CONTENTS

Volume 3, Number 1, June, 2013

Editor’s Introduction 5

INVITED ARTICLE

Arab Spring or Asian Monsoon? Civil Society and Social Movements in Southeast Asia 8
Teresita Cruz-Del Rosario

RESEARCH ARTICLES

Birender Singh Chauhan, R.C.S. Rajpurohit & D.S. Kheeche

2. The Determinants of Financial Development: New Evidence from Middle East and North Africa Region 44
Manizheh Falahaty & Law Siong Hook

3. An Evaluation of Corporate Governance Practices in the Banking Sector of Bangladesh 68
S.M. Zahidur Rahman, S.M. Arifuzzaman & M.M. Khairul Alam
<table>
<thead>
<tr>
<th></th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Manoj Joshi</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Organizational Citizenship Behaviour-Determinant towards Being Strategic Fit</td>
<td>110</td>
</tr>
<tr>
<td></td>
<td>Tannu Verma &amp; Rohit Mathur</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Study of Women’s Buying Behaviour as regards Cosmetics in Surat Region, India</td>
<td>136</td>
</tr>
<tr>
<td></td>
<td>Shailesh Limbad</td>
<td></td>
</tr>
</tbody>
</table>

**CONFERENCE REPORTS**

<table>
<thead>
<tr>
<th></th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; SIU International Conference, January 2013</td>
<td>154</td>
</tr>
<tr>
<td></td>
<td>ICMC, December 2012</td>
<td>157</td>
</tr>
<tr>
<td></td>
<td>ICGBE, February 2013</td>
<td>165</td>
</tr>
</tbody>
</table>

**BOOK REVIEWS**

<table>
<thead>
<tr>
<th></th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Industrialization with a Weak State: Thailand’s Development in Historical Perspective by Somboon Sirirachai – by John Walsh</td>
<td>173</td>
</tr>
</tbody>
</table>
EDITOR’S INTRODUCTION

It is with pleasure that I introduce this issue of the SIU Journal of Management, which marks the beginning of our third year of publication. Since the previous issue was published at the end of December 2012, there has been the exciting announcement by President Professor Dr. Voradej Chandarasorn of the creation of the SIU Research Centre and I have been appointed its Director.

The Research Centre has begun work through beginning the Monk Exchange and Sino-Thai Malay-Thai Economic Exchange Projects as part of a larger programme of research aimed at understanding cross-border flows between Thailand and its neighbours with a view to improving relations. We also have a research project concerning gender and decision-making in rural households. These projects are already bearing fruit with the first conference presentations of research results having been made and these should soon be joined by academic journal publications. I am also pleased to announce that we have signed two contracts, one with CAVAC in Phnom Penh (funded by AusAID) to conduct research into livestock ownership and gendered decision-making in Cambodia and the other with the Association for Korean Studies to hold a workshop on Korean Trade and Investment in the Mekong Region. I will write about our progress in these areas in the next journal.

I am also pleased to announce that SIU held its first international conference at the end of January and I was able to contribute to its organizing by chairing the committee on academic and editing issues. A report on the conference may be found in this issue.

We are fortunate in this issue to have an invited paper by Associate Professor Dr Teresita Cruz-del Rosario, a noted expert on social movements and a long-term scholar of Southeast Asia as a whole. Her paper considers Southeast Asian politics in the light of the Arab Spring and concludes that several states have already passed through
significant political change in recent years and have managed to do so without the kind of large-scale violence so distressingly evident in the Middle East.

In the peer-reviewed section of the journal, I am gratified to note that we have six papers, which is the largest number we have had in the short history of our journal. I hope both that this level of interest is sustainable and that it indicates a measure of health. In the first paper, Birender Singh Chauhan, R.C.S. Rajpurohit & D.S. Kheeche discuss strategic human resource practices in the Indian electronics industry and introduce another strong showing in the journal from South Asia. In the second paper, Manizheh Falahaty & Law Siong Hoo provide evidence from the Middle East and North Africa concerning the determinants of financial development. In the third paper, we turn to the issue of corporate governance as S.M. Zahidur Rahman, S.M. Arifuzzaman & M.M. Khairul Alam provide an assessment of this practice in the banking sector of Bangladesh. In the fourth paper, we present our first case study, which is of Linkwell and provided by Manoj Joshi. As editor, I am always happy to accept case studies and indeed papers that cover different subjects related to management than those we have published before. In the fifth paper, Tannu Verma & Rohit Mathur discuss organizational citizenship behavior and its relationship with strategic fit. Finally, in the sixth paper, Shailesh Limbad discusses women’s buying behaviour with respect to cosmetics in the Surat region of India. The journal also contains three conference reports and two book reviews.

John Walsh, Editor, SIU Journal of Management
INVITED PAPER
Arab Spring or Asian Monsoon? Civil Society and Social Movements in Southeast Asia

Teresita Cruz-del Rosario

Abstract

The upsurge in popular uprisings the world over has provoked discussions as to whether the winds of revolt will blow east and reach the shores of Southeast Asia. This paper argues that Southeast Asian countries have successfully, albeit imperfectly, conducted their political transitions. Within an environment of active social movement participation as well as electoral politics, most countries in Southeast Asia are gradually moving ahead in terms of establishing a political culture based on more open political competition and citizen participation. However, problems remain and so continuing vigilance among social movements is needed to ensure that politics remains a process of expanding the space for more engagement among the citizenry. A more in-depth exploration of Malaysian politics provides an illustrative case study for examining Southeast Asian politics.

Keywords: civil society, legitimacy, protest, social movements, Southeast Asia

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1. Introduction

Throughout history, human beings have complained. From the
uncollected garbage to the quality of political leadership, men and women express their discontent. Some register their grievances to their next door neighbours; others sign a petition, attend public hearings, join a rally, a picket line or a protest action. In cases not too few to mention, some undertake extreme measures through well-planned attacks against entrenched authority. Through relatively rare, history is likewise a record of attempts to burn down the house.

While individuals may complain about the inconveniences of daily life, others explore a range of diverse methods to redress grievances collectively. Thus, they band together and get organized. Their efforts are no longer random and their complaints cease to be the subject only of the day’s coffee breaks. Rather, they undertake planned and systematic action, often ending as public displays of discontent, oftentimes noisy, confrontational and disruptive. They seek solutions to open dialogue even while many of their friends and colleagues wave the banners, shout the slogans and guard the street barricades. They contact the media, write position papers and create organizational structures for leadership, daily management, coordination and control. What is significant, however, is that these are normal features of social life, not an aberration, distraction, passing fad or fashion.

The outcomes of such efforts vary. Some have resulted in outright changes in procedural and substantive policy changes. Others provoked regime changes that reflect fundamental shifts in ideas, values, beliefs and ideologies. Sometimes the changes are cosmetic, as when the old guard is merely replaced by a new set of gatekeepers, leaving the ancien régime intact. But where overhauls to the political system occur, there is a radical departure from conventional practice and a definitive break from the past.

Well before the Arab Spring, a number of Southeast Asian countries experienced their own political upheavals. In all of them, grievances were channeled via organized efforts of social movements. In countries that have narrower opportunities for public redress, citizens have cleverly
maneuvered within tightly controlled spaces mainly through electoral contests or through benign social causes that do not directly challenge entrenched authority. Some have succeeded in getting their messages across, created dents, raised questions and expanded spaces for public discourse. For those countries which have succeeded, they redirected the course of political life and a qualitative shift has occurred, as in the case of the Philippines, Indonesia, and Thailand. In all of these countries thus far, political strife has not resulted in civil wars. This is perhaps the singular feature that distinguishes protest action in Southeast Asia from the Middle East.

This paper will draw comparative lessons from Southeast Asian countries, notably Indonesia, Malaysia, Thailand and the Philippines. References to Burma and Singapore are inescapable, given their very recent experience with concerted citizens' action via electoral contests.

2. Critical Definitions

While social movements and protest action often go together, these terms are not synonymous and should not be used interchangeably. The sociologists Jeff Goodwin and James Jasper define social movements as “collective, organized, sustained, and non-institutional challenges to authorities, power holders, cultural beliefs and practices.” Revolutionary movements fall under this definition, yet it is a mistake to lump these two terms together. The latter, at minimum, seeks to overthrow the government or the state, often through violent methods. However, many other social movements throughout history have sought to challenge authority through non-violent means (e.g., the Civil Rights Movement in the United States in the 60s). Thus, while all revolutionary movements are social movements, not all social movements are revolutionary.

Protest, on the other hand, refers to the act of “challenging, resisting, or making demands upon authorities, power holders, cultural beliefs, and practices by some individual or group.” Individuals may challenge and resist, but they need not be social movement actors. Social movements
engage in activities other than protest. They manage organizations, conduct awareness sessions and public hearings, recruit members, enter into alliances and coalitions and raise funds and resources. Thus, while all social movements carry out protest, not all protest activities are conducted by social movements.

In the context of Southeast Asia, where countries are experiencing rapid social and cultural change, we regard the emergence of social movements as a normal, perhaps even necessary, feature of social life. Safe to say that most of these movements have taken the path of peaceful, non-violent methods and do not seek a revolutionary overthrow of established governments. They employ protest in an effort to galvanize citizens’ actions towards more responsive and accountable governments. In this respect, the rise of social movements in Southeast Asia should be regarded as the burgeoning of authentic citizenship and should, therefore, be accepted rather than feared.

In the specific cases of Malaysia and Indonesia, where non-state actors and organizations are relatively recent phenomena, the terms “social movements,” “civil society,” “civil society agents” (CSAs) and “non-government organizations” (NGOs) will be used interchangeably. According to Malaysian scholars,¹ these terms are used to describe a “realm of the public sphere to accommodate all discourses and organizations … all associations outside the state - not just politically engaged groups but also apolitical social welfare, cultural, sports, community and other associations.” This definition could include militia groups and other “decidedly uncivil organizations,” hence Iris Young provides a more inclusive definition: “civic associations and public spheres outside state and economy allow self-organization for the purposes of identity support, the invention of new practices, and the provision of some goods and services. Perhaps even more important, public spheres thriving in civil society often limit state and economic

¹ See, for example, Iris Young (1999), Meredith Weiss (2006), Ernest Gellner (1994), Michael Foley and Bob Edwards (1996) among others.
power and make their exercise more accountable to citizens.”

3. Sources of Discontent: Persecution, Corruption and the Crisis of Political Legitimacy

All governments, regardless of form, require legitimacy. A government that rests on legitimacy strengthens its authority to govern. This principle, articulated by the political philosopher Frederick Barnard, is premised on the notion of a “social contract” which government enters into with its citizens. Governments have obligations and the citizenry maintains vigilance to ensure that these obligations are honoured. The greater the adherence to the social contract by government and citizens, the stronger the legitimacy of governments to rule.

One of the most evident causes of the rise of social movements in Southeast Asia is the perceived crisis in political legitimacy, that is, when the social contract is perceived as violated and broken. Citizens seek its restoration and social movements are avenues through which governments are held to account for their performance vis-à-vis the social contract. The earliest challenge came from the Philippines during the regime of Ferdinand Marcos. Following the assassination of opposition Senator Benigno Aquino in August 1983, social movements proliferated as if overnight and they sustained protest campaigns over a period of three years. In 1986, Ferdinand Marcos called for a snap election. Social movements went into full gear, prepared for the electoral challenge and threw their support behind the assassinated senator’s widow, Corazon Aquino. Social movement participants viewed the electoral contest as the occasion with which to challenge the regime and to construct a new social contract. The huge turnout of eligible voters signified the seriousness among Filipinos of their desire for a new mandate.

When the electoral results showed that Mrs. Aquino had lost the election, the citizens of Metro Manila rose up in vigorous protest to challenge what many considered was a fraudulent outcome. A four-day revolt ensued and culminated in what is today popularly billed as “people
power,” that is, a massive display of about a million peaceful protestors who trooped to Edsa\(^2\) to stop the tanks of Marcos.

The outcome of the election in April 2012 has certainly re-shaped the political landscape in Burma. The registration of several political parties to vie for elections and the victory of Aung San Suu Kyi is considered as a generally positive development. The opening up of political space through electoral contests, along with other political reforms (e.g., the release of political prisoners and ongoing peace talks among ethnic groups), are measures that slowly build political legitimacy in a country whose government has, for a long period of time, been regarded as bereft of all legitimacy. International response, though guarded, is hopeful. At the core of this guarded optimism is the question of whether Burma’s electoral and political reforms will result in a new social contract with its citizens. Needless to say, the elections have steered the country towards new political directions and has opened up political spaces for greater participation by the citizens.

The economy is certainly enjoying a windfall, judging by the sheer absence of hotel rooms in Yangon and the sudden rise in the value of real estate properties. Prospective investors, business people, journalists, academics, philanthropists, tourists and politicians have recently descended on Yangon. Almost overnight, Burma has become the second most important tourist destination in the world and it is anticipated that it will become a new member of the Tigers Club of Asia.

The same legitimacy question has haunted Thailand since the September 2006 \textit{coup} that ousted Prime Minister Thaksin Shinawatra. A deeply divided Thailand, based on colour-coded social movements, resulted in several uprisings: the yellow shirt movement occupied the international airports in late 2008, followed by a counter-uprising by the red shirts in 2009 and 2010. Massive losses to property and lives have been the most

\(^{2}\) Short for Epifanio de los Santos Avenue, a 26-kilometre stretch of highway that traverses through four major municipalities of Metro Manila.
visible outcome of this confrontation, yet political resolution was not forthcoming. The country’s deep divisions resulted in massive economic losses and dealt a blow to tourism, which is one of Thailand’s major revenue sources.

In July 2011, Yingluck Shinawatra, sister of ousted Thaksin Shinawatra, won the general election by a convincing majority. Since the election, the social movements have come to an uneasy truce and collective action has almost completely disappeared from the streets, albeit no doubt temporarily. The new Prime Minister rests on a convincing mandate to rule through a widely-accepted legitimate electoral process. It is safe to assume that, for the moment, Thailand’s politics has entered a phase that gives the new government some breathing room with which to address long-standing problems through constitutional and legal means.

3.1. The Malaysian Crisis.

In the case of Malaysia, the election this year comes in the wake of the acquittal of Anwar Ibrahim, a long-standing opposition politician to the Barisan Nasional (BN). The latter is a coalition of about fourteen political parties throughout Malaysia and has been the dominant political force in the country since independence. In the last general election in 2008, the BN suffered major losses to the Pakatan Rakyat, a loose coalition of opposition parties headed by Anwar Ibrahim. The opposition won more than one-third of parliamentary seats and five state governments (Kelantan, Kedah, Penang, Perak and Selangor) turned opposition. Perak, however, defected to the Barisan Nasional and re-joined the mainstream.

Most Malaysians and international observers viewed Anwar Ibrahim’s trial the past two years as continuing political persecution against a politician who stood the strongest chance of becoming the next Prime Minister. Anwar signifies a real threat to the dominance of the BN which would come to a halt should Anwar succeed in the forthcoming elections. The 1998 trial that pronounced him guilty of sodomy and corruption, imprisonment and physical beating by the Inspector General of Police
Rahim Noor should have ended his political career. Freed in 2004, he made his spectacular comeback in the 2008 election where he led the Pakatan Rakyat party to capturing 82 out of 222 seats in Parliament and four states turning opposition. This raised fears within the BN once again.

The ruling coalition won 51.2% of the popular vote as against 64% in 2008, while the opposition jumped from 9% to 37%. A second sodomy trial involving Mohd Saiful Bukhari Azlan in June 2008 rankled many Malaysians, viewing this as a second round of persecution to prevent a Prime-Minister-in-waiting (Kuppuswamy, 2008). Not only had the attack on Anwar backfired, it also signified an increasing sophistication among the Malay electorate which “showed their displeasure on the continued arrogance and over confidence of the ruling coalition (Walsh, cited in Kuppuswamy, 2008)” Tommy Thomas, a Malaysian lawyer and commentator, describes “Sodomy 2,” the second case against Anwar Ibrahim, as a continuing “politics of sleaze …. giving gutter politics a new meaning (Thomas, 2012).”

Lim Teck Ghee, a noted policy analyst, citizen-activist and founder of the Malaysia-based think tank Center for Policy Initiatives, is critical of the “structural deformation of the country’s economy.” This economic deformity, Lim claims, is traceable to specific politicians within the ruling BN, who have “accumulated wealth, concealed wealth accumulation, and divers(i)ed) their wealth havens and assets away from Malaysia (Ghee, 2012).” Included in this list of politicians is Taib Mahmud, the chief minister of Sarawak, whose family owns shares in 330 companies in Malaysia and 400 global companies. Sources of his wealth allegedly come from timber licenses; surcharge on timber exports; kickbacks from timber shipping companies; agency and other fees levied on shipping companies; privatisation of government companies; illegal logging receipts; federal government contracts; alienation of state land to plantations and state contracts. Other wealthy Malaysians are cronies of past prime ministers Dr. Mahathir Mohamad, Abdullah Ahmad Badawi and the present Prime Minister Najib Razak whose accumulated largesse would not have been possible without
“government preference and patronage ... and political loyalty to the Barisan Nasional.” All have made it to the Forbes list as the richest billionaires in Malaysia, collectively worth US$62.5 billion in 2011 (ibid.).

According to Transparency International, Malaysia ranks 60\textsuperscript{th} out of 183 countries in 2011 and has slipped four slots from last year’s ranking of 56\textsuperscript{th}. It fares better than Thailand (80\textsuperscript{th}), Indonesia (100\textsuperscript{th}), Vietnam (112\textsuperscript{th}) and the Philippines (129\textsuperscript{th}). Its score has declined for the third consecutive year (4.3 in 2011 versus 4.4 in 2010) and falls below the government’s benchmark of 4.9. In addition, the report of TI-Malaysia identified the police and political parties as the “most corrupt institutions” as well as a “continued close nexus between business and politics in Malaysia (The Edge, 2011).” It is thus not surprising that the activation of social movements and social movements in Malaysia would focus on “justice” and “anti-corruption” as their banner issues.

In all the Southeast Asian countries discussed above, a crisis in political legitimacy becomes attached to specific political personalities who are viewed as threats to political elites when the latter’s hold on power had become tenuous. From assassinated Philippine opposition senator Benigno Aquino to recently-released Aung San Suu Kyi in Burma, the clamour for legitimacy acquires a human face, even while the disgruntled population rally around these personalities with specific issues of social justice and anti-corruption. Interestingly, social movements in all these countries opt for an electoral option, thus working within institutional means that are offered by a regime which, in and of itself, desires to play by the rules of the “legitimacy game.” Despite a lack of popularity, regimes seek recourse to legitimate procedures, even incurring the risk of potential loss. Thus far, all rulers seek a popular mandate, never mind that they might engage in the occasional electoral manipulation to ensure longevity. Notwithstanding fraudulent practices in electoral politics in Southeast Asia, the quest for political legitimacy should be construed as a hopeful development in the evolution of politics in these countries. It does augur well for the expansion of the public space for civil society and
social movements.

3.1.1. Income Inequality, Poverty and Development Policy in Malaysia

The New Economic Policy (NEP) inaugurated a new economic era in Malaysia. Launched in 1970, the NEP was meant as a policy corrective to the perceived economic imbalances allegedly suffered by the ethnic Malays relative to their Chinese and Indian counterparts. At the heart of the NEP was a racialized affirmative action policy that sought to award preferential treatment to Malays (Bumiputera – the sons of the soil), reduce inter-ethnic inequality and foster nation building. The NEP would also carry a lifespan of twenty years (1970-1990). Interestingly, the NEP coincided with the reign of Dr. Mahathir Mohammad. In a book entitled “The Malay Dilemma” published in 1970, Dr. Mahathir elaborated on the need to “protect the Malays by systematic affirmative action: awarded top positions and mandatory ownership of business enterprises, along with preferential treatment in public schools, universities, the armed forces, the police and the government bureaucracy. Otherwise the “immigrants,” as the ruling party still calls the Chinese and the Indians, would take over (Buruma, 2009).”

The strategy consisted of three essential components: 1) provision of social services such as health, education, housing and public utilities; 2) increase income and productivity of the poor and 3) provide inter-sectoral mobility through employment in the modern sectors of the economy and out of the low productivity areas. Specific targets were identified to increase Bumiputera employment in the industrial sector: increase participation in the ownership of share capital in the corporate sector; increase the volume of Bumiputera managers and entrepreneurs (Roslan, 2001). Also, allocation of financial resources from the federal government would steadily increase over the twenty-year period. Specific allocations were made for poverty reduction and restructuring of society (ibid.) which increased steadily from the Second Malaysia Five-Year Plan (1971-1975) until the Fifth Malaysia Five-Year Plan (1986-1990).
Total federal allocations increased from 8.95 million Malaysian ringgits in 1971-1975 (approximately USD2.97 million) to 57.5 million Malaysian ringgits in 1986-1990 (approximately USD19.09 million). Undoubtedly, the results of the NEP were positive. According to a 1993 World Bank report, GDP growth averaged 8.3% over the twenty-year period, recognizing it as one of Asia’s “economic miracles.” Unemployment also decreased from 7.8% in 1970 to 2.8% in 1995. Poverty incidence decreased in all ethnic groups, with the ethnic Malays registering the biggest drop in poverty rates, from 65% in 1970 to 21.8% in 1990. Rural poverty decreased from 58.7% in 1970 to 19.3% in 1990, and employment for *Bumiputeras* increased in all sectors except in agriculture. Ownership of share capital increased for *Bumiputeras* from 2.4% in 1970 to 20.6% in 1990 and foreigners’ share decreased remarkably from 63.4% to 27.7% during the same period. Social indicators portray a much-improved quality of life among all Malaysians. The country experienced the emergence of a new Malay middle class, in particular, a Malay business-middle class, one which, according to Raslan, was “never before imagined (ibid.).”

Yet despite these spectacular successes in economic growth rates and increases in household income especially among the Malays, there has been a disturbing trend in terms of income inequality among all ethnic groups. During the NEP period, the Gini coefficient\(^3\) showed improvements in income distribution, however after 1990, the Gini coefficient began to approximate that of the pre-NEP period. In brief, while the NEP was responsible for outstanding achievements in improving the lives of all Malaysians, especially those of the rural poor and the Malays, the distribution of these benefits worsened during the post-NEP period, suggesting that some Malays became wealthier than others. Inequality among Malays was sharper in 1997 than among Chinese and Indians. Thus, the pro-Malay policy of the NEP was

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\(^3\)A low Gini coefficient indicates a more equal distribution, with 0 corresponding to complete equality, while higher Gini coefficients indicate more unequal distribution, with 1 corresponding to complete inequality.
sidelined by stronger concerns for pure economic growth rather than equity concerns. As with most growth-driven development strategies, the failure to address equity results in unequal distribution of benefits, regardless of race, rank or religion. Malaysia was no exception and the affirmative action underlying the policy proved to be a ruse to benefit a select group of society. Dr. Mahathir himself was quoted saying that

“The NEP, it must be iterated, was not concerned with making all the bumiputeras earn equally, or share equally, the wealth distributed amongst them …… The intention of the NEP was to create in the bumiputera community the same division of labour and rewards as was found in the non-bumiputera communities, particularly the Chinese … The equitableness was not to be between individuals, but between communities (ibid.).”

Not surprisingly, inequality coupled with excessive corruption within society, regardless of race, fuels the discontent in Malaysia today. The binding force for social movements is not race, religion or ethnicity but rather, a growing and expanding awareness of citizenship and the corresponding rights of citizens to demand enforcement of the social contract. Ironically, it is the success of the NEP in creating a new middle class that has spurred the growth of social movements - the very citizens, that is, that Dr. Mahathir most enriched.

3.1.2. The Rise of a Reform-Minded Middle Class.

Asia’s middle class is one of the fastest growing population groups in the world and is predicted to continue to multiply, particularly in East Asia. Economically, this signifies an expansion in consumer markets as a greater number of Asian households acquire more disposable income and will thus undertake expenditures on non-essential items, as well as the demand for services and investments, particularly in human capital. Politically, the middle class is a potent force. In many
countries experiencing rapid growth and the expansion of the middle class, this process has almost always been accompanied by greater freedoms, more openness and an adherence to the principles of democratic practice.

Social movements in Southeast Asia have been provoked into existence by prosperity, as well as with the excesses and imbalances that it engendered. In the Philippines, a middle-class Church-based congregation provided the warm bodies for the people power uprisings of 1986 and 2001. In Thailand, the red-shirt movement was comprised of relatively prosperous farmers predominantly from the Northeast, whose accumulated wealth allowed them to mobilize resources as a counterfoil to the yellow shirts movement. The latter is comprised of the Bangkok-based middle classes and traditional elites whose adherence to the principles of democracy (hence the People’s Alliance for Democracy) included support for a coup that ousted a legitimately-elected Prime Minister.

In Malaysia, social movements came into full fruition with the sudden and dramatic departure of Anwar Ibrahim from government in 1999 when he was subsequently arrested and tried for sodomy and alleged corruption. This singular event created a rallying point for Malaysians to organize themselves and forge national unity across racial and religious lines. This broad movement was called the Reformasi and galvanized action across a cross-section of participants to include professionals, students, opposition politicians, and disenfranchised youth. A distinguishing feature of Malaysian civil society, as opposed to its Southeast Asian counterparts, is the success with which Malaysian social movements were able to transcend racial considerations and appeal for public welfare issues. This is remarkable in a country where ethnicity and race, according to Meredith Weiss, constitutes the “most prominent and pervasive line of cleavage in Malaysian politics, economics and society (Weiss, 2006:12).” The political comeback, second trial and recent acquittal of Anwar Ibrahim witnessed the resurgence of civil society after a period of dormancy in the late 1990s to early 2000. These social
movements have become even more reinvigorated and have considerably matured in their advocacies, taking on issues that increase public awareness and deliver concrete results. The most well known is the Bersih Alliance. Committed to electoral participation and electoral reform, Bersih (which means ‘clean’) successfully launched a campaign for vigorous voter turn-out in 2008 and, under the aegis of Bersih 2.0, to push for an expanded electoral base in the forthcoming elections in 2012. The Bersih campaign in 2007 resulted in a “political tsunami” during the elections in 2008 that returned Anwar Ibrahim to power and altered the political landscape in Malaysia (Surin, 2010). In anticipation of the 2012 election, Bersih 2.0 went into full gear in July 2011 to demand for electoral reforms that include the removal of postal voting, the use of indelible ink, a minimum 21-day campaign period and free access to the media. All these measures were meant to stamp out electoral fraud and ensure fair and legitimate elections.

3.1.3. A Malaysian Monsoon.

The success of the Bersih campaigns leaves some Malaysians worried and anxious. Afifi Abdul Razak, a lecturer at the Universiti Utara Malaysia likened the Reformasi and Bersih movements to the Arab Spring in the Middle East, accusing Bersih participants of being paid stooges of “foreign forces (that) are offering aid to the local groups to help them topple their own governments like that which happened in the ‘Arab Spring’ situation (Malaysia Today, 2012).” As the headwinds of reform blow even stronger in Malaysia, an equivalent counter-force against reform is always the expected reaction.

The prospects of an Arab Spring-like upheaval in Malaysia are unlikely. For one, the growth of civil society and social movements nurtured over the past few decades signifies a much wider “political opportunity structure” than most countries in the MENA region. Weiss (2006) goes

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4 This term is derived from an intellectual tradition in social movement theory that defines it as the “ … specific configuration of resources, institutional arrangements and historical precedents for social mobilization,
much further in history, around the turn of the century, when new associational forms provided alternative structures for Malays with which to affiliate themselves. These new forms were mainly literary, social, religious, and “progress” associations. Other forms emulated Western associations that included membership clubs for study, sports, recreation and cultural activities. These proliferated in the early 1900s and provided Malays with “some capacity for social integration and improvement of self and society (ibid.:60-1).” These function as social safety nets that serve as release valves when there is a build-up of social strains. They also help build “social capital,” which is the basis for the thickening of social networks that in turn produce and reproduce virtues of trust and reciprocity and which are the necessary ingredients, according to Robert Putnam, for a well-functioning society. Thus, while it might be tempting to focus solely on Reformasi and Bersih as the pre-eminent Malaysian social movements, it would be well worth noting that civic associations have existed long before and may have even laid the foundation for the emergence of a more politicized social movement in the 21st century.

A second factor is the institutionalization of party politics in Malaysia. Despite the dominance of the BN, this has not dampened the ability of opposition parties to engage in vigorous electoral contests. The elections of 1999 and 2008 are testimonials to the resilience of Malaysian politics to engage in electoral contests, however combative. The participation of Islamist and Left-leaning political parties as early as the 1950s signifies a tradition of party politics that cannot be erased despite efforts by the BN. Even more encouraging is the participation of civil society in electoral politics, as witnessed in the 1999 and 2008 elections. NGOs and civil society organizations worked closely with opposition parties to ensure that voters were registered and votes counted.

Finally, there is the so-called “Anwar factor.” Anwar Ibrahim remains the
animator and catalyst of reform movements in Malaysia today. His political revival is significant on at least two levels: first, the ruling party needs to be politically astute in dealing with his case, so that this is not construed as continuing political persecution. Much as the dominant political forces wish to imprint in the public mind that this is a legal case and is not politically-motivated, the widespread perception is that Anwar’s political fortunes have been tied to the sodomy case and will continue to do so because of the threat that Anwar poses to the BN’s hegemony in Malaysian politics. Voters are far more aware today, thanks to communications technology and increasing participation in public life. Second, Anwar remains a potent symbol for Malaysia’s political modernization. He is viewed both as a reformer-politician and a coalition-builder who can straddle the political spectrum from radical Islamists to liberal democrats. The opposition victory of the 2008 elections is attributed to Anwar’s leadership. He is regarded as a cosmopolitan elite who can quote Shakespeare and the Quran in the same sentence. Within a wider framework of globalization and regionalization in which Malaysia seeks to be a respectable member of the global and regional communities, Malaysians look towards a leader who can lead them in these more expanded geo-political frameworks. The respect and admiration that Anwar has generated internationally due to his political struggles and more belatedly, his resurgence, makes many Malaysians deservedly proud of their country.

In brief, it is not an Arab Spring but, rather, a Malaysian monsoon which will steadily rain down on the BN party until it is washed away.

4. Conclusion

Although talk was some time ago rife with the possibility of an Arab Spring contagion in Southeast Asia, this talk has now largely dissipated. The region has remained, for the last four decades, relatively peaceful and stable. It has also posted one of the highest growth rates in the region. Southeast Asians enjoy unrivalled prosperity relative to their African and Middle Eastern counterparts. More importantly, Southeast Asia has had
its fair share of political upheavals. In the Philippines in 1986 and 2001, a vigorous broad-based social movement overturned two decades of dictatorship under Ferdinand Marcos and ousted duly-elected Joseph Estrada during a failed impeachment trial for plunder and corruption. In Thailand, the election of Yingluck Shinawatra may have ended years of strife between the red and yellow shirts and the country is enjoying, albeit temporarily, a measure of relative stability. In Myanmar, the generals have retreated and a new civilian government promises to deliver reforms, signaling a new political direction for the country that would emulate market-based democracies. In Indonesia, broad-based social movements have helped restore democratic practice.

Further, most of these countries have engaged in party politics despite the imperfections in the development of political parties in this region. Some countries like Malaysia have experienced the dominance of ruling parties such as the BN, which has ruled the country for nearly two decades. Yet, opposition politics has made inroads into the ruling party and has seen the emergence of a very vigorous electoral contest that has challenged the dominance of the BN. Aung San Suu Kyi has been transformed from street icon to politician and has announced her intention to run for the presidency in 2015 within a framework of an open political environment.

For all Southeast Asian countries, an active electoral culture is in place and citizens do take their electoral rights seriously. They insist on the legitimacy of their leaders through fair and honest elections. This should be construed as a sign of political health and a staunch adherence to a social contract between government and citizens.

Finally, social movements have been a part of the institutional life of Southeast Asian countries. In Myanmar, civil society organizations including media no longer face severe restrictions as in the past. In Indonesia, the Philippines and Thailand, social movements have been an integral part of the fabric of social life. Where protest groups have
taken to the streets, these have been, by and large, relatively peaceful despite the occasional violence and destruction to public property.

However flawed these processes are, most Southeast Asian nations are poised to consolidate their economic and political gains in the years to come. Governments and citizens need not worry about a contagion effect, nor should street politics be misconstrued as an Arab Spring copy-cat. If at all, governments should view social movements and civil society as an indication that a social contract between them and their subjects are subject to enforcement by a vigilant citizenry.

References


PEER REVIEWED RESEARCH PAPERS

Birender Singh Chauhan, R.C.S. Rajpurohit & D.S. Kheeche

Abstract

There has been a significant increase in professional maturity in the field of personnel management so that it is now known as human resource management (HRM) and also has a strategic element (SHRM). Since the 1980s, all managerial functions have become increasingly integrated into SHRM so that the success of new policies depends increasingly on successful SHRM practice. This research paper makes an attempt to investigate the strategic human resource practices and policies of the Indian Electronics Industry. It was hypothesized that HR policies and practices would be positively related to organizational effectiveness. The data used in this study were collected from 15 electronics and electronics industries which have been operating in the National Capital Region (NCR). These firms have been undergoing quite a few changes recently, especially in terms of managerial philosophies and tendencies. Various statistical techniques were used to analyse the data obtained. Results indicated that the most commonly used strategic practices were SHRM focus, functional areas covered by SHRM, treatment of employees and adopted SHRM activities. It was also found that those companies following SHRM practices which achieved their goals used workforce planning, participative management, executive development programmes, succession and development planning, advance issue identification of strategic issues and communication between management and employees.
Keywords: Electronics Industry, Employee Communication, India, Strategic Human Resource Management

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1. Introduction

The electronics industry in India took off around 1965 with an orientation towards space and defence technologies. This was rigidly controlled and initiated by the government. The period between 1984 and 1990 was the golden period for electronics, during which the industry witnessed continuous and rapid growth. After the electronics boom in the mid-1990s, India's focus shifted to the industry once again, although the hardware sector has been treated with indifference by successive governments. Moreover, the steep fall in custom tariffs made the hardware sector suddenly vulnerable to international competition. In 1997, the Information Technology Agreement (ITA) agreement was signed at the World Trade Organization (WTO), by which India committed itself to total elimination of all customs duties on IT hardware by 2005. In the subsequent years, a number of industries became distressed and were closed. At the same time industries like Moser Baer, Samtel Colour, Celetronix and others have made a global mark. By the year 2010-11, Indian electronics and
services exports were expected to reach US$60 billion and by 2011-12, which is also the terminal year of the eleventh five year plan, the figures are expected to touch US$ 72 billion. This assumes a 20% growth rate YOY (year-on-year) for 2011-12. In India the demand for hardware is fuelled by a variety of drivers, these include: high growth rate of the economy, emergence of a vast domestic market catering to generation Y people and a thriving middle-class population with increasing disposable incomes, together with the relatively low-cost work force having in some cases advanced technical skills (NASSCOM, 2013).

A few facts help in understanding the market drivers for electronics hardware products in India. There are over 60 million Internet users as of March, 2009, while Broadband subscribers have touched 7.4 million by the same date, over 7 million DVD players were sold during financial year 2008-09, 6.78 million PCs sold; increasing year-on-year from a base of of 30 million 15.5 million TVs sold; installed base of 150 million, in the fledgling telecom sector subscription had reached to 525.7 million at the end of October 2009. The installed base for Mobile phones stands at 488.4 million subscribers, with 10-12 million new mobile subscribers added every month. The National Manufacturing Competitiveness Council (NMCC) has been established to provide a continuing forum for policy dialogue to energize and sustain the growth of manufacturing industries in India and this includes IT Hardware. The growth of this industry has never dipped below 20%. This sector is very important for the country’s economic growth and the major reason which makes for difference in the growth of this sector is human capital (ibid.).

The field of human resources management (HRM) has undergone significant changes in scope, functions and activities over recent years. There has been a significant increase in professional maturity in this field and thus personnel management has become known as HRM and has also added a strategic element (SHRM). This involves all the managerial personnel of an organization and all managerial functions.
Around the world, a great deal of emphasis has been placed on the strategic implementation of HRM which, indeed, had been witnessed during the 1980s and 1990s. The success of the new policies depends on the introduction and implementation of new SHRM policies. The strategy has impacts on job training, career planning, job rotation and management development. In this strategy, HR policies and practices have to be consistent and emphasis team work, flexibility, employee involvement and organizational commitment. HR processes emphasizes factors like hiring and maintaining the workforce, which are very much needed for growing organizations in highly competitive markets.

2. Literature Review

Sivasubramaniam & Ratnam (1998), in their study on the strategic perspective of HRM in Indian firms and the effects of alternative HRM strategies on firm and employee performance level, surveyed 109 senior managers in public and private Indian corporations. The results of the study indicated three coherent HR strategies in these organizations, which were based on the HR dimensions of inducement, investment, and involvement. This study found an amazing fact that HR strategy based on motivation through rewards and punishment accounted for 25 percent of the investment strategy sample. A great premium was placed on employee development. A paternalistic approach to management accounted for 33 percent of the sample. Involvement strategy to achieve a very high level of employee commitment accounted for 42 percent of the sample. As far as business strategies are concerned; the four different business strategies prevalent among the 83 industries were defender (23 percent), analyzer (42 percent), prospector (27 percent) and reactor (8 percent). In terms of the relationship between HRM and firm performance, tracking the impact of HR strategy through HR performance, it was found that turnover rate, employee productivity, strategic performance and financial performance were all affected.
Based on a study of 11 companies, it was found that 9 firms had aligned their HR strategy with their business strategy. Tripathi & Tripathi (2001), in their study, attempted to investigate the relationship between downward influence strategies and organizational success, which includes Job satisfaction (JS), Effectiveness (EFF) and Intention to quit (IQ). The study is based on a sample of 300 middle level executives of 10 public and private sector organizations. The findings indicate that less use of asserting expertise and negative sanctions and frequent use of rewards and personalized relationships would enhance job satisfaction. Effectiveness is also likely to enhanced by the use of rational rewards. Asserting expertise may increase intention to quit the organization. If managers use appropriate influence strategies, this would be more likely to result in organizational success. The findings of Miles and Snow (1984) suggest that the basic HRM strategy of defenders will be to build human resources, as opposed to acquiring or allocating them. This means that a defender company typically engages in intensive training, capability building of people and recruiting people only at the entry level. By contrast, prospectors typically follow a buy-in talent strategy that involves sophisticated recruiting at all levels of the organization, limited training and extensive psychological testing before hiring. By implication, Miles & Snow (1984) suggest that analyzers should match their HRM strategy to the nature of the product-market, and thus engage in make or buy HRM approaches as appropriate to the different product-market domains.

An organization gains competitive advantage by using its people effectively, drawing on their expertise and ingenuity to meet clearly defined objectives. Integration of the business surplus to the human competency and performance requires adequate strategies. Here the role of strategy comes into picture. The way in which people are managed, motivated and deployed and the availability of skills and knowledge will all shape the business strategy. The strategic orientation of the business then requires the effective orientation of human resource to competency and performance excellence.
Another perspective linkage between business strategy and HRM is Miles and Snow’s (1984) model of organizational adaptation, which deals with alternative ways in which organizations define their product-market (strategy) and construct mechanisms (structures and processes) to pursue these strategies. Miles and Snow (1984) suggest that there are four basic types of organizational strategies which they term defender, prospector, analyzer and reactor. Each strategy has its own unique organizational features and supporting characteristics. Another survey carried out in 2003 by Accenture (Ashton, Heffner & Lambert, 2004) that confirms these findings. Among 1,000 leaders interviewed, only 34% evaluated the performance of their area as good, although 83% stated it was critical to the success of the business overall. From this perspective, HRM should have three key capacities to be considered strategic. Firstly, it should distribute services related to HRM work processes, so all employees could have access to the internal and external channels related to them (communication). Secondly, the area should bring in HRM management consultancy services, performing as partners of executives, business units and business line managers. In this way, it would attend to the specific needs of each of the other departments of the company helping to develop core competences that are relevant to them and that may constitute business differentiating factors. Thirdly, the HRM department should provide more support and strategic services to the organization’s senior management, an option foreseen as the future of the area, but which has yet to be established. Neilson, Martin & Powers (2008) found that enterprises fail at execution because they go straight to structural reorganization and neglect the most powerful drivers of effectiveness, which are decision rights and information flow. They tested organizational effectiveness by having people fill out an online diagnostic, which was a tool comprising 19 questions (17 that describe organizational traits and two that describe outcomes). To determine which of the 17 traits are most strongly associated with excellence in execution, they looked at 31 industries in which received responses from at least 150 individual, anonymously-completed profiles, for a total of 26,73 responses.
Applying regression analysis to each of the 31 data sets, they correlated the 17 traits with the measure of organizational effectiveness, which they defined as affirmative responses to the outcome statement “important strategic and operational decisions are quickly translated into action. Then they ranked the traits in order, according to the number of data sets in which the trait exhibited a significant correlation with the measure of success within a 90% confidence interval. Finally, they indexed the result to create a 100-point scale. At the top, “Everyone has a good idea of the decisions and actions for which he or she is responsible,” exhibited a significant positive correlation with the success indicator in 25 of the 31 data sets, for an index score of 81.

This literature review has indicated that no study on SHRM practices in the electronics industry in India has been completed. This study is novel in this area, therefore, and was much needed. Keeping in view the role of the electronics industry in the growth of the Indian economy, this sector is very promising in terms of growth.

3. Objective of the study

The basic objective of this study is to know and examine the following areas:

(a) To examine the status of SHRM practices in the Indian electronics industry and to understand the underlying factors of these practices.

(b) To examine the extent of practice of SHRM in the electronics industry and to define the characteristics of such practices.

(c) To examine SHRM effectiveness in the electronics industry.
4. Methodology

A list of selected information technology industry electronics companies for the National Capital Region (NCR) of India was used for the research, defined as being within 100 km of the capital. A total of 15 companies, each with more than 50 employees, was taken as the sample. The 15 companies included ten which were foreign-owned multinationals and the remainder were Indian companies (see Table 1 below). From this overall sample, convenience random sampling was employed to obtain data from respondents, who were employees in HRM and line departments. This led to a total respondent database of 300 respondents, of which 294 were from the electronics and IT sectors and so the sample size for analysis was 294. Of the respondents, 8.2% were HR specialists, 17.9% were other managerial employees and the remaining 73.9% were lower level employees. It is not known whether there are errors derived from non-response bias.

<table>
<thead>
<tr>
<th>Ownership</th>
<th>Name of Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign-owned companies</td>
<td>Agilent Technology, Gurgaon</td>
</tr>
<tr>
<td></td>
<td>Alcatel Lucent India Ltd, Gurgaon</td>
</tr>
<tr>
<td></td>
<td>Canon India Ltd, Delhi</td>
</tr>
<tr>
<td></td>
<td>Ericsson, Gurgaon</td>
</tr>
<tr>
<td></td>
<td>Motorola, Gurgaon</td>
</tr>
<tr>
<td></td>
<td>Nokia, Gurgaon</td>
</tr>
<tr>
<td></td>
<td>Panasonic, Gurgaon</td>
</tr>
<tr>
<td></td>
<td>Sony India Ltd, Mathura</td>
</tr>
<tr>
<td></td>
<td>Toshiba, IMT Manesar</td>
</tr>
<tr>
<td></td>
<td>Videocon, Shahjahanpur (Raj)</td>
</tr>
<tr>
<td>Indian-owned</td>
<td>Binary Semantic Ltd, Delhi</td>
</tr>
<tr>
<td></td>
<td>HARTRON, Gurgaon</td>
</tr>
<tr>
<td></td>
<td>Minda Automotive, Manesar</td>
</tr>
<tr>
<td></td>
<td>MVL Industries Ltd, Bhiwadi</td>
</tr>
<tr>
<td></td>
<td>Rollex Electro Products, Bhiwadi</td>
</tr>
</tbody>
</table>

Table 1: Database of Companies; source: original research
4.1. Questionnaire Development

The questionnaire for this project consisted of 58 items based on an HR development (HRD) survey developed by Rao & Abraham (1986) for a survey conducted by Xavier Labour Relations Institute Centre Jamshedpur, India for a study of the HRD climate in 1986. The survey questions describe the critical aspects of each factor that contribute to the HRD process in the industry. The questions in the HRD instruments were structured using five-point frequency interval scales. The five behavioural anchors were measured with the help of the following descriptions:

1 = Not at all true.
2 = Rarely True.
3 = Sometimes true.
4 = Mostly true.
5 = Almost always true.

There are two methods of scoring. One is to identify the correct answer as the one that is considered correct by the majority of the respondents in the research or standardized sample. This is the general consensus method. The second method is to invite HR specialists to judge which answers are correct and use the average based on managerial judgment method. This is the expert consensus approach, which was used for scoring in this study (Pareek & Rao, 1981) To verify the subscales under the above mentioned dimension exploratory factor analysis (Principal component analysis and Varimox rotation) with SPSS 13 was conducted). After factor analysis was conducted, the items that loaded at less than 0.50 or loaded on an uninterruptible factor were dropped or rephrased. As a result of the above analysis, the instrument from measuring HRD was developed that uses a Likert scale (i.e. 5 point box scale as specified above) for ranking each of the items, on which a higher score indicates effective HRD environments, trends and practices. Responses to the total of 58 questions composing the HRD factor were analysed (N=294) using principal component factoring
with iteration and Varimox rotation. The data for research were taken for the sample questions applicable to SHRM Practice. The output of relevant questions was applied to help understand the applicability to strategic HRM and to investigate the effectiveness of the practice of SHRM in these companies.

5. Findings

SHRM practices are essential to achieve effectiveness in the organization. These practices enable organizations to monitor and control standards and to agree on expectation and practices. The companies which have implemented strategic HRM practices were found to be more stable, successful in terms of satisfaction of HR and showed more innovation and creativity in HR. Consequently, SHRM practices played a pivotal role behind the success story of these companies.

5.1. Popular SHRM Practices in Electronics and IT Companies

According to the percentile analysis, the focus of SHRM practices in rank order is given below. These practices are followed in electronics & IT firms. The Rank % of the respondents of these industries is shown in Table 2.

This study also examined the relationship between the practices of the organization diagnosing its strategic needs by planning of human development talent and implementing strategies to achievement and other practices, such as strategies are linked to HRM policies, areas covered by SHRM, achievement of organizational objectives, who is most in touch with employees, SHRM facilitation, treatment of employees, relevant SHRM activities and SHRM activities adopted.
The Chi square test was used to examine these relationships. The following practices have significant relationships with organizations diagnosing its strategic need by planning human development talent and implementing strategies to achievement, i.e. SHRM focus (P value = 0.00**), functional areas covered by SHRM (P value = 0.00**), line managers are most in touch with employees (P value = 0.00**), SHRM facilitation (P value = 0.00**), treatment of employees (P value = 0.00**), relevant SHRM activities (P value = 0.00**) and other practices like organization policies and strategies are not significantly distributed.

An attempt was also made to examine the order of importance of practices. Means and standard deviation tools were used in this process. The analysis yields the following practices in the firms.

<table>
<thead>
<tr>
<th>Rank Order</th>
<th>SHRM Factors</th>
<th>Respondents Using (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Organization policies and strategies linked to HRM policies</td>
<td>(94.2%)</td>
</tr>
<tr>
<td>2</td>
<td>SHRM focus</td>
<td>(67.3%)</td>
</tr>
<tr>
<td>3</td>
<td>SHRM facilitates achievement</td>
<td>(65.4%)</td>
</tr>
<tr>
<td>4</td>
<td>Treatment of employees</td>
<td>(64.4%)</td>
</tr>
<tr>
<td>5</td>
<td>Relevant SHRM activities</td>
<td>(57.0%)</td>
</tr>
<tr>
<td>6</td>
<td>SHRM facilitates co-ordination</td>
<td>(57.2%)</td>
</tr>
<tr>
<td>7</td>
<td>Functional areas covered by SHRM</td>
<td>(56.2%)</td>
</tr>
<tr>
<td>8</td>
<td>Organization diagnoses its strategic needs</td>
<td>(53.8%)</td>
</tr>
<tr>
<td>9</td>
<td>Line managers most in touch with employees</td>
<td>(37.5%)</td>
</tr>
<tr>
<td>10</td>
<td>Adopted SHRM activities</td>
<td>(33.7%)</td>
</tr>
</tbody>
</table>

Table 2: Rank Order of SHRM Policies Adopted; source: original research
These variables are dominant practices in the electronics companies surveyed:

- SHRM activities (Mean 3.18, S.D. 1.23);
- SHRM activities adopted (Mean 3.04, S.D. 1.28);
- Treatment of employees (Mean 2.61, S.D. 1.18);
- Areas covered by SHRM (Mean 2.54, S.D. 0.70);
- Organization diagnoses its strategic needs (Mean 2.18, S.D. 1.05) and
- SHRM facilitation (Mean 2.07, S.D. 0.80).

Factor analysis was also conducted to ascertain dominant factors of SHRM practices. The factor analysis solution that emerged explained 43.26% of variance. The items loading on the first factor were SHRM facilitation, treatment of employees and SHRM activities. This factor was named SHRM processes and explained 25.48% of variance. The items loading on the second factor were strategic link to HRM policies and functional areas covered by SHRM practices. It was named organizational goals accomplishment and explains 17.78% of variance.

From the above analysis, it has been found that most of the electronics firms concentrate on the following strategic HRM practices:

- SHRM focus (strategic issues and operational issues);
- functional areas covered by SHRM (finance, marketing, operations);
- SHRM facilitation (transformation);
- treatment of employees (fairness and equity, favour balanced decision making and congenial work environment);
- adopted SHRM activities (team-based job design, flexible work force, quality improvement practices) and
- SHRM activities (innovation, designing consistent policies and practices and strong expectation).
5.2. Dominant SHRM Practices which Achieve Higher Effectiveness

According to the percentile analysis, the focus of SHRM effectiveness in rank order is given in Table 3 below.

The Chi-square test was also used to examine the relationships between conducting work/family programmes and other practices. The following variables have significant relationships: participative management (P value = 0.00**), executive development programme (P value =0.04*), strategic advance issue studies (P value = 0.00**), communication between employees and managers (P value = 0.00**). There is no significance relation with SHRM effectiveness attainment (i.e. teamwork, communications, enhancing quality, employee participation and empowerment), succession planning and development planning, work force planning support and quality output.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Practices</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Workforce plan</td>
<td>93.8</td>
</tr>
<tr>
<td>2</td>
<td>Participative management</td>
<td>90.3</td>
</tr>
<tr>
<td>3</td>
<td>Executive development</td>
<td>86.1</td>
</tr>
<tr>
<td>4</td>
<td>Succession and development planning</td>
<td>81.2</td>
</tr>
<tr>
<td>5</td>
<td>Advance issue identification strategic studies</td>
<td>72.0</td>
</tr>
<tr>
<td>6</td>
<td>Communication between employee and manager</td>
<td>56.7</td>
</tr>
<tr>
<td>7</td>
<td>Quality output</td>
<td>49.0</td>
</tr>
<tr>
<td>8</td>
<td>SHRM effectiveness attained</td>
<td>46.2</td>
</tr>
</tbody>
</table>

Table 3: Rank Order of Dominant SHRM Practices; source: original research

An attempt was also made to examine the order of importance of SHRM effectiveness practices. Means and standard deviation tools
were used for this. This descriptive statistical process gives higher rating of effectiveness for SHRM in the organization by teamwork, communications, employee participation and empowerment (Mean 3.57, S.D. 1.59), secondly employee and manager communications (Mean 2.50, S.D 0.65), thirdly workforce productivity and quality output (Mean 2.27, S.D 0.69), fourthly workforce planning (Mean 1.96, S.D 0.92) and finally executive development programmes and succession planning (Mean 1.16, S.D 0.37). Factor analysis of these results led to the extraction of four factors. Factor one consist of two items, namely planning and workforce productivity and quality factor and this was named employee outcomes. Factor two consist of two items, namely participation management and strategic advance issue identification and employee and manager communication and this was named managerial decision-making and communication. Factor three consisted of two factors, namely management of executive development and succession planning and this factor was named management development. Factor four consisted of only one factor, workforce planning, so retained this name. From the above analysis, it has been found that most of the electronics firms achieve effectiveness thought the following SHRM practices: workforce planning, participative management, executive development programmes, succession and development planning, strategic advance issue identification and communications between employees and managers.

6. Conclusion

The results have indicated that most of these electronics companies practice the following SHRM policies: SHRM focus, functional areas covered by SHRM, facilities, treatment of employees, adopted SHRM activities and SHRM activities. It was concluded that the firms under research were following SHRM practices and they achieved effectiveness by the following principal strategies:

- workforce planning,
- participative management;
• executive development programmes;
• succession and development planning;
• strategic advance issue identification studies and
• communications between employees and managers.

It is suggested that replication of this study on other similar but randomly selected organizations together with other facets of the electronics industry would be helpful. Also, further study on SHRM practices might be conducted to identify the performance indicators of various categories of professionals with a view to evolving a performance appraisal system and training policy design for electronic industry employees. In conclusion, this indicates the need for further research on the above lines which might help similar organizations to determine the role of SHRM practices in the development of organizations and how best SHRM practices make a difference in the performance of those organizations.

7. References


The Determinants of Financial Development: New Evidence from the Middle East and North Africa Region

Manizheh Falahaty

Law Siong Hook

Abstract

The purpose of this study is to explore the determinants of financial market development in nine Middle East and North Africa (MENA) countries during the period 1991–2009. The empirical results based on the Fully Modified Ordinary Least Squares (FMOLS) method indicate that financial development is affected by economic growth, trade openness, bank concentration, institutional quality and the government ownership of banks, while the findings from the dynamic ordinary least squares (DOLS) technique only support trade openness and bank concentration as promoting financial development. These findings suggest that improving the business environment and quality of institutions as well as macroeconomic stability and improving the banking system concerning inflation control, monetary policies and privatizing banks, can enhance financial development in the MENA countries.

Keywords: bank concentration, economic growth, financial development, MENA, trade openness

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1. Introduction

The relationship between financial development and economic growth has received considerable attention from financial economists over the years. The positive effect of financial development on economic growth is supported by theoretical and empirical studies and it is widely accepted that well-functioning financial markets can positively contribute to economic growth in both developed and developing countries. Given the important role finance plays in encouraging economic growth, later studies have addressed the determinants of financial development and considered other aspects such as legal, political and cultural factors, bank ownership, bank concentration and geographical differences across countries, all of which may influence the development of financial markets.

According to La Porta et al. (1997) “… legal traditions that shape the laws and enforcement mechanisms and protect the rights of outside investors has influence on financial development.” Also, Beck, Demirgüç-Kunt & Levine (2003) show that the adaptability and flexibility of legal systems promote financial development by doing a better job at meeting the changing financial needs of the economy. On the other hand, Rajan & Zingales (2003) highlight the influence of political systems on financial development policies and point out that closed political systems are more likely to impede the development of financial systems that promote competition and threaten entrenched powers than open political systems. Svaleryd & Vlachos (2002) demonstrate that financial development is influenced by trade openness. A study by Law (2004) also reveals that trade openness as well as capital account openness can lead to financial development. In addition, the role of religion is also highlighted by Stulz & Williamson (2003); they point out that religion influences national
views regarding institutions, especially financial institutions. Also, Acemoglu, Johnson & Robinson (2001) stress the role of initial geographic endowments in determining attitudes towards development of different institutions. Gerschenkron (1962) argues that governments can play a crucial development role by fulfilling banks’ functions with salutary effects, especially in countries where there are underdeveloped financial systems. Demirgüç-Kunt and Levine (2000) believe that the relationship between bank concentration and financial development is associated with conflicting predictions. However, they show that bank concentration is not related to financial development.

The countries of the Middle East and North Africa (MENA) region have implemented economic reforms and structural adjustment programs over the last few decades. There is an expectation that a dominant role played by governments through implementing financial market policies and financial reform programs can affect the development of financial markets and cause economic growth. Thus, a careful analysis of the sources of financial development can provide additional evidence which is particularly important for policy makers in this region.

The objective of this study is to examine the determinants of financial development based on the theoretical postulations from economic growth, openness, bank concentration, institutions and government ownership of banks in the context of the MENA region during the period 1991–2009. First, this study employs data from nine MENA countries: Egypt, Iran, Jordan, Kuwait, Malta, Morocco, Oman, Saudi Arabia and Tunisia. These countries have been selected not only because the size and the structure of the financial systems are different from each other and few empirical studies have been conducted of them but, also, because of the importance of the region for the international community. This study provides a direct test for the determinants of financial development using an appropriately specified financial development equation, which investigates the relative importance of these determinants in promoting financial
development. The second contribution of our paper refers to utilizing two sets of financial development indicators, namely the banking sector and capital market development indicators, and analysing each of these indicators separately. The third contribution lays in the use of the Pedroni panel co-integration and Fully Modified ordinary least squares (FMOLS) methods, which both have a number of econometric advantages compared to traditional panel data estimation techniques.

This paper is organized as follows. Section 2 discusses the sources of financial development from a theoretical viewpoint, including financial liberalisation, legal and institutional factors and bank structure. Section 3 explains the empirical model and econometric techniques used and the data employed in the analysis is presented in section 4. Section 5 reports and discusses the econometric results and, finally, section 6 gives a summary and concludes with a discussion of the findings of the study.

2. Literature Review

The early literature on financial development and the role of financial liberalization can be traced back to McKinnon (1973) and Shaw (1973), who both argued that financial development can be hindered by government restrictions on the operation of financial systems, such as interest rate ceilings, directed credit programs, reserve and liquidity requirements and these may contrarily affect the quality and quantity of investment. Indeed, their framework suggests that interest rate controls may distort the economy in several ways. First, it may discourage entrepreneurs from investing in high risk projects despite them being potentially high-yielding investments. Second, financial intermediaries may become more risk averse and practice preferential lending to established borrowers. Third, borrowers who obtain their funds at relatively low costs may prefer to invest in only capital intensive projects. Hence, they propose that financial liberalization and less government intervention in controlling and imposing ceilings on interest rates can increase financial development. Arestis,
Demetriades & Luintel (2002) examined the impact of financial liberalization policies on financial development for six developing countries over the period 1955-1997. They utilized Central Bank annual reports to collect data on a number of financial restraints, including restrictions on deposit and lending interest rates and reserve and liquidity requirements, to construct two quantitative measures of financial restraints. They also use the ratio of nominal liquid liabilities to nominal GDP as a financial development measure. Using the ECM method, they find that the effects of financial policies differ considerably across countries. Their findings show that financial liberalisation is a much more complex process and its effects on financial development are ambiguous.

The role of trade openness in influencing financial development has also been considered by Rajan & Zingales (2003). They highlight the supply-side role of interest groups, especially the vested interests of incumbent industrialists and financial intermediaries. In this view, incumbents have strong motivations to resist financial development because they are worried by the threat of new entrants into the market. In fact, if a country becomes more open to foreign competition or to international flows of capital, these incentives are weakened. Indeed, closed political systems are more likely to impede the development of financial systems that promote competition and threaten entrenched powers than open political systems.

In a series of cross-country studies, using 43 developing countries over the period 1980–2000, Law & Demetriades (2004) examine the relationship between openness and financial development. They employ dynamic panel data techniques (Pooled Mean Group) on a rich data set containing two groups of financial development indicators (banking systems and stock markets), a number of alternative proxies for financial and trade openness and institutional quality indicators. Their results provide support for the Rajan & Zingales (2003) hypothesis which states that the simultaneous opening of both capital flows and trade will encourage financial development.
Their findings also strongly supported the view that institutional quality is an independent determinant of financial development.

In terms of institutions, Acemoglu et al. (2004) argued that economic institutions determine the incentives and constraints imposed on economic actors and this helps shape economic outcomes. They stress that political institutions and the allocation of resources determine the distribution of political power in society. They find that countries with poor political institutions exhibit greater financial instability, even though they tend to have restrictive regulations on competition in the financial sector. Using a number of economic development and institutional variables, Okeahalam (2005) investigates the relationship between institutions and financial market development in terms of the MENA region. He finds that effective and well-developed institutions play a significant role in economic development. The empirical results support the view that the institutional environment in which financial markets function is important, as this reinforces the efficient allocation of economic rights that are essential for markets to function optimally. The results also show that infrastructure development and the degree of openness of an economy are the most robust indicators for the development and effective functioning of financial markets in the MENA region.

Gerschenkron (1962) has underlined the importance of the government’s participation in financial markets. He focuses on the “development” view and argues that the government could start both financial and economic development through its financial institutions. In fact, the government generally fulfils the functions of industrial banks with salutary effects. On the other hand, another view, namely the “political view” of government participation in finance, emphasizes political rather than social objectives. Proponents of the political view believe that governments control enterprises and banks in order to provide employment, subsidies and other benefits to supporters, who return the favour in the form of votes, political contributions, and bribes. This view holds more weight in countries
with underdeveloped financial systems and poorly protected property rights, because there the government does not need to compete with the private sector for funds.

However, Yeyati, Micco & Panizza (2005) investigated the role of state-owned banks in influencing financial development and economic growth using cross-country data. Their results showed that in developing countries, state-owned banks are associated with lower profitability than comparable privately owned banks. Moreover, their findings not only failed to provide support for the presence of state-owned banks in promoting economic growth or financial development but, also, suggested that the presence of state-owned banks leads to lower growth. This result supports La Porta et al. (1997), who found that the government ownership of banks at an earlier period is associated with a slower subsequent development of the financial system and slower economic growth.

With respect to the relationship between bank concentration and financial development, there are conflicting predictions. One view assumes commercial bank concentration will be negatively associated with measures of banking sector efficiency and financial development, while another view focuses on the positive relationship between bank concentration and financial development. With this hypothesis in mind, Demirgüç-Kunt & Levine (2000) investigated the relationship between commercial bank concentration and efficiency, financial system development, political structure, institutional environment and stability, using cross-country data over the period 1990-1997. They employed a rich data set for four groups, namely financial development, political structure and institutional environment, banking fragility and conditioning information set for a maximum of 94 countries. In addition, they used the ratio of total assets of the three largest banks in each country to total banking sector assets as a proxy for concentration. The empirical results showed that bank concentration is not significantly related to bank efficiency, stock market development or financial development. In fact, their findings
do not provide support for the view that bank concentration is closely associated with banking sector efficiency, financial development, industrial competition, general institutional development or the stability of the banking system.

3. Methodology

3.1. Empirical Model

To investigate the determinants of financial development, we use McKinnon (1973) and Shaw (1973) type models and the endogenous growth literature. In the model used by McKinnon (1973), the positive relationship between financial development and the level of output results from the complementarity between money and capital. In the model of Shaw (1973), financial markets through debt intermediation promote investment which raises the level of output. In addition, the endogenous growth literature predicts a positive relationship between financial development, real income and interest rates (King & Levine, 1993a, 1993b). Based on these theoretical hypothesizes, a financial development relationship can be specified as follows:

\[
 FD = f(GDP, R)
\]

where FD is financial development, GDP refers to real GDP per capita and R is the real interest rate. It is important to mention that we exclude the real interest rate from the model due to the fact that the interest rate is controlled by governments in the MENA countries studied. Consequently, the interest rate is not expected to have any effect on financial development (Rajan & Zingales, 2003). Given the above discussion, equation (1) is extended to incorporate institutions, bank concentration, government ownership and trade openness as follows:

\[
 Ln FD_{it} = \beta_0 + \beta_1 LnGDP_{it} + \beta_2 LnINS_{it} + \beta_3 LnBC_{it} + \beta_4 LnGO_{it} + \beta_5 LnOP_{it} + \epsilon_{it}
\]
where FD refers to the financial development index (banking sector and capital market), GDP is real GDP per capita, INS is institutional quality, BC is bank concentration, GO is government ownership and OP is trade openness. Also, each variable is measured for the $i^{th}$ country in the $t^{th}$ year reflecting the fact that the sample contains cross-sectional and time series data. The error term is represented by $\epsilon$ and the constant is denoted by $\beta_0$ while $\beta_1-\beta_5$ are the coefficients that show how much a one unit increase in each individual variable affects financial development. All coefficients are expected to carry a positive sign except bank concentration and government ownership.

3.2. Econometric Methods

3.2.1. The Unit Root Test

Before proceeding to the identification of a possible long run relationship, it is necessary to verify that all variables are integrated of order one in levels. There are various unit root tests for panel data with each test having its own advantages and restrictions. For this study we have chosen the Levin, Lin & Chu (LLC) and Im, Pesaran & Shin (1997) (IPS) tests, both of which are based on the well-known Dickey-Fuller procedure. Although the LLC test has a homogeneity limitation, the IPS test solves this problem by assuming heterogeneity between units in a dynamic panel framework.

3.2.2. The Co-Integration Test

The panel co-integration test introduced by Pedroni (1999) is employed to analyse the long-run relationship among the variables, using specific parameters which are allowed to vary across individual members of the sample. He has suggested seven tests, which can be divided into two groups of panel co-integration statistics namely the within-dimension statistic or panel t-statistic and between-dimension statistic or group t-statistic. In the case of the panel statistics, the first order autoregressive parameter is limited to being the same for all
cross sections. If the null is rejected, the parameter is smaller than 1 in its absolute values and the variables in question are co-integrated for all panel members. In the group statistics, the autoregressive factor is allowed to differ over the cross section, as the statistics amount to the average of the individual statistics. If the null is rejected, co-integration holds at least for one individual. Consequently, group tests offer an additional source of heterogeneity among the panel members.

3.2.3. Cross-Sectional Dependency Test

There is one simple test of error cross section dependence which is applicable to a variety of panel data models, including stationary and unit root dynamic heterogeneous panels with a short T and large N. The proposed test is based on the average of the pair-wise correlation coefficients of the OLS residuals from the individual regressions in the panel and can be used to test for cross section dependence of any fixed order P. It is also suitable for the case where no a priori ordering of the cross section units is assumed and it is referred to as the CD test.

\[
(3) \quad CD = \sqrt{\frac{2T}{N(N-1)}} \left( \sum_{i=1}^{N-1} \sum_{j=i+1}^{N} \hat{\rho}_{ij} \right) N (0,1)
\]

It is clear that the test is correctly centred for fixed N and T and is robust to single or multiple breaks in the slope coefficients and/or error variances. Also, this test has the correct size in very small samples and satisfactory power and, as predicted by theory, is quite robust in the presence of unit roots and structural breaks.

3.2.4. The FMOLS Approach

Having established that the dependent variable is structurally related to the explanatory variables and, thus, a long run equilibrium relationship exists among these variables, we proceed to estimate equation (2) using the fully modified OLS method, which is
appropriate for heterogeneous cointegrated panels (Pedroni, 2000). This methodology addresses the problem of non-stationary regressors, as well as the problem of simultaneity bias. Another reason why OLS is not suitable is that its estimation yields biased results because, in general, the regressors are endogenously determined in the I(1) case. We consider the following co-integrated system for panel data:

\[
\begin{align*}
\mathbf{y}_{it} &= \alpha_i + \mathbf{x}_{it} \beta + \mathbf{e}_{it} \\
\mathbf{x}_{it} &= \mathbf{x}_{i,t-1} + \mathbf{\varepsilon}_{it}
\end{align*}
\]

where \( \xi_{it} = [\mathbf{e}_{it}, \mathbf{\varepsilon}_{it}] \) is stationary with a covariance matrix represented by \( \Omega_i \). A semi-parametric correction can be made to the OLS estimator that eliminates the second order of bias caused by the fact that the regressors are endogenous. Pedroni (2000) follows the same principle in the panel data context, and allows for heterogeneity in the short run dynamics and the fixed effects. Pedroni’s estimator is:

\[
\begin{align*}
\hat{\beta}_{FM} - \beta &= \left( \sum_{i=1}^{N} \Omega_{22i}^{-2} \sum_{t=1}^{T} (x_{it} - \bar{x}_t)^2 \right) \sum_{i=1}^{N} \Omega_{11i} \Omega_{22i}^{-1} (\sum_{t=1}^{T} (x_{it} - \bar{x}_t) e_{it} - T \hat{\gamma}_i) \\
\hat{e}_{it}^* &= e_{it} - \Omega_{22i}^{-1} \Omega_{21i}, \quad \hat{\gamma}_i = \Gamma_{21i} + \Omega_{21i}^{0} - \Omega_{22i}^{-1} \Omega_{21i} \left( \Gamma_{22i} + \Omega_{22i}^{0} \right)
\end{align*}
\]

where the covariance matrix can be decomposed into \( \Omega_i = \Omega_i^{0} + \Gamma_i + \Gamma_i \) where \( \Omega_i^{0} \) is the contemporaneous covariance matrix and \( \Gamma_i \) is a weighted sum of auto-covariance. Also \( \Omega_i^{0} \) denotes an appropriate estimator of \( \Omega_i^{0} \).

3.2.5. Robustness Test: The Dynamic OLS Estimation

Besides using the FMOLS, this study also employs the DOLS estimator as a robustness check. This technique is a parametric approach and takes into account the potential endogeneity of the
variables as well as the presence of serial correlation by including leads and lags of the differenced explanatory variables as additional regressors (Fidrmuc, 2009). It has been shown that the DOLS estimator outperforms the FMOLS estimator in the estimation of co-integrated panel regressions. The DOLS estimator can be expressed as follows:

\[ y_{it} = \alpha_i + \dot{x}_{it} \beta + \sum_{j=-q_2}^{j=q_2} c_{ij} \Delta x_{it+j} + v_{it} \]

where \( c_{ij} \) is the coefficient of a lead or lag of the first differenced explanatory variables. Both estimators (FMOLS and DOLS) have the same (normal) limiting properties, although the FMOLS estimator does not improve the properties of the fixed effects estimator in finite samples.

3.3. The Data

To estimate the models, this study employs two data sets, corresponding to the two different measures of financial development indicators, namely banking sector development and stock market development. The first measure of financial development contains three banking sector development indicators, namely private sector credit (PC), domestic credit provided by the banking sector (DC) and liquid liabilities (LQ). Private sector credit is defined as the value of credit by financial intermediaries to the private sector. LQ measures the ability of banks to mobilize funds, whereas DC comprises PC as well as credit to the public sector.

The second measure of financial development comprises three stock market development indicators, namely value traded (VT), turnover ratio (TR) and stock market capitalization (MC). The value traded is a measure of the total value of shares traded during the period. TR is a measure of the value of trades of shares on national stock markets divided by MC to capture the efficiency of the domestic stock markets, whereas MC refers to the value or capitalization the market
puts on a company. All financial development indicators (banking sector and stock market) are expressed as ratios to GDP. The main sources of these data are the World Development Indicator (World Bank CD-ROM 2011) and the World Bank Financial Structure Dataset (2010).

In addition, the legal/institutional variables used in this study contain the measures related to the general development institutions - Corruption, Rule of law and Bureaucratic Quality. Corruption \((\text{Corrupt})\) shows the likelihood that government officials will demand illegal payments. Rule of law \((\text{RLAW})\) reflects the degree to which the citizens of a country are willing to accept the established institutions to make and implement laws and adjudicate disputes and Bureaucratic Quality \((\text{BQ})\) shows whether the regime has autonomy to govern without political pressure. All of these data series are obtained from the International Country Risk Guide (ICRG) database (2010). In these indices, higher values indicate better conditions.

Trade openness (OP) is measured by total trade as a percentage of GDP, which is annual data and was obtained from the World Bank database (2011). Bank concentration (BC) measures the concentration of banks, is annual data and was obtained from World Bank Financial Structure Dataset (2010) and government ownership (GO) measures the percentage of government ownership by multiplying the share of each shareholder in the bank by the share the government owns in that shareholder, and then summing the resulting shares of the annual data computed for each country from Bankscope (2011). In these indices, lower values indicate better conditions. We use real GDP per capita as a proxy for demand financing. The definition of the financial development indicators above are presented in Appendix A.

4. Estimation Results

Panel unit root tests are reported in Table 1 for data on institutions (INS), openness (OP), bank government ownership (GO), bank
concentration (BC), real GDP per capita (GDP) and liquid liabilities (LQ), domestic credit (DC), private credit (PC), market capitalization (MC), turnover ratio (TR) and value traded (VT). All variables are tested both in levels and first difference with a constant and a constant with a time trend. The results of both LLC and IPS panel unit root tests show that the unit-root hypothesis cannot be rejected when the variables are taken in levels. However, when the first differences are used, the hypothesis of unit root non-stationarity is rejected at the 1% level of difference. These results lead us to conclude that our series are characterized as an I(1) process.

<table>
<thead>
<tr>
<th></th>
<th>LLC</th>
<th></th>
<th></th>
<th>IPS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level</td>
<td>1stDifference</td>
<td></td>
<td>Level</td>
<td>1stDifference</td>
</tr>
<tr>
<td></td>
<td>Constant + Trend</td>
<td>Constant + Trend</td>
<td></td>
<td>Constant + Trend</td>
<td>Constant + Trend</td>
</tr>
<tr>
<td>lnGDP</td>
<td>3.002 (3)</td>
<td>-0.720 (2)</td>
<td>-4.327* (2)</td>
<td>-5.301* (2)</td>
<td>-5.017 (3)</td>
</tr>
<tr>
<td>lnINS</td>
<td>1.661 (3)</td>
<td>-5.437 (2)</td>
<td>-9.004* (2)</td>
<td>-7.742* (2)</td>
<td>-2.362 (3)</td>
</tr>
<tr>
<td>lnOP</td>
<td>-4.579 (3)</td>
<td>-3.434 (2)</td>
<td>-10.04* (2)</td>
<td>-8.058* (2)</td>
<td>-1.584 (3)</td>
</tr>
<tr>
<td>lnOWN</td>
<td>0.584 (0)</td>
<td>0.073 (0)</td>
<td>-4.282* (0)</td>
<td>-3.806* (0)</td>
<td>1.713 (0)</td>
</tr>
<tr>
<td>lnCON</td>
<td>-3.668 (3)</td>
<td>-2.935 (2)</td>
<td>-7.837* (2)</td>
<td>-6.623* (2)</td>
<td>-2.418 (3)</td>
</tr>
<tr>
<td>lnLQ</td>
<td>-0.419 (3)</td>
<td>-4.201 (2)</td>
<td>-7.175* (2)</td>
<td>-7.290* (2)</td>
<td>0.032 (3)</td>
</tr>
<tr>
<td>lnDC</td>
<td>-2.359 (3)</td>
<td>0.448 (2)</td>
<td>-8.820* (1)</td>
<td>-8.040* (2)</td>
<td>-2.287 (3)</td>
</tr>
<tr>
<td>lnPC</td>
<td>-3.103 (3)</td>
<td>-2.072 (2)</td>
<td>-8.104* (2)</td>
<td>-8.550* (2)</td>
<td>-2.695 (3)</td>
</tr>
<tr>
<td>lnMC</td>
<td>-1.122 (3)</td>
<td>-3.747 (2)</td>
<td>-7.081* (2)</td>
<td>-4.225* (2)</td>
<td>-0.229 (3)</td>
</tr>
<tr>
<td>lnTR</td>
<td>-3.643 (3)</td>
<td>-3.574 (2)</td>
<td>-8.640* (2)</td>
<td>-5.691* (2)</td>
<td>-3.789 (3)</td>
</tr>
<tr>
<td>lnVT</td>
<td>-2.092 (3)</td>
<td>-2.125 (2)</td>
<td>-5.429* (2)</td>
<td>-3.473* (2)</td>
<td>-1.002 (3)</td>
</tr>
</tbody>
</table>

Table 1: Unit Root Tests; source: Original Research.

Notes: Asterisk (*) denotes result is significant at the 5% level. Optimal lag lengths are provided in the parentheses.
Table 2 reports the Pedroni co-integration results where the model contains a constant with trend. The results show that several statistics reject the null hypothesis of no co-integration in models 1b, 1d, 1e and 1f. For example, in model 1e, where financial development is proxied by turnover ratio, the result demonstrates that four out of seven statistics reject the null hypothesis. However, the co-integration results are not supported by models 1a and 1c, where the financial development indicator is proxied by liquid liabilities and private credit. Consequently, the evidence of these panel tests tends to support the presence of a co-integrating relationship amongst financial development, real GDP per capita, institutions, openness, bank ownership and bank concentration.

(Dependent variable: Financial Development)

<table>
<thead>
<tr>
<th></th>
<th>Model 1a FD=LQ</th>
<th>Model 1b FD=DC</th>
<th>Model 1c FD=PC</th>
<th>Model 1d FD=MC</th>
<th>Model 1e FD=TR</th>
<th>Model 1f FD=VT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Panel-v</td>
<td>-0.03</td>
<td>-0.3</td>
<td>-0.6</td>
<td>-1.4</td>
<td>-2.3</td>
<td>-1.2</td>
</tr>
<tr>
<td>Panel-ρ</td>
<td>2.4</td>
<td>1.6</td>
<td>2.3</td>
<td>2.1</td>
<td>2.6</td>
<td>2.7</td>
</tr>
<tr>
<td>Panel-t</td>
<td>-0.3</td>
<td>-1.5</td>
<td>1.1</td>
<td>-3.2*</td>
<td>-7.7*</td>
<td>-1.4</td>
</tr>
<tr>
<td>Panel-adf</td>
<td>-0.4</td>
<td>-1.3</td>
<td>-0.5</td>
<td>-1.4</td>
<td>-2.8*</td>
<td>-1.2</td>
</tr>
<tr>
<td>Group-ρ</td>
<td>2.9</td>
<td>2.2</td>
<td>3.3</td>
<td>2.8</td>
<td>3.3</td>
<td>3.6</td>
</tr>
<tr>
<td>Group-t</td>
<td>-0.9</td>
<td>-2.9*</td>
<td>1.04</td>
<td>-2.2*</td>
<td>-9.7*</td>
<td>-1.7**</td>
</tr>
<tr>
<td>Group-adf</td>
<td>-0.2</td>
<td>-1.1</td>
<td>-0.5</td>
<td>-0.3</td>
<td>-3.4*</td>
<td>-1.1</td>
</tr>
</tbody>
</table>

Table 2: Results of Panel Co-integration Tests (Constant with Trend); source: Original Research

Note: the critical value for one side tests is -1.64. Hence, a large negative value (k<=-1.64) implies the rejection of the null hypothesis (no co-integration). However, there is an exception for v-stat, which has a critical value of 1.64 but rejection of null hypothesis requires a
value larger than 1.64. ** reject the null of no co-integration at 1% and 5% significance level respectively.

Given the result of the panel unit root and co-integration tests, it is important to test the presence of cross-section dependence before employing the FMOLS panel. Table 3 reports the results from Pesaran’s test of cross-sectional independence. The results of cross-section independence for Model (1) for different regressions are confirmed in the data.

<table>
<thead>
<tr>
<th>Model 1a</th>
<th>Model 1b</th>
<th>Model 1c</th>
<th>Model 1d</th>
<th>Model 1e</th>
<th>Model 1f</th>
</tr>
</thead>
<tbody>
<tr>
<td>FD=LQ</td>
<td>FD=DC</td>
<td>FD=PC</td>
<td>FD=MC</td>
<td>FD=TR</td>
<td>FD=VT</td>
</tr>
<tr>
<td>2.21</td>
<td>0.36</td>
<td>-0.25</td>
<td>-0.19</td>
<td>-1.61</td>
<td>0.55</td>
</tr>
<tr>
<td>(0.12)</td>
<td>(0.71)</td>
<td>(0.79)</td>
<td>(0.84)</td>
<td>(0.10)</td>
<td>(0.58)</td>
</tr>
</tbody>
</table>

Table 3. Pesaran’s Test of Cross-Sectional Independence Results; source: Original Research

Notes: Figures in brackets are probability values. CD test statistic is based on two-sided N (0,1) test and distributed as a standard normal.

Having established that the series are cross-sectionally uncorrelated, the next step is to employ the FMOLS panel methodology in order to test the determinants of financial development. The fully modified OLS estimates of the co-integrating relationship are reported in Table 4. It is worth noting that the model includes time dummies because the banking ownership variable is quite persistent for several years. From Table 4, it can be seen that the estimated coefficient for real GDP per capita is statistically significant and positive in Models 1c and 1f, which is consistent with theory, but negative in Model 1e and for other models the variable is not significant. Although the positive effect of real GDP per capita is not detected from all the regressions, there are two regressions that show a positive significant relationship between real GDP per capita and financial development.
As shown in Table 4, the results reveal that the Openness variable is a statistically significant determinant of financial development in all the regressions. It is important to note that the signs of the estimated coefficients on openness are consistent with theory. Rajan & Zingales (2003) argue that goods market openness can improve the supply of external finance, because it aligns the interests of the economically powerful more closely with financial development. The results also show that the bank concentration variable is a statistically significant determinant of financial development in all the Models except for Model 1e and Model 1f. It is worth noting that the signs of the estimated coefficients on concentration are negative as expected. In terms of bank concentration, the empirical result indicates that a lower concentration would decrease systematic banking risk that helps to promote financial development. This finding is consistent with Demirgüç-Kunt & Levine (2000), who find that bank concentration is not related to bank efficiency and financial development. The estimated coefficients for the institution variable are statistically significant and positive only for Model 1a, Model 1d and Model 1f. The result seems to demonstrate that institutional quality is important for financial development in the MENA region. In terms of bank ownership, the results show that the estimated coefficients are statistically significant and positive for all the Models. This result does not support previous findings such as La Porta et al. (1997), who find that a high ownership would decrease financial development. This may reflect the fact that the bank’s ownership structure in MENA countries is dominated by governments and favorably affects financial development. Thus, it is obvious that financial development is affected by economic growth, openness, bank concentration, institutional quality and bank government ownership in the MENA countries.
<table>
<thead>
<tr>
<th>Stock Market Development</th>
<th>Banking Sector Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP per capita</td>
<td>Model 1a (FD = Value traded)</td>
</tr>
<tr>
<td></td>
<td>0.907 (0.22)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Openness</th>
<th>Model 1a (FD = Value traded)</th>
<th>Model 1b (FD = Turnover)</th>
<th>Model 1c (FD = Market Capitalization)</th>
<th>Model 1d (FD = Liquid Liabilities)</th>
<th>Model 1e (FD = Private credit)</th>
<th>Model 1f (FD = Domestic Credit)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.967 (5.20)**</td>
<td>1.962 (5.09)**</td>
<td>1.283 (4.09)**</td>
<td>0.423 (0.95)</td>
<td>0.387 (3.68)**</td>
<td>0.233 (3.71)**</td>
</tr>
<tr>
<td>Bank Concentration</td>
<td>-5.377 (-6.09)**</td>
<td>-3.323 (-4.68)**</td>
<td>-1.769 (-7.03)**</td>
<td>-0.468 (-7.12)**</td>
<td>-0.330 (-1.30)</td>
<td>-0.173 (-0.29)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Model 1a (FD = Value traded)</th>
<th>Model 1b (FD = Turnover)</th>
<th>Model 1c (FD = Market Capitalization)</th>
<th>Model 1d (FD = Liquid Liabilities)</th>
<th>Model 1e (FD = Private credit)</th>
<th>Model 1f (FD = Domestic Credit)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2.910 (2.50)**</td>
<td>1.295 (0.81)</td>
<td>0.639 (-0.08)</td>
<td>0.427 (-1.65)**</td>
<td>-0.156 (0.11)</td>
<td>0.574 (-5.31)**</td>
</tr>
<tr>
<td>Bank Ownership</td>
<td>3.707 (3.83)**</td>
<td>0.575 (2.97)**</td>
<td>4.340 (8.44)**</td>
<td>0.506 (-4.16)**</td>
<td>0.385 (4.73)**</td>
<td>0.648 (2.94)**</td>
</tr>
</tbody>
</table>

Table 4: Panel Group FMOLS Results with time dummies (Dependent Variable: Financial Development); source: Original Research

Notes: *, ** and *** denote significance at 10%, 5% and 1% levels, respectively. Figures in the parentheses are t-statistics. The sign of the coefficient and t-statistics can be inconsistent due to the t-statistic computation in FMOLS is different.

### 4.1. Robustness Checks

This study employs the DOLS estimation as a robustness check and the results are reported in Table 5. As shown in Table 5, the estimated coefficient for real GDP per capita is not significant in all the Models. In general, the findings show that there is no relationship between real GDP per capita and financial development in the MENA region. This is because only two regressions, as shown in Table 4, suggest that real GDP per capita has a positive effect on financial development, while the other regressions reveal that real GDP per capita is insignificant in determining financial development. As shown in Table 5, the estimated coefficient for trade openness is statistically significant and positive for most regressions. This finding confirms the existence of a long run relationship between openness and financial development and this supports the FMOLS result. In terms of bank concentration, the empirical result demonstrates that the bank concentration variable
loses significance in all the regressions except for Model 1d where the financial development indicator is represented by liquid liabilities. It is worth noting that the sign of the estimated coefficient on bank concentration in Model 1d is negative, as expected. This result is similar to that which was reported before with the only difference being the stronger statistical power of the statistic which supports the relationship between bank concentration and financial development by the FMOLS method.

<table>
<thead>
<tr>
<th>Stock Market Development</th>
<th>Banking Sector Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 1a (FD = Value traded)</td>
<td>Model 1b (FD = Turnover)</td>
</tr>
<tr>
<td>Real GDP per capita</td>
<td>0.003</td>
</tr>
<tr>
<td>Openness</td>
<td>-1.290</td>
</tr>
<tr>
<td>Bank Concentration</td>
<td>0.153</td>
</tr>
<tr>
<td>Institutions</td>
<td>-4.016</td>
</tr>
<tr>
<td>Bank Ownership</td>
<td>-0.322</td>
</tr>
<tr>
<td>Openness</td>
<td>-1.26</td>
</tr>
</tbody>
</table>

Table 5: Panel Group DOLS Results (Dependent Variable: Financial Development); source: Original Research

Notes: *, ** and *** denote significance at 10%, 5% and 1% levels, respectively. Figures in the parentheses are t-statistics.

The estimated coefficients for the institution variable are insignificant for all the regressions while they were significant and positive for three of the regressions that were estimated with the previous method. The results of the DOLS estimates do not support the FMOLS findings and demonstrate that institutional quality is not important for financial development in the MENA region. However this is not surprising since the institutional quality in developing countries is not developed. With respect to bank ownership, the findings reveal that the estimated coefficients are insignificant for all the regressions while
they were positive and significant for in previous findings. This may suggest a weak relationship between bank ownership and financial development and it unfavorably affects financial development in MENA countries. Overall, the DOLS results support those obtained from the FMOLS estimations which show the importance of trade openness and bank concentration in promoting financial development.

5. Conclusion

This study examines the determinants of financial development in the MENA countries over the period 1991-2009. The Pedroni panel co-integration, FMOLS and DOLS methods are employed in the analysis. The empirical results, utilizing the FMOLS method, suggest that trade openness, economic growth, bank concentration, institutions and government ownership have a significant and positive effect on financial development, while the estimations from the DOLS method only support trade openness and bank concentration in promoting financial development. The findings of this study have important policy implications. It is obvious that governments in the MENA region can help develop their financial markets by improving economic development that encourages efficient financial systems. Improving the business environment and quality of institutions can cause higher productive investment in physical and human capital and an adequate structure for more job-creating growth that leads to higher economic growth. Financial liberalization is, therefore, as important as other macroeconomic factors such as trade openness. However, certain steps need to be taken before financial liberalization is executed such as improving the banking system and inflation control in order to provide macroeconomic stability. While recognizing that the banking system is underdeveloped and the inflation rate is fairly high in the MENA region, steps need to be taken such as establishing a strong framework for the central banks in the region which allows them to play a major role in monetary policy and government spending.
6. References


**Appendix A: Definition and Sources of the Data**

<table>
<thead>
<tr>
<th>Financial development Indicators</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquid Liabilities/GDP</strong></td>
<td>The sum of currency and deposits in the central bank (M0), plus transferable deposits and electronic currency (M1), plus time and savings deposits, foreign currency transferable deposits, certificates of deposit, and securities repurchase agreements (M2), plus travellers’ cheques, foreign currency time deposits, commercial paper and shares of mutual funds or market funds held by residents.</td>
</tr>
<tr>
<td><strong>Domestic Credit/GDP</strong></td>
<td>Includes all credit to various sectors on a gross basis. The banking sector includes monetary authorities and deposit money banks, as well as other banking institutions where data are available.</td>
</tr>
<tr>
<td><strong>Private Sector Credit/GDP</strong></td>
<td>Financial resources provided to the private sector, such as through loans, purchases of non-equity securities and trade credits and other accounts receivable, that establish a claim for repayment.</td>
</tr>
<tr>
<td>Stock Market Capitalization/GDP</td>
<td>Market capitalization is the share price times the number of shares outstanding.</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>---------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Stock Market Turnover Ratio</td>
<td>Ratio of the value of total shares traded and average real market capitalization.</td>
</tr>
<tr>
<td>Total Share Value Traded/GDP</td>
<td>Stock traded refers to the total value of shares traded during the period.</td>
</tr>
<tr>
<td>Bank Concentration</td>
<td>Bank concentration equals the share of assets of the three largest banks in total banking system assets.</td>
</tr>
<tr>
<td>Government-Bank Ownership</td>
<td>Government Bank Ownership is the percentage of government ownership multiplying the share of each shareholder in the bank by the share the government owns in that shareholder and then summing the resulting shares.</td>
</tr>
<tr>
<td>Institutions</td>
<td>Includes the measures related to the general development institutions Corruption, Rule of law and Bureaucratic Quality. Corruption (Corrupt) shows the likelihood that government officials will demand illegal payments. Rule of law (RLAW) reflects the degree to which the citizens of a country are willing to accept the established institutions to make and implement laws and adjudicate disputes and Bureaucratic Quality (BQ) shows whether the regime has autonomy to govern without political pressure.</td>
</tr>
<tr>
<td>Trade Openness</td>
<td>Includes total trade (export plus import) as percentage of GDP.</td>
</tr>
</tbody>
</table>
An Evaluation of Corporate Governance Practices in the Banking Sector of Bangladesh

S.M. Zahidur Rahman
S.M. Arifuzzaman
M.M. Khairul Alam

Abstract

Corporate Governance (CG) largely determines how well the interests of the stakeholders are being maintained. CG codes have been established as an important effort to ensure accountability and responsibility from the companies concerned. However, assessment is required as to what extent these codes are actually practiced in real world. This study attempts to examine the CG practices in the banking sector of Bangladesh, where institutional credibility and transparency are believed to be even more crucial. Here, sixty seven CG code attributes have been examined from ten scheduled banks. These attributes have been further classified in six broad headings, namely board issues, shareholder rights & disclosure of information, financial reporting, audit practices, disclosure & transparency and HRM practices. Hypotheses for the study have been developed from the research questions. The results and analysis indicate compliance of CG code in the banks falls short of requirements. Consequently, the study recommends greater regulatory monitoring to ensure the exercise of good governance in Bangladeshi Banks.

Keywords: Corporate governance, commercial banks, Bangladesh, NCBs, PCBs, CG codes
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1. Introduction

Corporate governance (CG) is a combination of corporate policies and best practices adopted by corporate bodies to achieve their objectives in relation to their stakeholders’ expectations. It fundamentally aims to enhance corporate transparency and accountability (Thapa, 2008). It is widely recognized that transparency enhances trust among the major players within the governance framework and CG is equally significant for all types of corporate institutions. Additionally, good CG in the financial sector is considered to be an integral part of the development of sound, transparent and properly functioning money and capital markets by stimulating investor confidence. Furthermore, it is a very crucial and essential element for the banking system because bank and financial institutions depend on Other Peoples’ Money (OPM) (Abbasi, Kalantari & Abbasi, 2012). However, in an environment such as Bangladesh, where organized markets are nascent and a weak market for corporate control has been observed historically, CG structures have not always been in evidence. There may be a gap between major stakeholders like owners, depositors and management. So, evaluation and review of the performance of the CG of commercial banks is needed to ensure transparency and accountability. In addition, lack of adequate control mechanisms and transparency in banks may lead to issues of moral hazard. Ultimately,
it may disrupt the stability of the entire money and capital market. However, to date researchers in Bangladesh have not placed adequate focus on this area and those who have studied this area have not come up with very optimistic results. This study particularly puts light on the extent of CG in the country and attempts to evaluate actual governance practices in the banks of Bangladesh.

2. Objectives of the Study

The broad objective of this study is to evaluate the CG practices of the commercial banks of Bangladesh. The specific objectives are:

- To investigate the current practice of CG in terms of accountability to stakeholders;
- To evaluate how far the current practice of CG passes the test of fairness;
- To evaluate the extent of transparency in CG perceived by all stakeholders;
- To examine the state of human resource management (HRM) practices of the banking sector of Bangladesh.

The following research questions have been developed to meet these objectives:

- What are the provisions for Board of Directors issues in CG codes?
- What are the issues concerning Board practices in the banking sector of Bangladesh?
- Are there provisions for Shareholder Rights and Disclosure of Information and, if so, do these satisfy the CG codes?
• Are the provisions for Financial Reporting in the banking sector of Bangladesh satisfying the CG codes?

• What are the provisions for Audit Practices in the banking sector of Bangladesh? Are these satisfying the CG codes?

• What are the provisions for Disclosure and Transparency in the banking sector of Bangladesh? How far do these practices satisfy the CG codes?

• Are the HRM practices in the banking sector of Bangladesh satisfying the CG codes?

In order to examine these research questions, an assumption has been made that “60% or more of the banks in Bangladesh comply with 90% or more issues of the CG codes. Compliance of CG codes for each issue is determined when 60% or more banks have complied with 90% or more issues of the CG codes.” With this assumption, the following research hypotheses have been developed and tested at a 5% significance level by two-tailed tests:

H₀₁: There is no significant difference between CG codes on board issues and the practices of the same at sample banks as per the assumption.

H₀₂: There is no significant difference between CG codes on shareholder rights and disclosure of information and the practices of the same at sample banks as per the assumption.

H₀₃: There is no significant difference between CG codes on financial reporting and the practices of the same at sample banks as per the assumption.
H₀₄: There is no significant difference between CG codes on audit practices and the practices of the same at sample banks as per the assumption.

H₀₅: There is no significant difference between CG codes on disclosure and transparency and the practices of the same at sample banks as per the assumption.

H₀₆: There is no significant difference between CG codes on HRM and the practices of the same at the banks as per the assumption.

3. Literature Review

Corporate Governance (CG) has become one of the most common buzzwords in business world and is frequently used by academics, practitioners and the popular press (Denis, 2001). The Cadbury Report (1992) defines CG as a “system” by which companies are directed and controlled. Kocourek, Burger & Birchard (2003) state that governance begins at home, inside the boardroom and among the directors. It is embedded in how, when and why they gather, interact and work with one another and with management – in other words, the soft stuff of management. However, qualitative reforms to the behaviours, relationships and objectives of the directors and CEO are meaningless unless they are subject to the “hard” mechanisms of performance criteria, processes and measurement. According to Tricker (1994), CG is an umbrella term that includes specific issues arising from the interactions among senior management, shareholders, BOD and other corporate stakeholders. In its narrowest sense, the term may describe the formal system of accountability of senior management to the shareholders. At its most expansive sense, the term is stretched to include the entire network of formal and informal relations involving the corporate sector and their consequences for society in general. John and Senbet (1998) propose a more comprehensive definition that “corporate governance deals with mechanisms by which stakeholders of a corporation exercise control over corporate insiders and
management such that their interests are protected.” They include stakeholders, not just shareholders, but also debt-holders and even non-financial stakeholders such as employees, suppliers, customers and other interested parties.

Good CG is now widely recognized as an essential driver of establishing an attractive investment climate characterized by competitive companies and efficient financial markets. The absence of good CG may not only disrupt corporate operations but also have a far reaching impact on the economy overall. Anwar (2009) argues the U.S financial crisis occurred due to regulatory governance failures. He further describes a company as non-compliant when it fails to comply with the CG codes and creates opacity in place of transparency, accountability, monitoring and oversight of their own managerial practices.

In the exploration of literature in the CG practices of banks, authors identify three distinct strands. The first one focuses on how the CG practices in banks differ from those in non-banking firms (Prowse 2003; Morgan 2002; Macey & O’Hara 2003). Furfine (2001) opines that banks have two related characteristics that inspire a separate analysis of their CG. First, banks are generally more opaque than nonfinancial firms. Although information asymmetries plague all sectors, evidence suggests that these informational asymmetries are larger with banks. The second strand focuses on how better governance practices in banks can help their financial development and growth (Levine, 1997; Bushman & Smith, 2003). Bushman & Smith (2003) discussed economics-based research focused primarily on the governance role of financial accounting information and propose future research ideas. They proposed a framework that isolates three channels through which financial accounting information can affect the investments, productivity and value-added of firms. The first channel involves the use of financial accounting information by managers and investors in identifying promising investment opportunities. The second channel is the use of financial
accounting information in corporate control mechanisms that discipline managers to direct resources toward projects identified as good and away from projects identified as bad. The third channel is the use of financial accounting information to reduce information asymmetries among investors. The third and last strand focuses on CG practices in banks from the perspective of its impact on the performance and efficiency of the banks themselves (Jensen & Meckling 1976; Williamson 1985; Hovey, Li & Naughton, 2003). This strand has roots in the agency theory and underpins the study. The CG of banks in developing economies is important for several reasons. First, banks have an overwhelmingly dominant position in developing financial systems within an economy and are extremely important engines of economic growth (King & Levine 1993a,b; Levine 1997). Second, as financial markets are usually underdeveloped, banks in developing economies are typically the most important source of finance for the majority of firms. Third, as well as providing a generally accepted means of payment, banks in developing countries are usually the main depository for the economy’s savings. Fourth, many developing economies have recently liberalized their banking systems through privatization/disinvestments and reducing the role of economic regulation (Das & Ghosh, 2004). For financial institutions like commercial banks, CG is even more important as there is the risk of moral hazard (Anwar, 2009). The CG codes were established to eliminate any scope for deviation from regulatory standards voluntarily or involuntarily by financial institutions.

Banking companies pose unique CG issues as they differ greatly with other types of firms in terms of the broader extent of claims on the banks assets and funds (Reaz & Arun, 2005). Macey & O’Hara (2003) argued that a broader view of CG should be adopted in the case of banking institutions, arguing that because of the peculiar contractual forms of banking, CG mechanisms for banks should encapsulate depositors as well as shareholders. Arun & Turner (2003) supported the need for this broader approach to CG for banking institutions and
also argue for government intervention to restrain the behaviour of bank management.

In Bangladesh, poor bankruptcy laws, no push from the international investor community, limited or no disclosure regarding related party transactions, weak regulatory system, general meeting scenarios and lack of shareholder active participations are some of the individual constituents that have been identified as reasons for the absence of CG (Ahmad & Yusuf, 2005). Despite the expansion, the operational efficiency of the banking institutions has continued to be dismal (Sayeed, 2002; Raquib, 1999). The sector witnessed increasing numbers of non-performing assets, provision and capital shortfalls, eroded credit discipline, rampant corruption patronized by political interests, low recovery rate, inferior asset quality, managerial weaknesses, excessive interference from government and owners, weak regulatory and supervisory roles (Hassan, 1994; USAID, 1995). Internal control systems, along with accounting and audit qualities, are believed to have been substandard (Raquib, 1999; CPD, 2001). Many of the problems have been attributed to the lack of sound CG among the banks. The reports by the Banking Reform Commission (1999) and BEI (2003) raise serious concerns about the banking sector and criticize the quality of governance that prevails there in Bangladesh. Given this backdrop, the current study attempts in particular to explore and examine the present status of CG practices in commercial banks in Bangladesh.

Previous research is this area and relevant literatures have been considered to develop the issues of investigation in CG practice. The Basel Committee on Banking Supervision or BCBS (BIS, 2010) defines the following critical areas of CG:

- **Board Qualifications & Structure**: Board members should be and remain qualified, including through training, for their positions. They should have a clear understanding of their role in
corporate governance and be able to exercise sound and objective judgment about the affairs of the bank.

- **Board Practices:** the Board’s overall responsibilities include approving and overseeing the implementation of the bank’s strategic objectives, risk strategy, corporate governance and corporate values. The board is also responsible for providing oversight of senior management.

- **Internal Control:** Establishing effective internal control system for accountable and efficient operations.

- **The Committees of the Board:** Establishing and overseeing different committees to perform duties including the audit committee, the Risk Management Committee and the Governance Committee with the combined responsibilities of nomination, remuneration, succession planning, training and performance evaluation.

Further the following priority issues in CG were identified by the Taskforce on Corporate Governance or TCG (2004):

- **Preventing Abusive Related-Party Transactions:** Inspection of the existing firewall. Creation of specialized committees to monitor and approve related-party transaction and then publicly disclose such transactions.

- **Bank Holding Companies and Groups of Companies Holding Banks:** a bank’s parent company should not impede the full exercise of the CG of the bank within the banking group.

- **Disclosure:** the effort to promote convergence with international standards on accounting and other practices should be encouraged.
• **Bank’s Autonomy in Relation to the State**: the state as owner should respect the legal corporate structures of State-Owned Commercial Banks.

• **Bank’s Monitoring of the CG Structure of Its Corporate Borrowers**: the extent to which banks should assess or monitor the CG of their corporate borrowers or seek to improve it.

Finally, board issues, shareholder rights and disclosure of information, financial reporting, audit practices, disclosure and transparency and HRM practices have been selected as broad areas of CG practice which originate from 67 attributes.

### 4. Research Methods

The theoretical foundation of this study has been established from initial exploratory research. Both secondary and primary data have been used in this study. Secondary data has been collected through a wide array of sources, including books, articles journals, magazines, internet websites and newspapers. The primary part of this study started with the completion of the theoretical foundation and the primary data sources were the management representative of banks in Bangladesh. A total of ten scheduled banks were selected as the sample, of which two were Nationalized Commercial Banks (NCBs), namely Janata Bank Limited and Sonali Bank Limited, seven were Private Commercial Banks (PCBs), namely Eastern Bank Limited, Bank Asia Limited, Mercantile Bank Limited, Islami Bank Bangladesh Limited, Social Islami Bank Limited, Dutch-Bangla Bank Limited and ICB Islamic Bank Limited, with the last a Foreign Commercial Bank (FCB), namely Standard Chartered Bank. The sample was selected using a non-probability convenience sampling technique. An area sampling method has been used for selecting the samples. For this study, a pre-tested questionnaire has been developed to collect specific information about CG practices by the selected banks. The questionnaire was made semi-structured to allow for in-
depth interviews with key individuals of the companies. Different types of measurement scales have been used in developing the questionnaire. Scales include simple nominal scales, ranking/percentile ordinal scales, interval scales, Likert scales and others. In this study, each element of the major issues of CG has been tabulated and analyzed. Then, each element of the major issues was communicated to the corresponding heads to perform statistical analysis in order to fulfill the objectives of the study. To conduct this study, the major statistical tools that have been used are percentiles, means, standard deviations and z-tests. Percentile analysis helped to determine the proportion of banks complying with CG codes; means and standard deviations assisted in exploring the reliability and validity of the study and z-tests assisted in exploring the acceptance or rejection of hypotheses.

5. Results and Discussion

5.1. Board Issues

Effectiveness of the Board: to determine the effectiveness of the board, several factors were examined, such as the size of the Board and its structure, the presence and effectiveness of the independent directors, separation of the chairperson and CEO and the performance evaluation of the CEO by the board. All banks have a Board of Directors (BOD) and board size and presence of independent directors was found to be within the statutory requirement stated by the SEC. Every bank has a mission statement but only 10% of the banks annually evaluated the mission statement in the light of material events. Every bank was found to have written responsibilities for the BOD and they each attended the majority of the meetings. They were also found to be qualified but only 10% of them were provided with training opportunities. There is a code of conduct for BODs and 40% of the banks have external advisors for the company to advise directors on their duties and responsibilities. Only 10% of the banks evaluate the performance of the directors and 40% of the banks
provide competitive remuneration. The compliance level of the appointment of the CEO by board is 80% and in all banks the CEO and the chairperson are different individuals. CEO performances are evaluated by 80% of the banks, although only 10% of the banks review CEO compensation. Every bank has independent directors and the compliance level of the effectiveness of independent directors is 30%.

**Function of the Board and Board Committees:** the interests of the investors and other stakeholders in the company are safeguarded through various committees. In the best practice guidelines, three major committees are recommended. These are the audit committee, the compensation committee and the nomination committee. This study reveals that all banks have audit committees but the compliance level on compensation and nomination committees is only 10%. Every bank has an finance expert in its audit committees and the minutes of the audit meetings were properly recorded.

**Board Meetings:** this study shows that board meetings are held quite frequently (2-3 times in a year). In terms of average attendance and time spent, the survey found that the average time spent for each meeting is between two and three hours and that between 80% and 90% of the members attended these meetings. These board issues have been summarized in Table 1 below.

In the table, nine attributes show non-compliance because of being below the 60% (*redline cut-off point*) compilation rate. The data reveals that Evaluation of Board Mission, Directors’ Training, Directors’ Evaluation, Review of CEO Compensation, Presence of Board Compensation Committee and Presence of a Board Nomination Committee are the factors with the highest rate of non-compliance.
<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>CG Code Attributes</th>
<th>Indicator (%)</th>
<th>Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Presence of Board</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>Size of BOD between 7 to 15</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>BOD mission</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>4</td>
<td>Evaluation of Board mission</td>
<td>10</td>
<td>No</td>
</tr>
<tr>
<td>5</td>
<td>Written responsibilities for the BOD</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>6</td>
<td>Directors’ qualifications</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>7</td>
<td>Presence of individual director at majority of meetings</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>8</td>
<td>Directors’ training</td>
<td>10</td>
<td>No</td>
</tr>
<tr>
<td>9</td>
<td>Code of Conduct for Directors</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>10</td>
<td>External Advisor</td>
<td>40</td>
<td>No</td>
</tr>
<tr>
<td>11</td>
<td>Directors’ evaluation</td>
<td>10</td>
<td>No</td>
</tr>
<tr>
<td>12</td>
<td>Directors’ remuneration</td>
<td>40</td>
<td>No</td>
</tr>
<tr>
<td>13</td>
<td>Appointment of CEO by the Board</td>
<td>80</td>
<td>Yes</td>
</tr>
<tr>
<td>14</td>
<td>Separation of chairperson from CEO</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>15</td>
<td>CEO performance evaluation</td>
<td>80</td>
<td>Yes</td>
</tr>
<tr>
<td>16</td>
<td>Review of CEO’s compensation</td>
<td>10</td>
<td>No</td>
</tr>
<tr>
<td>17</td>
<td>Presence of Independent Directors</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>18</td>
<td>Effectiveness of Independent Directors</td>
<td>30</td>
<td>No</td>
</tr>
<tr>
<td>19</td>
<td>Presence of Board Audit Committee</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>20</td>
<td>Presence of Board Compensation Committee</td>
<td>10</td>
<td>No</td>
</tr>
<tr>
<td>21</td>
<td>Presence of Board Nomination Committee</td>
<td>10</td>
<td>No</td>
</tr>
<tr>
<td>22</td>
<td>Finance expert on audit committee</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>23</td>
<td>Record of minutes of audit meeting</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>24</td>
<td>Frequency of Board meetings</td>
<td>60</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 1: Summary of Compliance with Board Issues; source: Original Research

So, \( n = 24 \), \( x = 15 \), \( p = 0.90 \), \( q = 0.10 \) \( np = 24 \times 0.90 = 21.60 \). SD \( \sqrt{npq} = \sqrt{21.6 \times 0.10} = 1.47 \)

Where, \( n = \) Number of total attributes
\[ x = \text{Number of complied attributes} \]

\[ p = \text{Assumed Probability of compliance} \]

\[ q = \text{Probability of non-compliance} \]

\[ np = \text{Populations mean} \]

Applying the formula,

\[ z = \frac{x - np}{\sqrt{npq}} = \frac{15 - 21.60}{1.47} = -4.99 \]

At a 5% significance level, the critical value or table value of \( z = \pm1.96 \). Thus, the calculated value of \( z (-4.99) \) falls in the rejection region of the critical value of \( z \); Consequently, \( H_0 \) can be rejected on the basis of the sample data. It can, therefore, be concluded that 60% or more of banks do not comply with 90% or more of board issues. In the sample, only 62.50% (or 15/24*100%) of the issues have been complied with by more than 60% of the banks.

**Shareholder Rights and Disclosure of Information:** it is important that shareholders know the agenda of the AGM well in advance to discuss their views in the meeting and have knowledge about the equity position of the major shareholders. These are important elements for ensuring good governance at the corporate level to safeguard the rights of large and small investors in the company. Excluding the two NCBs and one FCB, the remaining seven are public owned and they are listed on the SEC. The compliance level for information on the AGM agenda item is 70%, while the provision of adequate time for discussion and information on equity of major shareholders is 40%. The nomination of candidates in the meeting is an important element to ensure transparency in governing the banks. In this study, the majority (70%) of the shareholders knew about the Director’s candidates prior to the AGM. On the other hand, 40% of the shareholders mentioned that minority shareholders can nominate their candidates. The compliance level with respect to the flexible
voting system is 70%. The level of compliance on Shareholder Rights and Disclosure of Information is shown in Table 2.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>CG Code Attributes</th>
<th>Compliance (%)</th>
<th>Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Information on AGM agenda</td>
<td>70</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>Adequate time for discussion</td>
<td>40</td>
<td>No</td>
</tr>
<tr>
<td>3</td>
<td>Information on equity of major shareholders</td>
<td>40</td>
<td>No</td>
</tr>
<tr>
<td>4</td>
<td>Nomination of candidate by minority shareholders</td>
<td>40</td>
<td>No</td>
</tr>
<tr>
<td>5</td>
<td>Nomination of Director’s candidate</td>
<td>70</td>
<td>Yes</td>
</tr>
<tr>
<td>6</td>
<td>Flexible voting system</td>
<td>70</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 2: Compliance with Shareholder Rights and Disclosure of Information; source: Original Research

Here, \( n = 6, \ x = 3, \ p = 0.90, \ q = 0.10 \). \( np = 6 \times 0.90 = 5.4 \). \( SD = \sqrt{npq} = \sqrt{5.4 \times 0.10} = 0.73 \).

Therefore, \( z = \frac{x-np}{\sqrt{npq}} = \frac{3-5.4}{0.73} = -3.29 \).

So the calculated value of \( z = -3.29 \) is lower than the critical value of \( z = \pm 1.96 \) at the 5% significance level and lies in the rejection zone; thus, based on the sample evidence, \( H_0 \) can be rejected and it can be concluded that 60% or more of banks do not comply with 90% or more of shareholder rights and disclosure of information. Only 50% (3/6*100%) of the CG codes on shareholder rights and disclosure of information has been complied with by more than 60% of the banks.
5.2. Financial Reporting

**Accounting System:** the accounting system in the banking sector of Bangladesh was found to be a mix of Bangladesh and International Standards. All the banks follow the double-entry accounting system, profit-loss statement, balance sheet and other standard processes. In the accounting system, the compliance level is an impressive 100%, probably because of operational requirements.

**Qualification of CFO:** the accounting departments of the banks in the survey were not found to be led by highly qualified CFOs. From the data, it was observed that only 50% of CFOs were professionally qualified.

**Experience of CFO:** the extent of the experience of CFOs has been identified as quite long since 100% of the banks have CFOs with more than eight years of experiences in accounting.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>CG Code Attributes</th>
<th>Compliance (%)</th>
<th>Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Accounting system</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>Qualification of CFO</td>
<td>50</td>
<td>No</td>
</tr>
<tr>
<td>3</td>
<td>Experience of CFO</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>4</td>
<td>Balance sheet</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>5</td>
<td>Income statement</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>6</td>
<td>Protection against malpractices</td>
<td>80</td>
<td>Yes</td>
</tr>
<tr>
<td>7</td>
<td>Internal control system</td>
<td>80</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Table 3: Compliance with Financial Reporting; source: Original Research

Here, \( n = 7 \), \( x = 6 \), \( p = 0.90 \), \( q = 0.10 \), \( np = 7 \times 0.90 = 6.3 \). SD \( = \sqrt{npq} = \sqrt{6.3 \times 0.10} = 0.79 \)
Applying the formula, \( z = \frac{x - np}{\sqrt{npq}} = \frac{6 - 6.30}{0.79} = -0.38 \)

At the 5% significance level, the critical value is \( z \pm 1.96 \) and the calculated value of \( z = -0.38 \) falls in the accepted zone. Consequently, there is inadequate sample evidence to reject \( H_0 \), which implies that 60% or more of banks comply with 90% or more of financial reporting issues. In the sample, it is only 85.71% (6/7*100%) of the CG codes on financial reporting practices has been complied with by more than 60% of the banks.

**Audit Practices:** In all the banks, the accounts are audited by both internal and external auditors who work independently without any intervention. However, auditors will usually first submit their report to the audited banks for explanation of any observation. If there is no satisfactory reply, they may report to the BOD. External auditors of the banks have been evaluated through surveying opinions of the respondents and it was found that the compliance level in terms of qualification, experience and reputation is 80%. That means that the external auditors of individual banks are complying with CG codes in the majority of the banks. The following table depicts the synopsis of audit practice issues in the sample banks.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>CG Code Attributes</th>
<th>Compliance (%)</th>
<th>Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>External auditor concept</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>Internal auditor concept</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>Qualifications of external auditors</td>
<td>80</td>
<td>Yes</td>
</tr>
<tr>
<td>4</td>
<td>Experience of external auditors</td>
<td>80</td>
<td>Yes</td>
</tr>
<tr>
<td>5</td>
<td>Reputation of external auditors</td>
<td>80</td>
<td>Yes</td>
</tr>
<tr>
<td>6</td>
<td>Rotation of external auditors</td>
<td>90</td>
<td>Yes</td>
</tr>
<tr>
<td>7</td>
<td>Independence of auditors</td>
<td>100</td>
<td>Yes</td>
</tr>
</tbody>
</table>

*Table 4: Audit Practices; source: Original Research*
Here, \( n = 7 \), \( x = 7 \), \( p = 0.90 \), \( q = 0.10 \), \( np = 7 \times 0.90 = 6.3 \). SD \\
\[ \sqrt{npq} = \sqrt{6.3 \times 0.10} = 0.79 \]

Applying the formula, \( z = \frac{x - np}{\sqrt{npq}} = \frac{7 - 6.3}{0.79} = 0.89 \)

At the 5% significance level, the critical value is \( z = \pm 1.96 \). Consequently, the calculated value of \( z \) falls in the accepted zone of the critical value of \( z \) and that means the null hypothesis is not rejected. That means 60% or more of banks comply with 90% or more of audit practices. In other words, 100.00% (7/7*100%) of the CG codes on audit practices have been complied by more than 60% of the banks.

**Disclosure and Transparency:** The relevant data on disclosure and transparency of various issues provided a clear picture of the practices of CG codes and it was found that the situation is not satisfactory. The compliance level in terms of directors’ selling or buying shares, directors’ background and directors’ remuneration is 0%, i.e. serious malpractice has been observed in these areas. The compliance level of significant changes in ownership is 70% and the compliance level in terms of governance structures and polices, audited balance sheet and audited income statement is 100%. The table below presents the glimpse of compliance and noncompliance level on the disclosure and transparency in CG.

Here, \( n = 9 \), \( x = 6 \), \( p = 0.90 \), \( q = 0.10 \), \( np = 9 \times 0.90 = 8.1 \). SD \\
\[ \sqrt{npq} = \sqrt{8.1 \times 0.10} = 0.90 \]

Applying the formula, \( z = \frac{x - np}{\sqrt{npq}} = \frac{6 - 8.1}{0.90} = -2.33 \)
Again, at the 5% significance level, the critical value is \( z \pm 1.96 \). The calculated value of \( z \) falls in the rejection zone of the critical value of \( z \); that means the alternative hypothesis is accepted. That means 60% or more of banks do not comply with 90% or more of disclosure and transparency issues. In the sample, it is only 66.67% (6/9*100%) of the CG codes on disclosure and transparency has been complied by more than 60% of the banks.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>CG Code Attributes</th>
<th>Compliance (%)</th>
<th>Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Directors’ selling or buying shares</td>
<td>0</td>
<td>No</td>
</tr>
<tr>
<td>2</td>
<td>Directors’ background</td>
<td>0</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>Directors’ remuneration</td>
<td>0</td>
<td>No</td>
</tr>
<tr>
<td>4</td>
<td>Fees of external auditors</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>5</td>
<td>Polices of risk management</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>6</td>
<td>Significant changes in ownership</td>
<td>70</td>
<td>Yes</td>
</tr>
<tr>
<td>7</td>
<td>Governance structures and polices</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>8</td>
<td>Audited balance sheet</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>9</td>
<td>Audited income statement</td>
<td>100</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Table 5: Data on Disclosure and Transparency; source: Original Research**

**Human Resource Management:** A brief study of HRM has been conducted and at most of the banks compliance level is below expectations in this area of CG practice. Every banks has self-directed teams and quality circle groups. The compliance level of job rotation and cross traning is 40% and none of the banks have employee stock ownership plans. 60% of the banks under investigation have profit-sharing or performance-based group incentive pay systems, while 50% have plans for corporate social and environmental responsibilities. Only 20% of the banks have trade unions and they benefit from it. The data on HRM practices in the banks is summarized in Table 6 below.
<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>CG Code Attributes</th>
<th>Compliance (%)</th>
<th>Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Self-directed teams</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>Problem-solving groups or quality circles</td>
<td>100</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>Job rotation and cross training</td>
<td>40</td>
<td>No</td>
</tr>
<tr>
<td>4</td>
<td>Employee stock ownership plans</td>
<td>0</td>
<td>No</td>
</tr>
<tr>
<td>5</td>
<td>Profit sharing or performance based group incentive pay</td>
<td>60</td>
<td>Yes</td>
</tr>
<tr>
<td>6</td>
<td>Plan for corporate social and environmental responsibilities</td>
<td>50</td>
<td>No</td>
</tr>
<tr>
<td>7</td>
<td>Existence of trade union</td>
<td>20</td>
<td>No</td>
</tr>
<tr>
<td>8</td>
<td>Trade union benefits</td>
<td>20</td>
<td>No</td>
</tr>
</tbody>
</table>

Table 6: Data on Human Resource Management; source: Original Research

Here, \( n = 8 \), \( x = 3 \), \( p = 0.90 \), \( q = 0.10 \), \( np = 8 \times 0.90 = 7.2 \) . SD \( = \sqrt{npq} = \sqrt{7.2 \times 0.10} = 0.85 \).

Applying the formula, \( z = \frac{x - np}{\sqrt{npq}} = \frac{3 - 7.2}{0.85} = -4.94 \).

Again, at the 5% significance level, the critical value is \( z \pm 1.96 \). The calculated value of \( z \) (-4.94) falls in the rejection zone; that means the alternative hypothesis \( H_A \) is accepted, i.e. 60% or more of banks do not comply with 90% or more of HRM issues. In fact, only 37.50% (3/8*100%) of the CG codes on HRM issues have been complied with by more than 60% of the banks.

5.3. Summary of Overall Corporate Governance Practices in the Investigated Banks

Based on the above discussions of the CG practices in the investigated banks, it is possible to summarize all the data in one table (see below).
<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Broad segment of CG</th>
<th>Total Issues Investigated</th>
<th>Complied Issues</th>
<th>Compliance (%)</th>
<th>Remarks on Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Board Issues</td>
<td>24</td>
<td>15</td>
<td>62.50</td>
<td>Not Satisfactory</td>
</tr>
<tr>
<td>2</td>
<td>Shareholder Rights and Disclosure of Information</td>
<td>6</td>
<td>3</td>
<td>50.00</td>
<td>Not Satisfactory</td>
</tr>
<tr>
<td>3</td>
<td>Financial Reporting</td>
<td>7</td>
<td>6</td>
<td>85.71</td>
<td>Good</td>
</tr>
<tr>
<td>4</td>
<td>Audit Practices</td>
<td>7</td>
<td>7</td>
<td>100.00</td>
<td>Excellent</td>
</tr>
<tr>
<td>5</td>
<td>Disclosure and Transparency</td>
<td>9</td>
<td>6</td>
<td>66.67</td>
<td>Not Satisfactory</td>
</tr>
<tr>
<td>6</td>
<td>HRM practices</td>
<td>8</td>
<td>3</td>
<td>37.50</td>
<td>Poor</td>
</tr>
</tbody>
</table>

**Table 7: Summary of Data on CG Provenances; source: Original Research**

Here, \( n = 6 \), \( x = 40 \), \( p = 0.90 \), \( q = 0.10 \), \( np = 61 \times 0.90 = 54.9 \), SD \( = \sqrt{54.9 \times 0.10} = 5.49 \).

Applying the formula, \( z = \frac{x - np}{\sqrt{npq}} = \frac{40 - 54.9}{5.49} = -2.71 \).

Thus, the calculated value of \( z \) (-2.71) is lower than the table value of \( z = \pm 1.96 \) at 5% significance level and falls in the rejection zone; that means the null hypothesis \( H_0 \) is rejected and implies that 60% or more of banks do not comply with 90% or more of CG issues.
The remarks in the table and the evidence provided for hypothesis testing clearly indicate the CG practices in the banking sector of Bangladesh have compliance below the assumed and required level.

6. Conclusion

The issues of CG are broad and complex but it is very important for a bank to create and maintain its credibility and acceptability to important stakeholders. The issues under investigation in CG in the Bangladeshi banking sector had mixed levels of compliance. The results of this research indicate that the practice of CG is not up to the mark concerning the assumptions made. Out of the six broader areas of governance practice in the arena of board issues, shareholder rights and disclosure of information, disclosure and transparency and HRM practices the condition appears to be susceptible. However, banks are doing better in audit practices and financial reporting as they fall within acceptable limits.

Owing to the relatively small sample size, the findings of this study should not be over-generalized. A larger sample of banks, including PCBs, NCBs and foreign banks, may be incorporated to examine CG practice more comprehensively. However, the result could provide some useful insights for future research in the sector of CG practices in the banks and bank management in addressing the areas of CG attributes, where significant improvement is needed to increase commitment to sound governance so as to bring more transparency and public confidence in the banking sector.

7. References


Linkwell Telesystems: The Rise of a Technology Firm

Manoj Joshi

Abstract

Linkwell Telesystems was established in Hyderabad in 1993 by a first generation entrepreneur, A.K. Prasad, who capitalised it and took advantage of the growing liberalisation of the Indian economy and its developing Telecommunications Policy. In the mid 1990s, there was a growing demand by Indian consumers for telecom products. To meet this demand, Linkwell Telesystems ventured into manufacturing along with marketing of products related to PCO (payphone) products in India. Its vision is to combine excellence and establishing the best possible products including “technology-based features.” Linkwell has branded these products “VISIONTEK” (http://www.visiontek.co.in/). Today, Visiontek is known as a leading manufacturer and a top exporter of Telecom and Transaction Terminal equipment with a reach of more than 50 countries.

Keywords: case study, exports, India, payphones, telecommunications industry

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1. Introduction

A.K. Prasad is a first generation entrepreneur. He is an electronics engineer and worked for ten years in several electronics based companies before he decided that he had the skills and capability to
launch his own company, Linkwell, in 1993. Prasad regards himself as very entrepreneurial and has demonstrated leadership and management skills. The Department of Scientific and Industrial Research (DSIR), Government of India, has recognised and commended Visiontek and its R&D team for breaking down barriers to innovation, identifying emergent issues and for integrating academic research and client experience towards customisation. His personal efforts have brought the company the prestigious ELCINA Award in 1997 for its Research and Development and this was followed by many more laurels. His core team pride themselves on manufacturing products strictly adhering to the guidelines set by the Department of Technology (DoT) and providing excellent customer service. The vision of the company is 'leadership through innovation' and it has a strong growth policy. The focus is on being constantly innovative and customer-centric. Prasad is as the elected President of the Electronics Industries Association of Andhra Pradesh (ELIAP).

2. Evolution of Linkwell

Linkwell Telesystems PLC was established in Hyderabad 1993 by a first generation entrepreneur, A. K. Prasad, who capitalised the company and took advantage of the growing liberalisation of the Indian economy and its developing Telecommunications Policy. Prior to this time, Indian governments had preferred to maintain an economy which stressed endogenous rather than exogenous sources of growth. In the mid 1990s, there was a growing demand from Indian consumers for telecom products. To meet this demand, Linkwell Telesystems ventured into manufacturing along with marketing of products related to payphone (PCO) products in India. Its vision was to excel and establish the best product incorporating “technology based features.” Linkwell has branded these products as “VISIONTEK” (http://www.visiontek.co.in/). The product advantage pioneered by Linkwell steered the company into a position from which it has extended its customer base to 120,000 plus in India by 2012.
Linkwell’s product portfolio includes a diverse range of products from PCO and small office home office applications (SOHO) for long distance dialling, application-based telecom terminal products and telecommunication software projects. The company has upgraded from a single line numeric based telephone metering product to Alpha numeric, two lines PC based PCO monitors. This is considered to be India’s first line powered pay phone (coin operated payphone) and, therefore, an innovative product. In addition, Linkwell has been marketing the GENEI model fax machine supplied from South Korea, since 1995. The company is also currently working on credit payment terminals and banking terminals for its telecom related products.

VISIONTEK offers innovative project- and product-based solutions with the objective of consistently delivering innovative, high quality and cost effective telecom and software products and services to its clients by applying best practice project and program management techniques, methodologies and skills. The innovative practices operate at both the product and service levels. VISIONTEK is the brand for all products made by Linkwell Telesystems PLC. The product line includes PCO/Payphones, Fixed Wireless Terminals, Transaction Terminals, Modems, Data Converters and Software products. All these products reflect the core expertise in various telecommunication technologies – Fixed line, PSTN, Ethernet, Wireless, CDMA, GSM and Wi-Fi. Most of these products are innovative and customer-driven in terms of design and delivery expectations. Over the years it has customized more than 100 products in different categories. Mostly, the products undergo redesign and customization every quarter of the year based on the frequency of customer feedback. Customisation is evolutionary by nature and internal to the firm in terms of product design. The non-efficient and low margin products are hence replaced by the new design.

The products incorporate the global system for mobile communications (GSM) and code division multiple access (CDMA) technologies meeting global standards. It has also positioned its image
in the global market by establishing its market base in the Far East, Southeast Asia and in African countries.

The company participated in 2000 in a project called the ‘village public telephone (VPT)’ with TATA Teleservices in Andhra Pradesh region of Northern India. It has continuously endeavoured to provide customised solutions to the Payphone market.

The company’s major strength is its physical presence in a number of major cities of India. The 585 dealer network exhibits its innate aggressiveness and drive to competency. An entrepreneurial spirit is evident in the staff of all of the departments of the business: business development, marketing and sales, services and R&D. The investment amounts to nearly 20 percent of its revenue in the R&D activities.

Linkwell Telesystems is a professionally managed company and is considered to be a respected market leader in India.

3. Nature of the Business

The Hyderabad-based Linkwell Telesystems, popularly known for its Visiontek range of products, is present in three core market segments: personal communications; business communications and PCO. The company’s strength is in being an emerging PCO technology company. Growth opportunities are potentially wide both in India and internationally but it also needs to establish robust partnerships for growth in diversified sectors. It proposes to diversify into call centres, internet and messaging solutions. The significant threat to the growth strategy is from the well established software companies, which could integrate or expand their current business in this sector.

There are two main reasons for the company’s success so far. It is a strong technology-driven company and is proactive in optimising resources, along with production and distribution. Its ‘mantra’ is ‘innovation with strict quality control.’ This integrative strength has
critically leveraged the company’s value chain and its ability in creating new markets.

The company has utilised an entrepreneurial culture in understanding exogenous and endogenous factors leading to growth. Examples include the industry environment, the availability of high quality labour, industrial reforms together with a liberalised economy and supportive regional policy initiatives and the Telecom Act of 2004. Prasad’s driving entrepreneurial spirit meant that he has been able and continues to infuse enthusiasm into both his staff and his customers.

Linkwell has a strong values and ethical commitment. Each employee, termed a professional, is encouraged to be a leader personally and demonstrate perfection, honesty, dedication and a positive attitude. The company has a strong public relationship focus, with dealers spread over the country to market and provide prompt after sales services to its popular Visiontek range of products. It exports products to Bangladesh, Bhutan, Nepal, Sri Lanka, Saudi Arabia, Yemen, Oman, Algeria, Kenya, Uganda, Tanzania, Zimbabwe, Zambia and Mozambique.

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>Exports</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-2007</td>
<td>15896361</td>
<td>16545192</td>
<td>32441553</td>
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<td>2007-2008</td>
<td>16058569</td>
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<td>2008-2009</td>
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<tr>
<td>2009-2010</td>
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<td>45156695</td>
</tr>
<tr>
<td>2010-2011</td>
<td>16906667</td>
<td>35926667</td>
<td>52833333</td>
</tr>
<tr>
<td>2011-2012</td>
<td>19020000</td>
<td>44380000</td>
<td>63400000</td>
</tr>
</tbody>
</table>

**Table 1:** Sales (Domestic and Exports) (Indian rupees); **source:** Original Research

4. **Strengths and Capabilities**

The organization exhibits the following capabilities:
1. Good in-house R & D infrastructure
2. Specialism in customisation and value addition
3. Metal forming facility
4. All India after sales support network
5. Plastic and injection moulding unit
6. Good brand equity
7. Committed and forward looking management
8. Skilled manpower in Telecom Soft Ware and Hard Ware

4.1. Skill Sets

VISIONTEK specialises in Embedded Hardware design of microprocessor/micro-controller based products of the 51 family, X86 family, ST62TXX family, 68HC05, z80 and ARM family, SRAM, FLASH, EEPROM, EPROM interfaces, Embedded software development in C/C++, assembly, Analog Design related to wire line/wireless interfaces and parametric signal processing/measurement, System Micro kernels and Device driver software design and development for mini-printers (numeric, alphanumeric, graphics, 24 & 40 Col., LCD modules, telephone line interfacing devices, DTMF transceivers, 16KC sensing, speech controllers, handset drivers, serial communications by RS232, RS485, RS422, 80 Col. Printer interface and PC add-on card interface.

4.2. Organizational Structure

![Corporate Organizational Structure](image_url)

**Figure 1:** *Corporate Organizational Structure; source: Original Research*
Linkwell has a flat organizational structure, which means the autonomy to perform and undertake risks and which is a critical factor to innovativeness. Since it is an intensely customer-driven business, a matrix system of reporting reduces time and enhances efficiency. For example, the marketing director is responsible for eight national branches and oversees projects, exports and business development. The Directors of personnel, marketing, R&D and MIS report directly to the managing director. All managers are empowered to take decisions. In order to reduce failures arising from uncertainty, each individual is encouraged to share tacit knowledge and translate it into explicit knowledge through open platforms. Consequently, all senior managers take a corporate approach and fully understand the nature of risks, barriers and uncertainties arising in this business. The flat structure enables the firm to take quicker decisions, respond to customer requirements and stay innovative, as a strong hierarchy disables creativity.

4.3. Business Strategy

The company focuses on its core competencies in customisation, marketing and logistics. The nerve centre remains the corporate office at Hyderabad, which is considered the power driver. Initially, the company searched for trade partners but, within the short span of two years of existence, it was able to establish its credibility in attracting and choosing its client base. It has a strong understanding of business across the country as well at the international level. Being a first
generation entrepreneurial company, it has endeavoured to develop a wide network through business associates. Hence, it places emphasis on the importance of networking skills.

The strategy behind Visiontek is the corporate belief that, in order to ensure its success in the competitive market, the “product has to be need-based.” Hence, customer segmentation becomes imperative. The entire range of products is sold in all the major towns, cities and villages of India. Each authorised dealer at the district level has its network commanded by goodwill and brand image. The products are available at a reasonable and competitive price. The after sales service policy is supported by fair business practices and it has integrated its service quality. It has adhered to regular campaigns educating at dealer premises, established strategic service locations for calls at short notice, round the clock online services, reduced response time for deputing service engineers on demand, maintained 2% of free spares towards warranty, timely dispatch of spares to dealers, regular service camps, customer meetings and providing in-house training to the dealer personnel. VISIONTEK has widespread reach with marketing, sales and distribution channels well established in India and 50 countries abroad. It comprises experienced and committed team of 140 professionals who are spread across the country and ready to provide assistance on call.

4.4. Innovative Practices

Product innovation is the company’s core competency. Issues related to inbound logistics have had an impact on its growth, as importing silicon-based products is time-consuming. Consequently, the company has heavily invested in R&D. ‘Strategically selecting the customised solution, expanding the market reach and building customer confidence is desired,’ says Prasad.

Prasad strongly claims that ‘… our focus is on embedded products in telecom and broadband. It’s a very dynamic field from concept to
product launch, from customer specification to product implementation. The technology is always in continuous development. To sustain, we have to look for tomorrow’s technology in today’s application.’

There is a strong need to enhance the firm’s capability continuously, while maintaining extensive investment in R&D for featured products. Their desire to intensify exports, especially in creating newer markets that can generate high returns in a competitive market, is dependent on the policies of the Indian government.

4.5. Drivers to Success

Rani is the director of Visiontek, a confident senior executive who is full of energy and has a knack for putting ideas into operation. She passionately claims that the key factors to success are positioning the product at the right time and at the right place, based purely on market requirements and defining key logical decisions to reach the end customer as soon as possible.

Linkwell promotes the unique idea of ‘a distribution network with no investments from the respective distributor.’ The distributor appointed has to make investments in the marketing support activities only, while the company invests in the products. Linkwell identifies key points for logistics distribution, which become warehouses on an interim basis; this is a strategy it claims has enabled the company to establish itself as a centre for innovation. Their key concentration is in orienting towards distribution. The store points are managed by the company and become virtual stock centres. For each volume of sales made, the channel partners are given commissions on the basis of pre-set slabs. Hence, the investment by any new dealer is only in its marketing networks rather than buying and stocking products.

This concept has enabled the company to build a bond with the individuals who desire to be micro entrepreneurs within the company
or as franchisees and to sell Linkwell products. Entrepreneurs who started from scratch have created their own identity. As a result, 585 dealers have presently gained from the relationship and have grown together like a strongly bonded family. The company estimates that it has been able to convert more than 250 ‘individuals’ to become millionaires in this way.

‘Together we grow’ is the company mantra. ‘The emphasis is on long-term relationships. My dealers should earn more.’ says Rani. ‘We work for them; they are bound to work for us!’ She goes further by claiming that the dealers become the actual eyes and ears for any new episode of product development. At times, the competition is quite locally concentrated. Linkwell takes the lead because of its channel partnership strategy.

In order to make work as pleasurable as possible, internal transfers of staff are encouraged within different projects. A very strong MIS connects the entire organization, where information flows seamlessly. The concept of value addition is traditionally in-built. Accountability is clearly marked. The sense of belonging is so ingrained that, in the absence of any individual; co-partners can take up all the responsibilities themselves. However, for a particular incident of client servicing, dedicated service responsibility is pre-delegated. Job rotation is another success. Delivery matters. As a result, a few junior employees have been elevated to higher positions based on their performance.

Woman power has also played an important role in building the business, claims Rani, ‘some women workers are really excellent workers.’ The percentage of females to males stands at 20:80. She goes further and admits that 96-97 was a bad year for business. As a result of a faulty supply chain, the systems within the company were decentralized. However, for all project management activities, a policy of one window contact and clearance is adhered to for speedy operations. One of the worst experiences in their business tenure was
the time when they had to recall 500 machines they had sold. Lessons were learnt in this context; subsequently, after-sales service support was made available round the clock. They understood how suppliers could cheat them when monitoring was totally left to trust. In this case, therefore, R&D became a means of fire fighting.

As a business practice, executive summaries of best seller books are shared with entire employees. Transparency is adhered to in the organization. Rewarding dedicated and performing employees is a common practice. Customisation is their strength. The main emphasis is on investment in people and relationship management, together with attention paid to logistics operations. ‘It’s a perfect example of metamorphosis of entrepreneurship, leadership & wealth through innovation’ is a slogan coined by its distributors.

5. Lessons

It is imperative to derive lessons and learning in the form of theory and contributions from live case studies. The firm has explicitly been able to demonstrate its orientation at different levels as seen in Figure 2 below.

<table>
<thead>
<tr>
<th>Lessons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entrepreneur</strong></td>
</tr>
<tr>
<td>Intrinsic Motivation</td>
</tr>
<tr>
<td>Risk taking ability</td>
</tr>
<tr>
<td>Foresight</td>
</tr>
<tr>
<td>Sensitivity to Opportunity</td>
</tr>
<tr>
<td>Leadership</td>
</tr>
<tr>
<td>Ability to listen and Translate Ideas</td>
</tr>
<tr>
<td>Trust and Loyalty towards the firm, its employees, customers and all stake holders</td>
</tr>
<tr>
<td><strong>Firm</strong></td>
</tr>
<tr>
<td>Adopting high risks</td>
</tr>
<tr>
<td>Investments in new products</td>
</tr>
<tr>
<td>Profit sharing with dealer networks</td>
</tr>
<tr>
<td>Continuous training to engineers</td>
</tr>
</tbody>
</table>
Focus on projects  
Job rotation and job enhancement  
Women workforce  
Transparency  
Investment on employees

| Products | Customised products  
Positioning  
Creating new products for new markets  
Focus on R&D |
|---|---|

| Dealer (Customer) | Investment in Marketing networks  
Customer engineering  
Long term relationship  
The driving force to product/services innovativeness |
|---|---|

| Markets | Distribution networks and logistic support  
Distribution orientation  
Rural entry and penetration |
|---|---|

| Competitiveness | Product innovativeness  
Virtual stock centres  
Dedicated dealer networks  
Employee loyalty  
After sales service |
|---|---|

**Figure 2:** Lessons from a Successful Entrepreneurial Firm’s Performance; **source:** Original Research

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Innovative Practices</th>
</tr>
</thead>
</table>
| Entrepreneurial leadership  
Passion to excel due to autonomy  
Flexible organizational structures  
Ability to handle challenges  
High level of Intrinsic motivation | Constant training of employees  
Flat organizational structures  
Development of synergies between top and bottom  
High level of customer orientation  
Converting tacit knowledge to explicit |

**Figure 3:** Characteristics and Innovative Practices; **source:** Original Research
6. Key Managerial Challenges

Looking forward to the continued success of his firm, Prasad is nevertheless concerned with certain thorny issues. He has been confronted with a series of decisions that must be made and actions implemented in order to steer VISIONTEK to the next level of international presence and positioning.

The product development team engaged in manufacturing products related to personal communication, business communication and PCO have been given a choice to strengthen one out of the three products and position in domestic market, while choosing the second for the international market only! They have been given a three month period to conduct online market research to substantiate their decision.

In a meeting, Prasad and Rani reiterated their views that the firms’ capabilities largely comprise of customisation, a trusted R&D division, dedicated sales network, skilled human resources and a good brand. Their core competencies are in customisation, marketing and logistics. However, they also intend to add R&D to this set of core competencies.

An additional query concerns whether the firm needs a slimming down of its organizational structure so as to make it more innovative. This means making it leaner, while facilitating decision-making, but how should this be tackled? How should an entrepreneurial culture be extended within the firm so as to enhance its positioning?

7. Teaching Objectives

The teaching objectives of this case include the following:

1. To understand how a technology based enterprise is seeded.
2. To understand the importance of opportunity recognition and its orientation in becoming a successful entrepreneur.

3. How does a Start-up create its market and how can it emerge as a market leader?

4. The importance of recognising entrepreneurial and innovative practices in a small enterprise.

5. Business strategy by a technology-driven SME.

This case study is suitable for a number of different courses, including: Innovation (Innovative practices), Entrepreneurship, Start-ups, Strategy, Technology Markets.

It is suggested that the case be organized in the classroom in the following way:

1. Study the case carefully and explain the process by which the existing founder manager of Linkwell was able to establish and steer his enterprise.

2. ‘Innovative practices in SME’s!’ Comment.

3. Study a similar enterprise that is engaged in manufacturing technology products and construct its business model. Are there any similarities in their operational frameworks?

Then introduce the following discussion questions:

1. What is the role of opportunity recognition in the formation of an enterprise?

2. How to expand aggressively into newer areas?

3. Can this formula of success be replicated?
The suggested time plan for the case is as follows:

- Initial class room discussions - 90 to 180 minutes.
- General survey by student researchers – one week.
- Conclusive discussions on innovative practices with emphasis on incremental and radical innovation - 90 minutes.

8. Suggested Reading


Website of Linkwell Telesystems, as accessed on 31st Dec, 2012, website address [http://www.visiontek.co.in/](http://www.visiontek.co.in/).
Organizational Citizenship Behaviour: Determinant towards Being Strategic Fit

Tannu Verma

Rohit Mathur

Abstract

Over time, research has demonstrated that it is highly important to study the behaviour patterns of the workforce in order to align their performance with the overall strategy of the organization. One such pattern of employee behaviour is a result of the “sense of belongingness for organization” and this is organizational citizenship behavior (OCB). Various studies have demonstrated that this kind of behaviour in employees leads to organizational trust and better performance; this research intends to study in detail its probable antecedents at individual and organizational level and its direct implications for the strategic implementation of human resource management in those organizations. This research paper intends to contribute to a conclusion regarding the dual nature of OCB and critically analyze its strategic character through its effect on performance management system. These contrasting effects have been rationalized on the bases of well established theories in management studies.

Keywords: Leader member exchange, organization citizenship behaviour, performance appraisals

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1. Introduction

Organizational citizenship behaviour (OCB) first appeared in the organizational behaviour and management literature in the studies of Bateman & Organ (1983) and, since then, it has become the subject of considerable research. Interestingly, researchers have been able to give a very clear and a complementary idea regarding the constituents of OCB. Organ (1988) defines OCB as: “… those organizationally beneficial behaviors and gestures that can neither be enforced on the basis of formal role obligations nor elicited by contractual guarantees or recompense.” In that case, the individual behaviour is discretionary so that in the aggregate it promotes the effective functioning of the organization.

2. Literature Review

Organ (1988) identifies five OCB dimensions: altruism, conscientiousness, civic virtue, courtesy and sportsmanship. Altruism is basically the selfless behaviour of an employee. It would include the extent to which one would extend one’s role identity of job to help and support one’s colleagues. For example, altruism involves activities such as volunteering to assist a coworker with a project in which one is not directly involved or, without being asked, assisting new employees in assimilating into the organization. McCrae & Costa (1987) observe that conscientiousness includes facets such as reliability, self-discipline and perseverance. This to an extent could be understood as conformity to the organization’s rules and regulations. Though this is an expected work place behavior, it is still included in OCB. This is because it tends to measure the self-drive of an employee towards obedience to the norms of the organization. For example, generalized compliance involves activities such as doing more than is required to meet minimum task requirements or offering specific ideas to solve organizational problems without being asked. Sportsmanship is defined as a person's tendency and choice not to complain when experiencing the inevitable inconveniences and
problems experienced in exercising a professional activity. According to Podsakoff & McKenzie (1997), sportsmanship allows employees to maintain a positive overall attitude with respect to their organization, especially in situations requiring self-denial and deferral of personal interests in favour of organizational needs. Civic virtue refers to the degree of an employee's concern and interest in more general areas of the organization and is characterized by acts that, for example, promote the image of the firm, consolidate its reputation and favour its public profile. It would include the active participation and involvement of employees in company affairs and includes activities such as attending meetings, responding to messages and keeping up with organizational issues. Finally, the courtesy factor is the level of respect that the employee reflects for colleagues, whether it be the boss, peers or subordinates. Podsakoff et al. (2000) typologically add organizational loyalty, individual initiative, organizational compliance and self-development to the list of OCB behaviours. Van Dyne, Graham & Dienesch (1994) propose that organizational citizenship can be regarded as a behavioural gauge of the employee's perceptions and subsequent responses to their relationship with their employer. They further define loyalty and obedience as the key towards OCB. Loyalty refers to identifying with the organization and having allegiance to the organization, going beyond the parochial interests of individuals while obedience refers to accepting the rules and regulations governing organization as a whole. Finkelstein & Penner (2004) observe that OCB is strongly related to “concern” for the organization and “felt-responsibility” an employee confirms for herself regarding the complete organization, which is certainly over and above the concern and responsibilities that her job confers upon her. Many researchers examine five categories of OCB: volunteering for activities beyond a person's formal job expectations; persistence of enthusiasm; assistance to others; following rules and procedures and openly espousing and defending organization objectives. It could be conclusively stated that OCB is the behaviour that an employee shows in the organization concerning the sense of belongingness to that organization. Consequently, it provides a very congenial social
platform of exchange between the employee and the organization. A social platform of exchange means the organization besides compensating the inputs made by the employee in the form of material benefits, also provides them with a congenial working environment and so employees reciprocate with OCB behaviour.

3. Research Methodology

The objectives of this research study are to identify:

- What are the antecedents of OCB in the context of contributions made by individuals and the organization?
- What could be the pros and cons of incorporating OCB in performance appraisal?

This is a descriptive research projects in which the antecedents and criticalities of OCB are constructed based on existing literature and established theories. This method has been chosen to elucidate the details and identify the implications of the concept through the existing literature.

4. Findings

4.1. Factors Affecting an Organization’s Contribution in Developing OCB

Norms of reciprocity claim that human beings have the tendency to give back or repeat out of the emotion they have developed through receiving certain kinds of experience (Peelle, 2007). Hence, organizations which treat their employees with a humanistic approach are actually investing in their longevity and prosperity. The following are various perspectives that may encourage citizenship behaviour amongst employees.

4.1.1. Equity
Research clearly shows that organizations which are conscious of issues of equity, the self respect of the employees and their perceptions of the organization, rate quite highly in organizational effectiveness (Shenhav, Shrum & Alon, 1994). Further, procedural justice indicates the presence of positive correlations with shows of OCB (Wright & Sablyanski, 2008). The research examining the contribution of fairness and justice to OCB provides compelling evidence that employees will be more likely to perform extra role behaviours if they feel the organization has treated them fairly (Moorman, 1991). As per the equity theory of motivation, individuals tend to compare their job inputs and outcomes then respond to the perceived situation to eliminate any inequities. It is the reasonable disbursement of this output which keeps the employee motivated internally and predisposed to contribute responsively and willfully (Adams, 1965). Additionally, it is through the fair behaviour of the superiors that the sense of belongingness is created in the employees and this encourages them to show good citizenship behaviour towards the organization. Hence, this creates a very positive culture based upon the felt responsibility of reciprocation in the organization. Since employees bear a reciprocal relationship between help providers and help receivers, a satisfied employee, who helps fellow employees and colleagues and who is liked, trusted and identified with by other employees, is more likely to receive help in return (Rhoades & Eisenberger, 2002). This aggregate of reciprocated help is a monotonic enhancing function of the amount of prior help. Consequently, it is possible that for some effective employees, the initiation of organizational citizenship behaviours may initiate a snowball effect which receives upward momentum, thereby creating a virtuous circle of improved employee attitudes, commitment, helping behaviour and, ultimately, continuous improvement. Such momentum creates a positive ambience in the organization, in which the attitudes and behaviours of employees are major contributors. This is an exact antecedent of OCB and one which encourages the employee to be satisfied with the working environment. Consequently, compensation
patterns based on internal and external equity can be considered to be one of the biggest implications arising from this philosophy.

4.1.2. Supervision

Past studies have clearly confirmed the positive relationship between supervisor support and employees’ OCB. For example, in a study of employees and their supervisors at two banks, it was found that supervisor support would improve job satisfaction, which would in turn increase the frequency of employees’ helping behaviour. Furthermore, an investigation of real-estate salespersons also indicated that employees with higher supervisor support were more likely to have higher conscientiousness. Conclusively, therefore, it could be stated that supervisor support may enhance the performance of employees’ OCB through cognitive processes (Rahim, 1989). Since supervisors usually play the role of representing the organization and take charge of evaluating employees’ performance, employees may regard supervisor support as an indicator of overall organizational support. Accordingly, the stronger an employee’s Leader Member Exchange relationship, the more likely the employee will be to negotiate with supervisors to create organizational experiences that are in line with the employee’s values and, as an outcome, there is more sportsmanship, courtesy and civic virtue (Podsakoff et al., 2000).

4.1.3. Psychological Contract

High levels of fulfillment related to the tangibility dimension of the psychological contract are positively related to high levels of the OCB dimension of obedience (Robinson & Morrison, 1995). The tangibility dimension again refers to the explicitness in defining the boundaries, terms and expectations of the employment relationship. As a result, the clearer the terms of the employment contract, the better is the response of the employee towards the organization regarding personal responsibilities. Further, the more the employer respects and upholds
those terms, the more inclined the employee is to produce quality work, follow rules and not neglect aspects of job responsibilities.

4.1.4. Job Standardization

It is merely a stereotypical view that job standardization will make work dull and inflexible. However, it is necessary to differentiate between job standardization and routinization. Routinization means that employees repeatedly do the same jobs the same way. However, doing something in the same manner might not mean job standardization, while at the same time merely repeating the same processes does not imply that standards are being enforced. Research says that job standardization does not diminish personal accomplishment and it does not necessarily result in perceived depersonalization (Parasuraman, Zeithaml & Berry, 1985). Also, the stricter the standard operating procedures, the more motivated employees are to do their job efficiently and effectively. Thus, this implies that job standardization is a motivating factor for OCB (Cohen & Eimicke, 1995). Consequently, even organizations in the manufacturing sector can expect employees to participate in OCB, irrespective of the repetitive work to which they are subjected.

4.2. Factors Affecting Employees’ Contribution in Developing OCB

Besides the organization’s contribution regarding the creation of an ambience that will encourage OCB, there are several factors where the employee is solely responsible and these are now described.

4.2.1. Personality
The concept of a prosocial personality has been proposed as an important first step in this area. The prosocial personality concept was developed by Penner et al. (1995), whose research involved the creation of a Prosocial Personality Battery (PSB). The battery consisted of two factors: Other-oriented Empathy, which identified individuals prone to experience that involves affective and cognitive empathy and Helpfulness, which was associated with a self-reported history of helpfulness toward others and a lack of personal comfort when another individual is in distress. There is a significant linkage between prosocial personality and behavioural intentions. Further, there is a significant correlation between the Helpfulness factor and self-reported helping behaviours. Research shows that higher Other-oriented Empathy and Helpfulness scores among individuals indicate they are more involved in showing volunteer versus non-volunteer behaviours (Penner & Finkelstein 1998). It also indicates that the intention to volunteer is significantly related to both factors of the PSB. Consequently, both Other-oriented Empathy and Helpfulness correlate with effectiveness in self-reporting and their peer ratings of citizenship-type behaviours.

4.2.2. Person Organization Fit

Another factor that influences OCB engagement is the Person–Organization fit (P–O fit). The PO fit can be defined as the degree to which an individual’s personality, beliefs or values are compatible with an organization’s culture, norms, values or strategic goals. Hence, if the employee finds the latter in line with her own set of values and thought processes, then the employee will have a high propensity to show courtesy towards the organization’s processes, to show sportsmanship by defending the organization procedures in all circumstances and finally to show ardent civic virtue by becoming a responsive contributor towards the organization as a whole.

4.2.3. Job Involvement
Job involvement also has an effect on employees’ willingness to exhibit voluntary behaviours (Chughtai 2008). Job involvement is an individual's psychological identification or commitment to the job. It is the degree to which one is cognitively preoccupied with, engaged in and concerned with one's present job. As such, individuals who display high involvement with their jobs consider their work to be a very important part of their lives. Consequently, their feeling good about themselves is closely related to how well they perform on their jobs. In other words, for highly involved individuals, performing well on the job is important for their self-esteem. As a result, individuals in this category genuinely care for and are concerned about their work. Research studies have uncovered a positive relationship between job involvement and OCB. This is because OCB are more influenced by what individuals think and feel about their jobs. Since job involvement reflects a positive attitude towards the job, it follows that those with high job involvement would engage in these behaviours to a greater extent than less involved individuals. As stated earlier in this study, the phenomenon could also be explained through the social exchange theory. Specifically, employees feel indebted for needs satisfaction, resulting in job involvement, that their organization provides and so feel obliged to reciprocate. Employees may reciprocate this needs satisfaction by engaging in more OCB for their organizations. Second, in terms of the personal motivational and commitment level of the employee, management theories argue that the latter is a function of both intrinsic and extrinsic factors. Defining the concept through Maslow’s need hierarchy theory (Maslow 1943), where needs are portrayed at five levels: physiological needs, safety needs, social needs, self-esteem needs and self-actualization, rewards are used to motivate employees based on the level of needs the employee is looking to fulfill. However, the base remains the personal needs or priorities of the employees (Vroom, 1964). Thus, if external factors in the organization fit the priorities or the needs of an employee, she will remain motivated and so is more committed to act positively and hence portray OCB.
4.2.4. Job Satisfaction

Though there is a reciprocal relationship between OCB and job satisfaction, researchers have not yet been able to determine the direction of causality. Job satisfaction is a central concept in work and organizational psychology, which mediates the relation between working conditions on the one hand and organizational and individual outcomes on the other hand. Further, the relationship between job satisfaction and organizational commitment has become very crucial because people now often do stay with the same organization for long. At the same time, it is always a willful preference that causes an employee to indulge in OCB. If employees are highly satisfied with their work, coworkers, pay and supervision and they derive a high level of overall job satisfaction with their jobs, then they are more likely to be committed to the organization than if they are not satisfied (Podsakoff, McKenzie & Hui, 1993). So, on one hand, the affective component of organizational commitment results in employees’ emotional attachment, identification and involvement in the organization while, on the other hand, a strong sense of normative commitment leads to nonbelligerent compliance towards the norms of the organization (Samad, 2007). Hence, the entire phenomenon converges towards development of OCB like altruism and conscientiousness.

4.2.5. Job Engagement

Job engagement is a positive attitude held by the employee concerning pride in the organization and its values. An engaged employee is aware of the business context and works with colleagues to improve performance on the job for the benefit of the organization. Besides believing in the organization’s products and services, the engaged employees have more willingness to behave altruistically and thus go beyond the requirements of the job (Brown 1996). Consequently, the engaged employee would rate highly on dimensions such as altruism, conscientiousness and sportsmanship. The practical implication for
this specifically lies in industries like retail where the employee has to come in direct contact with the customer and the job responsibility of selling to the customer is of central importance.

4.2.6. Employee Age

Lastly, employee age play an important role in determining OCB in organizations. Wagner & Rush (2000) pointed out that early years (20-34) are the years of establishment and settling down; later years (35-55) show a stronger sense of self and location vis-à-vis life and work. The authors argued that younger employees coordinate their needs with organizational needs more flexibly; by contrast, older employees tend to be more rigid in adjusting their needs with the organization. Consequently, younger and older workers may differ in their orientations toward self, others and work and, therefore, these differences may lead to different salient motives for OCB among younger and older employees. In this study, it was revealed that a number of antecedents trigger OCB. The antecedents of OCBs can thus be summarized as in Figure 1 below.

![Figure 1: Antecedents of OCB; source: Original Research](image)

This conceptual framework paves the way for a consideration of whether or not OCB contributes towards strategic human resource management. This is only possible if it becomes part of the procedural
systems of the organization. This research paper now further explores the possibility of incorporating OCB in one such system, which is the performance management system.

**4.3. OCB as a Strategic Component of a Performance Appraisal System**

After having discussed the efforts that an employer and an employee take, consciously or unconsciously, to spread OCB, the question arises of whether or not OCB can be incorporated formally into the appraisal system of an organization. Based on prior research, a conceptual analysis and concept of understanding of how formal evaluation and rewards might affect individuals and their display of OCB is made.

Before exploring the consequences specifically in education sector, the motivation behind the OCB has to be understood. While much research has focused on the role of characteristic variables in OCB, some researchers have focused on the motivational basis for OCB. The crux of this literature is that OCB is not a reaction or response but, rather, employees’ perceptions of their jobs or employers. According to this line of research, OCB is proactive behaviour in which employees choose to engage because it meets certain needs or satisfies motives (Penner, Midili & Kegelmeyer, 1997).

One particularly interesting proposed motive for OCB is that of impression management. In this regard, Bolino & Turnley (1999) proposed that citizenship behaviour is motivated by two sets of forces. The first set of forces implies that some individuals exhibit OCB for self-serving reasons and this behaviour would appear to be extrinsically motivated. The second set of forces indicates that individuals engage in citizenship behaviours because they are naturally systemised to do so and this behaviour would seem to be intrinsically motivated.
According to cognitive evaluation theory, there are two motivational subsystems: an extrinsic subsystem and an intrinsic subsystem (Deci, 1971). Deci (ibid.) found that intrinsically motivated people have an “internal locus of causality.” In other words, intrinsically motivated people attribute the cause of their behaviour to their internal needs and perform behaviours for intrinsic rewards and satisfaction. Further research concerning cognitive evaluation theory has shown that the characteristics of the work environment perceived as a “control” are likely not only to inhibit intrinsic motivation but, also, those behaviours which are a result of intrinsic motivation. Hence, to be truly intrinsically motivated, a person must feel free from encouraging or discouraging pressures (Deci & Ryan, 1985). If these individuals begin to attribute their behaviour to situational factors, there is a shift from internal to external factors. According to cognitive evaluation theory, this results in a decrease in intrinsic motivation. The reason for this is that there is a shift from commitment motives to compliance motives. Reward systems which pertain to situational variables are only detrimental to feelings of intrinsic motivation if they are perceived by individual as a form of “control” to their behaviour. For example, researchers have explored the effects of performance evaluation and supervisory style on creativity and have found that creativity was highest in work environments characterized by supportive and non-controlling supervision (Amabile, DeJong & Lepper, 1976). Likewise, in terms of creativity, OCB is also internally incorporated and to include the same in performance appraisal means it would have to be supervised and subsequently evaluated. So, in that case, extension of the research (ibid.) indicates that OCB if attached to a controlling form of supervision might weaken the motive for showing OCB in the first place.

In contrast to intrinsically motivated employees, if a person engages in OCB for impression-management purposes, i.e. is extrinsically motivated to show OCB and is rewarded for this behaviour through the performance appraisal and reward systems, then the likelihood that this employee will continue to engage in OCB certainly increases.
As per the three needs theory (McClelland, 1958), in the case of the need for affiliation, an individual is motivated to maintain social relationships, to desire to influence, to teach or to encourage others. This kind of behaviour forms a part of impression management by an employee who tends to show OCB in order to remain accepted or influential. Since the motivation behind these kinds of individuals is the fulfilment of a self serving need, an extrinsic reward might encourage them to show OCB.

Another perspective is, if employees view the inclusion of OCB in performance appraisal and reward systems as controlling, then this could increase the emotional labour involved in their jobs. Emotional labour occurs when an employee expresses organizationally desired emotions during interpersonal transactions (Morris & Feldman, 1997) where they fake such behaviours. If employees are required to express an emotion, while simultaneously feeling another, this creates emotional dissonance (Ekman, Friesen & O’Sullivan, 1988), which can take a heavy toll on employees. Repressing anger, frustration, resentment or doubt might eventually lead to emotional exhaustion and burnout and this results in negative performance at the workplace (Abraham, 1998). It seems conceivable, therefore, that the effects of evaluating and rewarding OCBs will likely differ depending on the motivation of the individual exhibiting OCB.

Another factor which needs to be studied in order to judge the impact of incorporating OCB in the appraisal system is perceptions related to the roles the individual plays in an organization. Role ambiguity refers to a lack of clear information associated with a particular role. Further, this ambiguity is associated with increased levels of stress, dissatisfaction, turnover and lower performance (Kahn et al., 1964). We believe that formally evaluating and rewarding employees’ OCB can have diverse effects on role ambiguity. It is proposed that formally measuring and rewarding OCB will reduce the level of disagreement between supervisors and subordinates about what are the required activities in employees’ jobs. If employees are not certain
about which performance dimensions are being measured, what constitutes “good performance” or how heavily job dimensions are weighted in evaluations, they will experience role ambiguity and its negative consequences. Furthermore, Podsakoff & McKenzie (1997) suggested that this informal recognition of OCB by managers could leave employees dissatisfied with the performance appraisal process.

In some circumstances, rewarding OCB may create role conflict or role overload. Role conflict is the incompatibility between the role expectations of different parties or between the role requirements of a single role (Kahn et al., 1964). Role overload occurs when work requirements are so excessive they exceed the limits of one’s time and/or ability (Kopelman, Greenhaus & Connolly, 1983). There is a tendency for role conflict to be created as a result of communicating conflicting expectations. It is possible that competing expectations are created by including OCB dimensions in the performance appraisal because these additions could be perceived as a conflict with the task-oriented roles of the employees. In this regard, it is important to note that while OCB are important, citizenship behaviours are typically not a substitute for traditional job performance (Bolino & Turnley, 2003). In simpler words, placing greater emphasis on OCB may be detrimental to other more important job behaviours and activities, for example, decrease in productivity and quality. Since managers and supervisors are directly involved in communicating roles and, ultimately, in evaluating them, it is important to understand the expected behavioral dynamics involved in evaluation of OCB. According to Leader Member Exchange (LMX) theory, leaders treat their direct reports differently depending on the quality of their social exchanges (Graen & Uhl-Bein, 1995). Research suggests that in higher-quality LMX, direct reports may reciprocate their privileged treatment by performing activities outside their in-role job descriptions (Settoon, Bennett & Liden, 1996). Basically, the LMX theory proposes that the more similar the views about task achievement and personal values, the greater the likelihood of high-quality exchange and, thus, higher quality relationships (Weiss, 1978).
Deckop, Mangel & Cirka (1999) found that the relationship between pay for performance and OCB was a function of employees’ value alignment. Their findings indicated that for employees low in value congruence, pay for performance was a disincentive for engaging in OCB, while for employees high in value congruence, pay for performance was an incentive for engaging in OCB. Additionally, the inclusion of OCB in performance appraisal and reward systems might also affect the perceptions of supervisors. When OCB is a formal part of the performance appraisal process, supervisors might perceive employees’ motives for OCB differently than when they are not. If OCB is part of performance expectations for employees, OCB may be more often viewed as originating from a performance enhancement motive; that is, employees behave this way in order to perform their jobs at an optimal level, as opposed behaving in this way in order to influence how they are perceived by their bosses. By affecting supervisors’ perceptions of employees’ motives for engaging in OCB, formally incorporating OCB into performance appraisal could improve LMX. Empirical support for this assertion can be found in Lam, Huang & Snape’s (2007) study concerning feedback-seeking behaviour and LMX. This study found that high-quality LMX was more likely when supervisors interpreted feedback-seeking as driven more by performance management motives and less by impression management ones. Furthermore, research suggests that employees are more willing to engage in higher levels of OCB when working for supervisors who promote supportive relationships (Wayne, Shore & Liden, 1997). Consequently, the linkage between LMX and OCB in a performance appraisal context appears to be a mutual one and, therefore, by formally rewarding OCB, organizations could improve the quality of the relationships between supervisors and direct reports, which, in turn, could result in improved performance at the individual, group and organizational level.

5. Results and Discussion
OCB may serve as an effective means of coordinating activities between team members and across work groups. Exhibiting civic virtue by voluntarily attending and actively participating in work unit meetings could help the coordination of effort among team members, thus potentially increasing the group’s effectiveness and efficiency. Employees who attend and actively participate in meetings may aid the dissemination of information in an organization, thus enhancing its responsiveness.

Exhibiting courtesy by making contact with other team members, or members of other functional groups in the organization, reduces the likelihood of the occurrence of problems that would otherwise take time and effort to resolve. Courteous employees allow the organization to avoid employing of resources into a pattern of “crisis” management.

If employees help each other with work-related problems, then the organization doesn’t have to waste scarce resources on relatively unproductive issues and activities. Over time, helping behaviour can help to spread best practices throughout the work unit or the group hence OCBs may enhance organizational productivity. Helping behaviours may also enhance morale, group cohesiveness, and the sense of belonging to a team, all of which help attract and retain better employees.

Further, employees who exhibit conscientiousness require less managerial supervision and permit the organization to delegate more responsibility to them, developing the potential of these employees by exposing them to all new opportunities. To the extent that experienced employees help in the training and orienting of new employees, it reduces the need to devote organizational resources to these activities. Besides, employees who are in close contact with the marketplace volunteer information about changes in the environment and make suggestions about how to respond to them, which helps an organization to adapt.
If employees exhibit sportsmanship, it frees the organization from having to spend too much time dealing with petty complaints and in fact the frequency of complaints is also reduced. Demonstrating sportsmanship by being willing to accept minor inconveniences and not complaining about trivial matters sets an example for others and thereby develops a sense of loyalty and commitment to the organization that may enhance employee retention.

While OCB is clearly important to organizational functioning, too much emphasis on certain types of OCB could have a negative impact on organizations. This can be a result of overemphasis on OCB in the appraisal system, so that the ability to recognize and properly diagnose critical organizational problems and issues could decrease. For example, if the performance appraisal and rewards system strongly emphasizes citizenship behaviours related to altruism or sportsmanship, such as helping others, voluntarily teaching them knowledge and skills needed to complete their assignments and sometimes spontaneously performing others’ tasks, then these behaviours could critically mask human resource needs within the organization. Some problems which the organization might experience are as follows:

- Managers may not realize that their department has insufficient recruitment practices, selection processes, staffing levels or training programs.
- If the performance appraisal and reward system stresses defending and promoting the organization by expressing satisfaction and showing loyalty to the organization, these behaviours could make employees hesitant to call attention to faulty organizational practices and processes for fear of being viewed as bad organizational citizens.

On the other hand, if the performance appraisal system is careful to emphasize civic virtue, then managers may receive valuable feedback and suggestions for improvement. Consequently, in that case formally
incorporating OCB into performance appraisal will increase employees’ propensity to provide critical feedback concerning organizational problems.

Furthermore, during the process of organizational change, diagnosis is conducted by internal or external consultants, by whom perceptual data such as employee attitudes about their jobs or perceptions of organizational climate are recorded. In that situation, if employees are hesitant to share their critical insights and offer filtered feedback because of an overemphasis of certain aspects of OCB in the performance appraisal and reward systems, then the diagnosis will most likely be incorrect, leading to inappropriate change interventions. Improper organizational changes based on incorrect diagnoses will at best result in no organizational improvement and at worst cause additional or even worse organizational problems.

As indicated, the dispositions of OCB are related to personality and internal traits. If one considers the big five theory of personality, OCB are aligned with several personality traits such as agreeableness, i.e. easy to get along with and conscientiousness by going above and beyond the call of duty. Additionally, while certain aspects of OCB are more objective and observable, for example helping others, cooperating with others and showing courtesy, others are more subjective, for example providing emotional support, putting team objectives ahead of personal interests and supporting the organization’s mission and objectives. These more subjective activities would seem to be parallel to traits. If OCB dimensions are defined in a trait-like manner in the performance appraisal system, this may have serious consequences for feedback to and development of employees. Feedback concerning traits is often less instructive than other types of feedback (DeNisi & Griffin, 2011) and is problematic. Ilgen, Fisher & Taylor (1979) provided a theoretical framework for understanding responses to feedback. This study examined several factors that can influence the effectiveness of feedback, including the source, content and recipient of that feedback. Credibility of the
source, usefulness of the message, belief in the accuracy of the information presented and level of detail of the information provided are all important determinants of whether feedback is perceived as positive or negative. If OCB is defined in vague trait-based terms, employees may view feedback concerning OCB as being subjective and imprecise. This may well reflect negatively on the credibility of the source, usefulness of the message, belief in the accuracy of the information and level of detail of the information. It seems plausible, therefore, that employee development may be hampered by incorporating trait-oriented OCB into the performance appraisal and reward system because feedback is the most important mode of learning and development amongst employees. Moreover trait-based appraisals are more susceptible to claims of unfairness or discrimination and, hence, have only a weak relationship with performance.

Though the conceptual framework seems to balance the incorporation of OCB in formal performance appraisal, yet the exact weighting of each of these factors can be calculated through empirical study.

<table>
<thead>
<tr>
<th>Positive Implications</th>
<th>Negative Implications</th>
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<tbody>
<tr>
<td>Increased OCB with extrinsically motivated employees</td>
<td>Decreased OCB with employees with intrinsic motivation</td>
</tr>
<tr>
<td>Lower role ambiguity</td>
<td>Increased emotional labour</td>
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<tr>
<td>Improved self efficacy</td>
<td>Increased role overload</td>
</tr>
<tr>
<td>Improved relationship with supervisors</td>
<td>Role conflict between Task and OCB</td>
</tr>
<tr>
<td>Enhance coordination activities between team members and across work groups</td>
<td>Over emphasis on relationship with supervisor</td>
</tr>
<tr>
<td>Frequency of complaints reduces</td>
<td>Improper problem diagnosis</td>
</tr>
<tr>
<td>Enhance morale, group cohesiveness, and the sense of belonging to a team</td>
<td>Lesser employee development</td>
</tr>
</tbody>
</table>
Retain better employees  
Reduces variability  
Increases organization’s ability to adapt to changes in its environment  
Spreads “Best Practices”

| Table 1: Implications of Incorporating OCB in PA; source: Original Research |

6. Conclusion

The review of the recent literature on OCB has distinguished between various dimensions of OCB and has examined the relationships between them and OCB. The main implication of the current study is that knowing the antecedents’ and the strategic fit of OCB; organizations could be better able to foster employees’ OCB in a productive manner. Apart from the traditional measures of employee productivity, it is important for managers to monitor, appraise and reciprocate that set of work behaviours which goes beyond the role description and also are important contributors to the effectiveness of the organization. The research paves the way for a new set of research problems where each factor that identifies OCB as a strategic issue can be studied empirically.

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Study of Women’s Buying Behaviour as Regards Cosmetics in Surat Region, India

Shailesh Limbad

Abstract

As consumers, middle-class Indian women in general attach great importance to cosmetics and fashion. The focus on personal appearance in society is considered to be very significant. Many brand managers are, consequently, competing aggressively for market share in this emerging sector. The main purpose of this paper is to study women’s buying behaviour and brand loyalty as regards to cosmetics in the Surat region of Gujarat in India in the context of increasing consumption of such products. Various factors were chosen for study and responses were gathered using a quantitative approach. Questionnaires were distributed to 150 respondents for self-completion. A non-probabilistic convenience sampling method has been used for this survey. The findings of the study indicate various parameters which women consider important in purchasing cosmetics; women in the sample tend to have low brand loyalty for cosmetics brands. The study also found that women like to use cosmetics for fashion and health, that beauticians were the most effective source of brand awareness and medical stores held the most trusted channel of distribution. The study helps producers and marketers of cosmetics products to take various decisions regarding product, distribution and promotion aspects of the marketing mix.

Keywords: brand loyalty, buying behaviour, cosmetics, Surat region

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1. Introduction

The general term ‘cosmetics’ is applied to all preparations used externally to condition and beautify the body, by cleaning, colouring, softening, or protecting the skin, hair, nails, lips or eyes. Cosmetics are, therefore, products intended to be applied to the human body for cleansing, beautifying, promoting attractiveness or altering the appearance without affecting the body's structure. This broad definition includes any material intended for use as a component of a cosmetic product. The growth of cosmetics and beauty products markets has become significant as consumers are increasingly becoming aware of appearance, beauty, grooming and the choice of personal care products. Understanding this sector should be of valuable use to marketers in identifying marketing opportunities to ensure greater efficiency in the use of resources and other efforts, which are directly related to consumer purchasing behaviour such as market segmentation, consumer targeting, product features, promotional and selling efforts. This paper provides an overview of the cosmetics market and its importance and examines the influence of various parameters and brand loyalty on women’s buying behaviour concerning cosmetics. This study will provide useful information to the business sector as well as dealers in retailing sectors.

Since 1991, when economic liberalization took place, many Indian women have been crowned at international beauty pageants and this has corresponded with an increase on focus on the cosmetics industry. Subsequently, there has been a change in consumption of cosmetics and so the sector has been growing. The Indian cosmetics industry has experienced rapid growth in the last couple of years, growing at around 7.5% between 2006 and 2008. While this is due to the improving purchasing power and increasing fashion consciousness,
the industry is expected to have maintained growth momentum during the period 2009-2012 and beyond. In this sector, both electronic as well as print media are playing an important role in spreading awareness about the various products available and in developing fashion consciousness among the Indian consumers.

According to Indian Cosmetic Sector Analysis (2009-2012) (Research and Markets, 2012), the Indian cosmetics industry is expected to witness fast growth rates in the coming years on the back of an increase in the consumption of beauty products. Owing to growing disposable income of the middle class households and changing lifestyle, it is expected that the cosmetics industry will grow at a cumulative annual growth rate (CAGR) of around 17% during 2010-2013. Working women with high disposable income spend more on cosmetics and beauty products and, particularly, international brands, which are the most popular in the market. According to Retail International, retail accommodation for beauty product retailers has grown 30% in the last three years to account for 25-30% of all retail space in the market. Major brands are very active and more of the key suppliers are expected to follow such branded cosmetics. The market's growth is also attributed to the region's demographics, with a population of young, fashionable trendsetters with high disposable income (IBEF, 2013). Owing to the lack of local cosmetics manufacturers, most companies tend to sell as wide a range of cosmetics products as they can.

The Indian Cosmetics Industry is defined as skin care, hair care, colour cosmetics, fragrances and oral care segments which stood at an estimated $2.5 billion in 2008 and is expected to grow at 7%, according to an analysis of the sector. Today, the herbal cosmetics industry is driving growth in the beauty business in India and is expected to grow at a rate of 7% as more people switch to organic products and not chemical ones.
2. Theoretical Framework

Consumer behaviour refers to the mental and emotional process and the observable behavior of consumers during searching, purchasing and post consumption of a product or service (Sheth, Mittal & Newman, 1999:4-7). It is the study of how individuals, groups and organizations select, buy, use and dispose of goods, services, ideas or experiences to satisfy their needs and wants. It involves the study of how people buy, what they buy, when they buy and why they buy. It blends together elements from psychology, sociology, socio-psychology, anthropology and economics. It also tries to assess the influence on the consumer from groups such as family, friends, reference groups and society in general. Consumer behaviour should be distinguished from industrial or organizational buying, which takes place according to different criteria and with different purposes and means of judging success.

2.1. Consumer Buying Decision Process

The buying decision process consists of several steps, which are processes undertaken by the consumer with regard to a potential market transaction before, during and after the purchase of a product or service. There are usually five stages:

1. Problem Recognition

The purchasing decision making process begins when a buyer becomes aware of an unsatisfied need or problem. This is a vital stage because without recognizing the need or want, an individual would not seek to buy goods or service. Various internal and external stimuli affect the recognition of the needs (problems) for cosmetics products. Internal stimuli include fashion consciousness, wishing to emulate others and the need for greater self-esteem. There are also various external stimuli, which include the actions and opinions of friends, doctors, beauticians, advertisements and others.
2. Information Search

After the consumer has recognized the need, she will try to find the means to solve that need. First, she will recall how she has solved such a problem in the past, if relevant, which is called nominal decision making. Secondly, the consumer will try to solve the problem by asking a friend or going to the market to seek advice concerning which product will best serve the need and this is called limited decision making. Here, consumers actively or passively involve themselves in locating appropriate information as per their needs for cosmetics products. Consumers search for information such as product range availability, price, product suitability and use and the nature of the products. Opinions of family, friends, doctors and beauticians, as well as reference to company websites and advertisements are major information sources as regards to cosmetics.

3. Evaluation of alternatives

Consumers evaluate alternatives according to various criteria such as features, characteristics and benefits that a consumer desires in solving the specified problem. The consumer will decide which product to buy from a set of alternative products depending on the unique features, if any, that the product offers. Here consumers evaluate the different alternatives in cosmetics products as per their needs on the basis of price, quality, brand image, ingredients, suitability, availability and other relevant features.

4. Purchase Action

This stage involves the selection of a brand and the retail outlet at which to purchase the desired product. After selecting where to buy and what to buy, the consumer completes the final step of transaction with either cash or credit. After evaluation among the different cosmetics brand available in the market now, consumers finally buy the products desired as per needs. Here consumers evaluate the
purchase decision considering various risks like functional risks, physical risks, financial risks and psychological risks.

5. Post-purchase Actions

In the event of favourable post-purchase evaluation, the customer will be satisfied with the process. However, if the product’s perceived performance level is below expectation, then this will in due course lead to dissatisfaction. Consumers, if satisfied, are then likely to use the same cosmetics brand in future, which is what gives rise eventually to brand loyalty. If particular products do not perform as per their expectations, then consumers are likely to switch to another brand if one is available and it is perceived to exceed the performance of the current product.

This is the model of consumer buying behaviour that will be investigated in this paper.

3. Literature Review

Aaker & Keller (1990) argued that loyalty is closely associated with various factors, one of the main ones being the experience of use. Customers may be loyal owing to high switching barriers related to technical, economical or psychological factors, which make it costly or difficult for the customer to change. From another point of view, customers may also be loyal because they are satisfied with the brand and thus want to continue the relationship (Fornell, 1992).

Keller (2003) argued that famous brand names can disseminate product benefits and lead to higher recall of advertised benefits than non-famous brand names. There are many unfamiliar brand names and alternatives available in the market place. Consumers may prefer to trust major famous brand names for satisficing purposes. These prestigious brand names and their images attract consumers to
purchase the brand and bring about repeat purchasing behaviour and reduce price related switching behaviours (Cadogan & Foster, 2000).

Kohli & Thakor (1997) argued that a brand name involves the creation of an image or the development of a brand identity and is an expensive and time consuming process. The development of a brand name is an essential part of the process since the name is the basis of a brand's image. Brand name is important for the firm to attract customers to purchase the product and influences repeat purchasing behaviour. Consumers tend to perceive the products from an overall perspective, associating with the brand name all the attributes and satisfaction experienced by the purchase and use of the product and, indeed, any negative associations that might exist.

Duff (2007) investigated the niche market in women’s cosmetics and observed that cosmetics buyers were becoming more fashion conscious and were demanding products with more attractive design; furthermore, consumers have a tendency to use different makeup designs for different occasions. It is further argued that design or visual appearance is the important part of the product, which includes line, shape and details affecting consumer perception towards a brand.

Sproles & Kendall (1986) defined fashion consciousness as an awareness of new designs, changing fashions and attractive styling, as well as the desire to buy something exciting and trendy. They also observed that brands that supply stylish packages of features can attract loyal consumers who are fashion conscious. Fashion leaders or followers usually purchase or continue repeatedly to purchase their products in stores that are highly fashionable. They gain satisfaction from using the latest brands and designs which also satisfies the consumer’s ego.

Guthrie, Kim & Jung (2008) examined women's perceptions of brand personality in relation to women's facial image and cosmetic usage. This study sought to develop a better understanding of how various
factors influence perceptions of cosmetic brands in the USA. The survey included items measuring facial image, cosmetic usage, brand personality and brand attitude. The findings showed that an effective brand personality was important across all three brands, although consumer perceptions pertaining to the remaining brand personality traits differed. The study found that consumers' facial image influenced the total quantity of cosmetics used. Results also indicated that a relationship existed between facial image and brand perceptions.

Khraim (2011) argued that product quality plays a significant role in influencing consumers to be brand loyal customers. Additionally, the overall findings of the study showed that, amongst others, UAE consumers preferred brand name, product quality, price, promotion, store environment and service quality as relevant factors attributable to brand loyalty. All these factors showed positive relationships with brand loyalty, except design, which had no relationship. Undeniably, the cosmetics industry is one area which offers vast potential in the consumer market where there is an increase in social activities. More reliable and positive findings on this topic would have an impact on consumers, marketers and policy-makers. Marketers should find it useful to understand how loyalty factors can affect consumer-buying behaviour in the marketplace, which can help in segmenting consumers and markets for their brands and marketing communication. By examining how cosmetic usage determines brand perceptions, companies can improve their marketing strategies to enhance customer satisfaction and increase their customer base. Moreover, by identifying the brand personalities that attract consumers, companies can pinpoint the characteristics customers look for in a product, which in turn can be used to enhance brand image.

Cadogan & Foster (2000) argued that price is probably the most important consideration for the average consumer. Consumers with high brand loyalty are willing to pay a premium price for their favoured brand, so their purchase intention is not easily affected by price. In addition, customers have a strong belief in the price and
value of their favorite brands, so much so that they would compare and evaluate prices with alternative brands (Keller, 2003). Consumer satisfaction can also be built by comparing price with perceived costs and values. If the perceived values of the product are greater than cost, it is observed that consumers will purchase that product. Loyal customers are willing to pay a premium even if the price has increased because the perceived risk is very high and they prefer to pay a higher price to avoid the risk of any change (Yoon & Kim, 2000).

4. Methodology

The primary objective of this study is to study women’s buying behaviour as regards to cosmetics in the Surat region. The secondary objectives are as follows:

- To study women’s preference for cosmetics products with respect to various brands of cosmetics.
- To study reasons for purchase of cosmetics items.
- To understand sources of information that make people aware of the features of cosmetic products.
- To understand preferred channels of distribution.
- To understand brand loyalty issues for cosmetics.

4.1. Primary Data Collection Method

Primary data were collected through questionnaires completed by female cosmetics consumers. A questionnaire approach was considered to be the most effective method for collecting primary data for fulfilling the purpose of studying women’s buying behaviour as regards cosmetics products. All the questions in the questionnaire were in the English language and also were interpreted in the local languages (Gujarati & Hindi) for some respondents when it was deemed necessary to seek fair and unbiased responses.
The questionnaire included both open-ended and closed questions. The various questions included in the questionnaire were intended to study buying behaviour, to understand their preferences regarding cosmetic products and about brand loyalty issues. Likert scales were used for some questions involving purchasing decisions and additional questions concerned demographic attributes of respondents.

4.2. Secondary Data Collection Method

Reference books and academic journals were consulted to determine the existing level of knowledge about consumer buying behaviour. The internet was used to collect data about the companies involved and their various brands and product lines available in the market, as well as the company’s turnover and their market positions. In addition, past research survey data was used to help create the questionnaire used to collect primary data.

4.3. Sampling Details

The population for this research study consists of women using cosmetics products. Working women, housewives and college students were contacted through a face-to-face interviewing method using the questionnaire. In this study, the sampling unit is the individual consumer who uses cosmetics products. A total of 150 women consumers were contacted within the Surat (Gujarat) region and the sample were selected by a non-probability convenience sampling method to seek fair, impartial and effective data.

5. Data Analysis and Findings

Most of the respondents were young, with 49% aged between 21-25 and 20% aged between 15-20 (n = 150). As might be expected, therefore, there was a significant proportion of students in the sample (36%), although the majority of respondents (51%) described themselves as housewives (n = 150) – there remain powerful social
pressures in India which continue to limit women’s ability to work outside the house and this also has an impact on marketing.

When asked what kind of cosmetics respondents used, 93% replied that they used branded products and only 7% local or generic brands (n = 150). The preference for herbal or non-herbal products was mixed, since 20% used herbal products, 45% used non-herbal products and 35% used both types (n = 150).

When asked why they bought the cosmetics that they did, the most common response was for fashion purposes (26%), followed by health (20%) and social influence (18%). Smaller responses were noted for getting attention (13%), status (11%), to improve personality (9%) and psychological satisfaction (3%) (n = 150). Interestingly, the most important source of information about cosmetics was doctors (30%), followed by friends (26%) and beauticians (25%), with shopkeepers (10%), the media (5%) and the internet (4%) lagging behind (n = 150). It is apparent that respondents have a diverse range of purposes for using cosmetics and finding out about them. Since personal relationships are important in providing information, brand managers should make sure that their information is properly conveyed to the trusted intermediaries. This understanding is reinforced by the information on the places where cosmetics are purchased, which had a number of categories with none dominant. For example, the most common response was medical stores (20%), followed by beauty parlours and general stores (both at 17%), cosmetic stores (15%), retail malls (13%), exclusive cosmetic stores (9%), online purchases (6%) and distribution agents (3%). India is a country where, generally, there remains a significant lack of upmarket retail space compared to the number of consumers now with disposable income and, in particular, with respect to the burgeoning middle class and the female half of the population. While urbanization and economic development will eventually yield more such shopping space, it remains necessary for manufacturers to establish and maintain relationships with smaller-
scale and more traditional distribution channels. This is likely to remain the case for some years.

The size of the market may be inferred from the fact that 55% of the respondents spend an average of 501-750 rupees per month on cosmetics (US$1 = 60 rupees); 28% of the respondents spent less than this but 10% spend 751-1000 rupees and 7% more than this (n = 150). Given the size of potential market overall, it is clear that this represents a significant market opportunity. It is also clear that there is significant scope for marketers to improve their offerings, since 64% of respondents reported that they changed brands regularly and that only 36% demonstrated loyalty (n = 150). That the market is still developing rapidly is indicated by the fact that the most common reason for changing brand is that a new product has appeared on the market (28%), followed by improvements in an existing alternative product (26%). The implications for management of the marketing mix are evident from the importance of price changes (18%), packaging changes (14%) and advertising changes (12%) (with 2% choosing other reasons – n = 96). It is clearly important for marketers to establish a relationship of trust and loyalty because a remarkable 95% of respondents use the same brand for every product in the category (n = 150). Capturing a customer with one product, therefore, strongly suggests that the customer will be very receptive to extension of the brand across many product lines. This suggests that trust is very important in this market, which reinforces the information previously received that people very often receive information about cosmetics from trusted individuals. A subsequent question further demonstrated the importance of trust, since 91% of respondents indicated that they would change their brand if they received or felt that they received any form of duplicity (n = 150).

The questionnaire then moved on to the issue of the factors influencing consumption decisions. Likert scales were used to invite respondents to answer to a battery of potential factors. The responses
have been converted into an average score for comparison (see Table 1 below), with a high score of 5 and a low score of 1.

<table>
<thead>
<tr>
<th>Factor</th>
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<th>Average Score</th>
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<tbody>
<tr>
<td>Brand Image</td>
<td>3.88</td>
<td>Quality</td>
<td>4.30</td>
</tr>
<tr>
<td>Fragrance</td>
<td>4.17</td>
<td>Quantity</td>
<td>4.20</td>
</tr>
<tr>
<td>Advertising</td>
<td>3.67</td>
<td>Price</td>
<td>3.64</td>
</tr>
<tr>
<td>Packaging</td>
<td>3.78</td>
<td>Softness</td>
<td>3.93</td>
</tr>
<tr>
<td>Skin Protection</td>
<td>4.48</td>
<td>Protection from</td>
<td>4.38</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Germs</td>
<td></td>
</tr>
<tr>
<td>Moisturizing Effect</td>
<td>4.38</td>
<td>Suitability for</td>
<td>4.14</td>
</tr>
<tr>
<td></td>
<td></td>
<td>the Skin</td>
<td></td>
</tr>
<tr>
<td>Easy to Use</td>
<td>3.83</td>
<td>Availability</td>
<td>3.57</td>
</tr>
<tr>
<td>Refreshment</td>
<td>3.98</td>
<td>Natural Ingredients</td>
<td>4.12</td>
</tr>
<tr>
<td>Seasonal Change</td>
<td>4.12</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1: Factors Influencing Purchase of Cosmetics (n = 150); source: Original Research

It is evident from these results that, as far as respondents claim, they are more interested in product attributes rather than other aspects of the marketing mix. In order to obtain information about the product, they either need to try it for themselves or to receive information from a trusted intermediary and this has a clear implication for communications strategy. It should also be noted that there is importance attached to the interaction between the cosmetic and the woman’s skin and the suitability of the product. This suggests that international brands will not be able simply to distribute and market their products in India in exactly the same way that they might do in other countries. Instead, it will be necessary to localize the products to some extent, whether or not this means actually modifying the product itself.

The questionnaire then went on to ask about preferred brands in six different categories, shampoo, soap and whitening cream; face wash,
nail paint and lipstick. In India, as in a number of different Asian countries, the desire for a fairer coloured skin is considered to be one not just of beauty but also to have status issues involved. Although this may be politically suspicious, it is nevertheless the case that the products involved remain very popular.

<table>
<thead>
<tr>
<th>Shampoo</th>
<th>Soap</th>
<th>Fairness Cream</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pantene</td>
<td>20</td>
<td>7</td>
</tr>
<tr>
<td>Clinic plus</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>Beauty plus</td>
<td>9</td>
<td>25</td>
</tr>
<tr>
<td>L’Oreal</td>
<td>24</td>
<td>44</td>
</tr>
<tr>
<td>Nyle</td>
<td>53</td>
<td>58</td>
</tr>
<tr>
<td>Vatica</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>Head &amp; shoulders</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Garnier</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Sunsink</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Himalaya</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Face Wash</td>
<td>Nail Paint</td>
<td>Lipstick</td>
</tr>
<tr>
<td>Ponds</td>
<td>52</td>
<td>20</td>
</tr>
<tr>
<td>Himalaya</td>
<td>29</td>
<td>32</td>
</tr>
<tr>
<td>Dazller</td>
<td>25</td>
<td>31</td>
</tr>
<tr>
<td>Garnier</td>
<td>12</td>
<td>34</td>
</tr>
<tr>
<td>Dove</td>
<td>21</td>
<td>23</td>
</tr>
<tr>
<td>L’Oreal</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Lakme</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Elle18</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Fair n lovely</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 2: Preferred Brands in Different Cosmetic Categories (n = 150); source: Original Research

It is evident that in only two categories are there definite brand leaders: Nyle shampoo and Ponds face wash. Some other brands are
very popular, for example Lifebuoy soap, but these do have powerful rivals. In most categories, therefore, no single brand has been able to secure a significant position as market leaders and that suggests again a dynamic market place in which marketers will need to plan and enact their strategies for some years to come.

6. Discussion

In terms of the primary objective, it is evident from the findings presented above that women’s buying behaviour with respect to cosmetics is still evolving. Trust and personal relationships are clearly important with respect to information gathering and decision-making but most respondents seem quite happy to switch brands when new options become available in the marketplace.

In terms of the secondary objectives, it is evident that a variety of factors determines decision-making and that most categories do not have definite and fixed market leaders. This reinforces the idea that the market remains in a fluid situation and marketers need to be active to persuade consumers to switch to and become loyal to their products.

Trust is evidently an issue in this sector, as consumers seem to expect duplicitous behaviour on behalf of manufacturers and distributors while also going to trusted individuals for advice on new products. There is also the issue of the relationship between the individual and new (or untried) products which may or may not be suitable for the skin of the individual. There would appear to be benefits available for those marketers who are able to localize their products appropriately.

In terms of the place where the product is purchased, there is scope for marketers to take temporary space in a variety of different locations, since choices are diverse, through renting stalls, franchising products, offering sales promotions and so forth.
7. Conclusion and Scope For Future Research

Based on the research, it is concluded that there are many factors which may be considered as very important for respondents when purchasing cosmetics. Although brand loyalty is important for any organization because it gives surety that products will have a strong bond in the minds of consumers and this will discourage them from switching to another brands, the research here indicated that it was not easy to obtain and sustain consumer loyalty. Propensity to switch is high in what appears to be a low-trust environment and a market which is still developing, with a great deal of churn as new products appear and new opinions form about them. However, information has been gathered here which should help in structuring communications campaigns and designing promotional efforts.

Future research in this area will attempt to expand the number of respondents and to extend the geographical base. Research will also be conducted to measure perception or customer satisfaction regarding cosmetics products and on in-depth brand loyalty by considering factors affecting brand loyalty in a variety of ways.

8. References


CONFERENCE REPORTS
1st Shinawatra University International Conference

John Walsh

SIU held its first International Conference on January 30th-31st, 2013, under the title Public and Private Sectors: Governance Development and Innovation. The conference was authorized by SIU President Professor Dr. Voradej Chandarasorn and brought together in very quick order by the hard work of many SIU employees, among whom the team supporting Director of Admissions Ms Tanarat Teeratanakiat may be particularly noted.

Director Tanarat (centre) briefs the reception desk team.
Keynote speakers introduced both days of the conference and included Deputy Prime Minister and Minister of Education Mr. Phongthep Thepkanjana, who gave a keynote speech on the first morning, as well as SIU President and Dr Tilak Rawal, previously head of the Bank of Nepal. The various keynote speakers tackled different aspects of governance in the contemporary world and grappled with the means of adapting these issues to the specific context of Thailand.

Deputy Prime Minister and Minister of Education Mr. Phongthep Thepkanjana gives a keynote address.

In the technical paper sessions, a number of interesting presentations were made and the sessions were well-attended. Panels were held mostly in English but there was a Thai language session.

Prizes were awarded for best paper overall and best paper by a student and these were received by, first, Professors Duchduen & Vutthi Bhantumnavin for their paper “The Predictors of the Behavioural Tendency to Support Nuclear Power Plants in Thai University
Students with Different Academic Majors” and, second, by Suh Nun Thang & Paul Mason, for their paper “Position Statement: Towards Improving the Scrutability of Legacy Safety Data Using Natural Language Processing.”

The conference proceedings, including abstracts and full papers, have been made available and will be joined in due course by an edited volume of selected papers under the title of Critical Issues in Governance in Thailand. It is hoped that the next international conference will be held before the end of 2013.

SIU President Professor Dr. Voradej Chandarasorn gives the closing address.
A Report on the International Conference on Management Cases (ICMC) 2012

Professor G.D. Sardana

The International Conference on Management Cases (ICMC), an annual feature, jointly organized by Birla Institute of Management Technology (BIMTECH), Greater Noida, India, and the School of Public Policy, George Mason University, Arlington, USA, has become established as a unique conference in many ways. Not aiming at numbers, the ICMC has rather restricted itself to select not more than 70-75 papers and thereby provide authors with sufficient time for presentation and discussion. The cases are from live situations, unpublished, original and deal with conflicts or issues confronted by practitioners in contemporary business and management. The conference does not permit participation in absentia. The accepted cases are published in full text as books by an international publisher, with the publication released formally at the time of inaugural function of the conference.

The conference has been awarded formal approval for organization from the Ministry of Human Resources Development, Government of India.

The ICMC 2012 was held on Nov 29-30th, 2012 at BIMTECH Campus. Sixty nine papers were selected from over 120 submissions received. Of these, 45 papers were from authors from outside India. The contributing author-delegates came from the USA, Canada, Finland, Poland, France, Malaysia, Thailand, Japan and India. Over 100 delegates registered and attended the conference. The delegates included academics, researchers and practitioners. Some of the prominent names included Professors: Ed Rhodes, Dean, School of Public Policy, George Mason University; Hanna Lehtimaki, University of Eastern Finland; Yvon Pesquex, CNAM, France; Eric Simon, ISC, Paris School of Management; Iijima Masaki, Aichi
The Inaugural Session

The inaugural ceremony received its customary auspicious start by the lighting of the ceremonial lamp, as a symbol of spreading the light of knowledge in the world of darkness. Dr. Harivansh Chaturvedi, Director BIMTECH welcomed the guests. Stressing the importance of the case study method as a pedagogy of teaching management education, Prof. Chaturvedi referred to the effectiveness of India’s Panchtantra, which provided education through tales to convey messages on ethics, social living and practical wisdom. He hoped that the two days of the conference would prove to be rewarding in any aspect.
The highlights of the session included an address by the chief Guest and Keynote Speaker, Professor Roger Stough, Vice President, Research and Economic Development, George Mason University. Prof Stough touched upon links of dependence between the seats of management education, society and the globalization of business in the emerging competitive environment. The universities, he pointed out, were now called upon to respond to creating new and appropriate knowledge to create social benefits and pioneer rapid innovation besides the traditional role of imparting textbook knowledge.

Figure 1: Professor Roger Stough Presents the Keynote Speech

Earlier, Dr. Sardana briefed the audience on the activities of the Centre for Case Development and apprised all about the jam-packed conference programme over the two days.

The award presentations followed the address. To promote case writing and encourage the pedagogy of teaching through cases,
BIMTECH has introduced awards for outstanding young scholars. The award scheme, innovative in conception, has been instituted in the title of BIMTECH-Stough Young Scholars Awards to honour Professor Roger Stough, an eminent teacher, researcher and an educationist for his laudatory contribution to the cause of management education in the last four decades. These awards, introduced at this conference, honour ten authors for the best papers in this category contributed to this conference. Each award comprises a medal, certificate of merit and a cash prize of Rs. 10,000(US$200). The scholars honoured at this conference were Ifedapo Aseleye (Nigeria), Divya Srinivasan, Uma Kelekar, Nathan Walla (all from USA), Anna Heikkinen (Finland), and Avik Kedia, Mohd. Arshad Khan, Pallavi Seth, Bhawna Anjaly and Geeta Rana (all from India).

Figure 2: Ifedapo Aseleye Receives the Prize for Outstanding Young Scholar
Emerald Publishing sponsored awards for best case writing, which were received by Professors Anuj Sharma and Anshul Verma (both from BIMTECH), with each receiving Rs. 10,000 and Namita Kumar (Ak Garg Institute of Management) receiving Rs. 5,000.

Yet another category of scholars honoured was the Bimtech PG students. The team of Ankita Asthana and Aneja Mohanty bagged the first prize, while the teams of Rushil Jain and Tushar Behl and Satya Prakash Gupta and Ashutosh Kandelwal both received second prizes, and three teams of Parveen Yeuri and Rajeev Kumar Sharma, Kompal Preet Kaur and Kirti Goel and Nisarg Trivedi and Mansi Pancholi, were awarded the third prizes in the Case Analysis Competition organized by BIMTECH Centre for Management Case Development.

The release of the conference publication was the highlight of the inaugural meeting. The compendium of papers was organized in the form of two books, titled:

1. *Reframing Human Capital for Organizational Excellence*
2. *Capability Building for Organizational Transformation: Management Cases from Multiple Disciplines*

These were published by Bloomsbury Publishing and formally released by the dignitaries.

The inaugural session ended with a vote of thanks from Prof Tojo Thatchenkery, co-chair of the conference.
Plenary Session

The delegates re-assembled to a plenary session after a networking break. Two of the highly accomplished academics spoke on society and globalization. The opening remark from Prof Anupam Varma, Dy. Director, BIMTECH, who chaired the session, set the ball rolling.

The first speaker, Prof Yvon Pesqueux, CNAM, Paris, observed that in multinational corporations and society, the term “glocalization” is now often bandied about - think globally and act locally. However, he stressed that it was ‘rather time to question the irreducible antagonism between the values of the geographic space of markets and those of the geographic space of nations.’ Prof Pesqueux, in his scholarly presentation, went on to say that ‘globalization backs up the assertion
that the geographic space of markets must overlap with that of nations.’

Prof. Ed Rhodes, Dean, George Mason University, talked of the transformation of society. He referred to the underlying dynamics driving institutional transformation. The technological revolution has transformed how we deal with information. The second change, Prof. Rhodes remarked, was in human capacity; individuals today were more educated and socially and culturally were different. He highlighted the dimensions of globalization, flattening and networking and unbundling.

**Concurrent Technical Sessions**

Sixty-nine cases were presented and discussed in 15 concurrent technical sessions spread over two days. The sessions were organized on the themes of Knowledge Management, Talent Management, Human Capital Development, Leadership, Organization Development, Global Culture and Organizational Change, Financial Management, Innovations and Technology, Operational Competencies, Marketing Strategies, Creating Excellence through Performance Evaluation and Crafting Strategy for Sustainability. Each of the cases was allocated a minimum of 15 minutes for presentation by the authors and another 15-20 minutes for discussion and response to queries.

The post-lunch schedule on the first day saw the presentation of 24 papers in 6 concurrent sessions. Each of the sessions was chaired by two prominent academics, one each drawn from overseas and India.

That same evening, BIMTECH hosted a grand Conference Dinner at the elegant Stella Gymkhana in honour of the visiting delegates. The second day of the conference started with an interactive session with Hazel Goodson from ECCH (European Case Clearing House). Ms. Hazel attended this conference as an observer from ECCH with prospects of future association in case development and publication.
The session was devoted to case writing and case-publication with ECCH and resolving queries from many a delegate.

The rest of the schedule focused on presentation and discussion of 45 cases in 9 concurrent sessions. Each session dealt with one theme, enabling delegates of common interest to come together.

The Open House formed the closing session, wherein the delegates came out with suggestions to carry the conference further. Chaired by Prof. H Chaturvedi, Director, BIMTECH, it ended with the distribution of certificates to the delegates and an invitation to meet again at ICMC2013 on December 5-6, 2013.

Figure 4: Delegates at ICMC 2012
ICGBE 2013

First Hotel, Bangkok, February 9-10th

The International Conference on Global Business and Education (ICGBE) 2013 was successfully held at the First Hotel in Bangkok on February 9-10th earlier this year. The conference was organized by the International Foundation for Research and Development (IFRD), headed by Professor N.T. Ran, Chair IFRD, Dubai, UAE in conjunction with Yildirim Beyazit Universitei, Turkey, National Academy of Management, Ukraine and PERTRE ANDERI of IASI, Romania, as well as Shinawatra International University. The conference was chaired by SIU Journal of Management editor John Walsh.
International Foundation for Research and Development (IFRD) provides a unique platform to scholars, academicians, practitioners and business manager to share their valuable knowledge and experience with each other. IFRD organizes conferences, seminars, workshops and publishes diversified research journals to support and promote education and research.

The proceeding records the fully refereed papers presented at the conference. The main conference themes and tracks are Computing Engineering, Enterprise Management, Technology and Business. The conference aims to bring together researchers, scientists, engineers and practitioners to exchange and share their experiences, new ideas and research results about all aspects of the main conference themes and tracks and discuss the practical challenges encountered and the solutions adopted. The main goal of the event is to provide a scientific forum for exchange of new ideas in a number of fields that interact in depth through discussions with their peers from around the world.

The conference has solicited and gathered technical research submission related to all aspects of major conference themes and tracks. We have received more than 150 papers from across the world. All the submitted papers have been peer reviewed by the reviewers drawn from the scientific committee, external reviewers and editorial board depending on the subject matter of the paper. Reviewing and initial selection were undertaken electronically. After the rigorous peer-review process, the submitted papers were selected based on originality, significance and clarity for the purpose of the conference. A total of 100 papers were accepted after scientific and thematic review. The conference program is extremely rich, featuring high-impact presentations.

The keynote speaker, Dr. Nittana Southiseng, opened proceedings with her presentation on the development of small and medium-sized enterprises (SME) business clusters in the Cambodia-Laos-Myanmar-Vietnam (CLMV) region. Dr. Southiseng is SME Business Cluster
Development Specialist at the Mekong Institute, Khon Kaen and, of course, received her doctorate from Shinawatra International University.

Papers were then delivered over the course of the next two days from a variety of perspectives and subjects. Shinawatra International University was represented by doctoral candidates Ms. Wilaiporn Lao-Hakosol, Ms. Petcharat Lovichakorntikul and Ms. Sirirat Ngamsang, as well as instructor Ms. Reema Thakur.
The IFRD organizes a series of conferences in international venues and conferences in June, 2013 are being held in Langkawi, Malaysia and again in Bangkok. All readers are welcome to attend conferences and to submit papers to the four IFRD journals (http://ifrnd.org).
BOOK REVIEWS
Innovation Systems in Southeast Asia

Edited by Apiwat Ratanawaraha, Pun-Arj Chairatana and William W. Ellis


223 + XXII pages

Reviewed by John Walsh, Editor, SIU Journal of Management, School of Management, Shinawatra University, Thailand.

In the introduction to this collection of papers on the national innovation systems in six Southeast Asian states, written by Apiwat Ratanawaraha, it is observed that: “… the European innovation system model is based on its own unique socio-economic, institutional and cultural environment. By adapting such a model in framing national innovation policies in Southeast Asia’s vastly different political, institutional and cultural contexts, policy-makers may have discounted the significance of such factors as determinants of success
(p.2).” This observation goes to the heart of the difficulties in comparing the countries meaningfully and the resulting unevenness in the book. Previously, in the foreword, one of the founders of the national innovation system concept, Professor Bengt Åke Lundvall, draws the distinction between two types of learning mode involved in the concept, STI (science, technology and innovation) and DUI (doing, using and interacting) (p.v). The governments of five of the six countries considered (Singapore is perhaps inevitably the exception) have both ignored part of the prescription to incorporate these two modes of learning by focusing on STI and undervaluing or ignoring DUI (it may be argued that the former is the preserve of academic elites in alliance with policy-makers) and, then, expanding the definition and content of the former until it becomes almost meaningless. As a result, the analytical approach suggested to the authors has become problematic. They are encouraged to consider first the key actors in the system and their roles, then interactions and linkages among those actors, third the institutional settings that govern systems, fourth the various impacts of systemic learning, structural shift, external shocks, trends and market sophistication and, finally, innovation system policy in each country concerned. As the authors follow these suggestions, they demonstrate the divergence the governments concerned have put into place and how far this might be from the original concept.

This may be demonstrated by a comparison between the case studies on Singapore and the Philippines. The former, by William W. Ellis and Apiwat Ratanawaraha, describes the focused, planned and properly resourced approach taken by the Singaporean government that correctly identified the need for a culture of innovation and provided incentives for people to develop themselves into professionals able to contribute. More recently, the government has come to recognize the importance of popular culture and the arts as part of general innovation culture – Korea provides an inspiration here with its support of the hallyu. As the authors point out, government support extends to the configuration of space in public areas to
increase the likelihood of the serendipitous encounter that sparks a sharing of ideas and the result is creativity. Of course, the control of space and the provision of resources and policy is dependent on scale issues that make such an approach possible in a city state but much less possible in a country of a larger size. This is evident in the case of the Philippines, with its sprawling archipelago and diversity of peoples and governance systems. Adding to the problem has been the government’s approach, which has been to bundle all of its developmental aspirations together in an innovation package that includes vocational education, business incubation and sourcing foreign technology, as part of the Filipinnovation concept. Since the focus has become so diffuse, it is inevitable that some aspects will fail to perform as hoped, not least because many policies cannot be expected to bear fruit for a number of years. The result is disappointment and, to counter potential criticism, there is an incentive for the government to reinvent the scheme and relaunch it in a new form. This is made clear from the chapter by Aida L. Velasco and Raymond B. Habaradas, although they do their best to follow the analytical framework required. Of the other case studies, it is evident that Indonesia is closer to the Philippines model while Malaysia is closer to the Singapore approach. Meanwhile, the system in Vietnam relies mostly on aspiration rather than actual achievement to date. Unfortunately, the chapter on Thailand lacks credibility because of a series of unsupported allegations concerning the Thai Rak Thai administration. However, apart from the Thailand case study, the other chapters are appropriately written and of a good academic standard.

Overall, this is an interesting and useful contribution to understanding the dynamics of innovation and economic development in Southeast Asia. It is good to see publications of this sort being produced in the region by local specialists and Chulalongkorn University Press is to be congratulated for publishing and distributing it for just 200 baht (around US$7). I note that this volume represents the first part of an extended research project and I look forward to seeing future volumes.
Industrialization with a Weak State: Thailand’s Development in Historical Perspective

Somboon Siriprachai, edited by Kaoru Sugihara, Pasuk Phongpaichit and Chris Baker


183 + XII pages

Reviewed by John Walsh, Editor, *SIU Journal of Management*, School of Management, Shinawatra University, Thailand.

One experience that unites all those who study any part of Southeast Asia is the realization that dawns, sooner or later, that such a large proportion of the available knowledge and information is produced by people from outside the region, one way or another. That is why it is considered so important to celebrate the work of local scholars who are able not just to add important perspectives to internationally produced knowledge but who are also able to communicate it effectively to society at large. This is the case with the late Somboon Siriprachai (1956-2008), whose work on economics is captured in this book, which has been published as a collaboration between the
National University of Singapore and the Center for Southeast Asian Studies at Kyoto University. A preface by Kaoru Sugihara intimates that there were some editorial difficulties along the way, which explains the delay in publication.

At the heart of this book are seven chapters, each dealing with a different but related aspect of industrial development in Thailand over recent decades. Four of these chapters are based on papers included in scholarly books, two others on papers that first appeared in Warasan Setthasat Thammasat (Thammasat Economic Journal), with which the author was associated for a period as Assistant Editor and the last is based on two unpublished papers. The result is a book containing a reasonably coherent body of work, although it would of course have been more thoroughly developed if the author had had the opportunity to oversee it personally.

Siriprachai was clearly devoted to the interests of the common Thai people and his writings have the impression that they could be used at the community level to help people understand why, if Thailand’s economy had been growing so strongly and apparently impressively for several decades, they themselves remained so poor. As a result, he makes repeated efforts to link theory with real-life conditions. He explains economic development in terms of an East Asian industrialization model that incorporate rent-seeking and corruption that, in turn, contributed to growing income inequalities. Additional elements in his analysis include rural-urban migration and declining fertility rates. The authorial style is discursive in nature combined with a relatively small amount of macroeconomic-level data. This would appear to be suitable to a style of pedagogy in which a respected teacher explains the way the world works to receptive students. Insofar as the reader is spared the complex mathematical models of contemporary microeconomics, this is perhaps a good thing. On the other hand, those who have alternative understandings of which factors are important and how they interact with each other can only be persuaded by assertion rather than empirical evidence.
This is perhaps one of those epistemological issues that pop up so frequently in the area of management sciences, in which so many different fields of inquiry, economics included, have at one time or another been integrated. An example of the mode of thinking is presented in the chapter on ‘Development Economics, Rent Seeking, and the East Asian Miracle,’ on p.119: “The East Asian NIEs [newly industrialized economies] initially adopted import-substitution policy because it suited their factor endowments of limited natural resources but abundant cheap labour. However, once the policy had run its course, and once the quality of the labour force had begun to rise, policy makers in the East Asian NIEs were able to make the switch to outward orientation. By contrast, Latin American and sub-Saharan African countries persisted with import-substitution long after efficiency had begun to decline, because the strategy still benefited powerful entrenched goods.” It is, of course, all too easy to pick on a passage, wrench it from its context and then criticize it for not being something it was not trying to be. Nevertheless, this still seems to be a little too sweeping in its conclusions: were all the East Asian NIEs following this path? Singapore, after all, is rather different from Korea and Hong Kong has quite different international relations than Taiwan. Were there no continuing entrenched interests in these countries who could affect policy formation and, if so, what had happened to them all? As previously mentioned, it is perhaps unfair to make these criticisms because the chapters of the book were written for a specific kind of audience.

Overall, the direction of Siriprachai’s thinking is sound and his desire to locate Thailand’s economic development within the specific historical conditions of the country is very welcome. The book will appeal to readers interested in a leading Thai professor’s understanding of the processes active in changing his own country and what those processes mean. In light of the generous tributes accorded to him as a person, then the book would also act as a fitting tribute to a scholar and a teacher.
CALL FOR PAPERS

The SIU Journal of Management (ISSN 2229-09944) is now accepting submissions for biannual publication, with issues scheduled to be published in June and December of each year. Volume 3, No.1 will be published in June, 2013.

The SIU Journal of Management is a double-blind, peer-reviewed academic journal with an assigned ISSN (2229-0044). Authors can submit papers directly to the editor (jcwalsh@siu.ac.th). The reviewing process will be completed as quickly as possible.

Subjects which the SIU Journal of Management publishes include but are not limited to:

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- business ethics
- cross-cultural management
- entrepreneurialism
- family business management
- financial management
- globalisation
- human resource management
- knowledge management
- international management
- labour market issues
- language and management issues
- leadership
- marketing studies
- operations management
- organizational studies
- public and private sector management
- strategic management
- sustainable development and management
- tourism management
- urbanisation
- all related topics.

Research papers should normally be in the range of 4-7,000 words and follow APA guidelines for references. The Journal will also publish case studies (normally 2,500-4,000 words) and comments and insights from industry practitioners. Authors should also supply an abstract of up to 300 words and up to five keywords.

Although the journal is international in scope, there will be a preference for papers relating to Asia and, in particular, to the Mekong Region.

Authors wishing to propose a special issue of papers on a specific theme or papers presented at an academic conference or workshop may also contact the editor for further discussion.

Please send all correspondence to the editor at jewalsh@siu.ac.th
ADDITIONAL AUTHOR’S GUIDELINES

Research papers should normally range between 4,000-7,000 words. Prepare the manuscript as a Word document with a margin on all sides of 1 inch and double spaced.

The first page should include the title of the paper and the names and contact details of all authors. The corresponding author, responsible for all communications with the journal, should be clearly specified.

The second page should include the title of the paper and an abstract of no more than 300 words that clearly explains the purpose, method and main findings of the research. The abstract should be followed by 4 or 5 keywords arranged in alphabetical order and separated by commas.

The main text should begin on the next page. Please make sure that author or authors are not indicated by name in the text and that the file itself does not identify the author or authors in any way. Tables and figures should be publication-ready and should be located in the text where the authors wish them to appear. Papers that do not meet the journal’s instructions may be returned to authors for amendment. Book reviews should normally range between 900-1,500 words. Unsolicited book reviews are not accepted so please contact the editor first for any possible submission.

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Most papers published will be original research papers related to the issue of management. Other papers may be primarily conceptual or theoretical in nature. These papers will be double blind peer reviewed.

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ABOUT SHINAWATRA UNIVERSITY

Historical Background

The idea of establishing a private university to support private sector development in Thailand and the region was initiated in 1996 by Dr. Thaksin Shinawatra and Professor Dr. Purachai Piumsombun. This was followed by the design development of an environmentally friendly campus by Dr. Soontorn Boonyatikarn in 1997. A year later, the innovative plans were presented to Her Royal Highness Princess Mahachakri Sirindhorn, and then to the Ministry of Universities which granted the license for operation towards the end of 1999. The first Shinawatra University Council Meeting was held on May 19th, 2000, marking the initial milestone of the long road to becoming an accomplished private university. In September 2002, the first batch of students was admitted, and the venture of creating and nurturing a prospective university had begun.
Coat of Arms

The University’s coat of arms represents the sun, which symbolizes the source of knowledge. It radiates an abundance of ingenuity and innovation through research. It contributes to the foundations of learning including ethical, moral, physical, and religious aspects.

Key Performance Indicators

- 100% graduate employment with very high average salaries.
- Top 10% of all higher education institutes accredited by The Office for National Education Standards and Quality Assessment (Public Organization) ONESQA.
- Ranked 2nd by ONESQA among private higher education institutions in Thailand.
- Education Standards of SIU and all its schools in 2006 were unconditionally approved by ONESQA.
- Faculty members with leading research performance as assessed by Thailand Research Fund (TRF).
- Over 70% of faculty members with doctoral degrees and 60% hold academic rank position.
- Prestigious TRF Royal Golden Jubilee PhD Scholarships awarded to 20% of faculty members.
- More than 30% of faculty members and 20% of students are International.
- More than 50% are graduate students.
- NRCT research grants awarded to faculty members.
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