming of the organized retail formats in the city. The survey results shows that the grocery stores are the most adversely affected when compared to general stores and vegetable and fruit stalls.76 percent of the small retailers opined a loss of high value customers after the launching of modern retail outlets in the city. Majority of the small retailers do not provide discounts or special offers to customers which make

them difficult to retain them.70 percent of the small retailers feel threatened by the upcoming of organized retail formats resulting in a major decline in their business.

The study reveals that majority of the customers(76 percent)are satisfied while shopping in organized retail formats due to the convenience of getting variety products and brands under one roof. Favourable atmosphere and décor has been ranked the most preferential reason by majority of the customers for shopping in modern retail outlets followed by other factors such as spacious parking and entertainment facilities.

The new regime in today's competitive environment is the 'Survival of the fittest'. In order to remain competitive in the market the small retailers should adopt standardization with respect to product, quality, and quantity of the goods sold. Traditional retailers need to leverage more on their strengths like customer relationships, home delivery and credit facilities, expanding product portfolios, favourable discounts and changed store layouts.

Globally retailing industry has flourished and India is no exception to that. The best retail format is one, which attracts the highest number of customers by delivering maximum customer satisfaction. It shows that retailing is not just about the product but it is rather about 'an entire experience'.

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Timing Skills of Fund Managers: A Study of Equity Mutual Fund Schemes

Dr. Navita Nathani[*]

Dr. Anindita Chakraborty[**]

Dr. Brajesh Rawat[***]

Prof. Umesh Holani[****]

Abstract

Most investors ask just one thing of their mutual funds: red-hot returns. Now, in the wake of the trading scandals that harmed the shareholders of some funds, investors are also looking for fund management they can trust. But by examining the behavior of a fund's managers and directors, you can get a sense for how strongly the fund is acting in the shareholders' interest.

How can you tell whether a fund is likely to put its shareholders first? Unfortunately, there's no litmus test. Nor is there a guarantee that a fund with strong policies won't mess up.
This study analyzed the timing skills of fund managers and evaluated the performance of equity mutual funds and helps in understanding fund manager's performance by providing a link between timing skills of fund manager & mutual fund performance.

The study analyzed that the timing abilities of fund managers of the private equity mutual funds (foreign, domestic & joint venture equity mutual funds) are far superior compared to the market timing abilities of the PSU managed equity mutual funds. The study also reveals that there is a positive relationship between timing skills & excess returns.

Key Words: Mutual Funds, Red-Hot Returns, Timing Skills,

Introduction

The measurement of the performance of mutual funds is an important issue for both investment companies and fund investors. Investment companies pay fund managers partly based on their performance and mutual fund investors chase fund performance. Whereas investment companies can judge the skills of a fund manager by observing his trade record, fund investors typically do not have access to this information. They only observe the record of the net asset value of a fund.

[*] *Lecturer at Prestige Institute of Management, Gwalior.*

[**] *Lecturer at Prestige Institute of Management, Gwalior.*

[***] *Head, S.P. Jain Institute of Management, B.R Ambedkar University, Agra.*

[****] *Dean & Chairman, Institute of Commerce & Management, Jiwaji University Gwalior.*

As to the market-timing ability of the fund manager, it has been measured broadly Henriksson and Merton (1981). Fung, Xu, Yau (2002) pointed out the fund manager hedges the risk in the bear market through the mechanism similar to that in the option to protect the hedge fund value. Accordingly, the market-timing ability is an important subject. Fung, Xu, Yau (2002) analyzed global hedge fund performance; they confirmed the global hedge fund has the excellent ability of selecting stocks.

However, the negative market-timing ability is more notable than positive market-timing ability. It shows the managers are short of market-timing ability. The portfolio of hedge fund could be composed from different target markets. The further research indicate that β (market risk) in the downturn market is higher than that in up market. The hedge fund would not protect the assets value. That contradicts with pronounce of the hedge fund manager. Ennis and Sebastian (2003) intended to add the hedge fund into the portfolio to raise the portfolio return. They found out that it could not increase the return of the portfolio. It shows hedge fund not to make profit in downturn market. During, the bubble economy in United Stated of America, researcher found out that hedge fund manager has good market-timing ability.

Market Timing

Superior financial performance of equity mutual funds has been the single most important factor that has the bearing on investor's interest and growth of mutual fund industry. The performance may be defined in terms of 'rates of return', 'risk adjusted returns' or benchmark comparison. Jensen's alpha is another measure of portfolio performance. It indicates abilities of fund managers to identify and select superior stocks for the portfolio.

'Timing' the stock market is yet another measure of portfolio performance. 'Timing' the stock market correctly also produce superior performance of the equity mutual funds. In other words, the fund managers may be able to produce better performance by assessing the direction of the stock market correctly, i.e., bull or bear phases, and position their portfolio accordingly.

In case fund manager apprehends bear phase in the market, it is expected of him to liquidate his equity portfolio and retain high proportion of his investible funds in cash or invest them in short-term marketable securities like treasury bills, call money market, etc. Alternatively, replace high beta securities with the low beta securities so that the negative impact of the bear market on the portfolio value is reduced. Conversely, when the fund manager forecasts a rising market, the fund manager tends to /should include high beta stocks in the portfolio so as to get maximum advantage of rally in the stock market.

Review of Literature

C. Ackermann, R. McEnally, and D. Ravenscraft(1999) Hedge funds display several interesting characteristics that may influence performance, including: flexible investment strategies, strong managerial incentives, substantial managerial investment, sophisticated investors, and limited government oversight. Using a large sample of hedge fund data from 1988-1995, they found that hedge funds consistently outperform mutual funds, but not standard market indices. Hedge funds, however, are more volatile than both mutual funds and market indices. Chance, D. M., and M. L. Hemler (2001) examined the performance of 30 professional market timers during 1986-1994. Prior studies have analyzed implicit recommendations from mutual fund returns or explicit recommendations from newsletters. They found significant unconditional and conditional ability that is robust with respect to transaction costs and survivorship bias. Relative ability persists and varies with the frequency of recommendation changes. When recommendations of successful timers are observed monthly rather than daily, significant ability generally disappears. Hence, the frequency with which recommendations are observed can change inferences regarding ability. Jeffrey L Coles, Jose Suay, Denise Woodbury (2000) examined the relation between the premium on closed-end funds and organizational features of the funds and advisors, including the compensation scheme of the investment advisor. They found that the premium is larger when: (a) the advisor's compensation is more sensitive to fund performance; (b) the assets managed by the advisor are concentrated in the fund in question; (c) the advisor manages *other* funds with low compensation

sensitivity to performance and with low concentration of assets managed by the advisor; and (d) the advisor's compensation contract evaluates performance relative to a benchmark.

Among institutional investors, the strongest evidence of correlated trading exists for equity mutual funds. For instance, Grinblatt, Titman, and Wermers (1995) document that momentum investing strategies are used by the majority of equity mutual funds during 1975 to 1984, while Wermers (1997) founds that mutual funds tend to exhibit high levels of "herding" (simultaneous buying or selling) in growth stocks, small stocks, and high past-return stocks during 1975 to 1994. In addition, Wermers (1997) found that trading by herds of mutual funds moves stock prices in a stabilizing manner—that is, fund herding tends to bring stock prices closer to their fundamental values, and, if anything, mutual fund herds appear to under react to information.

Philip H. Dybvig, Stephen A. Ross (1985) Security market line (SML) analysis, while an important tool, has never been fully justified from a theoretical standpoint. Assuming symmetric information and an inefficient index, we show that SML analysis can be grossly misleading, since; in general, efficient and inefficient portfolios can plot above and below the SML. On a more positive note, if SML analysis uses the return on a marketed riskless asset for the zero-beta rate, efficient portfolios must plot above the SML. Nonetheless, arbitrarily inefficient portfolios also plot above the SML.

M Grinblatt and S Titman (1989) presented a model that provides insights about various measures of portfolio performance. The model explores several criticisms of these measures. These include the problem of identifying an appropriate benchmark portfolio, the possibility of overestimating risk because of market-timing ability, and the failure of informed investors to earn positive risk-adjusted returns because of increasing risk aversion. The article argues that these need not be serious impediments to performance evaluation.

Roy D. Henriksson, Robert C. Merton (1981) the evaluation of the performance of investment managers is a much-studied problem in finance. The statistical framework is derived for both parametric and nonparametric tests of market-timing ability. If the manager's forecasts are observable, then the nonparametric test can be used without further assumptions about the distribution of security returns. If the manager's forecasts are not observable, then the parametric test can be used under the assumption of either a capital asset pricing model or a multifactor return structure. The tests differ from earlier work because they permit identification and separation of the gains of market-timing skills from the gains of micro stock-selection skills.

Fung Xu, Yau (2002) pointed out that the fund manager hedges the risk in the bear market through the mechanism similar to that in the option to protect the hedge fund value. Accordingly, the market-timing ability is an important subject. They also analyzed global hedge fund performance; they confirmed the global hedge fund has the excellent ability of selecting stocks. However, the negative market-timing ability is more notable than positive market-timing ability. It shows the managers are short of market-timing ability. The portfolio of hedge fund could be composed from different target markets.

In the literature on fund performance evaluation, one of the major theoretical contributions to evaluating the market timing ability of fund managers was proposed by Merton (1981) and empirically developed by Henriksson and Merton (1981). More recently, some authors have introduced improvements to this model, including Ferson and Schadt (1996) who considered Merton's model in the framework of a conditional version of the CAPM, where the beta depends on economic variables. However, these improved models have been subject to criticism.

They suppose that managers only consider the information available on the previous period. Some authors argue that in that case the Jensen's alpha of the portfolio will be zero. The model will not therefore be able to capture the abnormal performance generated by the fund managers due to their real-time market timing skills. According to others, beta variations are the results of changes in market conditions that do not depend on manager skill. So time-varying beta can only be attributed to manager skill if information on the periodical rebalancing of the fund manager is available.

Ennis and Sabastian (2002) the authors distinguish two periods according to the market trend: A bull market from January 1994 to March 2000 and a bear market from April 2000 to December 2002. It appears that almost all of the positive performance of the hedge funds occurs in the bull market. The authors explain that by the net long exposure to stock market factors. Focusing on pre and post-peak performance, hedge fund returns are more correlated to the stock market in bull markets, as is shown by the beta of hedge funds relative to the Wilshire 5000. It also appears that an increasing hedge fund allocation into a portfolio involves a decrease in the Sharpe ratio.

Gregoriou, Greg N.; Rouah, Fabrice ; Sedzro, Komlan (2002) evaluated whether directional hedge fund managers benefit from market timing in investment strategies. Analysis of a sample of current and defunct onshore and offshore funds does not reveal any significant market-timing alpha. Most hedge fund managers exhibit good security selection skill, which tends to be negatively correlated with market-timing ability, but not correlated with asset size or age of the fund. Tests of single- and multi-index models are consistent with published findings in the mutual fund literature that the hedge fund returns exhibit low correlation with market index returns.

Market Timing and Security Market Line Analysis seems to be widely accepted that Jensen alpha fails to detect successful market timing funds spuriously indicating poor fund performance. Jensen (1972), Admati and Ross (1985), Dybvig and Ross (1985), and Grinblatt and Titman (1989), attribute that to an upwards biased estimate of the systematic risk of successful market timers. Therefore, they recommend not to use alpha in external performance evaluation. In the paper, they showed that this conclusion is misleading. They set up a theory of delegated portfolio management in a mean variance framework with asymmetric information. Within this model they prove that alpha is an unbiased performance measure even for market timing funds.

They show that the extent of management risk depends on what fund investors know about the fund manager's trade record. Therefore, the performance of mutual funds depends not only on the skills of the fund managers, but also on whether they publish their trade record or not.

Objectives of the Study

- To analyze the timing skills of fund managers.
- To analyze the average rate of return of various schemes.
- To rank the top-10 open-ended & close-ended mutual fund schemes on excess return & timing parameters and compare their performance.
- To rank the top-10 private-sector & public-sector mutual fund schemes on excess return & timing parameters and compare their performance.
- To find out whether the rate of returns depend upon the timing skills of fund manager.
- To open new vistas for further research.

Research Methodology

The study was descriptive in nature. The population of the study was total equity mutual funds in India. The sampling frame was individual equity mutual funds during 2004-2007. The sampling element was individual mutual funds from asset management companies. Convenience sampling technique (Non-probability sampling) was used for the study. The sample size was 44 equity mutual funds schemes. Data was collected from secondary sources i.e. through RBI Bulletin and website of Mutual Funds & NSE.

Tools for Data Analysis

- Covariance & Standard Deviation had been used for calculation of systematic risk i.e. β.
- Linear equation provided by Treynor & Masuy had been used to assess fund manager's timing abilities.
- Regression had been used to find out relationship between rate of return and timing skills of fund managers.

Results and Discussion

Analysis of Timing Parameters

The timing parameter, γp, varied between the highest 1.7629 (HDFC Floating Rate Income Fund) and lowest 0.72327 (Franklin India Prima Fund) indicating large variation of timing abilities of the fund managers of different equity mutual funds.

HDFC Floating Rate Income Fund with the highest γp parameter has shown superior performance in terms of timing abilities. But in terms of rate of return (Table 1) it ranks lower at number 22. It reveals that superior performance achieved by the fund (in terms of timing abilities) may have been offset by the far inferior performance in terms of stock selection abilities of their fund managers.

Similarly, Prudential ICICI Monthly Income Plan (Rank 16), Templeton Floating Rate Income Fund - Short Term Plan (Rank 27) and Birla Dividend Yield Plus (Rank 37) were inferior performers in terms of rate of return. But amazingly the market timing abilities of their fund managers have shown superior performance.

Conversely, BOB ELSS `97 (Rank 2), Franklin India Tax shield 99 (Rank 3) and Morgan Stanley Growth Fund (Rank 6) have shown superior performance in terms of rate of return (Table 1), but in terms of timing abilities, these funds have shown unsatisfactory performance. These facts indicate that fund managers have used their stock selection skills far better than their market timing abilities.

None of the sample funds has shown negative timing parameter in the given time period Thus, from the foregoing analysis related to market timing abilities of fund managers of sample equity mutual funds, it may be inferred that they have been able to generate superior performance in terms of timing abilities.

Performance Analysis of Open-Ended & Closed-Ended Funds

The sample of forty-four equity mutual funds consists of 36 open-ended funds and 8 closed ended funds. If we analyze only top-10 performers in terms of rate of return, 7 out 8 closed-ended funds are there in the list, it means only 2 open-ended funds out of 45 are there in top 10. As far as, the timing skills are concerned 3 closed-ended funds are there in the list that are also there in the top-10 list of rate of return. Therefore, we can say that closed ended funds have performed far better than open-ended funds both in terms of timing skills as well as rate of return.

Performance Analysis of PSU & Private Funds

The sample of forty-four equity mutual funds consists of 35 private-sector funds and 9 public-sector funds. If we analyze only top-10 performers in terms of rate of return, only 1 out 9 private-sector funds is there in the list. As far as, the timing skills are concerned none of the public-sector funds is there in the list. Therefore, we can say that private-sector funds are the better performers than public-sector funds both in terms of timing skills as well as rate of return.

Calculation of Excess Return (Table 4)

The Monthly NAVs of various schemes were collected and the following formula was applied to calculate monthly excess return:

For the purpose of scheme-wise excess return average of all monthly values of excess return was calculated. As the yearly sub-periods were also there in the study yearly average of monthly values of excess returns was also calculated. All the scheme-wise values calculated are shown in table 1.

Calculation of Gamma (Table2) and risk free rate of interest (Table3)

Gamma or the timing skill variable was calculated using the linear equation given by Treynor & Masuy. The equation was as follows:

$$(Rp-Rf) = \alpha + (\beta p-\gamma p)\ X\ (Rm-Rf)$$

Where, 'Rp' denotes actual portfolio returns, 'Rf' risk free rate of return and 'Rm' market returns. 'α' (alpha), βp (beta) and γp (gamma) are measures of portfolio's differential returns, systematic risk and

timings respectively. The scheme-wise gamma values are shown in table 2.The value of risk free rate of return shown in Table 3.

Regression Analysis (Table-1)
The regression is calculated by taking the timing parameter, γp, and rate of return by using SPSS software. In this the timing parameter, γp is independent variable and rate of return is the dependent variable.

$$Rate\ of\ return = -1.303 + 0.666(timing\ parameter)$$

ANOVA Table summary indicates that the value of F is 33.446 at 0% significance level. The value is significant at 5% level of significance. T-value is 5.783 at 0% significance level & β-value is 0.666 shows the positive relationship between excess return & timing skills of fund manager. The regression results clearly show that return is dependent on timing skills of fund manager.

Implications of the Study

- ***For Investors:*** The research implies a comparative study for investors where they can understand which funds provide higher rate of return on their investments. Also the research provides an analysis of open-ended & closed-ended funds and an insight into the performance of private & public mutual funds. So, investors will be able to judge better where to invest their hard earned money.
- ***For Fund Managers:*** The research provides an insight to the fund managers to judge there past performance on the widely used parameters like timing skills and rate of return. They can also compare their performance with other fund managers and can replan their investment strategies.
- ***For Government:*** Government can understand that whether the asset management companies are doing justice to the investment made by the small investors. Also, they can check the performance of public-sector funds against the private sector funds.
- ***For Research Scholars:*** This research study will provide the base to the research scholars for the further study in the related area.

Suggestions of the Study

There are several techniques for calculating timing skills and researcher may include all those techniques for getting more appropriate results. The period of study is only three financial years. Researcher can take longer period for analysis. Increasing the sample size, demographic & geographic variables, may widen the scope of study.

Conclusion

The important features of performance evaluation of equity mutual funds based on market timing model may now be summarized. Market timing abilities of the fund managers is crucial in bringing about superior financial performance of equity mutual funds. Successful market timing refers to the capabilities of the fund managers to predict the direction of the stock market using suitable techniques and able to select stocks for the portfolio so as to add value to the mutual fund.

Comparing the timing abilities of the fund managers of open ended & closed ended equity mutual funds, it is noted that the fund managers of closed ended equity mutual funds may have been able to predict the market more successfully than the fund managers of open ended equity mutual funds. It may be due to the fact that close-ended schemes are associated with lock-in period and a fund manager has more flexibility to make investments on his will as the investible funds are constant with him for a particular period of time, but in case of open-ended schemes investor is free to plough back his investment whenever he wants.

Analysis based on the ownership indicates that timing abilities of fund managers of the private equity mutual funds (foreign, domestic & joint venture equity mutual funds) have been far superior

compared to the market timing abilities of the PSU managed equity mutual funds. The study also reveals that there is a positive relationship between timing skills & excess returns.

To sum up, it may be reasonably to conclude that timing abilities of the close ended funds have outperformed the timing abilities of open ended funds and timing abilities of PSU managed funds is inferior compared to private enterprise managed equity mutual funds.

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Annexure

Table-1
Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.666[a]	.443	.430	.69775

a. Predictors: (Constant), VAR00001

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.303	.403		-3.234	.002
	VAR00001	1.924	.333	.666	5.783	.000

a. Dependent Variable: VAR00002

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.283	1	16.283	33.446	.000[a]
	Residual	20.448	42	.487		
	Total	36.731	43			

a. Predictors: (Constant), VAR00001

b. Dependent Variable: VAR00002

Table -2
Gamma Values for Schemes

				Apr-04 to Mar-05	Apr-05 to Mar-06	Apr-06 to Mar-07
No.	Fund Name	Fund Type	Option	Gamma	Gamma	Gamma
1	H D F C Floating Rate Income Fund (Short Term Plan)	Open	Dividend	1.735638221	3.5013105	2.64279045

2	Prudential Icici Monthly Income Plan	Open	Growth	1.77896834	3.09620898	1.83096968
3	Sundaram Taxsaver 97	Close	Taxplan	2.552552997	0.73797064	2.03243297
4	Birla Dividend Yield Plus	Open	Dividend	2.126614209	-0.2113468	1.92619016
5	Birla Taxplan`98	Close	Taxplan	2.736629031	2.99691871	2.28262425
6	H D F C Floating Rate Income Fund (Short Term Plan)	Open	Growth	1.906886242	0.65250982	2.04282944
7	Templeton Floating Rate Income Fund - Short Term Plan	Open	Dividend	0.93066578	-0.3563954	2.09480221
8	Sundaram Tax Saver 98	Close	Taxplan	1.826280817	0.19172612	1.56307983
9	Templeton India Treasury Mngt. Account	Open	Dividend-D	2.037317174	0.08238875	1.80544108
10	Templeton India Treasury Mngt. Account	Open	Dividend-W	1.913671231	-0.3699081	1.86449605
11	H D F C Equity Fund	Open	Dividend	0.812431444	0.19793191	2.3549348
12	D S P Merrill Lynch Floating Rate Fund	Open	Dividend-W	1.500805775	0.49216895	1.41810543
13	Licmf Liquid Plan	Open	Dividend	0.547034398	0.02764943	1.74423799
14	Reliance Growth Fund	Open	Dividend	1.925769848	0.19078535	1.74193055
15	H D F C Prudence Fund	Open	Dividend	2.38165588	1.01785065	1.76012198
16	Prudential Icici Liquid Plan - Institutional Plus Plan	Open	Dividend-W	0.739680441	0.78464057	1.28718283
17	U T I Bond Fund	Open	Growth	1.778370773	3.30598384	1.30068411
18	Unit Scheme For Charitable & Religious Trusts And Registered Societies-1981	Open	Dividend	2.749215434	1.91247945	1.36805377
19	S B I Magnum Gilt Long Term Plan	Open	Growth	2.04856862	1.18717843	1.47913943
20	Reliance Liquid Fund (Treasury Plan-Growth)	Open	Growth	1.851702583	2.56262039	1.14229707
21	Templeton Floating Rate Income Fund - Long Term Plan	Open	Growth	1.843669648	2.56485955	1.14229534
22	Templeton India Treasury Mngt. Account	Open	Growth	1.848843687	2.55572293	1.14296939
23	U T I - Children'S Career Balanced Plan	Open	Growth	1.845411654	2.55756346	1.13963375
24	Franklin India Taxshield 99	Close	Taxplan	1.835516921	2.56601665	1.1414047
25	Morgan Stanley Growth Fund	Close	Growth	1.587437582	2.13516042	1.1551242
26	Franklin India Bluechip Fund	Open	Dividend	1.83257607	2.50841627	1.13026973
27	H D F C Cash Management Fund - Savings Plan	Open	Growth	1.601124944	2.08056392	1.19856788
28	H D F C Monthly Income Plan - Short Term Plan	Open	Growth	1.793831153	2.50126119	1.13742668
29	S B I Magnum Institutional Income Fund - Savings Plan	Open	Growth	2.027600793	2.37881135	1.03237567
30	Prudential Icici Liquid Plan - Institutional Plus Plan	Open	Growth	1.59659885	1.90623022	1.11158578
31	U T I Ulip	Open	Growth	1.802072103	2.01240499	1.03681318
32	Birla Floating Rate Fund - Short Term Plan	Open	Growth	1.586500613	2.20856281	0.96956994
33	Franklin India Bluechip Fund	Open	Growth	1.551681552	2.17219818	0.98093245
34	BOB ELSS `96	Close	Saving	1.572624242	2.19737655	0.96264323
35	Templeton Floating Rate Income Fund - Short Term Plan	Open	Growth	1.564839358	2.19902571	0.96321441
36	D S P Merrill Lynch Liquidity Fund	Open	Growth	1.573011965	2.18212385	0.96293932
37	Reliance Liquid Fund - Treasury Plan - Institutional Option	Open	Growth	1.563858102	2.16945968	0.96808993

38	D S P Merrill Lynch Floating Rate Fund	Open	Growth	1.573387287	2.16762505	0.96322827
39	Franklin India Taxshield 98	Close	Taxplan	1.57103035	2.16723366	0.96465801
40	BOB ELSS `97	Close	Saving	1.567633749	2.18581442	0.9557994
41	Kotak K Liquid - Institutional Premium Plan	Open	Growth	1.564621897	2.16756589	0.95251728
42	H S B C Equity Fund	Open	Dividend	1.560954936	2.16053899	0.95424504
43	F T India Monthly Income Plan	Open	Growth	1.561443392	2.15826363	0.950868
44	Franklin India Prima Fund	Open	Dividend	1.849581701	2.55310368	0.14956623

Opportunities for Indian Companies in Retail Sector

Prof. Asok Kumar Banerjee *

Abstract

With today's grueling challenges for the Managers in managing their Businesses in the field of direct & indirect competitive onslaughts has become a critical KRA for any level of Indian Managers to prospect opportunities & reduce threats.

As such, Managing India & the plethora of problems & related issues will become the most realistic Job function for Indian Management. In this article, we shall explore the elements of Branding in Retail Industry & how to create better consumer awareness in a country where unorganized sector plays a very significant role. We shall be studying the impact of Branding in Retail Industry, opportunities & threats, challenges ahead & ultimately propose a model for better Marketing & financial viability

Key Words: ***Challenges, Opportunities, Threats, Branding, Organized & unorganized Retailing, Viability.***

Introduction

The environment plays a very important role in various phases of consumption. The role becomes more so important in case of service organization where physical evidence plays an important role. Shopping in organized retail is different from unorganized Retail, it is a shift from utility driven shopping to hedonic activity. It is commonly argued that people shop for both hedonic and utilitarian reasons and that shopping could evoke value either through successfully accomplishing its intended goal or by providing enjoyment (e.g. - Babin et al, 1994; Boedeker, 1995; Tauber, 1995; Jones, 1999). It is also acknowledged that both orientations might be present in the same practice as elements of a single shopping trip (Falk & Campbell, 1997). The retail store provides consumer with an opportunity to interact with the merchandise before purchasing it & in this process store environment plays a very important and decisive role. According to Holman & Wilson (1982), consumers shop in stores that provide a proper environment relative to the store's image and its services. Research studies indicate that when ambient scent and music are congruent with each other in terms of their arousing qualities, consumers rate the environment significantly more positive, exhibits higher level of approach and impulse buying behavior, and experiencing enhanced satisfaction than when these environmental cues were odds with each other (Mattilla & Wirtz, 2001).

These dimensions in addition to several other store features reflect the overall image of a service organization (Baker et al 1988; Bitner, 1992). A soothing music , temperature controlled environment , proper lights only enhance the taste of food served in a restaurant , and creates a more enjoyable and memorable experience

India's journey towards assimilating global culture and taking its rightful place began in 1991 with the now famous LPG (Liberalization, Privatization & Globalization). Policies to curve out its rightful share in a highly competitive international Marketing environment.

With an open more globally connected economy, technology, human resources, infusion of new capital both from FDI & FII as well as domestic sources helped the engines of economic growth what was earlier a commodity based marketing situation with sellers having a better say became transformed to a consumer – driven economy with consumers asking for new brands with quality &

* *Ex-Professor of Marketing and Business Strategy of the MBA Programme of Indian Institute of Social Welfare and Business Management (IISWBM), Kolkata, Now associated to BESU and IEM, Kolkata. E-mail: ban_asok@yahoo.com.*

price perspectives, and a host of organized retailing institutions in many verticals. Over the last 2 decades India has increasingly become an attractive destination for Business particularly in service sector and organized retailing has become the second largest employment generator in India (sources Ministry of HR – Govt. of India).

India also has the unique demographic advantage where it will add to its working class, even as countries in the West age and find the proportion of working people shrinking over the next few decades. This advantage will only increase in the coming years and UN predicts that India's population will grow by 300 million working age persons in next 40 years.

India has, however, some significant challenges. The demographic advantage is a double edged sword without adequate economic opportunities its people advantage could well become a source of social strife. India is held back by inadequate investment in infrastructure, healthcare and education; an agricultural system that has not seen improvements for decades and a fledging public distribution system (source – Deloitte).

Retail Store Environment

These days shopping in retail stores provides diversion from the routines of everyday life, sensory stimulation, social experiences outside the home, and availability to make physical comparisons of products and services across several stores (Lucas et al. 1994). Organized retail provides a unique opportunity to retailers to create an appealing environment using 5 senses (sight, sound, smell, touch & taste).

Research in shopping typically distinguishes between two different shopping orientations, economic shopping on one hand where consumers dislike or are neutral to the shopping activity and approach the retail store from a time or money saving point of view (Bellenger and Korgaonkar, 1980) and recreational shopping on the other hand (e.g. – Bellenger,et al, 1977; Bellenger and Korgaonkar,1980; Williams et al; 1985). Researchers have also tried to establish the linkages between store characteristics on consumer experiences and purchasing behavior (e.g. ; Spangenberg et al; 1996; Mattila and Wirtz, 2011).

Researches suggest retailers to consider recreational shoppers as an important segment of consumers when developing marketing strategies for their store environments (Bellenger et al; 1977; Bellenger and Korgaonkar, 1980; Williams et al; 1985; Guiry, 1999; Nicholas et al; 2002) Recreational shopping is basically the course of action whereby individuals experience enjoyment from shopping. Retailers who want to attract recreational shoppers must also attempt to provide value not only from merchandise but from other elements of retail mix as well.

Keeping in mind the role of retail store environment, retailers work hard on designing the store layout, investing in fixtures and make sure that the store is appealing to the customers. The emphasis is to ensure that the store is attractive, exciting and appealing but most of the efforts are on visual aspects largely ignoring the power of sound, thus implying that the retailers assume as if the customers have eyes only.

Some Branding for Products

The true marketing potential of music is that without any stimulus, it can access a mood, emotion and deeply move specific demographics within a target market in just a few seconds. There are precedents of music being used to sell products and services. Music in advertising has been studied as influencing attitudes towards the product (Gorn, 1982; Kellaris & Cox, 1989; McInnis & Park, 1990). Studies on jingles have also focused on the consumers' mood (Alpert & Alpert, 1990) and the consumers' perception of an ad containing music of any form, about whether the ad is viewed as informative, upbeat, entertaining, etc. (Stout & Leckenby, 1998)

Sonic Branding in Retail

Various studies have been done by researchers to study the impact of music on different aspects of retail like merchandise sold, movement of traffic in store, impact on sales etc. Music and jingles have

also been shown to influence the consumers pace while shopping (Milliman, 1982, 1986). Slower tempo music seems to slow in store traffic flow. Previous research has also examined consumer pleasure – displeasure for retail stores by evaluating the effects of environmental dimensions such as background music, lightening & scent (e.g. Bone and Ellen, 1999). For example, Yalch and Spangenberg (1998) studied the effects of environmental music (i.e. foreground , popular top 40 with lyrics , background, easy listening without lyrics and no music) played in two men's departments of a clothing store. Respondents reported greater stimulation when exposed to foreground music then background music. Furthermore, Yalch and Spangenberg (2000) investigated the effects of music in Retail setting time, and found that consumers actually shopped longer when they were exposed to unfamiliar.

Although the role of sound in retail environment is a much studied area, yet few brands have taken on board the findings and perhaps not even a single Indian Retailer is recognized for his deliberate efforts towards music played in retail outlet. Academics, such as Dr. Adrian North of Leicester University's Department of Psychology, have long been exploring the effects of sound, particularly music, in retail environment. The findings have highlighted the effects music can have on customers both consciously and subconsciously but their focus has been on immediate effects that it has on consumer behavior.

In this new millennium the role of sonic branding will become more important as the media platform has sound built in to provide retailers an opportunity to extend a common audio identity across various platforms like TV, Internet Radio, Podcasts, ringtones, online navigational sounds, and many more. With millions of mobile subscribers and increasing number of internet users in India accompanied by a rise in internet shopping during recent years, a profound part of the shopping practices that take place inevitably still do so in interaction with physical retail settings.

Sonic Opportunities for Indian Retailers

India is a nation rich in cultural and folk music; every state of the country has its own popular forms of music. The retailers before starting their operations at any location study and analyze the needs, habits and preference of the target consumer which helps them in designing the right retail mix. Ethnic music may act as a differentiating factor. The sonic branding may be used by retailers in the following ways:

(i) It may act as an additional cue which can help the customers in recalling the retail store.

(ii) The impact of slow or fast music, classical or hip hop, known or unknown music may have a different impact on customer behavior inside the retail outlet which needs to be studied and used effectively by the retailers.

(iii) The music in different sections may be same or different with results and deliberate efforts should be taken to have a better understanding. Who knows a soothing music at the cash counters may make the waiting time in queue more enjoyable , or a relaxing music at a customer service desk pacifies an irate customer

(iv) There is a definite impact of music played in the store on the products purchased by the customers and his bill amount but this needs to be studied in Indian context to have a better understanding.

(v) A signature tone when the customer is on phone line or when he visits the website will only help the retailers in enhancing the recall of their brand.

(vi) The compatibility of the tone with various platforms like IVRS (Interactive voice response system) website, mobile phones, etc. will only strengthen the association with the retail store brand.

Case Studies: Indian Examples

We may sight from today's Indian retail environment the success stories of Tanishq in Branded Jewellery Market, Titan in the very competitive watches market, Future Group in organized Retailing market, Shoppers Stop in Apparels Market, etc. however there are a few success stories in

Retail industry in local / state levels as well as Regional levels. The PC Chandra group in Jewellery, Khadims in shoes, Mongini's in Fast food can be sited as examples of the second category. We shall be detailing a bit on the success story of Tanishq which made India proud as the Jewellery destination for the discerning global customers.

Unique Value Propositions (UVP) are as under:

- Tanishq is a Tata Group company
- Largest single Jewellery Brand in India
- Largest Network in the country
- World Class in store customer experience
- Relationship building exercise through its loyalty programme
- Catch young customers with diamond product starting from Rs. 999.
- Transparency in dealing with customers
- Reaching to Rural India with Van operation
- Awareness about purity through Karatmeter
- Created design excellence by designing jewllery in movies like "Paheli", "Jodha Akbar", etc. also designs for all sections of the society.

All these and more have made Tanishq a Tata Group Brand a hyper Brand from India meeting the tastes of all sections of Emerging India. And Team tanishq did this in the phase of domestic – organized and unorganized and International competition in little over a decade.

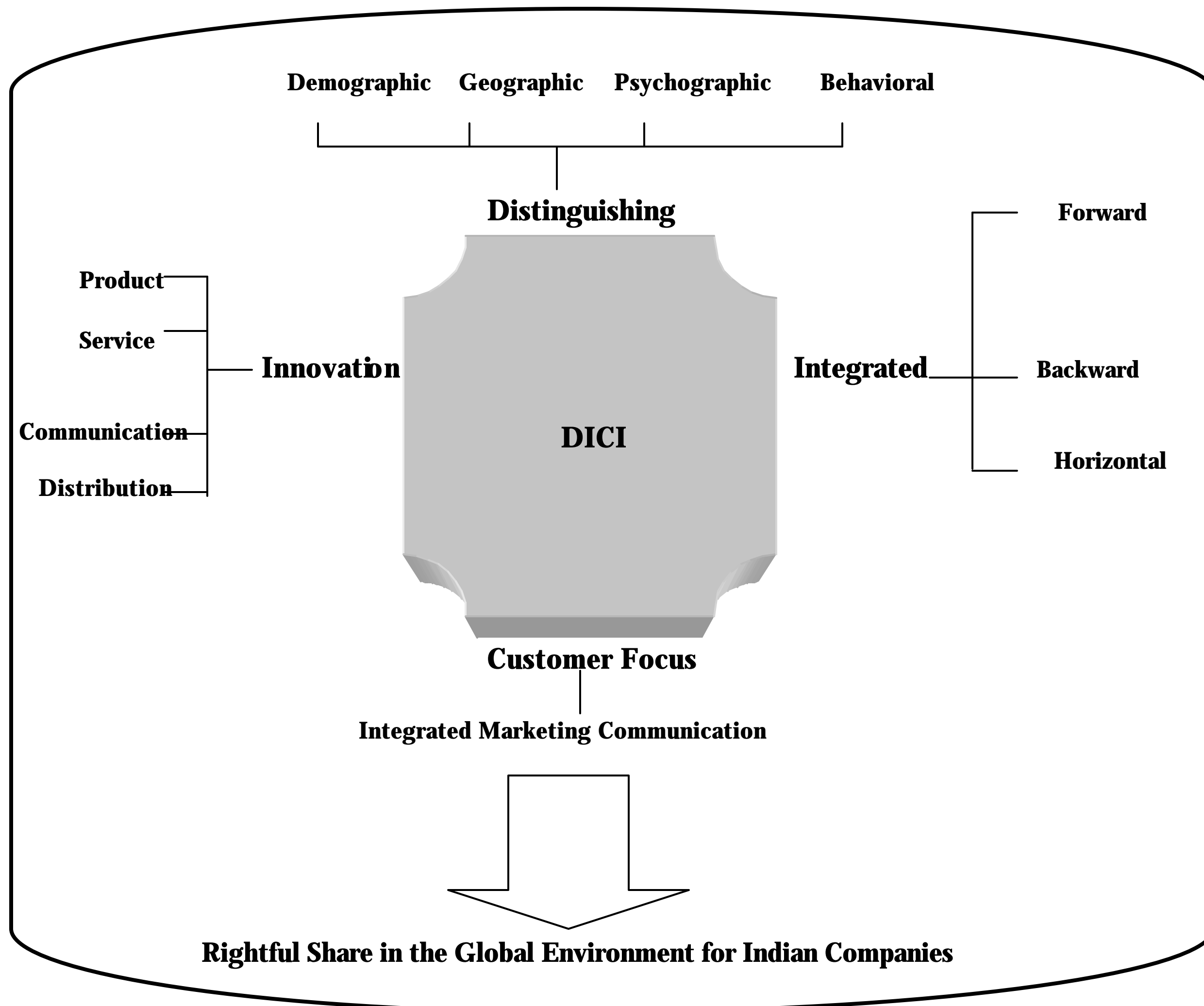
We may give these examples as a growing tribute of Branding and Team work from an Indian company achieving stellar heights in the global scenario.

Strategy and Looking Ahead for Indian Retail Industry

India the largest democracy having the second most populated nation in the world is today looking at retailing as the future engine of economic growth in the phase of Global competition for this,

The author has developed a model which will be beneficial to the Indian companies and marketers aspiring to curve out a special position in today's business environment. The model is;

Distinguishing (D) Integrated (I) Custo mer Focus (C) Innovation (I)



By distinguished we mean the body corporate must think of differentiation and giving people power by investing in corporate education, governance and in the process building for the future. Here the factors of demographic, geographic, psychographics & behavior will come in a big way for proper strategic formulation process.

By integration we feel modern Indian companies must adopt to the integrated marketing approach as well as going for forward integration , backward integration as well as horizontal integration for better value realization and supply chain management
Customer focus in the buzz word today and for the aspiring Indians with predominat skew with below 35 years age group a company must communicate in the proper format for this the Integrated Marketing Communication Mix (IMCM) is recommended.

Finally the model suggests Innovation as the key for Indian companies to scale greater heights by managing opportunities and challenges. Product innovation and service innovation, communication innovation, distribution innovation will be keys to achieve the rightful share in the Global environment for Indian companies.

Conclusion

The author strongly feels with abundance of talent pool and technological prowess Indian managers can face the challenges with a degree of Élan and achieve the targeted level of growth of 9% p.a. to make India a great economic power in the very near future.

In the words of Swami Vivekananda, Indian Companies should meet the challenges with the great monk's advice of "Arise, Awake and stop not till the Goal is reached".

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Relationship between Corporate Governance Indicators and Firm Value: A Study on Selected Indian Companies

*Dr. Barnali Chaklader**

Abstract

Good corporate governance helps ensure that corporations take into account the interests of a wide range of constituencies, as well as of the communities within which they operate. Literature review in most of the cases say that Firm value is positively correlated to corporate governance index. The objective of the study is to find out whether there is any correlation between firm value and the independent parameters such as growth in sales, promoter's holding, financial leverage, liquidity and dividend pay out ratio. We took a sample for study from Bombay Stock Exchange (BSE) 200 which is a well diversified index of 200 stocks. We used the technique of regression taking Tobin's Q as a dependent variable. The existing study covers a sample size of 200 companies for the period of two financial years starting from April 1, 2007 and ending at March 31, 2009. We divided 200 companies in three sections, namely manufacturing, financial and other services. We have taken four parameters namely; distribution of dividend, promoter's holding, income growth and financial leverage as our independent variables and Tobin's Q as our dependent variable. The statistical techniques of correlation and regression were used to explore relationship between these variables. We have done a comparative analysis among the sections to find out the variable which is statistically significant.

Key words: Corporate Governance, Bombay Stock Exchange, Johansen co integration test, Granger Causality test.

Introduction

Corporate governance practices have received increasing attention in late 90's after the corporate frauds, with reports issued by Kumar Mangalam Birla, Narayanmurthy and Jayant Verma committee. These reports have resulted in various codes in corporate governance. As per OECD report on corporate governance (2004), The Principles are intended to assist governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries, and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance. Following the corporate governance scandals in the US, the Sarbanes Oxley Act (2002) was enacted which brought about fundamental changes in virtually every area of corporate governance and particularly in auditor independence, conflict of interest, corporate responsibility and enhanced financial disclosures. Good corporate governance helps ensure that corporations take into account the interests of a wide range of constituencies, as well as of the communities within which they operate. Further, it ensures that their Boards are accountable to the shareholders. This, in turn, helps assure that corporations operate for the benefit of society as a whole. E Dockery et.al(2000) feel that out of concern for public interest namely small investors, a supervisory commission requires that firms issuing stocks and bonds be registered with it and to comply with its own rules and regulations designed to ensure fair and complete disclosure of a firm's financial position to its current and potential investors. In an efficient market the rational investor makes just return and the companies incur just costs and no one makes abnormal profits. As per Kumar Mangalam Birla committee report, "It is important that insiders do not use their position of knowledge and access to inside information about the company, *and* take unfair advantage of the resulting information asymmetry. To prevent this from happening, corporate are expected to disseminate the material price sensitive information in a timely and proper manner and also ensure that till such information is made public, insiders abstain from transacting in the securities of the

* *Associate Professor in Finance, Institute of Management Technology, Raj Nagar Ghaziabad, Uttar Pradesh India 122001, E-mail: bchaklader@imt.edu/barnaligautam@yahoo.com*

company. The principle should be 'disclose or desist'. This therefore calls for companies to devise an internal procedure for adequate and timely disclosures, reporting requirements, confidentiality norms, code of conduct and specific rules for the conduct of its directors and employees and other insiders." Lack of confidence in capital markets, state regulators and moral standards of top managers have been major concerns raised by disappointed investors. Corporate governance, although is analyzed from many different perspectives, is usually understood as a complex set of constraints that "managers put on themselves, or that investors put on managers to reduce the ex post misallocation and to induce investors to provide more funds ex ante" (Shleifer and Vishny, 1997). Thus, the main tasks of corporate governance refer to: assuring corporate efficiency and mitigating the rising cases of conflicts (e.g. Blair, 1999), providing for transparency and legitimacy of corporate activity (Monks, 2001), lowering risk for investments and providing high returns for investors (Cadbury Committee, 1992), and delivering framework for managerial accountability (Monks, 2001).

The importance of corporate governance proved to be crucial in line with recent corporate scandal by Satyam Computers Ltd which resulted in substantial economic losses, higher risk and decrease of confidence. The concept of corporate governance evokes the question of corporate performance and higher returns in the case of companies complying with certain rules.

Corporate Governance in India

Corporate governance initiatives in India began in 1998 with the Desirable Code of corporate Governance – a voluntary code published by the Confederation of Indian industries, and the first formal regulatory framework for listed companies specifically for corporate governance, established by the SEBI. The latter was made in February 2000, following the recommendations of the Kumarmangalam Birla Committee Report.

Studies of corporate governance practices across several countries conducted by the Asian Development Bank (2000), International Monetary Fund (1999), Organization for Economic Cooperation and Development ("OECD") (1999) and the World Bank (1999) reveal that there is no single model of good corporate governance. This is recognized by the OECD Code. The OECD Code also recognizes that different legal systems, institutional frameworks and traditions across countries have led to the development of a range of different approaches to corporate governance. Common to all good corporate governance regimes, however, is a high degree of priority placed on the interests of shareholders, who place their trust in corporations to use their investment funds wisely and effectively. In addition, best-managed corporations also recognize that business ethics and corporate awareness of the environmental and societal interest of the communities within which they operate, can have an impact on the reputation and long-term performance of corporations.

Literature Review

Securities Exchange Board of India (SEBI) report 2003 clearly states that the companies that do not follow governance pay a significant premium while competing for scarce resources. The report says that there is an increased appreciation for correlation between the governance and the returns.
Several studies find a connection between a measure of governance and share price in a single country. Related papers studying emerging markets include Black (2001); Black, Jang and Kim (2006); Black, Kim, Jang and Park (2005). Another strand of this literature finds similar results on a cross-country basis (Durnev and Kim, 2005; Klapper and Love, 2004). The positive share price reaction to cross-listing (e.g., Doidge, Karolyi and Stulz, 2004) also suggests that governance can predict share price. Black, et.al found an economically important and statistically strong correlation between governance and market value in OLS with firm clusters and in firm random effects and firm fixed effects regressions. They also found significant differences in the predictive power of different indices, and in the components of these indices. Maria Aluchna , (2009) in her paper found that complying with corporate governance best practice in Poland is associated with lower return on investment. However, the tendency changes into negative but statistically insignificant for the second and third years, and positive but statistically insignificant when only rated companies are included in the research sample. The paper indicates that implementing corporate governance standards is a complex process in terms of costs, investor activism and companies awareness. Its

importance increases along with the development of institutional regime as well as market participants' skills and experience. Arriff et.al, (2007) conducted a study on Malaysian companies and their results suggest that firm size has a strong influence with corporate governance ratings but not so for profitability, leverage, growth, market valuation, age, ownership structure and countries of operation. This suggests that corporate governance issue in Malaysia is becoming more apparent. Gompers et al. (2003) examine the relationship between corporate governance and long -term equity returns, firm value and accounting measures of performance. Their results reveal that well-governed firms have higher equity returns, command higher values and their accounting statements show a better operating performance compared to their poorly governed counterparts. These findings are likely to encourage investors to consider corporate governance in their investment decisions. Similarly, Brown and Caylor (2005) find that better-governed firms are relatively more profitable, more highly priced, and pay out more cash to their shareholders. Drobetz et al. (2004) document a positive relationship between governance practices and firm valuation for German public firms. They report that for the median firm, a one standard deviation change in the governance rating results in a 24 percent increase in the value of Tobin's Q. Black et al. (2006) find a positive relationship between their corporate governance index and Tobin's Q for a sample of 526 Korean public firms. Durnev and Kim (2005) find that firms with better corporate governance and better disclosure standards have, on average, higher Tobin's Qs and larger investments. Foerster and Huen (2004) conducted a research to study the relationship between excess returns and a corporate governance score index for Canada. Their results suggest a positive and significant relation between stock performance and the corporate governance index.

Akmalia Mohamad Ariff et.al (2007) provided in their paper an extension of the Corporate Governance Reporting Initiative (CGI) 2004, which reports on Malaysia's first corporate governance ratings. They classified the firms into those at the top 50 percent and the bottom 50 percent of the corporate governance ratings list to examine whether there were any differences in the characteristics of firms in both classified samples. The characteristics of firms that were examined were firms' profitability, leverage, growth, market valuation, size, age, ownership structure and countries of operation based on the Logit analysis. The results suggested that firm size has a strong influence with corporate
governance ratings but not so for profitability, leverage, growth, market valuation, age,
ownership structure and countries of operation. Evidence also shows that the level of equity held by the firm's management does influence the firm's efficiency, profitability and capital structure and therefore its value (McConaughy et.al., 2001). The study by Morck et.al, (1988) shows that the firm value (as measured by Tobin's Q) increased when the promoter family held top position in the firm.

Objective of the Study

To find out whether there is any correlation between firm value and the parameters such as growth in sales, promoter's holding, financial leverage and dividend payout ratio.

Research Methodology

We have taken our sample for study from BSE 200. Of the 22 stock exchanges in the country, Mumbai's (earlier known as Bombay), Bombay Stock Exchange is the largest, with over 6,000 stocks listed. The BSE accounts for over two thirds of the total trading volume in the country. Established in 1875, the exchange is also the oldest in Asia. Among the twenty-two Stock Exchanges recognised by the Government of India under the Securities Contracts (Regulation) Act, 1956, it was the first one to be recognised .Approximately 70,000 deals are executed on a daily basis, giving it one of the highest per hour rates of trading in the world. There are around 3,500 companies in the country which are listed and have a serious trading volume. The market capitalization of the BSE is Rs.5 trillion. The BSE `Sensex' is a widely used market index for the BSE. BSE has 10 indices namely sensex, BSE 100, BSE 200, sectoral indices etc. We have taken BSE 200 for our study which has representations of 200 companies selected on the basis of market capitalization. We took a period of two financial years from 2007- 2008 and 2008-2009. The period starts from April 1st 2007 till March 31st 2009. We thought that this period will include the period when Indian stock market was in its peak as well as the period post Lehman brother crash, i.e. the period starting from 15th September 2008. The data were taken from CMIE Prowess database. .

We took four independent parameters that are debt equity ratio, dividend pay out ratios, growth in firm's sales and promoter's holding. To explore the relationship between corporate governance and firm valuation, Tobin Q is used as a valuation measure. We downloaded the data for two years of all the 200 firms and then calculated the average of each parameter. We segregated the firms as manufacturing firms, financial services firms and firms belonging to the category other than manufacturing and financial services category 141 companies belonged to the manufacturing category, out of which data of four firms had to be removed due to non availability of all relevant data. The number of firms taken in financial services category were 32. There were 27 firms belonging to the other services sector. We calculated regression for manufacturing and financial services category separately. Other services category was not considered as the data size was less than 30.
We calculated the dependent variable, Tobin's Q as a ratio of book value of debt and market value of equity with the book value of assets. Since debt market is not active in India, we took the book value of debt instead of market value for the purpose of our calculation. The variables are identified as follows:

Y = Tobin's Q
X_1 = Average promoter's holding
X_2 = Average income growth
X_3 = Average debt equity ratio
X_4 = Average dividend payout ratio

The statistical techniques of correlation and regression were used to explore relationship between these variables.

Data Analysis
On the basis of the above parameters and keeping objective of our study in mind, we developed a multiple regression equation as

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4$$

Where a is the regression constant and b_1, b_2, b_3 and b_4 are regression coefficients respectively.
The correlation matrix was constructed which showed that there was weak correlation between the various variables.

Table -1
Correlation matrix of manufacturing companies

	Promoter's Holding	Income Growth	Leverage	Dividend Payout	Tobin's Q
Promoter's Holding	1				
Income Growth	-0.004	1			
Leverage	-0.03117	0.06545	1		
Dividend Payout	0.017751	-0.08703	-0.14904	1	
Tobin's Q	0.271395	0.019814	-0.13687	0.23927	1

Table -2
Regression Results of manufacturing companies

R Square	0.139773756
Adjusted R Square	0.113706294
Standard Error	1.576714039
Observations	137

	Coefficients	P-value
Intercept	0.624211169	0.132312
X_1 (Promotors holding)	0.022166315	0.001349
X_2 (Income growth)	0.00020649	0.56509
X_3 (DE Ratio)	0.134144307	0.231539
X_5 (Dividend Payout ratio)	1.800865111	0.007094

R square of 0.139 depicts that our model has accounted for 13.9 percent of the variance in the criterion variable. The t statistics show that X1, (Promoter's holding) and X5 (Dividend payout ratio) are significant at 5 percent level of significance. Thus we can interpret that distribution of dividend and promoter's holding affect Tobin's Q or firm value. The other variables are found insignificant to firm value.

Table -3
Regression results in Financial Services companies

R Square	0.3474
Adjusted R Square	0.2507
Standard Error	0.5194
Observations	32

	Coefficients	P-value
Intercept	0.124715	0.634
X_1 (Promotors holding)	-0.00298	0.438651
X_2 (Income growth)	0.010852	0.00773
X_3 (DE Ratio)	0.064942	0.089125
X_5 (Dividend Payout ratio)	-0.01417	0.750482

R square of 0.347 depicts that our model has accounted for 34.7 percent of the variance in the criterion variable. The t statistics show that X3 (income growth) is the only variable that is significant at 5 percent level of significance. Thus we can interpret that in the financial services sector, growth is income affects Tobin's Q or firm value. The other variables are found insignificant to firm value.

Conclusion

The existing study covers a sample size of 173 companies for the period of two financial years starting from April 1, 2007 and ending at March 31, 2009. The results of our study show that, in the manufacturing companies category, of the four independent parameters that we took, distribution of dividend and promoter's holding were found to be significant and had a positive coefficient. This proves that distribution of dividend affects the firm value and the companies that distributed higher proportion of dividends out of its earnings had higher firm value. Similarly, firms that had high promoter's holding had higher firm value. This supports the literature survey which says that inclusion of promoter in board increases Tobin's Q.

This study justifies the model by only 14 percent. So a researcher can include more variables and can also increase the sample size for further research on this topic.

On the contrary, statistics of financial services companies showed that income growth is the only variable that is significant at 5 percent level of significance. Thus we can interpret that in the financial services sector, growth is income affects Tobin's Q or firm value. The other variables are found insignificant to firm value

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Sustainable Green Banking Approach: The Need of the Hour

Mr. Nigamananda Biswas [*]

Abstract

Green banking means combining operational improvements, technology and changing client habits in banking business. It is a win-win situation for all to bring benefits in an increasingly competitive marketplace. Adoption of greener banking practices will not only be useful for environment, but also benefit in greater operational efficiencies, a lower vulnerability to manual errors and fraud, and cost reductions in banking activities. Banks are already offering many of the services necessary for businesses to enjoy these benefits. This paper has made an attempt to highlight the major benefits, confronting challenges, strategic aspects of Green Banking. It has also presented the status of Indian banks as far as Green Banking adoption is concerned. It is found that there has not been much initiative in this regard by the banks in India, though they play an active role in India's emerging economy. Banks should go green and play a pro-active role to take environmental and ecological aspects as part of their lending principle, which would force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems. They must be more vocal about the inherent green value proposition.

Key words: Green Banking, Banking Challenges, Banking Strategy

Introduction

As environmental issues gain greater attention, pressure is being placed on all industries, including financial services to implement "green" initiatives. While green banking is not yet a key reason for most customers to select one financial institution over another, customer demands and greater environmental awareness are driving a number of financial institutions to go green. Environment is a key focus amongst ethical banks (in this field specially called sustainability or green banks) as well as amongst many conventional banks that wish to appear more ethically oriented or that see switching to more environmental practices to be to their advantage. In general bankers "consider themselves to be in a relatively environmentally friendly industry (in terms of emissions and pollution). However, given their potential exposure to risk, they have been surprisingly slow to examine the environmental performance of their clients. A stated reason for this is that such an examination would 'require interference' with a client's activities. While the desire to not meddle in the business of the client is valid, one could also note that banks are required to interfere in the business of their clients regularly to ensure that the clients' business plan is viable before issuing them a loan. The kind of analysis that all banks partake in is termed a single bottom line analysis (this analysis only considers financial performance). It is arguable whether or not performing a triple bottom line analysis (an analysis that takes into account environmental, social, and financial performance) would be any more intrusive in case of banking sector.

As far as internal ethics of banks are concerned, it starts with the well being of employees, employee and customer satisfaction, benefits, wages, unionization, fair sex and race representation, and the banks environmental standing. Environmentally the potential combined effect of banks switching to more environmentally friendly practices (i.e. less paper use, less electrical use, solar power, energy efficient) is huge. However when compared with many other sectors of the economy banks do not incur the same burden of energy, water and paper use. In general all banks play an intermediary role in the economy; because of this the possibility for banks to contribute to sustainable development is potentially profound. Banks can also develop more sustainable products, such as environmental, social, or ethical investment funds. In addition, there is great scope for banks to improve their internal environmental performance. In creating environmental and social screens, banks can promote socially/environmentally-geared companies and penalize those who do not conform to

[*] *Assistant Professor, Department of Business Administration, Assam University, Silchar-788011, Assam. E-mail: nigam_biswas@yahoo.co.in*

these standards. However it is important that these different possibilities (i.e. social/environmental screens, ethical products, and internal environmental practices) be used as a package. If not, there is a danger that banks could simply do the things that make them look the most ethical (i.e. advertise their recycling program) while not changing other areas that would have a larger impact. If the changes are solely driven by customers, the bank will be pressured to offer preferential treatment to what depositors deem as desirable, but will have limited ability to punish undesirable action. Governmental regulation, initiated by an informed and involved public would be an effective way to ensure that all banks follow socially accepted morals and ethics.

The banking sector influences the economic growth and development in terms of both quality and quantity, there by changing the nature of economic growth. Banking sector is one of the major sources of financing investment for commercial projects which is one of the most important economic activities for economic growth. Therefore, banking sector can play a crucial role in promoting environmentally sustainable and socially responsible investment.

Banking sector is generally considered as environmental friendly in terms of emissions and pollutions. Internal environmental impact of the banking sector such as use of energy, paper and water are relatively low and clean. Environmental impact of banks is not physically related to their banking activities but with the customer's activities. Therefore, environmental impact of bank's external activity is huge though difficult to estimate. Moreover, environment management in the banking business is like risk management. It increases the enterprise value and lowers loss ratio as higher quality loan portfolio results in higher earnings. Thus, encouraging environmentally responsible investments and prudent lending should be one of the responsibilities of the banking sector. Further, those industries which have already become green and those, which are making serious attempts to grow green, should be accorded priority to lending by the banks. This method of finance can be called as **"*Green Banking*",** an effort by the banks to make the industries grow green and in the process restore the natural environment. This concept of "Green Banking" will be mutually beneficial to the banks, industries and the economy. Not only "Green Banking" will ensure the greening of the industries but it will also facilitate in improving the asset quality of the banks in future. Internationally, there is a growing concern about the role of banking and institutional investors for environmentally responsible/socially responsible investment projects. Banking institutions are more effective towards achieving this goal for the kind of intermediary role they play in any economy and for their potential reach to the number of investors. It is of importance to the banking sector to follow certain environmental evaluation of the projects before financing.

A Brief Review of Literature

There are studies showing positive correlation between environmental performance and financial performance **(Hamilton, 1995; Hart, 1995; Blacconiere and Pattern, 1993).** Thus, it is imperative for the banking institutions in the present context to consider environmental performance in deciding whether to invest in companies or advise clients to do so. The formation of different rules for environmental management like resource conservation, clean water act, clean air act, toxic substance control act are also viewed as potentially significant contributor to the recent increase in environmental liability for banking institutions. Adoption of these principles will offer significant benefits to banking institutions, to consumers and also the stakeholders. Credit risks are also associated with lending on the security of real estate whose value has diminished owing to environmental problems (additional loss in the event of default). Further, risk of loan default by debtors due to environmental liabilities because of fines and legal liabilities and due to reduced priority of repayment under bankruptcy. In few cases, banks have been held responsible for actions occurring in which they held a secured interest **(Schmidheiny and Zorraquin, 1996 and Ellis, Millians and Bodeau, 1992).**

There are also few cases where environmental management system has resulted in cost savings, increase in bond value etc. **(Heim, G *et al,* 2005).** In few cases the environmental management system resulted in lower risk, greater environmental stewardship and increase in operating profit. The banking and financial institutions should prepare an environmental risk and liability guidelines on development of protective policies and reporting for each project they finance or invest **(Jeucken,**

201). They can also have an environmental assessment requirement for the projects seeking finance. Banks also can issue Environmental hazards management procedures for the each project and follow through. The present green consumerism is more concerned with the quality of the products more than the quant ity. In future, market will reward those industries or the companies, which emerge as the efficient users of the energy and raw materials and will penalize the less efficient one. Further, the investors in the stock market are equally aware of environmental pollution and would take a stand against those industries/institutions that do not comply with pollution norms **(Gupta, 2003; Goldar, 2007).** So the preferences of the investors will dry up in the case of polluting units and market capitalization will go down significantly. Thus, financial institutions should help developing the right instruments to meet the needs of industry to control environmental impact.

Though **Schmidheiny and Zorraquin (1996)** concluded that banks are not hindering the achievement of sustainability, banks can also play a hindering role for sustainable development because (i) they prefer short-terms payback periods where as sustainable development needs long-term investment (ii) investment which take into account of environmental side-effects usually have lower rate of return in short-term **(Jeucken and Bouma, 1999).** Therefore, sustainable investments are unlikely to find sufficient funding within current financial markets. Thus, government must design proper legislation of environmental rules for banks and ensure enforcement. The problems in India are the legislation is not yet framed and in few cases, things are not strictly enforced, but things can change overnight resulting in major compliance problems for the companies concerned and increased risk for the banks that have lent to them. There should be continuous dialogue relating to environmental matters with relevant audiences, including stakeholders, employees, customers, governments and the public.

Major Benefits of Green Banking

Green Banking comes with a bundle of benefits such as -

- Cash back will be credited to all existing account holders shifting into Green.
- Cash back will be credited to all new customers opening '***Green accounts***'.
- Rationalization of paper use by giving free access to do all the banking transactions through Internet Banking, SMS Banking, Phone Banking and ATM Banking.
- Free Electronic Bill Payment Services.
- E-Remit services for remitting funds to the customers' home country which is a unique service.
- E-Statement will be generated and sent to the customers' email.
- Online Account opening form for opening Green Account.
- Customer can opt for Go Green through various channels through Online Banking, Branches and Call Centre.

Confronting Challenges to Going Green

Green banks support wonderful causes; they do face a lot of challenges as for-profit entities. Just like those socially conscious and environmental mutual funds, they are expected to encounter more obstacles than typical run-of-the-mill bank.

(i) Diversification matters

Green banks will be screening their customers and naturally, they'll be limiting and restricting their business to those entities that qualify. With a smaller pool of customers, they'll automatically have a smaller profit base to support them. If they focus their loans on certain industries, they open themselves up to being much more vulnerable to economic shifts.

(ii) These banks are still startups

Apparently, it takes 3 to 4 years for a typical bank to start making money. Many green banks in business today are very new and are still in startup mode. It doesn't help that these banks are trying to get their footing during a recession.

(iii) Banks are "specialized"

Again, while the main goal of a green bank is to do good by supporting those who are taking care of the environment, the question here is — just how much money is there in these businesses and in the eco-friendly industry? Saving the environment does not necessarily equate to "making a profit". Hopefully though, this premise is proven wrong in this case and that green banks prove that they can survive, even as they face restrictive requirements for doing business.

(iv) Operating expenses and costs are higher

Green banks require specialized talent, skills and expertise as well, due to the kind of customers they are servicing. Employees, such as loan officers, need to have additional background and experience in dealing with green businesses and consumers. Plus, giving breaks to such clients via discounted loan rates can eat at their profit margins.

(v) Reputation Risk

In all likelihood, due to growing awareness about environment safety, banking institutions are more prone to loose their reputations if they are involved in big projects, which are viewed as socially and environmentally damaging. There are also few cases where environmental management system has resulted in cost savings, increase in bond value etc. **(Heim, G *et al*, 2005).** In few cases the environmental management system resulted in lower risk, greater environmental stewardship and increase in operating profit. Reputation risks involved in the financing of ecologically and ethically questionable projects.

Strategies for Green Banking Approach

Green banking is an integral part of the Bank's environmental policy as applied through its wider Corporate Social Responsibility strategy. The adoption of green banking strategies will help the bank to deal with these risks involved in their business operation. Green banking strategies involves two components such as (i) Managing environment risk and (ii) Identifying opportunities for innovative environmentally oriented financial products **(IFC, 2007).**

- To manage environmental risk, the banks have to design proper environmental management systems to evaluate the risks involved in the investment projects. The risks can be internalized by introducing differential interest rates and other techniques. Moreover, bank can withdraw itself from financing high-risk projects.
- The second component of green banking entails creating financial products and services that support commercial development with environmental benefits. These includes investment in renewable energy projects, biodiversity conservation, energy efficiency, investment in cleaner production process and technologies, bonds and mutual funds meant for environmental investments etc.
- The banking institutions should prepare an environmental risk and liability guidelines on development of protective policies and reporting for each project they finance or invest **(Jeucken, 2001).** They can also have an environmental assessment requirement for the projects seeking finance. Banks also can issue Environmental hazards management procedures for each project and follow through. International financial institutions like International Financial Corporation (IFC), Japan Bank for International Cooperation (JBIC) have incorporated environmental management into their business operation. All project proposals are classified in terms of its potential environmental impact taking into account factors such as the sector and scale of the project, the substance, proposed project site, the degree and uncertainty of its potential environmental impact. Often, the World Bank's loans and grants are associated with certain level of commitment of the beneficiary countries to adopt environmental protection measures.
- The perception towards complying with environmentally norms and standards is changing over time. Environmental friendly or green technologies also make economic sense for the banking industry. Adopting environmentally sustainable technologies or modes of production is no more considered as a financial burden; rather it brings new business opportunities and higher profit. Green banking saves costs, minimizes the risk, enhance banks reputations and contribute to the common good of environmental sustainability. So it serves both the commercial objective of the bank as well as its social responsibility.

- Banks need to be more careful in India about the environmental aspects of their clients and products because (a) future of exports and product market are going to go through stringent environmental rules and eco-friendly product will have better market. (b) increased demand for pollution controls equipments will require more financial assistance from banks. (c) Reserve Bank of India (RBI) may follow environmental guidelines for the banks in the lines of IFC and Asian Development Bank etc. (d) recent announcement of the government to use economic instruments for environmental control may include Banks in future. (e) big investment projects supported by international organizations like the World Bank and ADB require Environmental Impact Assessment (EIA). Therefore the banks should begin implementing procedures like (i) assessment of risk due to environment (ii) Environmental audit management (iii) assessment of credit requirement and loan follow up before investing on different projects. However, since banking sector is profit driven, it needs incentives and governmental support to assist environmental protection which is beneficial for the whole economy and society and also to the banking sector itself in the long-run.

Environmental Management by the Banking Institutions

- Now a days, most of the commercial lending process in different parts of the world scrutinizes projects with a set of tools by incorporating environmental concerns in their day-to-day business. The financial institutions should encourage projects which take care of following points while financing them viz., (a) sustainable development and use of natural renewable natural resources (b) protection of human health, bio-diversity, occupational health and safety, efficient production, delivery and use of energy (c) pollution prevention and waste minimization, pollution controls (liquid effluents and air emissions) and solid and chemical waste management and (d) there should be a third party expert to draw a plan for the environment management plan. They should keep following aspects in mind while financing any projects.
- Analyzing the project in terms of scale, nature and the magnitude of environmental impact. The project should be evaluated on the basis of potential negative and positive environmental effects and then compared with the 'without project situation'. There should be an Environmental Impact Assessment (EIA) of each project recommending the measures needed to prevent, minimize and mitigate the environmental negative impact before financing the projects.
- While investing or funding the projects, the financial institutions should assess the sensitive issues like vulnerable groups; involuntary displacement etc and projects should be evaluated in terms of environmentally important areas including wetlands, forests, grasslands and other natural habitats.
- Banking institutions need to evaluate the value of real property and the potential environmental liability associated with the real property. Therefore, the banks should have right to inspect the property or to have an environmental audit performed through the life of the loan.
- Banks also need to monitor post transaction for the ideal environmental risk management program (Rutherford, 1994) during the project implementation and operation. There should be physical inspections of production, resources, training and support, environmental liability, audit programs etc.
- The next round of evaluation includes loan structuring, credit approval, credit review and loan management. Further banks have annual audits, quarterly environmental compliance certificate from the independent third party and also from the government.
- Further the banks can introduce green bank loans and products like (i) investing in environmental projects (recycling, farming, technology, waste, etc) for example reduced-rate of interest on loans to homeowners who install a solar energy system (ii) providing option for customers to invest in environmentally friendly banking products (iii) investing in resources that combine ecological concerns and social concerns.

Enforcement of Environmental Management and Role of the Government

- The financial institutions also should make sure that the customer is ready to comply with environment management plan during the construction and operation of the project and provides regular reports, prepared by in house staff and third party experts. There should be a direct communication between the lenders and monitoring group. However, much less attention is given for the environmental risk management after the post transaction period. Recently, western financial institutions use environmental criteria with credit risk management activities than with formulating overall lending or investment strategy. With the introduction of ISO 14000 and development of information network, it is easier now to the credit officers to compare firms and plants regarding their environmental management and measure the relative environmental liabilities and risks. Though commercial banking has been more attentive to the investment banking than the environmental problems, the environmental liabilities would play a larger role in their investment decision in the near future (Schmidheiny and Zorraquin, 1996). Further, the environmental audits are required to determine the environmental status of a facility, property, and operation and to identify regulatory compliance status, past present problems and potential environmental risks and liabilities associated with the project. These should be done by an independent body or by any environment investigation team.
- But to ensure all these work,, there should be legislation, which will enforce the standards along with training and demonstration skills. Government should enact legislation to force banks to consider producing a formal environmental policy statement and making this publicly available. Though Schmidheiny and Zorraquin (1996) conclude from their primary study that banks are not hindering the achievement of sustainability, banks can also play a hindering role for sustainable development because (1) they prefer short-terms payback periods where as sustainable development needs long-term investment (2) investment which take into account of environmental side-effects usually have lower rate of return in short-term (Jeucken and Bouma, 1999). Therefore, sustainable investments are unlikely to find sufficient funding within current financial markets. Thus, government must design proper legislation of environmental rules for banks and ensure enforcement. The problems in India are the legislation is not yet framed and in few cases, things are not strictly enforced, but things can change overnight resulting in major compliance problems for the companies concerned and increased risk for the banks that have lent to them. There should be continuous dialogue relating to environmental matters with relevant audiences, including stakeholders, employees, customers, governments and the public.

Conclusion

Are Indian banks green and acting ethically with the environment? Not quite. Indian banks have yet to commit to the ***'Equator Principles'*** a set of environmental and social guidelines to which 62 banks and financial institutions worldwide have become signatories. None of Indian banks have adopted equator principle even for the sake of records. There is certainly a lack of awareness of the Equator Principles in India. It is time now that India takes some major steps to gradually adhere to the equator principles-guidelines that use environment-sensitive parameters, apart from financial, to fund projects. Leading banks are vaguely conscious of the guidelines, however, the public sector is waiting to be led by the Reserve Bank of India and the private sector banks seem to only want to commit if there is regulation or financial incentive. The lack of interest on the issue among Indian consumers is for the failure of banks to declare their commitment to environmentally and socially responsible business. Indian banks need to be made fully aware of the environmental and social guidelines to which banks worldwide are agreeing to. It will be a huge financial burden for banks committing to environmental and social guidelines. However, If Indian banks are to penetrate western markets and participate more in the global economy, it is important that they recognize their responsibilities as global corporate citizens. Banks in India have significant influence over the safeguarding of fragile social groups and environments in Asia. At this time they must seriously consider their attitudes towards responsible lending both nationally and globally. This shows the ignorance in the part of Indian banks about the green banking initiatives at international level.

There has not been much initiative in this regard by the banks in India though they play an active

role in India's emerging economy. Possible policy measures and initiative to promote green banking in India has become the need of the hour. In a rapidly changing market economy where globalization of markets has intensified the competition, banks should play a pro-active role to take environmental and ecological aspects as part of their lending principle which would force industries to go for mandated investment for environmental management, use of appropriate technologies and management systems. The banking and financial sector should be made to work for sustainable development. As far as green banking in concerned, India's banks are running behind time and it is the need of the hour to think it seriously for the sustainable growth of the nation.

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