



MANAGEMENT STREAM

Efficiency and Boundaries of Economic Organization

Hrabrin Bachev

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Efficiency and Boundaries of Economic Organization

Hrabrin Bachev*

ABSTRACT

In this paper we incorporate achievements of interdisciplinary New Institutional and Transaction Costs Economics (combining Economics, Organization, Law, Sociology, Behavioral and Political Sciences) and suggest a framework for evaluating efficiency and boundaries of agri-business organizations. This new approach includes: study agricultural farm/firm and other agri-business organizations as a governing rather than production structure; assessment of comparative efficiency of alternative (market, contract, internal, hybrid) modes of governance; analysis of level of transaction costs and their institutional, behavioral (agents preferences, bounded rationality, tendency for opportunism), dimensional (frequency, uncertainty, assets specificity, and appropriability of transactions), and technological factors; and determination of effective horizontal and vertical boundaries of agricultural farms/firms, and other agri-business organizations.

KEY WORDS : governance and efficiency of agri-farms and firms, transaction costs, new institutional and transaction costs economics

INTRODUCTION

The issue of criteria and approaches for evaluating efficiency and economic boundaries of various agri-business organizations (farms, firms etc.) is among the most debated in economic theory and practices [1, 2, 3]. The question of efficiency is often politicized as unilateral priority is given to a particular type of organization - free market, private farming, family farm, agri-firm, cooperative. In more profound analysis efficiency is assessed on the base of productivity of resources used in various types of organizations. At the same time, no answer is given to fundamental question: why there have been highly sustainable "inefficient" organizations across the world - unproductive subsistence and semi-market farms, production cooperatives with profitability several times lower than private farms, inefficient contractual arrangements etc.

The New Institutional Economics is a new developing methodology which explains existence and efficiency of economic organizations with their role to maximize transaction benefits and minimize transaction costs [4, 5, 6]. Diverse type of agricultural farms and firms, and contractual modes are considered as alternative governance (rather than production) structures forms for governing relationships between different economic agents [1]. In this paper we incorporate achievements of that new developing interdisciplinary concept and suggest a framework for assessing efficiency and

boundaries of different governing structures in agri-business.

THE TRADITIONAL APPROACH

Broadly applied traditional approach for evaluating efficiency of economic organizations is based on assessment of efficiency of production costs and productivity of employed resources. Accordingly, a great number of indicators are used to express efficiency of organizations through determining the level of use of factors (land, labor, capital), rate of return (pay-back, profitability) of current and long-term expenditures etc. In more sophisticated (Neoclassical) models criteria for assessment of efficiency of organization is derived from the equilibrium condition of entire economic system - when marginal benefits are equalized with marginal costs. The organizations using resources with different (higher, lower) from marginal productivity are inefficient e.g. if a farm has higher productivity than the social level (employing resources more effectively than other organizations) but it does not further invest resources to explore effective internal potential - then it is inefficient. Contrary, if a farm is performing with lower productivity, it means that it integrates more resources than it can effectively manage (which could be effectively used by others), and therefore it is inefficient.

However, traditional approach does not answer the question: why there exist so many organizations with

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different productivity of resources utilization. If efficiency of a particular organization is low, there will always be private or social mechanism (competition, central planning) for reallocation of resources to more effective application - optimization, specialization, extension, or liquidation of organization. In a foreseeable long run there will exist only "effective" organizations, which govern resources on (or close to) the socially acceptable level of efficiency. What is more, traditional approach estimates different organizations without even looking for answering the question: why there exist so big variety of types of economic organizations in agribusiness (one-person farms, group farms, cooperatives and firms of different kind, subsistent farms, small and large farms).

THE NEW APPROACH

New Institutional Economics explains existence of different agri-business organizations in their role to govern transactions between individual agents [9, 10]. Usually carrying out individual transacting (land and labor supply; marketing) is associated with significant costs - for finding best prices and partners; negotiation; contract writing; registration; enforcement of contacted terms; disputing including through a court system etc. Thus, economic efficiency of agrarian organizations should take into account not only their capacity to minimize production costs, but also their ability to economize on transaction costs [1]. "Indeed it is obvious that once there is shift from a "frictionless" universe scarce resources have to be used to effect transactions, protect property rights and so on. This means that system's total resource endowment can no longer be devoted solely to the production of normal commodities" [11]. Moreover, both (current) costs for using of transacting forms and long-term costs for their development (initiation, modernization, liquidation) have to be taken into account [1].

High transaction costs make difficult or block otherwise efficient (mutually beneficial) for all parties transactions. For instance, despite the great pay-off of investments in agrarian research and innovation, market and private agents do not organize such activity because of their high uncertainty and low market and private appropriability [12]. Since carrying out

transactions is connected with costs, rational agents will seek, chose, and develop such modes for organization of their activity and exchanges which maximize their transacting benefits and minimize associated costs. The type of organization is crucial since various governing structures give unequal possibilities for participants to coordinate and adapt transactions, stimulate acceptable behavior of counterparts, protect their rights and investments from unwanted expropriation. Therefore, in the long-run inefficient forms will be abandoned and only effective modes for organization of agrarian transactions will dominate.

Each transaction has different specific dimensions varying according to institutional environment (legislation, efficiency of public contract enforcement, other formal and informal restrictions), personal characteristics of agents (preferences, experience, reputation, tendency for opportunism, risk aversion), and macroeconomic conditions (stability, foreign trade regime etc.) [4, 13]. Since there exist no single most efficient (universal) form for organization of all transactions, depending on critical dimensions of each transactions agrarian agents will use appropriate (most effective) mode for governance. Hence, in any particular moment agrarian activities will be carried out (governed) through a great variety of organizational structures: some will be governed by "invisible hand of market", some will be carried out through a special contract mode ("private order"), some will be managed within hierarchy (under "visible hand of manager"), some will be supported by a third party (Government, NGO's, international assistance), some would require more complicated and mixed modes [1].

Thus it must be abandoned commonly used (nirvana) approach for evaluating different form as "good" or "bad" for their own or in comparison with some no existed ideal (without transaction costs, model in other countries) [14]. Evaluation is to be directed to finding out the comparative advantages for initiating, establishing, and using; management, adaptation, intensification, coordination, stimulation and controlling (in short - for minimization of overall costs) of transactions, of alternative (and really possible) modes for governing of different transactions in the

1. E.g. profitability of Bulgarian cooperatives has been 5 times lower than in private farms [7].

2. That definition of efficiency (Pigou) is found in all Economics textbooks. "It is a central characteristic of welfare economics that outcomes derived from the basic neoclassical model are used as a criterion of efficiency. Outcomes that deviate from outcomes in model based on fully defined exclusive rights and costless transactions are called "inefficient" [8].

specific market, institutional, natural environment. For instance, in the condition of not well-defined and assigned private rights on farmland, and the high costs for their protection and exchange during post-communist transformation, the short-term lease and the internal integration (subsistence and semi-market farming, production cooperation) were the most efficient forms for organization of land supply in Bulgarian agriculture [7, 9].

Evaluation of efficiency of agrarian organizations has to include not only comparative "productivity" of resources, but analysis of the level and structure of comparative transacting costs. Besides, it should identify factors of transaction costs in nationwide (social) scale, which eventually slow down sustainable growth of agriculture, and lead to insufficient and unsustainable use of resources, underinvestment and low productivity in production, wide-spreading of primitive technologies, lack of innovations etc [5]. When a high level of costs for market and private transactions (which prevent or entirely block development of market and private forms) is observed then either a public intervention in agrarian transactions (assistance, regulation, in-house organization, partnership) or fundamental institutional modernization (e.g. introduction and enforcement of new private rights) should be undertaken.

TRANSACTION THE BASIC UNIT OF ANALYSIS

The new approach turns individual transaction and costs associated with them into a center of economic analysis [4, 9]. Following that new approach firstly, we have to determine major type of transactions in which agents managing agrarian activity (farm entrepreneurs) participate. Secondly, we identify feasible alternative forms for governance of diverse type of transacting. Next, we should specify various kinds of (transaction) costs associated with different type of organisation. Finally, we are to assess comparative efficiency of alternative governing structures according to the criteria (minimum) transaction costs.

Main types of transactions of agri-business entrepreneur are associated with the supply of "factors" of production and marketing of farm output and services. Actually, agri-business manager manages not (production) technology but transactions related with production. It is not a hypothetical case when an

entrepreneur is entirely engaged in managing transactions rather than participating in production activity - he hires all labor for carrying technological operations, and spends all time for governing contractual relations with inputs and service suppliers and buyers.

Major types of transactions in agri-business are associated with: labor supply, supply of land and other natural resources, service supply, inputs supply, knowledge supply, innovation supply, finance supply, insurance supply, and realization (marketing) of output and services. In addition, the agri-business entrepreneur takes part in great variety collective actions for inducing public (Govt.) intervention in market and private transactions in his own interests [1].

In rare cases there is only one practically possible form for governance of agri-business activity. Often the choice of governing mode is determined by institutional restrictions as some forms for carrying farming activities, land and labor supply, trade of output etc. could be socially unacceptable or illegal. For instance, corporate and cooperative organization of agri-business is forbidden in many countries; market trade of farmland (natural resources) and some outputs (inputs) is illegitimate etc.

Usually, there are big varieties of practically possible (alternative) forms for organization of each agri-business activity (transaction). One extreme is to govern all transactions via free market through spot-market or classical contracts for inputs supply and marketing. For example, leasing-in farmland and long-term material assets, purchasing all services for cultivation and harvesting of output, purchasing all short-term material assets, selling all primary products on market. Another extreme is a close internal organization such as one-person or group subsistent farm - farmer(s) employ only own resources (land, labor, technological knowledge) and consume whole product. Between these two poles there is a spectrum of feasible modes for governing of transactions: various sort of long-term contracts, association, cooperation, interlinked organization, diverse hybrid forms, firms of different kind (partnerships, corporations, complex hierarchical forms) etc. Identification of practically employed specific forms for transactions in different countries is the object of a special micro-economic survey.

3. Nevertheless, when transaction costs associated with governance is not high (possibility for disclosure low, enforcement and punishment insignificant) while benefits are considerable, then more effective modes prevail - large gray/black economies are common in agriculture.

"MEASUREMENT" OF TRANSACTION COSTS

One direction for evaluation of efficiency of agri-business organizations is direct comparison of costs for each transaction in different forms. Organization which requires less costs for is more efficient. For instance, comparison is made whether would be more economical direct (own) marketing of output or using a marketing cooperative. Data for some part of transaction costs can be found in traditional statistics and accountancy (e.g. management costs, marketing costs). Another part of transaction costs may be easily specified - costs for licensing and registration, agro-market information, promotion and marketing of output, general management, hiring lawyers and court suits, guarding property and yields, payment of bribes etc. However, a significant portion of transaction costs is either very difficult (too expensive) or impossible to be determined. In that group we can include the costs for finding best partners, negotiation, controlling and enforcement of contractual terms, organizational development, interlinked transacting, unrealized (failed) deals etc. Besides, it is often extremely complicated to separate transaction costs from traditional production expenditures. For example, while executing farming operations a farmer supervises hired labor; during transportation of chemicals he negotiates marketing of output etc. Approximate estimate for the level of transaction costs could be made by interviewing agri-business managers.

Component comparison of transacting costs could not always give idea for efficiency of organizations. Very often alternative form decreases one type of costs while increasing another type transacting costs e.g. internalization of a transaction (replacement of market with integral mode) is associated with reduction of costs for information supply (overcoming market uncertainty), permanent (re)negotiations along with constantly changing conditions, safeguarding investments from outside opportunism. On the other hand, it enlarges costs for organizational formation,

decision making, integral management, supervising and motivation of hired labor etc. In our previous example with alternatives for marketing of farm output the "internal realization" (personal consumption, production "consumption", processing) could be chosen as more efficient form to direct sell or use of marketing cooperative. Moreover, a good part of transactions in agri-business is governed not by "pure" but through complex or interlinked modes - e.g. inputs supply in a "package" with know-how, extension or/and service supply; joint supply of inputs and credit; crediting of production against marketing of output etc. Thus, it is important to take into consideration overall (total) costs for organization of transactions of different types - all external and internal transaction costs of the agricultural farm/firm.

Often it is difficult to select a base for comparison in view that the high transacting costs entirely block development of alternative organization. For instance, market for agrarian credit did not emerged in East Europe during most of the transition and internal supply (utilization of own finance, direct outside co-investment) was the only possible form for finance supply of farms [7]. Here the comparative level of transaction costs is impossible to be determined and appreciate "high" efficiency of the integral mode for finance supply. In that case funding with "own means" and with "bank credit" are not real alternative at all but completely different governing structures. Thus, broadly applied indicators for estimation of comparative efficiency of investments based on "opportunity costs" (discounting, payback period, internal rate of return) independent from the form of funding, have no significant economic sense.

FACTORS OF TRANSACTION COSTS

Another direction for evaluation of efficiency is the discrete structural analysis of alternative governing forms [4]. Since it is either very difficult or impossible to determine transaction costs for individual mode, assessment is made on comparative costs of alternative

4. E.g. transaction associated with cultivation of land by tractor can be governed in different ways: a farmer can buy (unified ownership), rent (rent contract) or lease a tractor (input and credit supply interlinked contract); farmer could buy cultivation service from market (contract service); number of farmers may buy a tractor (joint ownership) and use it in a group (producers cooperative) or individually; farmer can join a cooperative providing cultivation services (non for profit organization); he may lease his land out to a tractor owner and share output (share tenancy contract); farmer can hire a tractorist to work on his farm (employment contract) and he may even sell cultivation service to market (profit making organization); cultivation service to farms could be subsidized by Government (trilateral mode), or provided by a municipality or state company (public organization) etc.
5. All these "measurement problems" make it impossible to extend the traditional Neoclassical models simply by adding a new "transacting" activity [13].

organizations. Besides, quantitative approach (absolute and relative measures, marginalism) is replaced by qualitative (structural) analysis and indirect assessment of transacting costs. Actually, we are interested not in absolute level of transaction costs in different form, but in organization with the lowest comparative costs for a particular transaction. Initially we have to identify critical factors of transactions in the specific market, institutional and natural environment. These factors are responsible for variation of transacting costs and are associated with: behavioral characteristics of agrarian agents bounded rationality, tendency for opportunism, reputation building, risk taking, level of trust; and with economic dimensions of individual transactions - frequency, uncertainty, assets specificity, and appropriability [1, 4].

Transaction costs have two behavioral origins: individual's bounded rationality and opportunism [4]. Agrarian agents do not possess full information about economic system (price ranges, demands, trade opportunities, development trends) since collection and processing of such information would be either very expensive or impossible (for future events, partners intention for cheating). In order to optimize decision-making they have to spent costs for "increasing imperfect rationality" (data collection, analysis, forecasting, training etc.).

Furthermore, economic agents are given to opportunism. Accordingly, if there is opportunity for some of transacting sides to get non-punishably an extra rent from exchange he/she will likely do so. It is very costly or impossible to distinguish opportunistic from non-opportunistic behavior (because of bounded rationality). Therefore, agrarian agents have to protect their transactions from hazard of opportunism through: ex ante efforts to find a reliable counterpart and to design efficient mode for partners credible commitments; and ex post investments for overcoming (through monitoring, controlling, stimulating cooperation) of possible opportunism during contract execution stage [4].

In addition, transaction costs depend on "critical

dimensions" of each transaction. When recurrence of transactions between same partners is high, both sides are interested in working out a special form for standardization of their ongoing relationships (building incentive structure, adjustment mechanisms, conflict resolution devices). Continuation of relationships with a particular partner and designing a special mode for transacting has a high economic value. Parties restrain for opportunism whose detection is "punished" by turning to competitor (losing future business). Besides, costs for development of a special mode could be effectively recovered for repeated transactions. When a transaction is incidental then possibility for opportunism is great since cheating side can not be easily punished (good reputation is not of value). Transaction costs become very high (and may block transacting) when low frequency coincides with high uncertainty and requirement for large relation-specific investments.

When uncertainty surrounding transactions increases then costs for overcoming uncertainty go up (bounded rationality is crucial and opportunism can emerged). Agrarian agents will seek, develop, and use such modes of organization which diminish transaction uncertainty - internal integration, cooperation, rational (relational) contract etc. There are strong mutual incentives to develop a special form for repeated transacting when high uncertainty is combined with significant relation specific investments. When transacting between same counterparts is rare, and it is not supported by specific assets, and appropriability of rights is high, then faceless (autonomous) market exchange is the most efficient mode. Depending on the levels of uncertainty and their risk aversion the agrarian agents will take different entrepreneurial risk and will get normal, low or extra than average rate of return from transactions.

Transaction costs are very high when some of the parties are to make specific for the transaction with a particular partner investment. In this case it is impossible to change a partner of transaction (alternative use of assets) without a big loss in value of specific capital. Specific investments are "locked" in relationships with particular partner (personality of

6. Two major forms of opportunism can be distinguished [4]: *pre-contractual* ("adverse selection") - when some of the partners use "information asymmetry" to negotiate better contract terms; and *post-contractual* ("moral hazard") - when some counterpart takes an advantage of impossibility for full observation on his activities (by another partner or by a third party) or when he take "legal advantages" of unpredicted changes in transacting conditions (costs, prices etc.). Special *third form* of opportunism occurs in development of larger organizations [15]. Since individual benefits are often not proportional to individual efforts, everybody tends to expect others to invest costs for organizational development, and to benefit ("free ride") from the new organization.

partner matters) and they cannot be returned-back by "faceless" market exchange. Costless redeployment (alternative use) of specific assets is not possible if transactions fail to occur, they are prematurely terminated, or less favorable terms are renegotiated (in contract renewal time and before end of life-span of specific capital). Thus, if transaction requires significant specific investments agents will have to design a special mode to safeguard their investments from expropriation (possible opportunism) tied-up contracts, quasi/complete integration etc.

If symmetrical assets dependency (regime of bilateral trade) exists there are strong incentives in both parties to elaborate a special private mode of governance. However, when unilateral dependency exists then dependent side (facing mini/total monopoly) has to protect investments against possible opportunism (behavioral uncertainty) either through integrating transactions (unified organization, joint ownership, cooperative); or safeguarding them with interlinked contract, exchange of economic hostages, development of collective organization to outstand asymmetrical dependency (for price negotiation, for lobbying for Government regulations) etc.

Serious transacting problems arise when condition of assets specificity is combined with high uncertainty and low frequency of transactions. In this case elaboration of a special governing structure for private transacting is not justified (set up costs can not be recovered by occasional transactions). Specific investments are not made and transactions fail to occur. Third party involvement (local authority, Government agency, NGO, hybrid organization) in individual transacting (through assistance, arbitration, regulation) is crucial for smooth organization of transaction. Special mode for trilateral transacting such as neoclassical contract is invented to manage transactions with high uncertainty

and assetspecificity, and low frequency.

Transacting is particularly difficult when appropriability of rights is low [5, 14]. In this case possibility for unwanted (unequal) market or private exchange is great. For transactions with low appropriability the costs and benefits are independent for individual participants. Because of bounded rationality the transaction costs for protection, detection, verification, and a third-party (e.g. court) punishment of unwanted exchange (non paying consumers-opportunists) are extremely high. Principally, when the appropriability associated with a transaction is low, there is no pure market mode to protect and carry out activity effectively. Nevertheless, the respecting others rights (unwanted exchange avoided) or "granting" additional rights to others (needed transactions carried) could be governed by a "good will" or charity actions. For instance, a great number of voluntary environmental initiatives emerged driven by competition, farmers' preferences for eco-production, responds to public pressure for a sound eco-management [5]. In any case, voluntary initiatives could hardly satisfy the entire social demand especially if they require significant costs.

If appropriability is low and transactions are strongly specific (for a particular customer) the only way to carry them out is to integrate transactions (in house production, trade secrets) or elaborate effective form for securing credible commitment (joint investments, interlinks). Some private modes could be employed if a high frequency (a pay-back on investment is possible) and a mutual assets dependency (thus incentive to cooperate) exists. In these instances, unwritten accords, interlinking, bilateral or collective agreements, close-membership cooperatives, codes of professional behavior, alliances, internal organization etc. are used.

Serious transaction difficulties occur (and may block

7. If investment in specific capital is not made, transactions either can not take place or it could occur without (or loss of) comparative advantages in respect of productivity [1].
8. When technological opportunities for economy on scale (scope) on specific assets can be achieved. Otherwise integration of transactions will be lost-making comparing to outside price (production costs) competition.
9. arranging a "third party participation" - e.g. determination of grades of wine, certification of special (eco, fair-trade, origins) products by an authorized agency.
10. "Natural" low appropriability has most of agrarian intellectual products: agro-market information, agro-meteorological forecasts, a big part of new agrarian technologies and, software for agriculture etc. Besides, all products (and activities) with big positive or negative externalities (spillovers) are to be included in this group [12].
11. For instance, inter-dependency between a dairy farm and a milk processor in a remote region (capacity and site dependency); or a bee keeper and a neighboring orchard farm (symmetric dependency between needs of flower and needs for pollination).
12. That is when pay-back on investment requires "mass" consumption and "collective appropriation" of benefits (and risk taking).

appropriability but require significant specific/universal investments, and are characterized with low frequency and high uncertainty. Incidental character of transactions between same agents makes designing and maintenance costs for a special (private, collective) large-members organization for dealing with low appropriability very high ("free-riding" problem). Thus, there is a strong need for a "third-party" public (Government, local authority, international assistance) intervention in order to make such activity possible or more effective public organization, public contracts, mandatory fees, introduction of new property right etc.

DISCRETE STRUCTURAL ANALYSIS

Next step is to evaluate effective potential of alternative modes : to minimize bounded rationality of agrarian agents and uncertainty surrounding transactions; for appropriation and protection of absolute (determined by dominating institutions) and contracted rights (and associated private benefits and investment) from possible opportunism; to recover long-term costs for organizational development through high frequency of transactions; to explore economy of size and scale on specific for transacting with a particular partner capital etc.

Different governance forms are alternative but not equal modes for organization of transactions - they have different features (advantages and disadvantages) to coordinate, control, and stimulate (maximize benefits of, minimize costs on) transactions. Since transactions have different critical dimensions and governance forms have different comparative advantages the operationalisation of the concept is done by: "aligning transactions (which differ in their attributes) with governance structures (which differ in their costs and competence) in discriminating (mainly transaction cost economizing) way" [4].

Limited rationality of agents (lack of access to all information for optimal decision making, impossibility for processing information, deficiency of managerial experience) increases transaction costs, and thus there will be sleeked effective forms which diminish bounded rationality (investment for information supply, training, integration of transactions, using special organization). Possibility for opportunism of counterparts (unwanted and non-punishable "exchange") also boosts transaction costs, and hence

preferences would be given to forms restricting opportunism and protecting investment from unwanted expropriation (contract specification, using economic hostages, join investment, ownership integration). Built reputation (good or bad) and existence of trust between partners, reduce transaction costs making easier or blocking transactions. Finally, depending of their risk aversion individuals will have different transaction costs for investments connected with significant uncertainty.

In general, internal structure has advantage for governing transaction with high uncertainty and specificity (dependency) of assets, since it diminishes bounded rationality and protects investments from outside opportunism. Contrary, transactions with high certainty (bounded rationality is not important) and universal character of assets (opportunism can not be realized since transaction can be executed with another partner without additional costs) can be carried across free market without encountering costs for development of a special private mode. Private organization is effective only for transactions with high recurrence between same partners, since occasional (single) transactions do not let recovering ("payback" on) investment for development of a special governance mode (mechanisms for coordination, stimulation, dispute resolution; formal registration etc.). Finally, markets and private forms are appropriate for transactions with high appropriability, since during exchange they would recover invested resources. For transaction with low appropriability private rights cannot be protected or they are enforced with extremely high costs. Thus, such transactions could be effectively governed either by hybrid (mixed public-private, quasi-public) or entirely public forms for organization.

After specification of potential of individual forms, we can build a principle scheme with generic types for governing of transactions with different critical dimensions (Figure 1). For transactions with different combination of specific characteristics there would be suitable different effective forms for governing: part of agrarian transactions will be managed through free market exchange; another part will be organized through a special contract mode(s); part of transactions will be entirely internally integrated (firm), and another portion protected through a special private organization(s) outside of farm gates (cooperation, association).

Figure 1: Principle modes for governing of agrarian transactions

Generic modes	Critical dimensions of transactions								
	Appropriability								
	High								Low
	Assets Specificity								
	Low				High				
	Uncertainty								
	Low		High		Low		High		
	Frequency								
	High	Low	High	Low	High	Low	High	Low	
Free market	Y	Y							
Special contract			Y			Y			
Internal organization					Y		Y		
Third-party involvement				🚚				🚚	
Public intervention								🚚	

Y - the most effective mode, ⚙ - a necessity for a third party involvement

When transactions between same parties are occasional, but they are characterized with significant uncertainty, and they are with increasing or high specificity of assets, then there is no pure market or private mode for effective organization ("market failure", "contract failure"). Here a third part involvement (state, local authority, international assistance, private agent) is necessary to make such transactions more efficient or possible at all.

ECONOMIC BOUNDARIES OF AGRI-BUSINESS ORGANIZATIONS

Range of feasible organization forms for each generic mode is to be identified. Variety of "internal organization" in agri-business includes: one-person farm/firm, family farm/firm, group farm/firm (partnership), cooperative, corporation, public farm/firm, joint venture etc. Corresponding forms of "free market" are: spot exchange on local/regional markets; classical contract, wholesale trade etc. The "special contract form" could be: short-term contract,

long-term contract, relational contract, interlinked organization, multilateral agreement etc. List of alternative governance mode is to be completed via special micro-economic study.

Finally, we are (and able) to determine the effective (horizontal and vertical) boundaries of agri-business organizations of different type. Individual forms in each generic type should be evaluated for their potential to explore economy of scale/size of specialized and/or specific capital, and comparative efficiency to minimize bounded rationality and control opportunism of participants. For instance, one-person farm/firm has zero internal transaction costs (one agent), but limited possibility for investment in specialized/specific human and material capital. "Internal" opportunities for increasing productivity (through investments, exploring economy of scale/size) increases along with extension of members of coalition (group farm, partnerships) but that is also associated with enlargement of costs for making the

coalition (finding complementary and reliable partners) and the internal costs for managing the coalition (for coordination, reducing bounded rationality, controlling opportunism etc.). Separation of ownership from management (cooperative, corporation) gives enormous opportunities for productivity growth but it is connected with huge transacting costs (for decreasing information asymmetry between management and shareholders, decision making, controlling opportunism of hired labor and between partners). Special contract combines the potential for greater "control" on transactions with possibility to explore advantages of further specialization of activity. Nevertheless, it could be connected with large costs for preparing and enforcement of contracts for complex occasional transactions with high unilateral dependency. Boundaries of agrarian markets extend along with development of specialization and standardization of agrarian recourses, technologies, and products, and institutional conditions for protecting of private (absolute and contract) rights. However, market governance could be associated with high uncertainty, risk, and costs due to price instability, great possibility for facing opportunistic behavior, "missing market" situation etc.

Economic cooperation and exchanges let more profitable use of resources but also require additional costs. Farmers and other economic agents will tend to govern their activity and relations though the most effective forms that which maximize their benefits and minimize their costs. Therefore, the most effective form and size of farm will be determined through optimization of total (production and transacting) costs, and trade-offs between the gain in the productivity/benefits and the gain in transacting costs. Hence farm will be efficient if it manages all transactions in the most profitable for the owner(s) way. Expected benefits for farmers could range from the monetary or non-monetary income; profit; indirect revenue; pleasure of self-employment or family enterprise; enjoyment of agricultural activities; desire for involvement in eco-preservation; increased leisure time; to other non-economic benefits.

In the specific institutional environment (legal framework, support policies, tradition, access to new technology, level of transacting costs) various types of farm will have quite different effective horizontal and vertical boundaries. For instance, in transitional conditions of high market and institutional uncertainty,

and inefficient property rights and contract enforcement system, most of the agrarian investments happened to be in a regime of high specificity (dependency). As a result (over)integrated modes such as low productive subsistent household and group farming, or large production cooperatives and agro-companies, have been dominating in Bulgaria and East Europe [Bachev, 2006]. Alternatively, in more matured economies, where markets are developed and institutions stable, agrarian assets are with more universal character. Therefore, farm borders are greatly determined by family borders, and more market and mixed (contract rather than entirely integrated) forms prevail.

Thus that is a question of trade-off (comparison of benefits) between the increase in productivity and the growth of transacting costs, and of minimization of overall (production plus transaction) costs of farm. Such comparison not always (most often) is quantitatively measured. However, that calculation is always made by business managers and (rational) economic agents. Economic science should not ignore "immeasurable" costs of transaction but to seek adequate forms for their incorporation into efficiency analysis.

At this stage of analysis it becomes clear the inadequacy of suggested indicators for productivity of production costs and resources for estimation of efficiency of different organizations. The opposite is true - it has to be expected significant differences in the rate of profitability on investments in an agro-firm (profit making organization) from the "pay-back" of expenditures and resources in a cooperative (member oriented organization), a public farm (non-for profit organization) or in a subsistence farm (giving opportunity for productive use of otherwise "non-tradable" resources such as family labor, land etc.).

Traditional statistical, accountancy etc. data are little suitable to test and apply our new approach. Here it is necessary to get micro-economic data for different transactions governed by divers type farms/firms as well as costs and benefits associated with alternative governing structures. For this purpose it has to be organized interviews with managers of different kind of agri-business organisations.

CONCLUSION

In unreal economy "without transaction costs" the theory of agri-business organization is very simple - there are no agri-business organizations (farms, firms,

cooperative etc.). Here the single mechanism for governing (organizing, coordinating) all economic activities is the free market. "Situation of efficiency" is easily achieved since agrarian agents (individuals, households, firms) automatically and costlessly adapt their behavior according to movements of market prices and changes in production technologies. In the real economy "with transaction costs" there is also place for other effective (non market) modes for optimization of resource use - group farms/firms, cooperatives, contractual arrangements, public firms, hybrid forms. "The old" problem of efficiency founds a "new" dimension through incorporation into analysis of the costs of transacting (in addition to production expenditures). Moreover, accent is put on evaluation of comparative efficiency of all (rather than only a part) of alternative modes for organization of agrarian transactions "free market" as one extreme and "subsistent farm" or/and "complete (public or private) hierarchy" as another pole(s). It also becomes absurd usage of traditional approaches of "black box" in analysis of governing structures and productivity as an indicator for efficiency of different agri-business organizations.

That new concept of efficiency is inseparable part of new understanding of the essence and economic role of agrarian organizations. However, transaction costs economizing is not only a modern academic concept but a real practice in the world we are living in. Here arguments such as "transaction costs are difficult to measure" and therefore "they will be ignored in assessment of efficiency" are not acceptable - not only in research works, but in the agri-business management and agri-business policies design.

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Emotional Intelligence(EI) and Knowledge Management (KM) as Predicant of Managerial Effectiveness (ME)

A case study with special reference to OMIFCO, Sultanate of Oman.

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ABSTRACT

In today's competitive universal environment, the business strata are finding very difficult to carry out the business effectively and efficiently due to fast moving tracks of changing environment. Various micro and macro factors forced the development of extrinsic and intrinsic knowledge and knowledge management. Contribution of knowledge management and emotional intelligence in improving overall effectiveness of the organization is strongly accepted. In performing these tasks top level management faced a lot of difficulties such as changing nature of knowledge, cultural factors, human behavior and practices. But through sincere and dedicated efforts these difficulties have been overcome. The research reveals that there exist a strong relationship between emotional intelligence, knowledge management and managerial effectiveness. This ultimately contributes in development of capability, effectiveness of the stakeholders and organization as a whole.

Keyword(s) : Emotional Intelligence, Knowledge Management, Management Development, Individual Behaviour.

INTRODUCTION

Peter F. Drucker-“Much of what we call management consists in making it difficult for people to work”. The business environment is changing rapidly. The factors affecting the business are social, culture, economic, legal, political, and technological & competition. To carry the business effectively, it was required by the organization to work according to the changing environment or surrender the changes. [The Hindu, August17, 2000].

Knowledge Management performs the activities of acquiring or generating, codification, transmission and sharing of knowledge among others. Contribution of knowledge management in improving overall effectiveness of the organization is strongly accepted. Thus, Knowledge management is a process that continuously and systematically transfers knowledge from individuals and teams who generate them to the brain of the organization for the benefit of the organization as a whole. [Source: Salovey et.al; 1998]

More specifically [Mayer & Salovey, 1997] define emotional intelligence as “the ability to access and generate feelings when they facilitate thought, the ability to understand emotion and emotional

knowledge, and the ability to regulate emotions to promote emotional & intellectual growth”. [George, 2000]

EI refers to having the ability to recognize and understand emotions and their behavior & attitudes. Those who have a high degree of emotional intelligence are in tune with both their own emotions and other people with whom they come in contact.

Five components of emotional intelligence have been identified:

1. **Self awareness** - The ability to recognize and understand one's own moods, emotions, desires and their effect on others.
2. **Self regulation** - The ability to control or redirect disruptive impulses or moods.
3. **Motivation** - A passion to work for reason beyond old calculations of money or power and the ability to pursue goals with energy and persistence.
4. **Empathy** - The ability to put oneself into another's shoes and think from their angle.
5. **Social Skill** - The ability to build rapport with various sections of society and create a network of people. [Mayer et al; 1990, Mayer & Salovey, 1997,

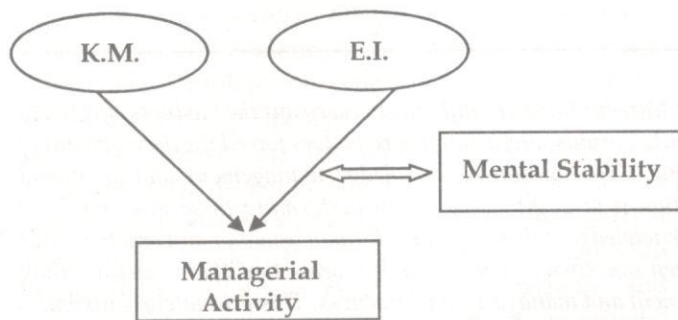
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Salovey & Mayer, 1989-1990]

"While improving the productivity of support staff is important, there is more to be gained by improving the effectiveness of managers and professionals". Goals of both KM and EI are similar i.e. development of knowledge of human resources. This ultimately contributes in development of capability, effectiveness of the people and organization as whole.

Fig.1



Source: Dr. R. K. Sharma, Management Trends Vol: 4 No.2, April-2007

OBJECTIVE OF THE STUDY

- A. To study the overall role of emotional intelligence in OMIFCO and its impact on managerial effectiveness.
- B. To study the role of knowledge management in OMIFCO and its impact on managerial effectiveness.
- C. To study the managerial effectiveness of OMIFCO.
- D. To study the role of knowledge management and emotional intelligence as predictors of managerial Effectiveness in OMIFCO.

LITERATURE OF REVIEW

The concept of emotional intelligence is proposed because it consist of competencies that enable people to use their knowledge effectively. In other words, this paper tries to understand does the development of emotional intelligence lead to a successful knowledge diffusion and thereby provide relevant input for future managerial development. The rise of knowledge work and the need for increased responsiveness make knowledge management essential. The emphasis on globalization is obvious in the information technology industry where knowledge management dominates.

According to Bair 2001- "knowledge management is a discipline of identifying, capturing, retrieving, sharing and evaluating an enterprise's information assets."

Knowledge management involves both tactical & strategic process. The tactical process involves the [P.V.Upadhya, "Bridging the gap between KM theory

and practice", Indian Management, April 2003]

- Phase 1- Get
- Phase 2- Use
- Phase 3- Learn
- Phase 4- Contribute
- Phase 5- Assess
- Phase 6- Build and Sustain
- Phase 7- Divest

PROFILE OF THE SAMPLE ORGANIZATION

The organization where the study is undertaken is OMIFCO, Sur. The Oman Oil Company (OOC) is a commercial Company, 100 % owned by the Government of the Sultanate of Oman. The company was created in 1992 to give the Government a vehicle for pursuing investment opportunities in the energy sector both inside and outside Oman. Through participation in energy and energy related projects, OOC plays a critical role in the Sultanate's efforts to diversify the Omani economy and to generate Omani and foreign private sector investment. Apart from OMIFCO, OMAN OIL has promoted following projects in OMAN

1. Oman Gas Company SAOC (OGC)
2. UAE Gas Sales
3. Oman Oil Marketing Company SAOG (OOMCO)
4. Oman Shipping Company SAOC (OSC)
5. Oiltanking Odjfell Terminals Co. LLC
6. Al Mukhaizna Oilfield

During mid- sixties the Co-operative sector in India was responsible for distribution of 70 per cent of fertilisers consumed in the country. This Sector had adequate infrastructure to distribute fertilisers but had no production facilities of its own and hence dependent on public/private Sectors for supplies.

To overcome this lacuna and to bridge the demand supply gap in the country, a new cooperative society was conceived to specifically cater to the requirements of farmers. It was an unique venture in which the farmers of the country through their own Co-operative Societies created this new institution to safeguard their interests. The number of co-operative societies associated with IFFCO have risen from 57 in 1967 to 38, 155 at present. Indian Farmers Fertiliser Co-operative Limited (IFFCO) was registered on November 3, 1967 as a Multi-unit Co-operative Society. On the enactment of

the Multistate Cooperative Societies act 1984 & 2002, the Society is deemed to be registered as a Multistate Cooperative Society. The Society is primarily engaged in production and distribution of fertilisers. The byelaws of the Society provide a broad frame work for the activities of IFFCO as a Cooperative Society. IFFCO commissioned an ammonia - urea complex at Kalol and the NPK/DAP plant at Kandla both in the state of Gujarat in 1975. Another ammonia - urea complex was set up at Phulpur in the state of Uttar Pradesh in 1981. The ammonia - urea unit at Aonla was commissioned in 1988. In 1993, IFFCO had drawn up a major expansion programme of all the four plants under overall aegis of IFFCO VISION 2000. The expansion projects at Aonla, Kalol, Phulpur and Kandla have been completed on schedule. Thus all the projects conceived as part of Vision 2000 have been realised without time or cost overruns. All the production units of IFFCO have established a reputation for excellence and quality. A new growth path has been chalked out to realise newer dreams and greater heights through Vision 2010 which is presently under implementation. As part of the new vision, IFFCO has acquired fertiliser unit at Paradeep in Orissa in September 2005. As a result of these expansion projects and acquisition, IFFCO's annual capacity has been increased to 3.69 million tonnes of Urea and NPK/DAP equivalent to 1.71 million tonnes of P2O5.

IFFCO has made strategic investments in several joint ventures. Godavari Fertilisers and Chemicals Ltd (GFCL) & Indian Potash Ltd (IPL) in India, Industries Chimiques du Senegal (ICS) in Senegal and Oman India Fertiliser Company (OMIFCO) in Oman are important fertiliser joint ventures. Indo Egyptian Fertiliser Co (IEFC) in Egypt is under implementation. As part of strategic diversification, IFFCO has entered into several key sectors. IFFCO-Tokio General Insurance Ltd (ITGI) is a foray into general insurance sector. Through ITGI, IFFCO has formulated new services of benefit to farmers. 'Sankat Haran Bima Yojana' provides free insurance cover to farmers along with each bag of IFFCO fertilizer purchased. To take the benefits of emerging concepts like agricultural commodity trading, IFFCO has taken equity in National Commodity and Derivative Exchange (NCDEX) and National Collateral Management Services Ltd (NCMSL). IFFCO Chattisgarh Power Ltd (ICPL) which is under implementation is yet another foray to move into core area of power. IFFCO is also behind several other companies with the sole intention of benefitting

farmers. The distribution of IFFCO's fertilizer is undertaken through over 38155 co-operative societies. The entire activities of Distribution, Sales and Promotion are co-ordinated by Marketing Central Office (MKCO) at New Delhi assisted by the Marketing offices in the field. In addition, essential agro-inputs for crop production are made available to the farmers through a chain of 158 Farmers Service Centre (FSC). IFFCO has promoted several institutions and organisations to work for the welfare of farmers, strengthening cooperative movement, improve Indian agriculture. Indian Farm Forestry Development Cooperative Ltd (IFFDC), Cooperative Rural Development Trust (CORDET), IFFCO Foundation, Kisan Sewa Trust belongs to this category. An ambitious project 'ICT Initiatives for Farmers and Cooperatives' is launched to promote e-culture in rural India. IFFCO obsessively nurtures its relations with farmers and undertakes a large number of agricultural extension activities for their benefit every year.

At IFFCO, the thirst for ever improving the services to farmers and member co-operatives is insatiable, commitment to quality is insurmountable and harnessing of mother earth's bounty to drive hunger away from India in an ecologically sustainable manner is the prime mission. All that IFFCO cherishes in exchange is an everlasting smile on the face of Indian Farmer who form the moving spirit behind this mission. IFFCO, to day, is a leading player in India's fertilizer industry and is making substantial contribution to the efforts of Indian Government to increase food grain production in the country.

The CEO of OMIFCO is Mr.CV Venugopal. The prime function of the complex is to produce ammonia and urea. This grass-root project consists of an Ammonia/Urea fertilizer complex, together with all utility and off-site facilities (including the marine facilities) necessary to make the complex completely self-sufficient during construction or under any operational mode, without back-up facilities from any other source. OMIFCO Fertilizer Complex has two Streams of Ammonia Plant and two Streams of Urea Plant. Annual capacity for Urea and Ammonia is 1.652 million MT and 1.15 million MT respectively. This project was built at a total cost of US\$ 960 million. The trial production commenced from plant one in March, 2005 and within a very short time of two months, the entire complex was commissioned and commercial production commenced from May, 2005.

OMIFCO fertilizer complex has two Ammonia plants, designed by Haldor Topsoe. Ammonia is a chemical comprising of nitrogen and hydrogen. It is designated in chemical notation as NH_3 . Ammonia is extremely soluble in water and is frequently used as a water solution called aqua ammonia. Ammonia chemically combines with water to form ammonium hydroxide. OMIFCO produces anhydrous ammonia which is essentially pure (over 99 percent) ammonia. "Anhydrous" is a Greek word meaning "without water," therefore, anhydrous ammonia is ammonia without water. Refrigerant grade anhydrous ammonia is a clear, colorless liquid or gas, free from visible impurities. It is at least 99.95 percent pure ammonia. Water cannot have a content above 33 parts per million (ppm) and oil cannot have a content above 2 ppm. Preserving the purity of the ammonia is essential to ensure proper function of the refrigeration system. 2 Ammonia Plants, 1750 T/D capacity, Halder Topso Technology (which includes CO_2 removal licensed by Giammarco Vetrocoke).

Urea is a white crystalline substance with the chemical formula $\text{CO}(\text{NH}_2)_2$; it is highly water soluble and contains 46% nitrogen. Urea is considered an organic compound because it contains carbon. It was the first organic compound ever synthesized by chemists; this was accomplished in the early 1800s by German chemists. Urea is made by reacting carbon dioxide (CO_2) with anhydrous ammonia (NH_3) under 3,000 psi pressure and at 350 degrees F. The removal of water that occurs during the reaction is referred to as "dehydration." The resulting molten mixture is further processed into either prills or granules. Urea is the major fertilizer traded in international commerce. In the very near future urea is expected to account for more than 50% of the nitrogen fertilizer in world trade. When compared to other dry fertilizers, urea has captured more than 65% of the world trade.

Urea has a number of advantages over other nitrogen fertilizers. Urea is safe to ship and handle, it is less corrosive to equipment, it has a higher analysis than any other dry nitrogen fertilizer and it can be used on virtually all crops. Urea can be stored and distributed through conventional systems. It can be applied in many different ways from sophisticated aerial application equipment to a farm spreading urea by hand. Urea is also highly water soluble so it moves readily into the soil. The high analysis means a reduced transportation and application cost per pound of

nitrogen. 2 Granulated Urea Plants, 2530 T/D capacity, Snamprogetti Technology (Urea Synthesis) and Hydro Fertilizer Technology (granulation).

OMIFCO has created an active continuity with the community of Sur and made itself good friend for all. Such linkage established by Participating in many local activities in the Wilayah and made by being a member of many organizations that work day and night for the benefit of the people. Furthermore OMIFCO allocated 1% of its total annual revenue to finance its part of the developments in Oman believing that community satisfaction is part of its success. With this principal there were participation in various project related to people for sustainable developments. The developments encompass various sectors such as Health, Education, Municipality, Sports and Social. Construction of Health Center Building in Ras Al-Had in Wilayat Sur with a total cost of 560,000 R.O. is one of those projects. The project is meant to replace the old building that was neither enough to accommodate patients nor has sufficient space to fit modern equipments. The project is under construction right now and expected to operate during 2009.

Moreover "Sport for better Health" was also part of OMIFCO's sign and made part of its agenda towards community. The objectives of such move that lead to establishing OMIFCO Sport School were in one hand to grow up healthy, smart and active children; root in their mind; sport has positive impact on health and keeps them away from invaluable behaviors that they might practice during their free time. On the other hand Kids are fast learners, through school professional football coaches will learn modern football, friendship, team work; nevertheless they will also utilize their free time in useful activity. For that the OMIFCO Football School was successful during 2007-2008 and will continue during the coming years.

RESEARCH METHODOLOGY

Research design : Descriptive design

Source of data : Primary & Secondary data

Primary data : Primary data is in the form of factual information which has been collected from field through questionnaire

Secondary data : Secondary data is in written form which represents the published, unpublished matter. Secondary data for this paper has been collected from

books, annual reports, magazines, newspapers, journals etc.

Sample : Sample means the selection of a subset of elements of a large group of objects

Sample size : The Sample size 50

Method of Contact : Personal

Survey technology : Questionnaire administration

Types of questions : Structured and close ended

Data processing : Suitable tables, graphs

The present paper is a combination of description as well as application. The study was conducted among executives of OMIFCO employees in Sur. Thus, the universe of this study comprises of the employees working in OMIFCO employees in Sur. Purposive sampling technique was adopted to study a portion of the universe. The size of the sample is 50, selected from various departments of OMIFCO employees in Sur. The main source of data for the study was the primary sources i.e. the respondents themselves. The tool used for data collection was the questionnaire. The data collection were analyzed & interpretations thereof drawn. The findings and suggestions are presented as under. Univariate & bivariate analysis of variables were carried out for better understanding of the data using relevant and inferential statistics. Significant data have been portrayed in the form of diagrams.

FINDINGS AND SUGGESTION

Findings Respondents at a glance - This study was carried out among OMIFCO executives employed across different departments in Sur. The respondents were different departments like Production, Tech Services, Maintenance, Inspection, Shipping, Financial, Administration, HR, Purchasing and Warehousing. The language of the questionnaire was English. Explanation of such terms as knowledge management, managerial effectiveness & emotional intelligence were provided at the start of the questionnaire. Managers interviewed in the pilot study were asked to complete the questionnaire and provides written feedback.

The following tables show the responses to the questionnaire. The questionnaire contained 3 parts i.e. emotional intelligence, knowledge management and managerial effectiveness, and the responses are also tabulated in 3 parts as given below in the tables. The questionnaire is based on the 3-point scale (strongest/moderate /weak) and True/False

options. The questionnaire cover 34 variables/segments in total.

Table-I. Questionnaire distribution & collection

Category	Questionnaire Distributed	Questionnaire Responded	Collection Questionnaire
Executive	75	50	In person

The following tables (II to IV) show the responses:

Table-II. Responses to the questionnaire

(A) Knowledge management evaluation

S.No.	Dimension/segment	S	M	W	Total
A	GET				
1	People provide complete explanations when they make information requests	17 (34)	28 (56)	5 (10)	50 (100)
2	We have distinguished b/w knowledge management tools that are primarily administrative in nature & those that are more content focused	15 (30)	29 (58)	6 (12)	50 (100)
B	USE				
1	Our workspace is designed to promote the flow of ideas between work groups	16 (32)	21 (42)	13 (26)	50 (100)
2	Anyone who has a good idea can get support to follow-up on it.	13 (26)	26 (52)	11 (22)	50 (100)
C	LEARN				
1	People apply what they learn outside the organization to their work	17 (34)	22 (44)	11 (22)	50 (100)
2	When people finish projects, they generally take the time to meet with their team and analyze what could have been done better	21 (42)	22 (44)	7 (14)	50 (100)
D	Contribute				
1	Dedicated roles, such as knowledge manager or knowledge coordinator, support the knowledge sharing process	14 (28)	17 (34)	19 (38)	50 (100)
2	Our organization looks for ways to remove barriers to knowledge sharing	13 (26)	19 (38)	18 (36)	50 (100)
E	BUILD & SUSTAIN				
1	Members of the senior management team frequently talk about knowledge management when reporting on the state of the organization	16 (32)	23 (46)	11 (22)	50 (100)
2	We recognize that knowledge management is part of our asset base	18 (36)	27 (54)	5 (10)	50 (100)
F	Assess				
1	It does not matter which group came up with an idea or technology, anyone in the company can use it	13 (26)	29 (58)	8 (16)	50 (100)
2	Our product or services deliver much higher value as a result of the knowledge they contain.	14 (28)	31 (62)	5 (10)	50 (100)
	Grand total	187# (31.16)	294# (49)	119# (19.8)	600#

Figures in parentheses represent percentages

Table-III. Responses to the Questionnaire

(B) Emotional Intelligence quotient evaluation (In True/False options)

S.No.	Dimension/segment	T	F	Total
1	I do not angry when verbally attacked	28 (56)	22 (44)	50 (100)
2	I am comfortable with others grief, even those in close relationship to me.	13 (26)	37 (74)	50 (100)
3	I get angry or fearful when physically threatened	39 (78)	11 (22)	50 (100)
4	I worry regularly in some circumstances	26 (52)	24 (48)	50 (100)
5	At times and in some circumstances I feel shame	23 (46)	27 (54)	50 (100)
6	For something I have done in the past, I feel guilty.	32 (64)	18 (36)	50 (100)
7	Sadness keeps recurring for me over specific issues.	29 (58)	21 (42)	50 (100)
8	In my life is stress that never ends	22 (44)	28 (56)	50 (100)
9	I am comfortable hugging other adults of either sex.	29 (58)	21 (42)	50 (100)
10	I regularly allow my own wracking sobs & tears.	22 (44)	28 (56)	50 (100)
11	Once my sobs & tears have been released, I feel great.	24 (48)	26 (52)	50 (100)
12	I am comfortable saying the words " I love you" to men, women & children in a feeling way.	37 (74)	13 (26)	50 (100)
Grand total		324# (54)	276# (46)	600#

Figures in parentheses represent percentages

Table-IV. Responses to the Questionnaire

(C) Managerial effectiveness evaluation

S.No.	Dimension/segment	S	M	W	Total
1	Create an organizational climate to help people maximize output with available resources.	20 (40)	26 (52)	4 (8)	50 (100)
2	Help subordinates develop into effective teams.	16 (32)	25 (50)	9 (18)	50 (100)
3	Can handle conflict effectively	14 (28)	28 (56)	8 (16)	50 (100)
4	Delegate tasks	16 (32)	27 (54)	7 (14)	50 (100)
5	Encourage subordinates to assume responsibility	14 (28)	29 (58)	7 (14)	50 (100)
6	Capable of recognizing key areas and issues.	15 (30)	22 (44)	13 (26)	50 (100)
7	Set definite goals before starting any work	21 (42)	24 (48)	5 (10)	50 (100)
8	Maintain a proper link between human resource planning & business planning	18 (36)	28 (56)	4 (8)	50 (100)
9	Co-ordinate various task groups to achieve results	16 (32)	23 (46)	11 (22)	50 (100)
10	Change old procedures for new to improve departmental working.	16 (32)	28 (56)	6 (12)	50 (100)
Grand total		166# (33.2)	260# (52)	74# (14.8)	500#

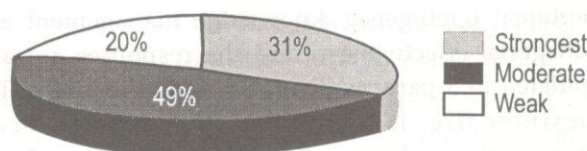
Figures in parentheses represent percentages

• In regards to total impact of the knowledge management and emotional intelligence as a key input for developing the employee ultimately leading to managerial excellence was duly conceived and all efforts were made to measure the effectiveness.

• The study reveals that majority of the respondents in OMIFCO on most of the factors detailed in the questionnaire have responded positively by ranking

Diagram -A

Pie diagram depicting the respondents view on the knowledge management on various dimension



strongest and moderate to many of the statements and variables. Hence, it is observed that the overall managerial effectiveness are found to be satisfactory.

1) Response to knowledge management outcomes: The study further reflects that through this as one can see diagram - A that awareness of knowledge and understanding of work place regarding processes, methods, procedures, research and development activities and lists of customers through knowledge management process get, use, learn, contribute, build and sustain, assess helps to improve capability of individuals, system and organization as a whole to perform better and improved effectiveness of the organization. This provides competitive advantage over others. The respondents were enquired about knowledge management awareness in their organization, more than 31% are strongly using this system and 49% are moderate user in the organization. Business environment is changing rapidly so it has become compulsion for the organization to keep pace with changing environment for doing business effectively.

Emotional intelligence quotient outcomes: The data presented in tabular form reveals that the entire gamut of the emotional intelligence and plays an internal role in defining character and determining both our individual and group destinies. Data observed showed that in case of pressure and satisfaction regarding their life events most of the employees gave satisfactory answers. Finding show all the results after study that emotionally intelligent person is more balanced and decisive by nature. After analyzing the data study says that from (s.no.5 to 9) 53% respondent are to much emotionally stable but rest of them are adaptive in interpersonal relationships that are important in building harmonious relationship in the functional groups. Among (s.no.9 to 12) 56% respondent are highly productivity. This is diagrammatically portrayed in diagram B in line chart below:

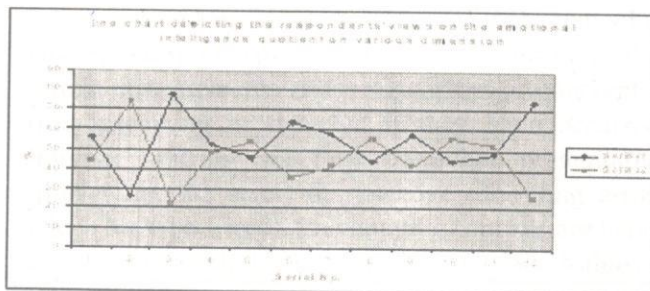


Diagram B

1) Response to managerial effectiveness outcome: The respondents have a variety of coping strategies to handle work. These include interventions like strategic thinking, change management, leadership, planning, organizing, directing, decision making all required to be competitive environment so if functional mentally the person is active and balance can only cope up with competitive environment and nature. The respondents coping strategies as shown in the diagram - C. The various managerial initiatives include like organizational climate to help people most of the respondents (52%) views moderate on this dimension. From this diagram we understand that majority of the respondents are positively respond and less than 34% respondents strongly try to enhance managerial effectiveness through knowledge management and emotional intelligence. Every managerial activity need knowledge and information utilization, so if any one who is emotionally manage and balance he can take and do all the work very effectively and efficiently.

Bar diagram depicting the respondent views on the managerial effectiveness various dimensions

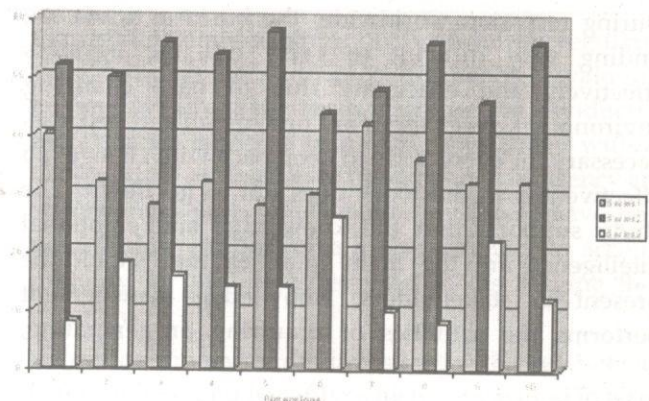


Diagram -C

IMPLICATIONS

The main objective of the knowledge management and emotional intelligence to increase managerial effectiveness of the employees.

- Knowledge management and emotional intelligence should not be overloaded with the jobs other than managing knowledge based assets, otherwise the managerial efficiency of its goes down.
- Employees with emotional quotient and knowledge management programme should be continuously updated and become mature, cheerful, risk taking, outgoing, and give tremendous capacity for commitments.

- c. Use of communication technology should be more so gap can be avoided.
- d. The managers and professional for better managerial activity the organization conduct and design programmers to educate people about the relevance of emotional intelligence and knowledge management.
- e. A knowledge network and Emotional Intelligence (EI) together with soft skills & intelligence are the major players in uplifting the motivation, reducing cultural barriers, resolving conflict, building teamwork and collaboration and enhancing communication among members of the organization. Moreover, emotional intelligence plays a very decisive role in the performance of managers.
- f. Finally the emphasis should be on using interdisciplinary teams with a focus on the best mix of competencies and understanding to be applied to the work at hand.

CONCLUSION

During recession worldwide, the business strata are finding very difficult to carry out the business effectively and efficiently due to pace changing environment. As changes are unavoidable. It becomes necessary for every body to keep pace with changes so effectiveness in the work does not to go down. The study supports that the knowledge and emotional intelligence are the main qualities that should be present in stakeholders. Knowledge management performs the activities of acquiring or generating,

codification, transmission and sharing of knowledge among others. Contribution of knowledge management in improving overall effectiveness of employees is strongly accepted, as it can be seen from the research on OMIFCO. Every activity need knowledge and information utilization so, if any one who is emotionally manage and balance he can do all the work very effectively and efficiently. This is possible in good environment of mutual understanding, trust, collaboration team spirit and belongingness. Goals of both knowledge management and emotional intelligence are similar i.e. development of employees. Both branches of management try to develop the favorable environment for their employees. This helps in handling irrational fears, understand strength, ability and overcome the weaknesses to cope with the new challenges.

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Value For Money Audit And Financial Efficiency: Evidence From The South-south Geopolitical Region of Nigeria.

Dr. Clifford Obiyo Ofurum*

ABSTRACT

Over the years, Governments in Nigeria have been associated with inefficiency, corruption and abuse of due processes in the utilization of their financial resources. The Federal Ministry of Information and National Orientation(2006), captured this unfortunate situation vividly....."A diagnostic study conducted in 2001 into the state of Federal Public Procurement process revealed that Nigeria may have lost several hundred billions of Naira over the last two decades because of flagrant abuse of procedures for award of public contracts, inflation of contract costs, lack of transparency, competence based competition, and merit for award of public contracts".

Why has the state of public expenditure depicted above survived for so long in the face of institutionalized Financial Controls and the office of the Auditor-General of the different levels of Government?

Hypotheses were formulated and data gathered by questionnaires administered to audit staff in two states in the country. Spearman's Rank Correlation was used to analyze the data. The result revealed the existence of a strong correlation between comparison of actual performance with programme/project objectives and financial efficiency. Based on the result, Government was advised to enact specific values for money audit laws.

Keywords: Value for money, Efficiency, Effectiveness and Economy, Performance Audit

INTRODUCTION

Value for money audit has gained ascendancy in contemporary accounting literature because of its importance in the achievement of organizational goals. It is an assessment of whether or not an organization has obtained the maximum benefits from the goods and services it acquires. Reference is frequently made to "value for money audit" and "performance audit" in relation to examinations of the use of resources by public sector organisations. Different terms are used in various parts of the world. Although performance audit can sometimes be interpreted as extending beyond clear VFM issues (to include, for example, quality and technical matters), the terms are used inter-changeably by many auditors. As in the Government Auditing Standards, the formal term "performance audit" has been adopted sometimes in this article

It is a major objective in the financial management of any organisation to put in place internal controls so that errors, misstatements and irregularities are prevented from occurring or detected if they have occurred. Internal controls can thus be either preventative (preventing the error) or detective (detecting errors which have occurred). Preventative controls are better as then no error should occur in the first place. Value for

money audit embraces not only financial and regularity audit but also the audit of performance or value for money (VFM). The main purpose of conducting performance audits is to provide Parliament with an independent evaluation of the economy, efficiency and effectiveness with which public resources have been used. Public entities have a responsibility to account properly for the resources used in discharging their functions.

Value for money audit investigates the relationship between costs and benefits; which is measured in terms of Economy, Efficiency and Effectiveness. The primary objective of performance audit is to provide Parliament with independent information, assurance and opinion about economy, efficiency and effectiveness (in effect, value for money) in major fields of revenue, expenditure and the management of resources. Independent performance reviews can indicate whether, in using its resources to achieve organisational goals, the entity's management has achieved or realised its policies, principles or standards economically, efficiently and effectively. By this means, stakeholders, policymakers decision-makers and the general public are provided with information on improving public accountability. A secondary objective

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of performance audit is to identify ways of improving value for money and to encourage and assist audited bodies to take the necessary action to improve systems and controls.

This type of audit derives its importance from the fundamental economic axiom of scarcity of resources in relation to unlimited human wants (Reagan and Thomas 1990). This applies to individual as well as corporate organizations; whether profit or not for profit. In the management of their resources, States as non profit organizations are also subject to the verdict of efficiency or lack of it. The need to always assure the owners of the business (organization) that their resources are effectively managed, culminated in the evolution of auditing as a special arm of the accounting profession

In the case of federating units like states, the ultimate owners of resources are the indigenes (the public) of such states. Today, Government activity in Nigeria is replete with recorded cases of inflation of contracts, wasteful expenditures, unexecuted contracts after payments have been made etc. Since the citizenry under the constitution of the Federal Republic of Nigeria 1999 surrendered the right to manage or govern her resources to the Government, the statutory requirement for auditing of financial statement of the state by independent auditors is an ideal accounting practice (Asechemie 1999). The scope of work of the Auditor-General may be extended to include value for money, but in many countries the most effective way to improve the value for money with which public services are provided is by reducing the level of irregularity and fraud through improvements to the government's systems of internal financial control. This will usually be most effectively achieved through the traditional financial audit approach.

In spite of the various measures/institutions put in place, Government in Nigeria especially at the states level has been having problems of spending money without getting equivalent value. Evidently, auditing with only emphases on mere adherence to expenditure authorization procedures and internal financial control has proved inadequate in ensuring the requisite prudence and efficiency in the utilization of Government resources especially at the state level (Akpan 1983).

REVIEW OF RELATED LITERATURE

Auditing is defined differently by various scholars but

the central cord of all is seen in the auditing concept committee (1972) of AICP's definition: "A systematic process of objectively obtaining and evaluating evidence regarding assertions about the economic actions and events to ascertain the degree of correspondence between these assertions.

Audit serves the same objectives in Government as in the private sector. According to Asechemie (1999), it serves to lend credence to the statement of performance and conduct made by agent in respect of their stewardship to their absentee principles. In Government, the agents are government functionaries and the principals are the public. Value for money audit is predicated on the concept of "value which denotes the total worth and utility of an economic resource that is in exchange relationship with another economic resource(s) (Anumba 2000). Value for money is therefore an expression of the economic satisfaction/benefit that money as an economic resource brings when exchanged with other economic resource like goods and services. Value for money is the concept that seeks the maximization of the use of scarce resources for the welfare of the public by ensuring that government activities and programmes are carried out at low costs and to high standards. Anumba (2000) stressed that satisfaction from an expended resource can only be appreciated when related to the stated objectives and goals of the expending entity. The above lends credence to Asugha's (2002) assertion that the measurement of value is central to value for money audit. Like the Company and Allied Matters Act (1990), which institutes mandatory independent audit of limited liability companies by qualified accountants, the constitution of the Federal Republic of Nigeria 1999, sections 85 and 125 institute mandatory independent audit of Government (Federal and States) Financial statements by the Auditor-General for the federation and Auditor-General for the various states respectively. In Nigeria, there are three main bodies of law governing the practice of auditing in government. Asechemie enumerated them as the Constitution of the Federal Republic of Nigeria (1999); the Civil Service Reorganization Decree (1988) and the Audit Ordinance (1965). The constitution established the office of the Auditor-General for the Federation and the Auditor-General for the individual states respectively to perform the independent functions on government financial statements and accounts. The audit reports are to be submitted to the respective legislature within

ninety days of receipt of the financial statements and annual accounts from the respective Accountant-General

This problem is not only peculiar to Nigeria. According to Lawrence (2009), the public is continuously regaled with claims of the expenditure of massive sums of public money for infrastructural and other projects, "yet we are witnessing the rapid deterioration of our bridges, drainage systems, and roads, among others. The application of value for money audit has been found to be complex. In the words of Lapsley and Pong (2000)..."value for money as a concept may be taken for granted, but in practice, it has been and continues to be pragmatic."

METHODOLOGY

Hypotheses

The following hypotheses are formulated as a guide.

Ho1: There is no correlation between comparison of actual performance with programme/project objectives and financial efficiency in state governments.

Ho 2: There is no correlation between audit trips/visits to state projects sites by state auditors and financial efficiency.

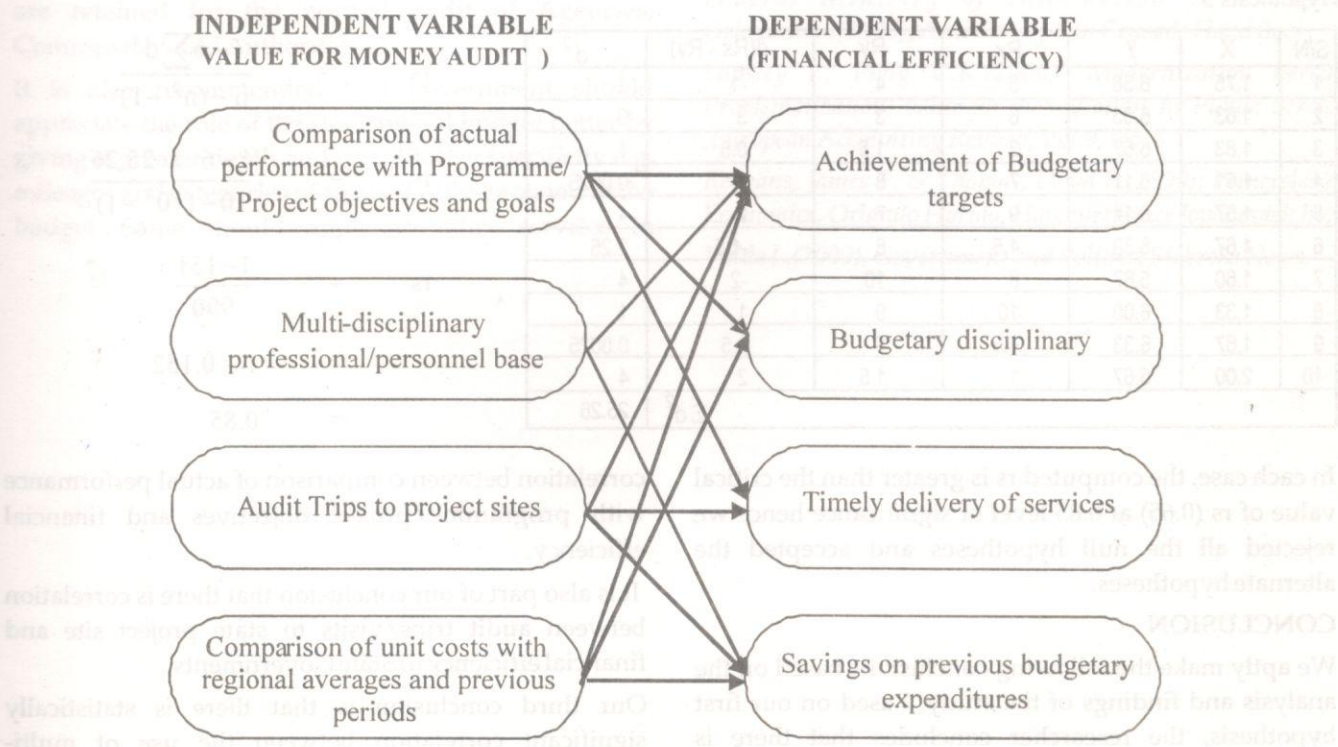
Ho 3: There is no correlation between the use of multi-disciplinary/professional personnel by the office of the state auditor general and financial efficiency in the state government.

This study which is descriptive in nature adopts the cross-sectional survey approach, which suits the researcher's interest of establishing the extent of association between the research variables (Ezejelue and Ogwo, 1990). This approach was employed in this study to portray the current state of audit practice in Rivers and Bayelsa states Governments and establish a relationship between certain audit practices and financial efficiency in the state governments. The Yaro Yamen, s formula was used to determine the sample size since the population is known. (Baridam 2001).

Questionnaires were developed and used to generate data; both the independent (value for money audit) and the dependent variables (Financial efficiency) in order to permit statistical measurement and confirmation of relationship. This work adopts an ordinal scale of measurement with very adequate, adequate, undecided, inadequate and grossly inadequate attracting 5, 4, 3, 2 and 1 points respectively.

A HEURISTIC MODEL OF VARIABLES

Figure 1- The model



THE RESULT OF ANALYSIS: Hypothesis 1

S/N	X	y	Rx	Ry	d(Rx - Ry)	d ²
1	1.75	6.38	2	4	-2	4
2	1.63	6.63	6	3	3	9
3	1.83	6.67	1	1.5	-0.5	0.0025
4	1.39	6.11	9	8	1	1
5	1.64	6.14	5	7	-2	4
6	1.67	6.30	3.5	6	-2.5	6.25
7	1.60	5.67	7	10	-3	9
8	1.33	6.00	10	9	1	1
9	1.50	6.33	8	5	3	9
10	0.67	6.67	3.5	1.5	2	4
Σd^2						47.25

$$rs = \frac{1 - 6 \sum d^2}{n - (n^2 - 1)}$$

$$rs = \frac{1 - 6 \times 47.25}{10 - (10^2 - 1)}$$

$$rs = 0.71$$

Hypothesis 2

S/N	X	y	Rx	Ry	d(Rx - Ry)	d ²
1	1.17	6.38	7	4	3	9
2	1.31	6.63	3	3	0	0
3	1.33	6.67	2	1.5	0.5	0.0025
4	1.28	6.11	4	8	-4	16
5	1.27	6.14	5	7	-2	4
6	1.00	6.30	9.5	6	2.5	6.25
7	1.20	5.67	6.5	10	-3.5	12.25
8	1.00	6.00	9.5	9	0.5	0.0025
9	1.20	6.33	6.5	5	1.5	2.25
10	1.40	6.67	1	1.5	0.5	0.0025
Σd^2						49.76

$$rs = \frac{1 - 6 \sum d^2}{n - (n^2 - 1)}$$

$$rs = \frac{1 - 6 \times 49.76}{10 - (10^2 - 1)}$$

$$rs = \frac{1 - 298.56}{990}$$

$$= 1 - 0.301$$

$$= 0.698$$

Hypothesis 3

S/N	X	y	Rx	Ry	d(Rx - Ry)	d ²
1	1.75	6.38	3	4	-1	1
2	1.63	6.63	6	3	3	9
3	1.83	6.67	2	1.5	0.5	1
4	1.61	6.11	7	8	-1	0.0025
5	1.57	6.14	9	7	2	4
6	1.67	6.30	4.5	6	-1.5	2.25
7	1.60	5.67	8	10	-2	4
8	1.33	6.00	10	9	1	1
9	1.67	6.33	4.5	5	0.5	0.0025
10	2.00	6.67	1	1.5	2	4
Σd^2						25.26

$$rs = \frac{1 - 6 \sum d^2}{n - (n^2 - 1)}$$

$$rs = \frac{1 - 6 \times 25.26}{10 - (10^2 - 1)}$$

$$rs = \frac{1 - 151}{990}$$

$$= 1 - 0.152$$

$$= 0.85$$

In each case, the computed rs is greater than the critical value of rs (0.65) at 0.05 level of significance hence we rejected all the null hypotheses and accepted the alternate hypotheses.

CONCLUSION

We aptly make the following conclusions based on the analysis and findings of the study. Based on our first hypothesis, the researcher concludes that there is

correlation between comparison of actual performance with programme/project objectives and financial efficiency.

It is also part of our conclusion that there is correlation between audit trips/visits to state project site and financial efficiency in State Governments.

Our third conclusion is that there is statistically significant correlation between the use of multi-

disciplinary/professional personnel by the office of the State Auditor general and financial efficiency in state Governments.

Finally, it is worthy of note that the Due Process Mechanism embraced by government at State and Federal levels is seen as a pre-expenditure control measure that partly integrates the elements of value for money audit, hence contributory to financial efficiency in Government.

RECOMMENDATIONS

Given the research problem, purpose of the study and the findings thus far, the following recommendations are made:

The offices of the Auditors-General at the Federal and State levels be brought under the legislative arm of Government for greater independence and budgetary protection as practiced in most Common wealth Countries, e.g. The United Kingdom and Canada.

The Auditor-General should be empowered to ensure the employment of personnel from different disciplines and engagement of independent professionals from different disciplines that have direct bearing with the costing, evaluation and implementation of projects. Firms of surveyors, engineers, accountants, managers and other relevant professionals should be engaged in value for money audit exercise just as accounting firms are retained for the normal audit of Agencies, Commissions and Authorities.

It is also recommended that government should appreciate the role of the state annual budget better by giving it greater depth and quantitative specificity e.g. mileages and categories of roads should be stated in the budget. Same should apply to other services in

Education, Electricity, Housing, etc. It is only when this is done that the role of the budget as the reference point in the measurement of financial efficiency in state governments will be meaningful.

There is evidently the need to have an effectively and efficiently functioning Office of the Auditor General, equipped with the resources to undertake value-for-money audits of Public sector.

The Federal and State Government should as matter of urgency enact Value for Money Audit Laws.

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Deconstructing Diverse Meanings of Family Business in Europe

Vipin Gupta*

ABSTRACT

Family business is a dominant form of organization in most cultures around the world. 76 percent of the top 8,000 companies in the UK (Stoy Hayward, 1989), about 80 percent of Italian businesses with 20 to 500 employees (Corbetta, 1995), about 70 percent of medium to large Spanish businesses (Gallo, 1995), about 70 percent of all firms in Portugal (IMD International, 2000), 80 percent of all family businesses in the Netherlands (Flören, 1998) and 85 percent of all businesses in Switzerland (Neubauer and Lank, 1998) are estimated to be family businesses. Overall, family businesses are estimated to account for approximately two-thirds of all businesses worldwide (Dreux, 1990).

In this paper, we present many different family business models from cultures around Europe. We assert that many diverse models are indeed family businesses, though they may not fit any single definition of family business.

INTRODUCTION

A family business is generally differentiated in terms of the family involvement, as opposed to the other forms of organization where the family involvement is lacking (Miller & Rice, 1967). However, the researchers differ in how to operationalize family involvement. For instance, Churchill and Hatten (1987) identify the existence of a family successor as an important indicator of family business, which implies that the family-owned and operated business in which the next generation is given a freedom to choose their career would not be a family business.

Westhead and Cowling (1988) examined 427 unquoted companies in the UK using different operational definitions of family businesses. 78.5 percent of the companies were perceived by the CEO to be family businesses. In only 15 percent of the companies, a majority of the management team was from the family group, which owned the majority ownership, and there was at least second generation ownership, and the CEO reported it to be a family business.

A much greater consensus exists on the pre-dominance component to define a family business. The pre-dominance of family in the ownership, management and governance of a business implies the power to appoint the CEO, the management team, and the governance board; a power to govern as per the vision of the family; a power to manage as per the values and

culture of the family; and a real option to rely on the unique resources of the family, including reputation, knowledge, uncertainty reduction, and lower transaction costs (Colli, 2003).

However, the application of the pre-dominance concept is complicated by the cultural variations in the structures of family. In some cultures, the priority on property and control is so strong that the extended family members and loyal friends may not be considered a part of the family. Particularly in the Protestant-centric cultures, accumulation of wealth is considered a calling from God (Chapman et al., 2003); and sharing it with anybody other than the immediate family members might go against the very identity of family business.

Notwithstanding the above concerns, and guided by the popular demand for a clear definition of family business, Klein, Astrachan, and Smyrnois (2005) suggest using a combination of pre-dominance (termed as "power"), engagement (termed as "experience"), and identification (termed as "culture") variables in defining a family business in terms of the degree of family influence. Using survey responses from the CEOs of 1,000+ German companies, they report adequate Cronbach's alphas for their F-PEC scale - Power ($\alpha = .75$; 3 items), Experience ($\alpha = .96$; 3 items), and Culture ($\alpha = .93$; 12 items).

However, many scholars have cautioned against

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viewing "family firm" as a generic phrase, transcending economic and cultural boundaries (Poutziouris and Chittenden, 1996).

Next we present our methodology for researching the level of a family's influence in terms of the predominance, engagement, and identification parameters, and for identifying how such influence manifests in different models of family business across cultures.

Research Methodology

Our research methodology comprises of three core steps: operationalizing the concept of culture, constructing family business models in different cultures, and evaluating these models using the three popular parameters predominance, engagement, and identification.

Operationalizing Culture

An important first step in a cultural approach is to operationalize the concept of culture.

As part of the GLOBE program, Gupta and Hanges (2004; in House et al., 2004) developed clusters based on the independent variables, including archeological and historical considerations. They find that the clusters developed as such are well discriminated by the typological measures of cultures in 62 societies. Table 1 provides a list of these clusters, along with the examples of societies included in these clusters under the GLOBE program, and their distinctive societal cultural practices.

Table 1
GLOBE Taxonomy of European Clusters
and Distinctive Cultural Practices

-Cluster	Examples of societies	Distinctive Characteristics of the Societal Culture Practices
Eastern Europe	Russia, Poland, Greece	High: Assertiveness, In-Group collectivism, Gender egalitarianism Low: Performance orientation, Future orientation, Uncertainty avoidance
Nordic Europe	Denmark, Finland, Sweden	High: Future orientation, Institutional collectivism, Gender egalitarianism, Uncertainty avoidance Low: Assertiveness, In-Group collectivism, Power distance
Germanic Europe	Germany, Netherlands, Austria	High: Performance orientation, Assertiveness, Future orientation, Uncertainty avoidance Low: Humane orientation, Institutional collectivism, In Group collectivism
Latin Europe	France, Italy, Spain	Low: Humane orientation, Institutional collectivism
Anglo	US, UK, Australia	High: Performance orientation Low: In-Group collectivism

The GLOBE program findings showed that while significant inter-firm differences in organizational cultures exist, the societal differences account for more than 50 percent of these differences. Moreover, the clusters account for more than 50 percent of the inter-societal differences in cultures. This suggests that it would be fruitful to undertake a cluster approach to the analysis of family business models worldwide.

Formulating the Evaluation Criteria

We evaluate the family business models in terms of three popular parameters to assess the level of family influence: (a) pre-dominance, (b) engagement, and (c) identification. To facilitate comparison across cultures, we operationalize the concept of family in terms of the immediate family, related by blood or marriage. Building upon the F-PEC scale and other research, we operationalize the three popular parameters as follows:

Pre-dominance parameter

The family exercises a pre-dominant power on the business through

- (a) ownership,
- (b) management,
- (c) governance.

Engagement parameter

- a) An over-whelming proportion of family members collectively involved in the business with notable intensity.
- b) The involvement of the family in the business has been enduring for several generations.
- c) Several successive parent-child links are involved in the business with notable intensity.

Identification parameter

- a) Family members are able to cohesively influence the company's decisions.
- b) Family members identify the company as their family business with pride and loyalty.
- c) Family members have a vision for the company about which they really care.

Family Business Models from EUROPEAN Cultures

Following GLOBE framework, we classify European cultures into five clusters.

1. Eastern European Model

The Eastern European cluster exhibits societal practices that are low on performance orientation and

uncertainty avoidance, but high on assertiveness, in-group collectivism, and gender egalitarianism. Examples of societies in this cluster include Russia, Poland, and Greece. In these societies, historically the government under the communism economic system owned all businesses. During the 1990s, these societies gave up communism and embraced market economy system.

A number of new entrepreneurial ventures have since been established, both by taking over the privatized government owned enterprises as well as in the form of start-ups. Most have been founded by the former middle class the professionals, highly skilled workers and military officers who have suffered most of all social groups as a result of the reforms motivated by a desire to retain the previous standard of living for their family.

In the communist era, friendship had an unparalleled value and significance. The citizens reported "finding reliable friends" or "communicating with friends" as one of the most important goals in life ahead of work or family life (Shlapentokh 1989: 174). Friendship was the basis of "deep intimate relations," as well as assistance in "beating the system" in everyday life. The stability of residence and lifetime attachment to the enterprise allowed cultivating and retaining a stable set of friends, as individuals and as couples. The personal friendship networks consequently play an integral role in the family businesses founded in the region since the 1990s (Pistrui, Welsch & Roberts, 1997; Barkhatova, McMyllor, and Mellor, 2001).

In the first family business variant, several family couples connected through friendship ties are engaged in a business, referred here as the Friendship model. A high degree of dependence of each family unit on the family business, where both husband and wife are involved, frequently generates tensions among the friends about the decision rights and income distribution. The model is often sustained by giving greater control and decision rights to one of the couples. In addition, informal mechanisms are used for friendly get-togethers to retain non-business relationships (see, for instance, Barkhatova, McMyllor, and Mellor, 2001). The model appears to be supported by the uncertainty tolerance and low performance orientation in the cluster.

In another variant, multiple generations of a family are engaged in a business, with the friends of the family participating primarily through their financial

contribution (see, for instance, Pistrui, Welsch & Roberts, 1997), referred here as the Goodwill model. The resilience is added to the family business by having one spouse work in an established business, as the other spouse gets involved in the family business. Such a model helps augment the financial resources of the business, and provides weak ties with a more diverse set of skills and relationships through the externally employed spouses. The model appears to be supported by a high degree of in-group collectivism and gender egalitarianism in the cluster. In some cases, the family may have been in the business for a long time before the Communist era, and re-established the business or regained the control over the older business after the end of the Communist era (see, for instance, Hanzelkova, 2004). The distinguishing characteristics of the two models are summarized below (See Table 2 also):

Friendship model: "A stable set of friends engaged in a lifetime of work and family building, sometimes alienating the champion from the friends, and at other times producing a sense of managerial distance enmeshed with human concern."

Goodwill model: "Parents, siblings, and extended personal friendship networks all contribute finance and two to three generations work together to launch a business, or in some cases to regain control over the traditional family business after the fall of the Communism, while spouses work with more established business."

2) Nordic European Cluster

The Nordic European cluster is distinguished by societal practices that are high on future orientation, uncertainty avoidance, institutional collectivism, and gender egalitarianism, but low on in-group collectivism and assertiveness. Examples of societies in this cluster include Sweden and Denmark. In these societies, many family businesses are in their third or fourth generation. The founders and the leaders of the family business tend to show belief in the importance of personal character, and a sense of obligation to preserve the business for the future generations. The family CEO may coordinate through a holding company, which oversees the investment decisions. Different family members may be given charge of different business operations, and be allowed independence in management. As many members as possible of the family's various branches are offered training, and their work in the business is then used as a basis to select who

is suitable for future leadership.

Ownership succession is conditional both on the inter-generational preservation of controlling shares in the family companies, and on the presence in the next generation of an individual with both the ability and the desire to assume family leadership. All top positions tend to be held by the members of the family. Once a family member displays sufficient competence, that person then assumes the leadership. When there is no natural heir within the family, the top positions are filled by a non-family member from within the business. Such non-family members are selected from a group of persons who are viewed as supportive of the firm's business plan and able to cooperate with the family. This leadership also creates opportunities for non-family members to be innovators, and encourages and rewards them for doing so. However, the family leaders may not confine their oversight of the non-family-led subsidiaries to overarching strategic questions, but also deal with more specific problems, such as personal issues. Thus, non-family executives who have long-term relationships with family businesses may have come to accept such interventions as a standard business practice. Internal recruitment for leading positions strengthens the cohesion of the business (see for instance, Koulouvari, 2004; Larsson, 2004). The characteristics of this "Heritage model" of family business are summarized below (See Table 2 also).

Heritage model: "socially conscious family head inspires an enduring family heritage, rooted in a belief in personal character and in the family ability to correctly evaluate people, with a sense of obligation to preserve business for the future generations, actively encourages children to have education and experience abroad, different family members given charge of different business operations, non-family members encouraged to be innovative and selected for their ability to cooperate with the family, non-family CEOs appointed for short or long periods until a competent family successor emerges, a supervisory board bridges the family owners and the management team, and family wealth deposited in family charitable foundations."

3) Germanic European Cluster

The Germanic European cluster is distinguished by social practices that are high on performance orientation, future orientation, uncertainty avoidance,

and assertiveness, but low on in-group collectivism, humane orientation, and institutional collectivism. Examples of societies in this cluster include Germany and the Netherlands.

The older form of family business model in the region is termed as the "Actualization model". Most of the family businesses in the region tend to be in their second or later generations, and are completely held by one family. Most family businesses employ spouses also, although sometimes only on a part-time basis, and have one or more children working in the business, if those children are adults. They prefer not to hire recent graduates, and tend to give higher level of responsibilities to their family members than they would get in other businesses for the same amount of compensation. In cases where the family businesses do rely on professional managers, they tend to form supervisory boards for building bridges between the owners and the management team; such family businesses tend to be larger than those that do not rely on professional managers (see, for instance, Flören, 1998; Klein, 2000).

Over the recent years, a new form of family business organization distinctive of this region has emerged, referred to here as the "Venture Model". In this form, families tend to pursue a series of entrepreneurial ventures, with an intent to rapidly exit by venture sale, as opposed to continuing the venture over successive generations (see, for instance, Klein, 2000).

The characteristics of the two models are summarized below (See Table 2 also):

Actualization model: "Parents and their adult children working together, assuming challenging responsibilities and stretching their personal potential, using family boards for open communication among the family members, sometimes hiring professional managers for driving their growth and adding a supervisory board as a formal bridge between the owning family and the non-owning professional managers."

Venture model: "A family, sometimes working with friends and colleagues, funds a new business and then sells that after a short time and invest in another business." 4) Latin European Cluster

The Latin European cluster is characterized by social practices that are low on humane orientation and institutional collectivism. Examples of societies in this cluster include France, Spain, and Italy. Many family

businesses in these societies have their roots in the great banking and commercial families of the Renaissance, the biggest ones originated in the 19th century industrialization, several were founded during the post-World War II reconstruction period, and a majority have remained in their first generation only. Two types of representative family business models exist: Craft model and Renewal model.

The Craft Model has been the popular form of family business organization historically. Most family businesses of the region produce locally, and then export using various religious and regional networks. Their strategic decision-making and negotiations are often completed in closed quarters at the dining table, and they find it difficult to deal with the multinational complexity. They specialize in custom made products, tools and machines, and are quick to adapt, focusing first on the local market, and then on the export market. They may also invest in the smaller local family businesses that serve them, or are served by them. Banks and outside investors provide funds for financing technology and exports; they also play the role of a watchdog, discouraging incapable family successors, and encouraging leaders to patiently cultivate a passion for family business for developing competent successors. Overall, the family insiders are favored over the outsiders, and family interests are given pre-eminence over the economic considerations (see for instance, Tagliabue, 1995; Hale, 2004; Colli, Pérez, and Rose, 2003).

Increasingly, a Renewal Model has emerged, as the new generation is educated overseas, and as partnerships are forged with the foreign firms. But with international exposure, the next generation has typically chosen to dissolve or sell-off the older business, and go about pursuing the family business with a fresh perspective and resource base. The leaders of the family businesses focus on transferring the relevant skills and networks to the next generation, through marriage strategies and systems of apprenticeship in foreign companies known for their innovations, and membership in professional associations using friendship and extended family connections (see, for instance, Pérez and Puig, 2004).

The features of the two family business models are summarized below (See Table 2 also):

Craft model: "Banks/outside investors finance the needs for technology and international markets, discouraging incapable family successors, professional

non-family members frequently hired but forced out if their views clash, passion for family business patiently developed not forced on children, family insiders and family interests are favored over the outsiders and the economic interests, family advantage captured by specializing in custom made products and by quick adaptability, serving and being served by local small family businesses"

Renewal model: "Younger members educated overseas to gain familiarity with new techniques and work overseas in firms known for some innovations, and partnerships sought with foreign firms, using memberships in religious networks, regional associations, and strategic marriages, frequently resulting in the dissolution of older business and launch of a new business in each generation."

5) Anglo model

The Anglo cluster has societal practices that are high on performance orientation, but low on in-group collectivism. Examples of societies in this cluster include the US, UK, and Australia. While a range of family business forms exists within this cluster, as in the other clusters, the prototypical ideal is one identified by the popular three-parameter definition. An ideal family business is one, where family has power over the ownership and the governance of the firm, where a family business has succeeded several generations and where a large percentage of family members from multiple generations are involved in the family business, and where the family shapes the culture closely through the control of leadership succession and vision setting for the business, and exhibits pride in and commitment to the family business.

The above ideal is feasible in the Anglo cultural context of low in-group collectivism, where the relevant family unit is defined to include only a selected group of members. The family unit may not include the siblings, to whom the family business was not willed. The family unit may also not include the in-laws, spouses, family friends, and long-time employees adopted as godchildren, who may not be the owners of the family business, and may not even be involved in the management and/or governance of the family business.

In many other cultures, the above Anglo ideal of family business actually fails to qualify to be an ideal family business, with a high degree of family influence. Even when a family business scores full points for family

influence, this assessment will not be interpretable similarly across cultures. Specifically, in cultures where it is customary for a family business to involve family friends and long-time employees adopted as godchildren in the ownership, management and/or governance of the family business, and to consider family in terms of several inter-marrying family groups and extended family relationships, the three-parameter criteria would be biased towards assessing a lower immediate family

CONCLUSIONS

In this paper, we examined the cross-cultural issues associated with the popular three parameter definition of the family businesses. We constructed family business models in different cultural clusters of Europe. We evaluated these family business models using the three parameters approach, and found assessments ranging from a low of 2.0 to a high of 5.0 on a scale of 1 (low family influence) to 5 (high family influence).

Our findings suggest that overall, the three parameter approach captures a very selective type of family business operating under very specific cultural conditions.

A business founded and operated by a family with an open, transparent, and diverse culture; which has been able to capitalize on this culture to carve competitive positions; which has also been able to sustain itself and participation of the competent family members in itself over successive generations; under conditions where non competent and non committed family members are not even considered a part of the family, and where it is not relevant and appropriate to involve their competent and committed non-family employees in top management, governance, and ownership positions.

A major limitation of our work is the focus on cultural cluster as a level of analysis. In practice, one can't emphasize enough the uniqueness of each family business, and the diversity of family businesses within each sub-culture and region of the society. However, we are inspired by the GLOBE findings suggesting that the cultural clusters account for more than 25 percent of the variation in the individual organizational practices.

To capture the remaining up to 75 percent of the variation in the individual organizational practices of the family businesses, there is an additional need to develop case studies of family businesses, at corporate, local, national, as well as regional levels. In these case studies, due attention must be paid to the diversity of

the family businesses set up by the minorities, smaller firms, women, and immigrants. The prototypical models tend to focus on the family businesses founded by the dominant culturally homogeneous group in each cultural cluster. As such they also tend to be the basis for formulating and implementing clinical intervention strategies at the practitioner level. A better appreciation of these prototypical models will help in understanding how specific cases depart from the model, and in recognition and celebration of the uniqueness of each case. In fact in a recent cross-cultural historical analysis on family businesses, the most notable finding was the "persistence of the political and economic power of family firms in Spain and Italy, in contrast to their relative impotence in Britain since 1945." (Colli, Pérez, and Rose, 2003: 58). Though the Spanish and Italian firms showed some common behaviors, indicative of Mediterranean influences, often they behaved in particular and contrasting ways, suggesting unique influences (Colli, Pérez, and Rose, 2003).

Moreover, the cultural cluster approach is no substitute for the development of rigorous cross-cultural constructs. There is a need for theoretical as well as empirical studies linking the family system with the cultural system, business system, market system, and the institutional system, and predicting the family business behavior, resilience, sustainability, competitive advantage, and growth. Such studies should be conducted both in culturally homogeneous samples within societies, as well as in culturally heterogeneous samples within and across societies. Only then, the practitioners will have a better sense of the dynamics of specific cultural cases, as well as of the universal issues guiding the family businesses.

Our research is only a step in the direction of developing cross-culturally relevant pedagogical resources for teaching about and training in family businesses. We believe it is a step in the right direction, and invite the scholars and practitioners to join us to support the cause of the family businesses in different parts of the world.

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Table 2a
Family Business Models in European Cultures

	<i>Nordic Europe</i>	<i>Germanic Europe</i>		<i>Latin Europe</i>		<i>Eastern Europe</i>		<i>Anglo</i>
	Heritage model	Actualization model	Venture model	Craft model	Renewal model	Friendship model	Goodwill model	Ideal model
Pre-dominance	Ownership and governance controlled by the family Non family members may be part of the management	Ownership controlled by the family Governance sometimes shared with the professional managers Professional managers sometimes appointed to accelerate growth	Ownership and governance controlled by the family Friends and colleagues share the ownership and the governance	Ownership and governance shared with banks and outside investors Non-family managers frequently hired Family maintains management control	Ownership and governance is more open Non-family managers frequently hired	Ownership and governance shared among multiple couples One couple may have the dominating power	Ownership and governance mostly within a single family Some ownership shared with the family friends	The family has the pre-dominant control
Rating	4	4	3	4	2	2	4	5

Rating on a Scale of 1 = low influence, and 5 = high influence.

Table 2b
Family Business Models in European Cultures

	<i>Nordic Europe</i>	<i>Germanic Europe</i>		<i>Latin Europe</i>		<i>Eastern Europe</i>		<i>Anglo</i>
	Heritage model	Actualization model	Venture model	Craft model	Renewal model	Friendship model	Goodwill model	Ideal model
Engagement	Multiple and extended generations of a family given leadership positions in the business, based on their desire and competence.	Multiple generations of a family may be involved	Multiple generations of a family may be involved Only a few members of a family may be involved	Multiple generations may be involved Outside investors preclude the joining of incompetent family members Family members are favored over the outsiders	Multiple generations may be involved at any time The business does not usually succeed beyond one generation	Only one generation of family is usually involved, at least as of now	Multiple generations of the family are often involved Only one spouse is involved	The family is engaged in the business over multiple generations
Rating	5	5	3	4	2	2	4	5

Rating on a Scale of 1 = low influence, and 5 = high influence

Table 2c
Family Business Models in European Cultures

	<i>Nordic</i>	<i>Germanic Europe</i>		<i>Latin Europe</i>		<i>Eastern Europe</i>		<i>Anglo</i>
	Heritage model	Actualization model	Venture model	Craft model	Renewal model	Friendship model	Goodwill model	Ideal model
Identification	Strong cohesion between the family and the business	Strong cohesion between the family and the business	Limited cohesion between the family and the business Some cultural influence of the main family may exist	Family culture plays a dominant role, with checks and balances from the outside investors Non-family managers forced out if their views clash with that of the family Family interests are given pre-eminence	Family culture plays a formative role in passing the values and the knowledge to the succeeding generations Family culture plays a limited ongoing role in the business	Influence of a single family's culture on the business is limited	Family's culture has an important influence on the business Spouse's work contacts may also have an important influence	The family shows a strong sense of identification with the business.
Rating	5	5	2	4	2	2	4	5
Overall Evaluation	14/3 = 4.67	14/3 = 4.67	8/3 = 2.67	12/3 = 4.00	6/3 = 2.00	6/3 = 2.00	12/3 = 4.00	15/3=5.00

Rating on a Scale of 1 = low influence, and 5 = high influence

An Insight of Investment Pattern of Insurance Companies and its prospects in India

Mrs. Sangeetha Natarajan.*

ABSTRACT

Having talked so much about Liberalization, Globalization and Privatization and after completing a full circle, from being an open competitive market to complete Nationalization and then back to liberalized market, now there arise a need to monitor the Investment pattern of Insurance Sector. This is because the Reformation has changed the outlook totally, in the areas of deploying funds to the best advantage of the investors, conducting business for economic development and societal wellbeing.

The Authority also has taken a proactive role in the establishment of a vibrant insurance market especially in giving guidelines in the area of Investment for insurance companies. The quality and quantity of the investments are a reflection of the performance of insurance Industry. And as investment income is the key determinant in the calculation of premium rates and as it is the core function of an insurance company which cannot be outsourced by an insurer utmost consideration is needed in this area.

The present paper is an attempt to gain insight about the Investment patterns followed by the Insurance sector in general during all stages of sectoral reforms and thereby making a comparative study between Life and Non- Life segments and Private and Public sectors.

1. INTRODUCTION:

Insurance is a long duration contract, which generates investable surplus. This surplus is invested keeping in view the safety and security of the funds spread over different categories, industry and regions. All these are done to help to serve larger economic and social interests along with optimizing yield. With the formation of Life Insurance Corporation of India, it can be said that utilization of people's money invested in life insurance for planned economic development of country took roots. One of the objectives of nationalization of insurance industry was channelizing of its funds for the benefit of the community at large. The investment of the Insurance companies fund is governed by 27A of the Insurance Act 1938 and subsequent guidelines issued by the Government of India from time to time. These investments are regulated by the government to benefit the people at large by providing basic amenities like water, drainage, sanitation, power, housing, transportation etc.

2. INVESTMENTS OF INSURANCE SECTOR PORTFOLIO MANAGEMENT

All investments are risky and as such investor has to be choosy and highly selective in making investments. This is to ensure that the risk taken is lowest possible while the returns are the highest feasible. Insurance

companies essentially invest these funds with the combined objectives of Liquidity, Maximization of yield and safety.

An insurance policy has to be submitted to the authority by an insurer before the start of an accounting year. Since the insurance companies keep the policy holders money in their fiduciary capacity they are also required to maintain a minimum level of solvency to meet the reasonable expectations of the policyholders. Hence IRDA has mandated the pattern of investments to be followed by the insurance companies

3. INVESTMENT PATTERN OF LIC

The main objective of the LIC is that the funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return. True to the objectives of nationalization, LIC has mobilized the funds invested by the people in Life insurance for the benefit of the community at large.

The modified section 27A of the Indian Insurance act, 1938, prescribes percentage wise ceiling of maximum limit in different categories of investments. These have been modified from time to time with a view to preempting an increasing proportion of its funds in government / government guaranteed / approved / socially-oriented investments. The LIC has been

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directed to concentrate more on the financing corporations and all India Financial Corporations like IDBI, ICICI, IFCI etc. by way of subscriptions to bonds / debentures issued by such institutions. It also makes investments in the corporate sector in the form of long, medium and short term loans to companies / corporations.

3.1 Pre- Nationalization Investment Pattern

Before the setting up of LIC in 1956, though the nationalization and amalgamation of 245 companies, life insurance companies were governed by section 27 and 27A of the Indian Insurance Act, 1938. According to the act, every insurance company was required to invest as follows:

Table :1
Pre Nationalization Investment Pattern

S.No.	Type of Investment	Percentage
1	Government Securities	25%
2	Government Securities or approved securities	Not less than 25
3	Other investment	Not more than 25
4	Approved investment	35%

Source : Khan M.Y. Indian Financial System, Tata McGraw Hill Publishing Co Ltd, New Delhi, 2000, P.102

3.2 Post Nationalization Investment Pattern

Based on the recommendations of the Jagannathan Committee to review the investment policies of the LIC, section 27A was further amended in 1975. The amended section 27A stipulated that accretions to the controlled fund of the LIC could be invested as under:

Table : 2
Post Nationalization Investment Pattern

S.No.	Type of Investment	Percentage
1	In Central Government marketable Securities	25%
2	In Central Government, State govt. Securities including the govt. Guaranteed marketable securities including (a) above	Not less than 25
3	In Social - oriented sector including public sector, cooperative sector	75%

Source : Khan M.Y. Indian Financial System, Tata McGraw Hill Publishing Co Ltd, New Delhi, 2000, P.102

3.3 Investment Pattern after Insurance Sector Reforms

The LIC has over the years, been investing a major part of its funds primarily in the socially oriented sector. As on march 2005, 81.90% of its investments were in the public sector, 0.36 % were in the cooperative sector and 17.74 % in the private sector. National priorities and obligation of reasonable returns to the policy holders are the main criteria of the investments of LIC. As per the prescribed investments pattern approved by the IRDA, the norms for the investments of the controlled funds of LIC are as follows:

Table :3
Investment Pattern after Insurance Sector Reforms

S.No.	Type of Investment	Percentage
1	Government Securities or other approved investments	Not less than 50%
2	In infrastructural & social sector investments	Not less than 15%
3	Governed by exposure prudential norms	Not less than 20%
4	Investments other than approved investments	Not exceeding 15%

Source : Khan M.Y. Indian Financial System, Tata McGraw Hill Publishing Co Ltd, New Delhi, 2000, P.102

3.4 Forms of Fund Provision for Investment by LIC

The LIC provides fund to industries in three forms:

1. Direct lending to industry
 2. Purchase of shares, debentures in the stock market.
 3. Subscription to the shares and bonds of financial institutions.
- LIC helps Small scale and Medium Scale industries by granting for setting up of co operative industrial estates. The corporation also makes investment in the corporate sector in the form of long, medium and short term loans.
 - LIC also finance private industrial projects by directly subscribing to their shares and debentures.
 - LIC finances indirectly the industries by investing in the shares and bonds of state level financial institutions and all India Financial Institutions like IDBI, IFCI, ICICI etc. the corporation also provides financial assistance to State electricity Board / Power Corporation for power generation by way of loans / subscriptions to bonds.

- LIC since its inception has been providing finance for housing to individuals, cooperative housing societies and private undertakings under its various mortgage housing schemes.
- LIC has also been extending financial assistance to state level apex cooperative housing finance societies, the benefits of which are on to individuals through primary societies.
- LIC is providing finance by way of subscription of bonds of housing finance institutions like Housing Development Finance Corporation, Housing and Urban Development Corporation, and National Housing Bank etc.
- LIC finances infrastructure projects pertaining to ports, roads, railways and airports. Now the LIC can also finance private sector in infrastructure projects.

3.5 Evaluation of Investment Portfolio of LIC

The analysis has been made on the basis of the following variables:

- Sector-Wise Break-Up of Investments in India.
- Loans advanced for various development activities.
- Composition of Investments of LIC as per IRDA Guidelines

I. Sector-Wise Break-Up of Investments in India.

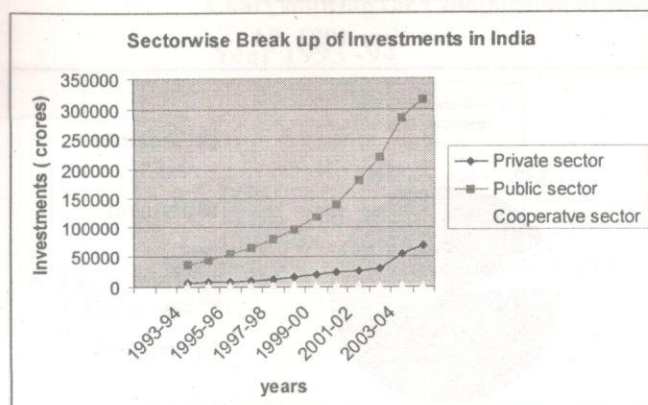
The Total investment of funds is made in mainly three sectors of the economy. These sectors are: private sector, Public sector and Cooperative sector. The analysis of Investments is made sector wise for the study period, from 1993-94 to 2004-05. In order to make comparison of different years, sector wise break-up of investments in India has been shown in the following Table:

Table : 4
Sector-Wise Break-Up of Investments in India .

Year	Investments						Total Investments
	Private sector		Public sector		Co operative sector		
	Amt (Crores)	% share	Amt (Crores)	% share	Amt (Crores)	% share	Amt (Crores)
1993-94	6,199	14	36,246	82	1716	3.9	44161
1994-95	7,367	13.78	44,318	82.87	1793	3.35	53479
1995-96	7,996	12.47	54,245	84.63	1857	2.9	64099
1996-97	10,078	12.93	65,917	84.58	1938	2.49	77935
1997-98	12,334	13.17	79,235	84.66	2030	2.17	93600
1998-99	15,597	13.67	96,410	84.49	2094	1.84	114102
1999-00	19,843	14.27	117,058	84.20	2129	1.53	139032
2000-01	23,579	14.12	141,256	84.58	2168	1.30	167003
2001-02	26,327	12.53	181,652	86.47	2105	1.00	210085
2002-03	30,091	11.95	219,596	87.22	2082	0.83	251770
2003-04	55,405	16.19	284,658	83.18	2155	0.63	342219
2004-05	68,412	17.74	315,838	81.90	1388	0.36	385639

Source : Figures are from IRDA Monthly journal Taken together from various years

Chart : 1



Findings:

- There has been a spectacular increase in the total investments of LIC during the period of the study.
- The proportion of investments in public sector to total investments remained fairly above 80 % during the period of the study. This proportion is about 84 % till 2000-01, increased to its time high of 87.22 % , but

started declining during 2003-04 (83.18 %) and 2004-05 (81.90 %)

- The share of the investments in private sector to total investments of LIC kept on increasing till 1999-2000 , with steep decline during the subsequent three years (2000-01 to 2002-03)
- There has been a steep decline in the investments of LIC in the cooperative sector.

II. Loans advanced for various development activities

The data related to the loans advanced for the different years has been gathered and shown in the following table in order to make proper analysis as well as comparison of various years regarding the amount of loans advanced to various developmental activities like Electricity, Housing, Water Supply and sewerage, transport, Industrial development.

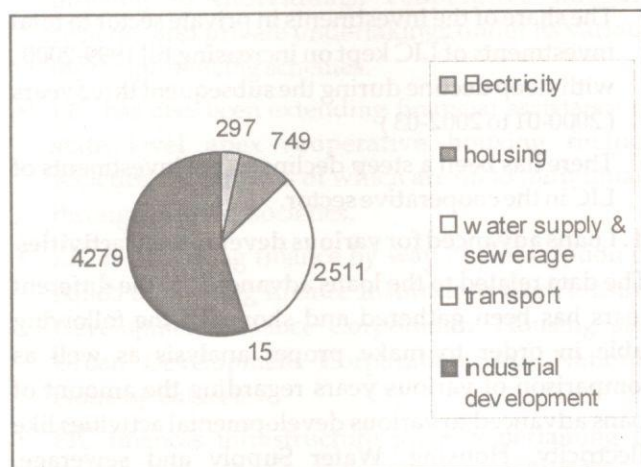
The details of the developmental activities for which loans are advanced by LIC have been presented in the following table :

Table : 5
Loans advanced for various development activities .

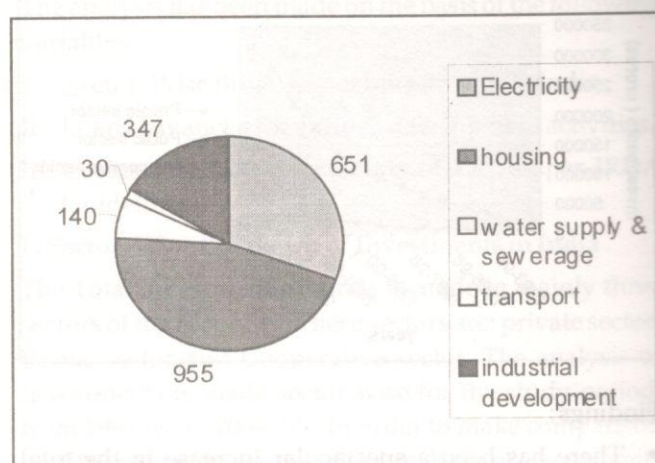
Year	Electricity (crores)	% Share	Housing (crores)	% Share	Water Supply & Sewerage	% Share	Transport (crores)	% Share	Industrial development (crores)	% Share	Total in crores
1993-94	651	30.65	955	44.97	140	6.6	30	1.44	347	16.33	2124
1994-95	846	39.35	721	33.55	137	6.4	34	1.59	410	19.08	2150
1995-96	704	28.66	937	38.14	128	5.21	70	2.85	617	25.12	2457
1996-97	676	24.02	1146	40.72	146	5.21	62	2.23	782	27.8	2814
1997-98	965	31.97	1180	39.09	236	7.81	11	0.38	625	20.7	3010
1998-99	1479	37.23	1769	44.54	243	6.14	119	3.00	360	9.07	3972
1999-00	1366	34.76	1651	42.01	488	12.43	65	1.66	358	9.13	3929
2000-01	470	13.5	2113	60.57	526	15.10	48	1.37	329	9.44	3488
2001-02	1045	35.62	1056	35.99	342	11.68	108	3.7	381	13	2934
2002-03	1060	32.49	890	27.26	570	17.46	465	14.21	278	8.53	3265
2003-04	297	3.78	749	9.54	2511	32	15	0.19	4279	54.5	7852
Average % share		28.36		37.85		11.45		2.96		19.33	

Source : Figures are from IRDA Monthly journal Taken together from various years

Chart : 2 Showing Loans advanced to various developmental activities
Year 2003 -04



Year 1993 -94



Findings:

- There is huge increase in the total amount of loan advanced for various development activities after the issue of new investment regulations by IRDA in 2002.
- The average percentage share of Housing is 37.85 % of the total amount of loan advanced , Electricity comes second as it holds 28.36 % average share , Industrial development has 19.33 % average share , then is water supply and sewerage with 11.45 % average share . Transport's average percentage share is only 2.96 % of the total amount of loans advanced.

III. Composition of Investments of LIC as per IRDA Guidelines

The analysis has been done in order to see the investment pattern of LIC as per IRDA guidelines and regulations . thus controlled funds are divided into four prescribed categories of investments :

- Government securities or other approved investments
- Infrastructure and social investments
- Investments in Corporate sector &
- Other than approved investments.

The percentage of amount of investments has been calculated for the period 1992-93 to 2003-04. The following table depicts the composition of investments of LIC for the different years.

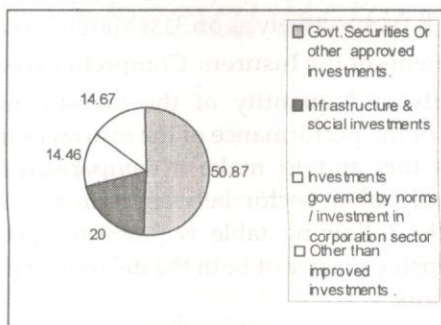
Table: 6
Composition of Investments of LIC as per IRDA Guidelines

Assets	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
1.Govt.Securities or other approved investments	50.87	51.76	52.49	53.90	54.23	54.35	54.78	54.19	54.32	57.87
2. Infrastructure & social investments	20	18.29	16.7	15.37	14.52	14.31	13.82	12.91	11.79	12.05
3. Investments governed by norms or investment in corporation sector	14.46	15.33	16.39	16.39	17.18	18.02	18.43	19.74	19.77	16.90
4.Other than improved investments	14.67	14.62	14.42	13.80	14.07	13.32	12.97	13.16	12.12	13.18
Total	100	100	100	100	100	100	100	100	100	100

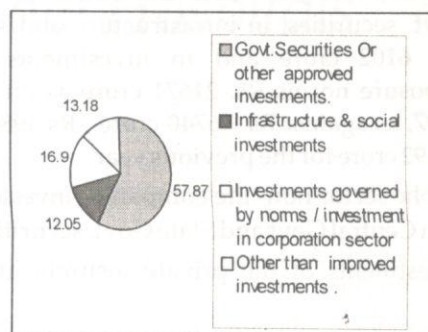
Source : Figures are from IRDA Monthly journal Taken together from various years

Chart : 3
Chart showing the Composition of Investments of LIC as per IRDA Guidelines

Year 1993 -94



Year 2002-03



Findings:

- It is clear from table that from 1993-94 to 2002-03 there has been more than 50 % of investment of the corporation in this category. The fig. of various years show an increasing trend of investment during the entire period of study except for a slight decline in the year 2000-01
- As per IRDA guidelines the investment in infrastructure and social sector should not be less than 15 % of total investments .Here it is concluded that LIC has failed on this front. Thus there is an obligation on the part of the corporation to invest more in this sector to serve the nation as a whole and to provide better infrastructure to the community as well.
- Under the third sector there is a requirement of up to 20 % investments to be governed by exposure prudential norms .in 1993 -94 there was 14 .46 % investment in this sector and then it increased year by year.
- IRDA has put a ceiling on the other than approved

investments that not more than 15% of the controlled funds is to be invested in other than approved investment .The investments of the corporation in this category has been less than15 % through out the study period .It varies between 12 % - 15 % for the period 1993-94 to 2002-03.

1. Investment Pattern of Non- Life Insurers

For any insurance company whether Life or Non life the investment is the key determinant in the calculation of premium rates. It is the core function of an insurance company. In the case of general insurance, investment compensates underwriting losses, if any which in turn enables it to keep its premium rates competitive. The investment pattern as such specified by IRDA indicates some remarkable facts like , investments in Government securities was less than 20 % other than approved securities inclusive of former was less than 40 % .Remaining was invested in approved investment to be governed by exposure prudential norms . The following table shows the total investments of General Insurers and their Fund wise Allocation :

Table : 7
Total Investments of General Insurers : Fund wise

Pattern of Investments	2004 - 05		2005 - 06		2006 - 07	
	Total	% of Fund	Total	% of Fund	Total	% of Fund
Govt. securities	10366	28	11670	28	13231	26
Other approved Securities including govt. Securities	14964	40	16740	40	18866	37
Housing & fire fighting Equipments	2647	7	3107	7	3742	7
Infrastructure & social Sector	4389	12	4980	12	6102	12
Investment subject to Exposure Norms	15410	41	17492	41	21671	43
Other than approved Investments	4025	11	4078	10	3884	8
TOTAL	37411	100	42319	100	50382	100

Source : IRDA Annual Reports of various years

Inferences:

- Of the total investments by general insurers, Rs. 18866 crores were held in Central Govt. and State govt. securities, in infrastructure and social sector Rs. 6102 crore and in investments subject to exposure norms Rs. 21671 crore as on 31st March 2007, as against Rs. 16740 crore, Rs 4980 crore, Rs. 17492 crore for the previous year.
- Public sector non- life companies invested Rs.16606 cr in Central Govt and State Govt. securities.
- Investments of the private insurers in the above

sectors stood at Rs. 2260 cr. (36.39 %), Rs. 1052 cr (16.93 %) and Rs. 2349 cr. (37.81 %) as against Rs. 1590 cr. (41.84 %), Rs. 567 cr. (14.92 %) and Rs. 1323 cr. (34.82 %) respectively as on 31st March 2006.

5. Investments of the Insurers Comprehensive picture

The quality and quantity of the investments are a reflection of the performance of the insurance industry. To assess this and to make a comparison between private and public sector between Life and Non life insurers the following table is presented showing a comprehensive picture of both the insurers in private & public sectors.

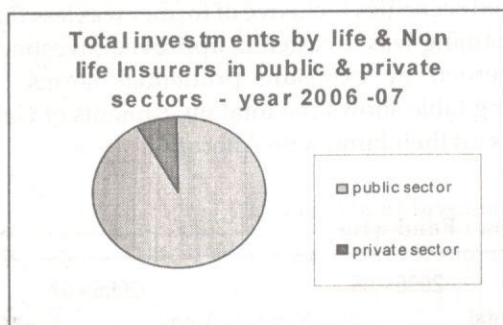
Table :1 Investments of Insurers

Insurer	Life		Non -Life		Total	
	2005- 06	2006-07	2005-06	2006-07	2005-06	2006-07
Public sector	463771.14	559200.56	38519.52	44170.75	502290.66	603371.31
Private sector	23379.55	44979.24	3799.43	6212.06	27178.98	51191.3
Total	487150.69	604179.80	42318.95	50382.81	529469.64	654562.61

Source : IRDA Annual Reports of various years

The above table depicts the investments of LIC increased by 20.58 % and in the case of private insurers, the growth was 92.39 %. Increase in investments by public sector general insurance companies was 14.67 % and for private sector general insurers it was 63.50 %.

Chart : 4



6. CONCLUSION

Thus on the whole the performance of the Life and Non life Insurance Companies under Public sector proves to be satisfactory, but there is a need to invest more in infrastructure and social sector as far as Private insurance companies are considered. Again comparing the share of life and non life segment, the General insurance companies have to still prove their efficiency and have to compete with life segments. In short LIC acts as a giant in investment portfolio among all Insurance companies.

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Nurses' Job Satisfaction : A Critical Study With Special Reference To Private Hospitals

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ABSTRACT

The purpose of this study was to investigate the relationship of nurses' job satisfaction to organizational commitment, perceived organizational support, transactional leadership, transformational leadership, and level of education. This study investigated two distinct paths to job satisfaction, organizational commitment, and perceived organizational support. The analytical procedure of multiple regression was utilized to determine the predicting strength among job satisfaction and the independent variables: organizational commitment, perceived organizational support, transactional and transformational leadership behavior, and nurses' level of education. The researcher chose randomly 21 private hospitals among 42 organised private hospitals at Tirupur city. The participants were randomly chosen from a list of nursing staff provided by each facility. Pearson product-moment correlation coefficient revealed that positive correlation existed between the dependent variable and the following independent variables. Of the five independent variables, a multiple regression analysis indicated that organizational support was most strongly related to job satisfaction.

Keywords: Nurses' job satisfaction, organizational commitment, perceived organizational support, transformational leadership, transactional leadership, and level of education.

INTRODUCTION

The shortage of nurses nationwide and locally has been well documented and extended to the long-term care industry. As a growing segment of the population ages and strains the capacity of these institutions, most are having difficulties in finding and retaining qualified nursing staff. Employees' job satisfaction and their commitment have always been important issues for health care administrators. After all, high levels of absenteeism and staff turnover can affect the administrators' bottom lines, as temps, recruitment, and retaining take their toll. Satisfied employees tend to be more productive, creative, and committed to their employers, and recent studies have shown a direct correlation between staff satisfaction and patient satisfaction in health care organizations. The traditional model of job satisfaction focuses on all the feelings that an individual has about his/her job. However, what makes a job satisfying or dissatisfying does not depend only on the nature of the job, but also on the expectations that individuals have of what their job should provide. Looking forward, almost all surveyed nurses see the shortage in the future as a catalyst for increasing stress on nurses, lowering patient care quality, and causing nurses to leave the profession.

High nurse turnover and vacancy rates are affecting access to health care. Continuously hiring new employees is costly, and frequent staff turnover affects employees' morale and impairs patient care. Rapid turnover has been found to have negative physical and emotional effects on nursing home residents, leading to a greater incidence of falls, medication errors, fear and anxiety, and feelings of hopelessness.

According to Borda and Norman (1997) and Lu, While, and Barriball (2005), the retention and recruitment of nurses has shown that low wages and poor job satisfaction are the primary reasons why nurses leave their positions. Their dissatisfaction is often attributed to heavy workloads, leadership styles, motivation, inadequate training, and lack of respect. Compared to their counterparts in other health care settings, such as those who work for home health care, staffing agencies, and acute care facilities, nursing home facility employees are often underpaid. It is stated that recruitment and retention efforts need to concentrate on increasing financial incentives to these staff members and creating a desirable work place that will lead to greater job satisfaction because the expertise required of direct caregivers and the heavy workload they are

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assigned often far exceed the financial compensation they receive.

OBJECTIVE OF THE STUDY

The main objective of this study focused on the predictive effects of organizational commitment, perceived organizational support, transformational leadership, transactional leadership behavior, and level of education on the degree of job satisfaction among registered and licensed practical nurses at Tirupur in Tamilnadu. Most studies of health care settings tend to focus on nurses and other medical personnel in acute care settings resulting in a major gap in the literature on issues and concerns of health professionals in long-term care settings. Studies of this nature and magnitude may be instrumental in helping administrators to better meet the needs of long-term care nurses employed in their organizations, which may have implications for services delivery.

REVIEW OF LITERATURE

Despite the large number of studies on nursing job satisfaction (Elloy, 2005; Lee, 2005; Loke, 2001; Meyer & Herscovitch, 2001; Silverthorne, 2004; Yoon & Thye, 2002), the influence of organizational commitment, perceived organizational support, leadership behavior, and level of education have received little attention among health care professionals. Research (Freund, 2005; Loke, 2001; Yoon & Thye, 2002) has shown that job satisfaction is affected by organizational commitment, perceived organizational support, leadership behavior, and level of education. Wagner and Huber (2003) identified two key factors, organizational commitment and job tension, as reasons behind nurses leaving their positions. A leader's behavior or leadership style may influence the subordinates' level of job satisfaction. Studies have been carried out to determine how leadership behaviors can be used to influence employees for better organizational outcome. Many studies concluded that effective leadership is associated with better and more ethical performance (Loke, 2001; McNeese-Smith, 1995). Fletcher (2001), Friedrich (2001), Janney, Horstman, and Bane (2001), Kleinman (2003), Krairiksh and Anthony (2001), and Wynd (2003) found that the opinions of the employees' immediate supervisor had more impact on the employee than overall company policies or procedures. A positive relationship between job satisfaction and organizational commitment has been reported by studies involving qualified professionals. A study was

conducted by Wu & Norman (2005) in a nursing department of a medical university in China with a sample (75) of full time final year (clinical practice year) degree level nursing students. The authors found a positive correlation between job satisfaction and organizational commitment ($r = .464, P < .01$), indicating that student nurses who were more satisfied with the nursing as a job were also more committed to the health care service. Redfern, Hannan, Norman, & Martin (2002) reported a strong relationship between job satisfaction and organizational commitment ($r = .60, P < .001$), in a study of the health care staff in the United Kingdom. The aim of their study, which was carried out in a nursing home for older people, was to determine the feasibility of working with health care workers and very frail service users to investigate links between the levels of work satisfaction and organizational commitment. Similarly, Al-Aameri (2000) found a strong positive correlation between job satisfaction and organizational commitment with a sample of registered nurses in Saudi Arabia ($r = .59, P < .01$). The means and standard deviations showed that nurses were satisfied with their jobs to some extent, and they were slightly committed to their hospitals. The study's findings showed that age was significantly correlated with satisfaction and commitment, but experience was correlated only with commitment. This finding is consistent with a large survey of qualified nurses in the United States conducted by Ingersoll, Olsan, Drew-Cates, DeVinney, and Davies (2002), which revealed a closely positive correlation between job satisfaction and organizational commitment ($r = .63, P < .001$).

RESEARCH METHODOLOGY

The study took place at private hospitals, in Tirupur, Tamilnadu. The nursing population was diverse including a large representation of Head level and supervisors, Staff nurses and Trainee nurses. Twenty one nursing homes were included in the study. For the study purpose the sample frames were made. The sample frame consists of the majority of the nurses were licensed practical nurses with at least eighteen months of training in nursing. The study utilized the analytical procedure of multiple regression to determine whether organizational commitment, perceived organizational support, transactional leadership, transformational leadership, and level of education predict a score on the Nurses' Job Satisfaction Questionnaire. The researcher randomly chose Twenty one nursing homes from a total of 42 organized private hospitals located in Tirupur

City, Tamilnadu. The participants were randomly chosen by the directors of nursing from a list of nursing staff provided by each facility. To assure anonymity, the list had only identifying numbers representing nurses in each of the randomly chosen facilities. A simple proportionate random sample was used to select 5% participants from each one of the nursing homes. Sample size of 60 nurses were selected as the respondents of this study. The sample groups were invited to participate voluntarily. The instruments and the survey questions were assembled in packets and were distributed by nursing directors to each individual employee who met the study criteria. The questionnaire was completed in a private room and took about 15 to 30 minutes. Written guidelines were given to the administrators of the questionnaire to assure that each nurse received the same directions and information. After the questionnaire was completed, the nurse deposited the questionnaire in a closed envelope to assure anonymity. The information provided by the participants was completely anonymous and no names or identifying numbers were collected on any of the instruments. In addition to demographic information, the Nurses' Job Satisfaction Questionnaire focused on respondents' level of organizational commitment, job satisfaction, and perceived organizational support. All items of organizational commitment and perceived organizational support were responded to on a 7-point likert scale. The items from job satisfaction were responded to on a 5-point likert scale. Total scores on each measure were obtained by averaging across items.

The dependent variable, job Satisfaction was measured by a 20 item index called Minnesota

Satisfaction Questionnaire (MSQ) short-form, developed by Weiss, Dawis, England, & Lofquist

(1967) with an estimated Cronbach's alpha .91. The independent variable, organizational commitment, was measured by a 23 item index called Organizational Commitment Questionnaire (OCQ) developed by Meyer, Allen, and Smith (1993) with an estimated Cronbach's alpha .85. Perceived Organizational Support was examined via a 16-item questionnaire called Survey of Perceived Organizational Support (SPOS) scale, developed by Eisenberger, Huntington, Hutchison, and Sowa (1986). The Cronbach's alpha for these items was found to be reliable at .75. To evaluate the nurses' perceptions of their administrators' transformational and transactional leadership behavior, study participants were asked to respond to

18 descriptive elements of transactional and transformational leadership behavior developed by Bass and Avolio (1992). The Multifactor Leadership Questionnaire (MLQ) included 18 items (Bass & Avolio, 1992) to measure the four factors of transformational leadership and two factors of transactional leadership. It contains three items each for idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration, two items of contingent rewards, two items of management by exception active and two items of management by exception passive. Respondents were requested to answer the MLQ by rating how frequently their current immediate supervisor had displayed the behaviors described, using a five-point scale (1 = not at all; 2 = once in a while; 3 = sometimes; 4 = fairly often; 5 = frequently, if not always). The mean rating on the three items comprising a factor was taken as the score of that factor.

ANALYSIS AND FINDINGS

Pearson product-moment correlations coefficients (r) were conducted to determine whether a relationship existed between the dependent variable job satisfaction and the independent variables, organizational commitment, organizational support, transactional leadership, transformational leadership behavior, and level of education. In addition, a multiple regression analysis was conducted to evaluate the predictive values of organizational commitment, organizational support, transactional leadership, transformational leadership behavior and level of education on the nurses' job satisfaction in health care organizations. All analyses were conducted at the .05 significance level. The research findings in this study of nurses' job satisfaction ($n = 55$), indicated that there was a strong correlation $r(55) = .93, p < .05$ between the nurses' organizational commitment and their job satisfaction. The correlation .90 indicated that approximately 80 percent of the variance of job satisfaction was accounted for by the predictor, organizational commitment. Of all the independent variables, organizational support resulted in the highest correlation with job satisfaction. The results indicated that approximately 85 percent of the variance of job satisfaction was accounted for by the predictor, organizational support. Table 1 reflects that a correlation ($N = 55$), $r(55) = .93, p < .05$ was obtained between job satisfaction and organizational support.

Table 1 shows the results of a Pearson product-moment correlation which produced a positive correlation of ($n = 55$), $r(55) = .08, p > .05$ between transactional

leadership behavior and job satisfaction. Also table 1 shows a positive correlation of ($n = 55$), $r(55) = .91$, $p < .05$, between transformational leadership and job satisfaction. These results suggested that the predictor, transformational leadership accounted for an estimated 80 percent of the variance of job satisfaction.

Consistent with other research findings, this study of nurses' job satisfaction (55), also revealed

a positive correlation of $r(55) = .34$, $p < .05$ between job satisfaction and nurses' level of education. Of the five

measures of predictors, organizational commitment, organizational support, transactional leadership, transformational leadership, and level of education, organizational support was most strongly related to nurses' job satisfaction. Supporting this finding is the strength of the bivariate correlation between organizational commitment, organizational support, transactional leadership, transformational leadership, and level of education, and the dependent variable, job satisfaction, which were .90, .93, .08, .91, .34 ($p < .001$), respectively.

Table 1:
Pearson correlation of Job Satisfaction, Organizational Commitment, Perceived Organizational Support, Transformational Leadership, Transactional Leadership, and Level of Education.

PARTICULARS	JS	OC	OS	TF	TA	LE	EX
JS Pearson Correlation	1						
Sig. (2-tailed)							
N	55						
OC Pearson Correlation	0.905**	1					
Sig. (2-tailed)	0.000						
N	55	55					
OS Pearson Correlation	0.931**	0.920**	1				
Sig. (2-tailed)	0.000	0.000					
N	55	55	55				
TF Pearson Correlation	0.912**	0.927**	0.905**	1			
Sig. (2-tailed)	0.000	0.000	0.000				
N	55	55	55	55			
TA Pearson Correlation	0.081	0.145	0.065	0.088	1		
Sig. (2-tailed)	0.559	0.290	0.639	0.523			
N	55	55	55	55	55		
LE Pearson Correlation	0.343*	0.303*	0.166	0.265	0.204	1	
Sig. (2-tailed)	0.034	0.024	0.227	0.051	0.135		
N	55	55	55	55	55	55	
EX Pearson Correlation	0.012	0.016	0.063	0.265	0.063	0.073	1
Sig. (2-tailed)	0.929	0.907	0.647	0.051	0.645	0.596	
N	55	55	55	55	55	55	55

*.Note: Correlation is significant at the 0.05 level (2-tailed). ** Correlation is significant at the 0.01 level (2-tailed). (JS = Job Satisfaction; OC = Organizational Commitment; OS = Organizational Support; TF = Transformational Leadership; TA = Transactional Leadership; LE = Level of Education; EX = Experience).

As indicated in table 2, the four measures of predictors, organizational commitment, perceived organizational support, transformational leadership, and level of education were most strongly related to job satisfaction. Supporting this conclusion was the strength of the bivariate correlation between job satisfaction and organizational commitment, which was .90 and perceived organizational support, which was .93, $p \leq .001$. Transactional leadership behavior was found not to be a significant predictor of job

satisfaction. The results from the regression equation for the standardized variables were as follows: Predicted job satisfaction score = $18.160 + .198$ (level of education) + $.360$ (organizational commitment) + $.395$ (organizational support) + $.202$ (transformational leadership) + $.014$ (transactional leadership) (shown in Table 2).

Table 2: Multiple Linear Regressions for a Single Set of Predictors: Coefficients

Independent variables	Unstandardized coefficient		Standardized coefficient		
	B	Std. Error	Beta	T	Sig
Constant	18.160	6.645	2.733	0.009	
Level of Education	0.198	0.464	0.000	0.464	0.672
Organisational Commitment	0.360	0.128	0.426	2.809	0.007
Organisational support	0.395	0.111	0.343	2.908	0.006
Transformational Leadership	0.202	0.114	0.232	1.764	0.084
Transactional Leadership	0.014	0.030	0.021	0.469	0.641

This study provides evidence that the more committed they are to their organizations, the more they will be productive and effective in their organizations. This gives a clear message to all nursing home administrators and nursing directors to pay considerable attention to the issues of organizational commitment and job satisfaction for nurses and other employees in their institutions.

Summary and Conclusion

The findings indicated that there was a strong correlation $r(55) = .90$, $p < .05$ between job satisfaction and organizational commitment. Job satisfaction and organizational commitment were found to be significantly related in all 20 of the correlation items. The results suggested that the nurses' strongest attitudes towards organizational commitment and job satisfaction were their feelings of strong loyalty to their organization and satisfaction with the job itself. Also nurses' job satisfaction and perceived organizational support were determined to be significantly related. A correlation of $(N=55)$, $R(55) = .93$, $P < .05$ was obtained between job satisfaction and organizational support. Although there remains a plethora of research on job satisfaction, there remains a scarcity of studies that have

focused on job satisfaction and classified employees in the education arena. The results in this study revealed that a positive correlation existed between the dependent variable, job satisfaction and the independent variables: organizational commitment, organizational support, level of education, and transformational leadership. The multiple regression performed in this study indicated that 92% of the variance in job satisfaction was accounted for by the linear combinations of organizational support, organizational commitment, and level of education, transactional and transformational leadership. Organizational support was determined to be the strongest predictor of the five variables and transactional leadership was the weakest predictor of job satisfaction. One of the major implications that a study of this nature raises is the manner in which administrators monitor the work climate, observe and identify factors that may increase or decrease job satisfaction and work commitment of classified employees. Even though the findings were positive toward job satisfaction, continued consideration should be given to the fact that nurses and other health care workers remain committed. The cost associated with

leaving is high. Nurses have identified behaviors and conditions that promote job satisfaction, organizational support, and organizational commitment. They are more likely to be more committed to the organization when they are provided a proportionate amount of job autonomy and equitable workloads. The perception that the organization also focuses on competitive salaries may also contribute to employee commitment.

Nurses' job satisfaction-the relationship to Organizational commitment, perceived organizational support, leadership style: a study with special reference to private hospitals at Tirupur city, Tamilnadu. Another implication is that nurse managers should stay abreast of the current trends and factors that contribute to job satisfaction. Issues related to organizational commitment and organizational support, such as unfair work conditions, salary inequities, lack of employee support should be addressed promptly and justly. Recommendation for future research is to replicate this study or conduct a similar one on nurses in acute settings. The purpose of such a study would be to determine how job satisfaction is viewed by nurses in other settings compared to the nurses in this study. Another recommendation would be to conduct further studies with nurses regarding their commitment to the organization, without including their construct of organizational support. Requesting employees to address questions regarding their employers as opposed to themselves, or in addition to themselves, may produce totally different outcomes.

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A Theoretical Framework on Significant Common Factors of Job Satisfaction and Employee Retention as an Effective Strategy to Minimize Turnover

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Souren Sarkar **

ABSTRACT

Employees today would like to climb the corporate ladder as fast as they can. To prevent employees from job-hopping, companies should provide vistas for personal and professional growth. If people can accomplish their growth objectives with one employer over a long period of time, they will usually continue in the same place. Employees will definitely seek greener pastures if they perceive the environment is restrictive.

Employee turnover is known as 'no return on investment'. It has been a longstanding organizational concern leading to heavy costs. Employee turnover not only has an impact on the cost of productivity but also on the smooth and continuous operations in the organization.

The purpose of this study is to determine those factors that are most significant for both job satisfaction and employee retention which directly influences employees' decisions to remain employed at a particular organization and possible reasons for choosing to leave. Therefore a Conceptual S-O-T model is developed that explicates three processes of Job Satisfaction, Psychological Ownership and Employee Turnover. Further it is being proposed that the job satisfaction leads the feeling of psychological ownership consisting of organizational commitment (attitude component) and citizenship (behavior component) within employees towards the organizations which decides the turnover or retention.

In addition, the study sought to describe the importance of retaining critical employees and developing strategies to enhance employee retention practices with special reference to most significant factors common to both job satisfaction and retention of the employees. The results of the current study can be used by organizations to develop policies, practices, and strategies that would enable higher levels of employee retention and create greater efficiencies in meeting strategic business objectives.

Key Words: Job Satisfaction, Psychological Ownership, Organizational Commitment, Organizational Citizenship, Turnover, Retention.

INTRODUCTION

One of the greatest challenges in today's business world is to stay up in speed in a competitive market. Companies spend billions of dollars to stay on the cutting edge. As we hurl ahead at an increasing pace in the area of technology and competition, we are unfortunately facing an increased shortage of highly skilled and competent employees. Employee retention is a concern for companies in this strong job market. Imagine a world where firms rigorously compete to employ the best workforce but where these skilled employees place extortionate demands on their employers. In this world, knowledge of a firm and its practices is an invaluable asset that firms will strive dearly to contain within the organization. With this in mind, the question of retaining this knowledge embodied by key contributors in organizations, namely

knowledge workers, is crucial for their survival and profitability¹.

There are a great number of employment opportunities for talented professionals. The higher skilled the employees are, the greater the demand for their services. Also, the no. of talented workforce is not growing in a fast pace. The axiom of retaining the competent and skilled employees continues to be a serious challenge².

In HRM literature one of the main issues is that employers should retain human resources in order to obtain competitive advantage (Storey, 1995; Poole, 1999; Lindmark & Önnévik, 2006). There are many reasons for this to be true but two main factors can be initially mentioned. First, knowledge workers are relatively scarce in quantity. Second, the knowledge and expertise these workers possess are vital for firm's

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competitiveness. Therefore, it is not unexpected to view retention as being of strategic importance because of the potential return on employee's expertise in the long term (McGovern, 1995).

It is very essential for organization to monitor turnover rates and try to turn them down. Managers need to determine variables that lead to turnover. Employee turnover has many causes and it can de-motivate other employees. When conditions are not favorable to the company, the first ones to leave are the talented employees. At such a stage if the company loses its employees, the results could be detrimental.

The strategic step for employee retention is to have a satisfied employee in every aspect. And to have satisfied and effective employees, it is important to seek and understand the needs of the corporate vision, as well as the needs of the employees, and to align them to create an environment that is synergistic and on course. There is no one model that will work for all situations.

In an ideal world, employees work hard, love their job, worship their workplace, feel like a family and would never leave. But let's look at the real world, where employees quit at the drop of a hat. How can turnover be controlled?

Turnover can be minimized and talent can be retained on by working on those factors, which has a direct impact on internally satisfying the employee with his work place and emotionally attaching the employee with the organization. Therefore in this paper some significant common factors is being identified out of various factors of job satisfaction and employee retention, which can have a more considerable impact on employee turnover through a series of generating the attitudinal and behavioural parameters among employees Favourable and harmonious job atmosphere leads to satisfied employee which further leads to an enhancement of feeling of attachment i.e. psychological ownership, which has been identified as an important factor that can strategically be developed and implemented to retain employees. Attitude and behavioural parameters like commitment and organizational citizenship are considered as the direct result of enhanced psychological ownership. The present study evaluates the above parameters.

The review of research and literature in the area of Employee Retention aims to demonstrate the need of retaining the human talent in order to gain the competitive advantage and to generate the value for the

organization. The paper is being divided into following sections:

- Section 1 : Introduction to the paper
- Section 2 : Job Satisfaction
- Section 3 : Psychological Ownership
- Section 4 : Employee Turnover & Retention
- Section 5 : The S-O-T Model of Turnover
- Section 6 : Retention Strategy to Minimize Turnover
- Section 7 : Conclusion.

JOB SATISFACTION

Employers have a need to keep employees from leaving and going to work for other companies. This is true because of the great costs associated with hiring and retraining new employees. The best way to retain employees is by providing them with job satisfaction and opportunities for advancement in their careers³. The saying, good help is hard to find, is even truer these days than ever before because the job market is becoming increasingly tight (Eskildsen 2000, Hammer 2000).

Mark Parrott (2000) believes that, there is a straight line between employee satisfaction and customer satisfaction. He believes that today's employees pose a complete new set of challenges, especially when businesses are forced to confront one of the tightest labor markets in decades. Therefore, it is getting more difficult to retain employees, as the pool of talent is becoming more and more tapped-out.

Employees that are satisfied and happy in with their jobs are more dedicated to doing a good job and taking care of customers that sustain the operation (Hammer 2000; Marini 2000; Denton 2000). Job satisfaction is something that working people seek and a key element of employee retention.

Studies show that employees who are satisfied with their jobs are more productive, creative and be more likely to be retained by the company (Eskildsen & Dahlgaard 2000; Kim 2000; Kirby 2000; Lee 2000; Money 2000; Wagner 2000). Research has shown that there may be many environmental features that can be created and maintained to give employees job satisfaction. So there is a definite need to analyze the elements of employee retention through job satisfaction.

There are various factors which have a direct relationship with job satisfaction and employee retention. But there are some common factors which are

significant enough to have an impact on both satisfaction and retention of employees. So employers should concentrate and use their energy on fixing only those factors and should formulate and implement

retention strategies comprising of these common factors so that they can have both satisfied and retained employee (Fig.1).

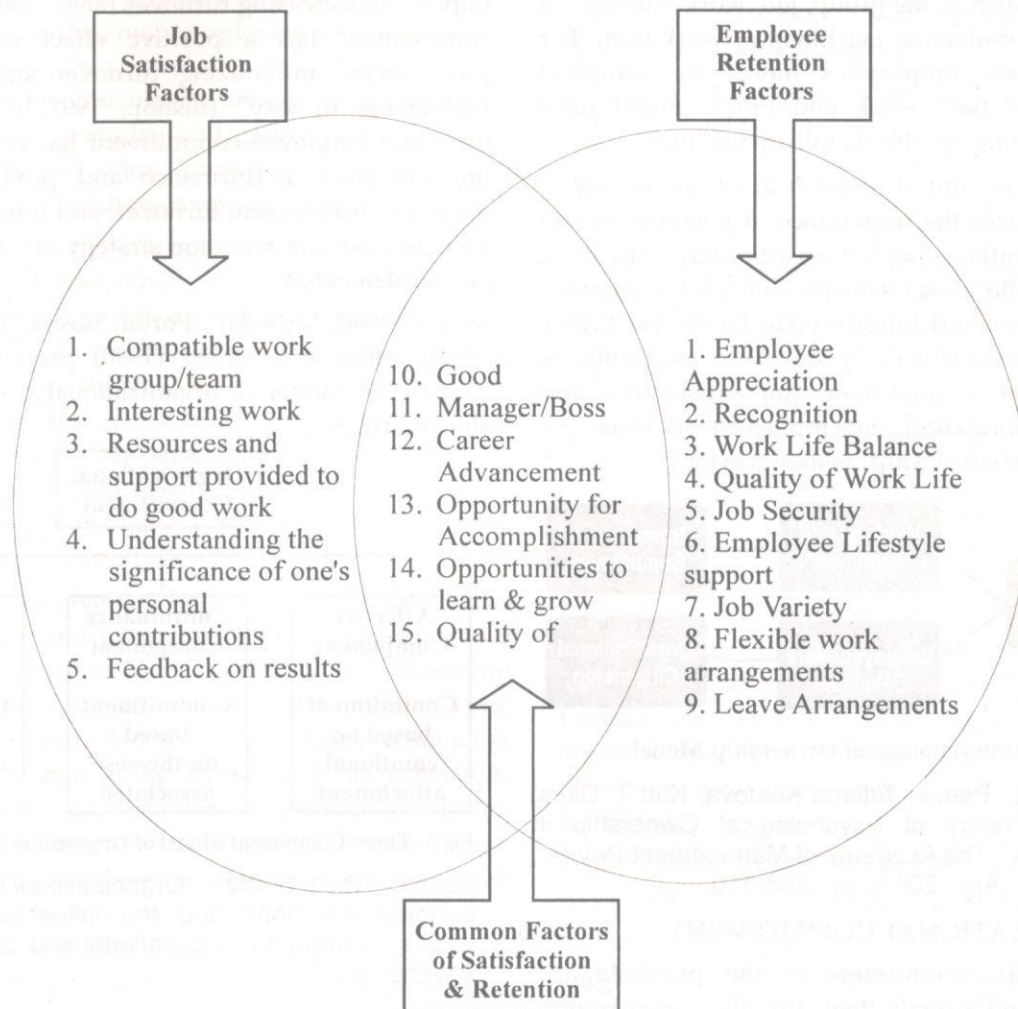


Fig. 1: Common Factors Affecting Satisfaction & Retention

Working on these significant common factors of satisfaction and retention, employers can have a positive impact on employees' satisfaction with their jobs and once an employee is satisfied, the organization automatically experiences the feeling of psychological ownership comprising of commitment and citizenship behaviour, which will have a direct positive impact on employees to remain in the organization.

1. PSYCHOLOGICAL OWNERSHIP

The idea of psychological ownership for the organization (i.e., the possessive feeling that some object is 'MINE' or 'OURS') has received increasing attention from scholars and practitioners as a

potentially important predictor of employee attitudes and behaviors (Brown, 1989; Dirks, Cummings, & Pierce, 1996; Peters, 1988; Pierce, Rubinfeld, & Morgan, 1991; Pierce, Kostova, & Dirks, 2001; VandeWalle, Van Dyne, & Kostova, 1995).

Psychological ownership is the psychologically experienced phenomenon in which an employee develops possessive feelings for the target. Building on Furby (1978) and Dittmar (1992), Pierce and colleagues (2001) linked feelings of possession with feelings of ownership and defined psychological ownership as the state in which an individual feels that an object (i.e., material or immaterial) is experienced possessively (i.e.,

it's 'MINE' or it is 'OURS')⁴.

This tight connection between possession and feelings of ownership can be directed at the organization (or workplace) as a whole or at specific aspects of the organization such as the group, job, work tools (i.e., a computer or production machine), or work itself. For example, some employees have psychological ownership for their work and others might have ownership feelings for the overall organization.

An extensive amount of research in a wide variety of fields emphasizes the importance of possessions and ownership in influencing human attitudes, motivation, and behavior. Building on the psychological ownership theoretical framework introduced by Pierce et al. (2001), this sense of possession is key to work-related attitudes (organizational commitment, job satisfaction and employee performance), and employee work behaviors (organizational citizenship) as shown in fig.2

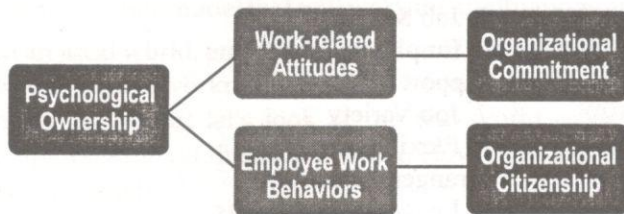


Fig. 2: Psychological Ownership Model

Source: Jon L. Pierce, Tatiana Kostova, Kurt T. Dirks, "Toward a Theory of Psychological Ownership in Organizations," *The Academy of Management Review*, Vol. 26, No. 2 (Apr., 2001), pp. 298-310.

3.1 ORGANIZATIONAL COMMITMENT

Organizational commitment is the psychological attachment individuals feel for the organization (O'Reilly & Chatman, 1986). The psychological bond of an employee to an organization, the strength of which depends on the degree of employee involvement, employee loyalty, and belief in the values of the organization. It indicates a person's feelings with regard to continuing his or her association with the organization, acceptance of the values and goals of the organization and willingness to help the organization to achieve its goals and values.

Since feeling a sense of attachment and belonging are the essence of organizational commitment, it seems reasonable to predict a positive relationship between psychological ownership for the organization and organizational commitment. In other words, feeling possessive toward the organization (psychological

ownership) should lead to high levels of organizational commitment (Dittmar, 1992; Furby, 1978; Pierce et al., 2001).

Fostering employee commitment can have a great impact on decreasing turnover rates. "Research shows commitment has a positive effect on enhancing productivity, minimizing turnover and employees willingness to stay" (Bishop, 1997, p. 4). In fact, increased employee commitment has been shown to improve team performance and productivity and decrease absenteeism, turnover, and intention to quit. Therefore, strong retention strategy must be designed and implemented.

Becker, 1960; Mowday, Porter, Steers, 1982; Weiner, 1982), Allen and Meyer (1990) proposed a three-component model of organizational commitment as shown in fig 3.

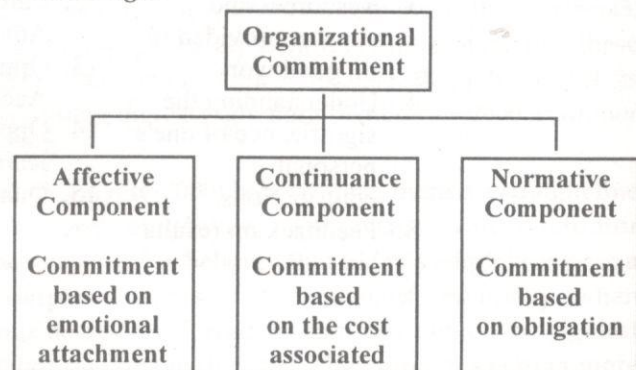


Fig 3: Three-Component Model of Organizational Commitment

Source: Wasti, S. Arzu, "Organizational Commitment, turnover intentions and the influence of cultural values", *Journal of Occupational and Organizational Psychology*, 2003

The affective component of organizational commitment refers to employees' emotional attachment to, identification with, and involvement in the organization. The continuance component refers to commitment based on the costs that employees associate with leaving the organization. Finally, the normative component refers to employees' feelings of obligation to remain with the organization. Meyer and Allen (1991) argued that common to these approaches is the view that commitment is a psychological state that (a) characterizes the employee's relationship with the organization, and (b) has implications for decisions to continue or discontinue membership in the organization.

It is significantly more important to recognize the

commitment of individuals to an organization, as well as the organization's need to create an environment in which one would be willing to stay (Harris, 2000).

3.1 ORGANIZATIONAL CITIZENSHIP

Employee attitudes cannot influence organizational effectiveness on their own; employees must also behave appropriately. Two employee behaviors that are important to many managers are job performance and retention. This study addresses that aspect of performance behavior known as organizational citizenship and it addresses employee turnover.

We use Organ's (1988) five categories of organizational citizenship behavior (OCB). Conscientiousness means that employees carry out inrole behaviors (i.e., individual task performance) well beyond the minimum required levels. Altruism implies that they give help to others. Civic virtue suggests that employees responsibly participate in the political life of the organization. Sportsmanship indicates that people do not complain, but have positive attitudes. Courtesy means that they treat others with respect.

Behaviours that exceed delineated role expectations but are important and even crucial for an organization's survival are defined as organizational citizenship behaviours (OCB) (e.g. Brief & Motowidlo, 1986; George, 1990; Katz & Kahn, 1966). These behaviours were first so named by Organ and his colleagues (Bateman & Organ, 1983; Organ, 1988) in describing Katz's (1964) category of extra-role behaviours. These are behaviours that help the organisation but may not be directly or explicitly recognised in the organisation's formal reward system (for recent reviews, see Organ & Ryan, 1995; Podsakoff, MacKenzie, Paine, & Bachrach, 2000). For example, a person would be performing organisational citizenship behaviour when he or she stays late to finish work when not specifically asked to do so, or goes out of his or her way to help a co-worker who is having difficulty when (that is not part of the role requirement of the job (Feather and Rauter, 2004).

Organ defines Organizational Citizenship Behaviour. (OCB) as "individual behaviour that is discretionary, not directly or explicitly recognized by the formal reward system and that in the aggregate promotes the effective functioning of the organization". These have also been identified as prosocial organizational behaviours (Brief & Motowidlo, 1986), organizational spontaneity (George & Jones, 1997) and civic organizational behaviour (Borman & Motowidlo, 1993).

Williams and Anderson (1991) designated two broad categories of OCB: (1) OCBI, or behaviours that immediately benefit particular individuals; (2) OCBC, or behaviours that benefit the organisation as a whole. A number of studies have focused on antecedents of OCB and a very few studies focus on the consequence of OCB (Schnake and Dumler, 2003).

A number of studies focus on employees' OCB leading to manager evaluations of their subordinates, which are more favourable than those that would be indicated by objective target results (MacKenzie et al., 1993, 1999). Other research has evaluated the overall effect of OCB in enhancing organizational performance (Podsakoff and MacKenzie, 1994), as well as the impact of OCB on employee retention (MacKenzie et al., 1998). Organisational commitment is viewed as another antecedent for the organizational citizenship behaviour (e.g. Brief and Motowidlo, 1986; O'Reilly and Chatman, 1986). Propensity for participative decision making, job satisfaction, organizational commitment and OCB, with intentions to leave have been studied by Parnell and Crandell, (2003). Organisational Citizenship Behaviours in relation to job status, job insecurity, organisational commitment and identification, job satisfaction and work values has been researched by Feather and Rauter (2004). Workplace deviance, organisational citizenship behaviour, and business unit performance has been recently studied by Dunlop and Lee (2004).

4. EMPLOYEE TURNOVER & RETENTION:

Imagine a world where firms rigorously compete to employ the best workforce but where these skilled employees place extortionate demands on their employers. In this world, knowledge of a firm and its practices is an invaluable asset that firms will strive dearly to contain within the organization. With this in mind, the question of retaining this knowledge embodied by key contributors in organizations, namely knowledge workers, is imperative for their survival and profitability.

In an ideal world, employees work hard, love their job, worship their workplace, feel like a family and would never leave. But let's look at the real world, where employees quit at the drop of a hat. How can turnover be controlled?

Employee turnover is one of the biggest challenges that confront companies, today. It is not only difficult for the employer to let an employee go but twice as difficult for

him to train a new recruit. According to the American Management Association⁶, the cost of replacing an employee is, conservatively 30% of his annual salary. Contented employees not only give better results, but also don't leave the company so easily.

Retention of excellent employees is one of the most important challenges confronting organizations today. Attracting, hiring, and retaining high-caliber employees in today's labor market challenges organizations to manage talent at all levels. For the organizations, to manage talent and minimize turnover, have to identify and understand the factors which are responsible for employee turnover as shown in fig.4.

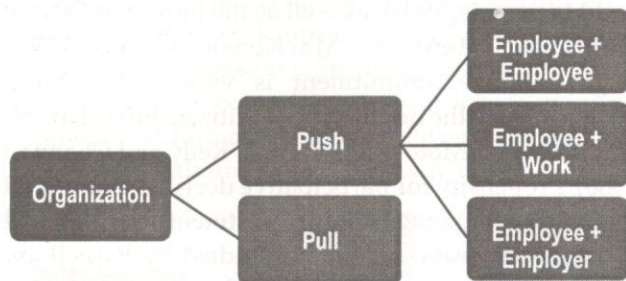


Fig. 4: Factors Causing Employee Turnover

Source: Kolluru Mythili, "A White Paper on Employee Retention", <http://www.chillibreeze.com/articles/AShortWhitePaper.asp>

In the new market orientation the employee is no longer in a work for lifetime mindset. This is the pull factor. Though a survey shows that the employees give their vote to stability. The main reason to move is the lack of interest, frustration at work, lack of communication. The push factor is the actual culprit in employee turnover. The employee must have satisfaction of work. Lack of proper delegation, miscommunications about nature of work lead to state monotony. Often there is a mismatch between the work & the employee. This further escalates the tension. Often we find problems between the employee & the employer. Here bad leadership leads to bad management. At other times there are internal problems between employees. This results because there is no proper coordination between various departments. The lack of bonding in the organization fosters a sense of resentment, which slowly poisons the minds of the employee.

Abbasi and Hollman (2000) sought to determine the impact of employee turnover on organizations and found that excessive employee turnover often engenders far-reaching consequences and, at the extreme, may jeopardize efforts to attain organizational

objectives. Retention of knowledge workers is critical to organizations survival and profitability now that the world's economies are becoming incorporated into the information age (Lee & Maurer, 1997). In this brave new world of information, organizational profitability and individual wellbeing are connected to how well knowledge can be refined into creating competitive advantage. The perception of the employee's current job in relation to alternatives affects a person's propensity to change jobs (Coff, 1997). This statement indicates that retention is highly dependent on developing a motivating work environment and the focus should therefore be on developing retention strategies. Frank and Taylor (2003) argue that there is no issue of greater importance than employee retention and is a growing concern for many employers. To understand what encourages retention of employees, it is relevant to understand the commitment and the motivational factors, since motivation is a central field of managing human resource (Lindmark & Önnemark, 2005).

5. THE S-O-T MODEL OF TURNOVER

The purpose of this study is to determine most significant common factors affecting the job satisfaction and employee retention that considerably influence employees' decisions to quit or stay. In addition, the study sought to describe the importance of retaining critical employees and developing strategies to enhance employee retention practices on the basis of those common factors.

Therefore, in order to understand the process of employee's turnover decisions on the basis of job satisfaction, a model is being developed known as S-O-T Model of Turnover, which indicates the impact of job satisfaction level on generating the feeling of psychological ownership which usually results in commitment and citizenship behavior, on the basis of which an employee decides whether to quit or stay. The relationship here in S-O-T model depicts that S stands for Satisfaction which is directly proportional to O which stands for Ownership which is now indirectly proportional to T which stands for Turnover as shown in fig.5.

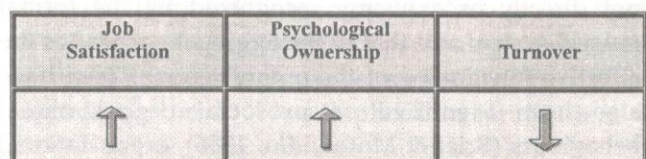


Fig.5: Relationship between S-O-T

As a result, these components help the employee to decide whether to quit or stay in the organization as shown in the S-O-T Model of Turnover in fig.6

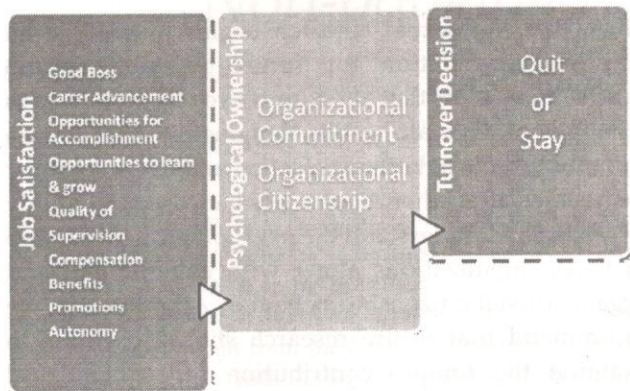


Fig. 6: S-O-T Model of Turnover

6. RETENTION STRATEGY TO MINIMIZE TURNOVER

In this paper, we have suggested that this powerful concept, "mine," is extremely important in organizations, as it is in other realms of human life. To materlize this concept, it is necessary for the employee to be satisfied in every facet of his work and personal life, so that a organizational commitment and citizenship behavior will generate which connotes the development of the feeling psychological ownership among employees. To capture this conceptual relationship between satisfaction, ownership and finally turnover, we introduced the significant common factors construct and presented a relationship in S-O-T according to which strategies should be formulated and implemented to have a retained workforce.

In summary, we propose that organizational members may experience feelings of ownership for the organization or various organizational factors, because this state is rooted in motives that are operative and can be satisfied in the organizational context. Focusing on the routes to psychological ownership, it is been proposed that this state arises from certain processes of association of the individual with the target. This association can be only achieved with the help of maximum satisfaction level, where individuals become psychologically tied to the target, and the target becomes part of their extended self. These processes comprise of enhanced commitment and feeling of organizational citizenship which is directly related to the psychological ownership and can be used as a retention strategy which helps to create an emotional

attachment between employees and the organization and minimizes the turnover intentions of the employee.

Therefore, the feeling of psychological ownership among employees towards the organization must be developed fixing the common factors of satisfaction and retention, so that it acts as a retention strategy, which directly helps the employees to take positive decision of quit or stay in the favour of the organization.

As it is been mentioned that significant common factors can work as an effective and efficient retention strategy, therefore organizations should formulate & implement strategies for those factors individually i.e. they should work on:

- 1) Good Manager/Boss: A good boss is somebody who is a natural leader, who has the vision and strategy and can inspire people to move forward on a concept or an idea. It motivates employees and brings an inner feeling that some body is there to take care of.
- 2) Career Advancement: No, we're not talking about promotions, although many deserving people would like to move up. The issue here is learning. People want to learn, to sharpen their skills and pick-up new ones. They want to improve their capacity to perform a wide variety of jobs. Call it career security. The desire is for training and development. If employees can't find the growth opportunities with one company, they'll seek another employer where they can learn.
- 3) Opportunity for Accomplishment: Communicate goals, roles and responsibilities so that people know what is expected of them and feel a part of the crowd.
- 4) Opportunities to learn & grow: Offer opportunities for team members to acquire new skills and knowledge useful to the organization. If an employee appears to be bored or burned out in a current position offer to train this individual in another facet of the organization where he or she would be a good fit. Nobody wants to feel stuck in their position will no possibility for advancement or new opportunities.
- 5) Quality of Supervision: Many senior leaders express dismay about the quality and actions of their middle managers and front-line supervisors. In most organizations today, supervisors have more people reporting to them than in the past, more demanding customers than ever and greater amounts of change all occurring at the same time. Yet, the amount of training provided to managers and supervisors in many organizations is minimal. More importantly, the

amount of time that senior managers spend in dialogue with middle and line managers also is minimal.

6) Compensation: Employees want fair compensation, any employee wants to feel that he or she is being paid appropriately and fairly for the work he or she does. Be sure to research what other companies and organizations are offering in terms of salary and benefits. It is also important to research what the regional and national compensation averages are for that particular position. You can be sure that if your compensation package is not competitive, team members will find this out and look for employers who are willing to offer more competitive compensation packages.

7) Benefits: Competitive compensation and benefit packages including salary, bonuses, stock options, and the traditional health insurance and retirement packages are tools that some companies use to help keep employees onboard. Benefit programs are important to employees. Benefits can extend beyond the traditional health insurance and retirement programs and can include:

- employees feel respected, valued, and appreciated
- employees get to be players and not just hired hands
- employees get to make a difference

8) Autonomy: People with high Autonomy expectations want to have the independence or freedom to make decisions about how they do their job. They want to have input into their goals and be able to decide how they will achieve them. This brings a very high level of inner satisfaction among employees to achieve higher and retain better.

If these factors are met properly and being satisfied for each and every employee in the organization, psychological ownership will be enhanced, showing commitment attitude and citizenship behavior by the employees which results in minimized turnover.

CONCLUSION

The primary objective of this study was to increase our understanding of some common significant factors directly affecting both job satisfaction and employees retention, which is after being evaluated for enhancement of psychological ownership for the organization by evaluating predicted relationships between feelings of ownership and employee attitudes/behaviors. Psychological ownership is positively related to organizational commitment and

organizational citizenship and this positiveness in the minds of the employees will help the organizations to minimize the turnover rate and have a satisfied and retained talent.

Thus, this conceptual research begins to provide an empirical foundation for future research on job satisfaction factors that affect employee retention and to what extent. Overall, results demonstrate that certain common factors of both satisfaction and retention other than which affect them separately increased our ability to predict and understand the psychological ownership in work organizations along with commitment and organizational citizenship behavior. Alternatively, we recommend that future research should continue to examine the unique contribution of psychological ownership for understanding employee attitudes and behavior.

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Customer Expectations Towards Financial Services From Moneylenders And Non-banking Financial Institutions

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ABSTRACT

Before the establishment of banking companies their functions were undertaken by money lenders and indigenous bankers. After the establishment of banks the activities of financial institutions and money lenders has been reduced considerably. Normally they do not get deposits from the public. They concentrate only in money lending not in collecting the deposits. They provide various types of loan with or without securities. They operate their business very successfully even in very remote areas of the country. Getting loan from the banks takes various formalities and procedures, which sometimes may not be possible to the borrowers to comply with the legal formalities to obtain loans. Further for emergency the borrower can not get loan from the banks. So both in urban and rural areas public are forced depend on money lenders and non banking financial institutions to borrow loans to meet their emergency needs. Due to this reason the business of money lenders is operated well in all areas. Most of the middle class people depends money lenders' help for meeting their emergency requirements. Money lenders and financial institutions also are ready to provide maximum support to the needy, when and where it is required. But the rate of interest charged by them is questionable. Normally they charge higher rate of interest for all types of loans, when compared with the rate of interest charged by the banks. They collect processing amount in higher rate even for small amount of loan. Further they collect penalty at a higher rate even for genuine inability to pay the installment or interest. Many cases witnessed for committing suicide by the borrowers due to the torture made by the money lenders. In village areas some people have rowdies and dhadas to collect the loan given by them. Though the governments took various measures to control and monitor the private money lenders, till it is continuing in all parts of the country. It is the right time to have a thorough study on the problems faced by the borrowers from the money lenders and non banking financial institutions. So the researchers tried to write an article on "CUSTOMER EXPECTATIONS TOWARDS FINANCIAL SERVICES FROM MONEYLENDERS AND NON-BANKING FINANCIAL INSTITUTIONS".

INTRODUCTION

Financial system of a country means a set of closely linked complex of institutions, agents, practices, markets, transactions, claims and liabilities in the country. Finance is the study of the nature, creation, behavior, regulation and administration of money. Therefore, financial system consists of financial institutions, financial markets, financial instruments and the services provided by them.

MEANING AND SIGNIFICANCE

Financial services are an important component of the financial services caters to the needs of financial institutions, financial markets and financial instruments. These institutions, in turn, are geared to serve individual and institutional investors. Financial institutions and financial markets help the financial system through financial instruments. They require a number of services that are considered as the forth

element of the financial system. The functioning of the financial system very much depends on the range of financial services provided by the providers, and their efficiency.

EVOLUTION OF FINANCIAL SERVICES IN INDIA

Financing by the money lenders has been in practices since the ancient period. Before the establishment of banking companies, the functions of the banks were undertaken by the money lenders and financial Institutions called indigenous bankers. After the development of banking systems in India the role of money lenders has been reduced to lending only. They do not collect deposits from the public normally.

1. The merchant banking services were introduced in 1960.
2. The general insurance business was nationalized in the early 1970s.
3. Leasing made its mark closing years of the 1970s.

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The number of leasing firms has gone up by 400 in 2000 and

4. Over the counter services, share transfers, pledging of shares, mutual fund, factoring, discounting, venture capital, credit rating have found their origin from 1980.

FUNCTIONS OF FINANCIAL SERVICE PROVIDERS

1. Financial services firms not only help to raise the required funds but also assure the efficient deployment of funds.
2. They assist in deciding the finance mix.
3. They extend their service upto the stage of servicing of lenders and
4. They provide services like bill discounting, factoring of debtors, parking of short term funds in the money market, e-commerce, securitization of debts, etc. in order to ensure efficient management of funds.

REGULATING AUTHORITIES OF FINANCIAL SERVICES

1. STRUCTURAL REGULATION

It determines the types of activities that various forms institutions are permitted to engage in. for example, Security Exchange Board of India (SEBI) insists that merchant bankers and stock broking institutions to separate all their fund based activities.

2. THE PRUDENTIAL REGULATION

It covers the internal management of financial institutions and other financial service firms in relation to capital adequacy, liquidity and solvency. For example, RBI has regulated the non banking finance companies in raising public deposits.

3. INVESTOR PROTECTION REGULATION

It is generally known that investors are the weakest participants of the financial markets. Therefore, they need protection from malpractice, fraud and collapse.

OBJECTIVES OF THE STUDY

The following are the specific objectives of the study.

1. To analyze the problems faced by the borrowers in settling their loan.
2. To find out the reasons for the problems.
3. To find remedial measures to solve the problems.
4. To find alternatives of financial resources to the borrowers and
5. To recommend the Government through the authorities to strengthen to rules and regulations to monitor the activities of the money lenders and non banking financial companies.

METHODOLOGY

The researchers have selected descriptive research method for this study. Descriptive research enables the researcher to determine the answer to various questions formulated by the researcher with prior knowledge of the situation or the problems under study. The researchers have used primary data for this study. Primary data were collected from borrowers with the help of a structured questionnaire. Non-probability convenience sampling has used for this research. The sampling design has two steps. The sample respondents are selected in the Tirupur city. The sample size is 200 respondents. In order to find out the significant relationship between the independent variable and dependent variable, chi-square test is applied. Moreover, percentage analyses are also used for the interpretation of the primary data. The data collected from the period of March 2009 to August 2009.

LIMITATIONS OF THE STUDY

The following are the specific limitations of the study.

1. The study has conducted only in the area of Tirupur city and the samples limited to 200. So the results cannot expected to be hundred percent accurate.
2. The data has collected from the borrowers from the moneylenders. So the borrowers hesitated to give reliable information. Due to this reason there may be possibility for bias in the information.
3. The findings cannot be taken as a final one as it is based on the information provided by the limited number of sample respondents.

DATA ANALYSIS

The age wise distribution of the sample borrowers is furnished in the Table 1.

TABLE 1
AGE-WISE DISTRIBUTION OF SAMPLE RESPONDENTS

Sl.No.	AGE GROUP	NO. OF RESPONDENTS	PERCENTAGE
1.	25 - 35 years	44	22.0
2.	35 - 45 years	128	64.0
3.	Above 45 years	28	14.0
	TOTAL	200	100.0

Source: Primary Data

From the Table 1 it is crystal clear that a major proportion of 64 percent of the sample borrowers are aged between 35 - 45 years. A considerable proportion of 14 percent are aged 45 years and above and another 22 percent are aged 25 - 45 years.

The collected primary data have been analyzed with the help of percentage analysis and chi-square method. The gender of the respondents is presented in Table 2.

TABLE 2
GENDER OF THE RESPONDENTS

Sl.No.	GENDER	NO. OF RESPONDENTS	PERCENTAGE
1.	Male	140	70
2.	Female	60	30
	TOTAL	200	100.0

Source: Primary Data

It is obvious from the above table 2 that 70% of the respondents are male and 30% of the respondents are female out of 200 respondents.

The details of the occupation of the respondents are given in Table 3.

TABLE 3
OCCUPATIONS OF THE RESPONDENTS

Sl. No.	OCCUPATION	NO. OF RESPONDENTS		TOTAL	PERCENTAGE
		Male	Female		
1.	Street vendors	60	18	78	39.0
2.	Self employed	35	16	51	25.5
3.	Labour	25	13	48	19.0
4.	Government employees	12	6	18	9.0
5.	Others	8	7	15	7.5
	TOTAL	140	60	200	100.0

Source: Primary Data

It is inferred from the above Table 3 that 39% of the respondents are street vendors, 25.5% of the respondents are engaged in self-employment, 19% of the respondents are labours in various activities, 9% of the respondents are government employees and 7.5% of the respondents are under other categories.

The following Table 4 shows the extent of amount borrowed by the respondents.

TABLE 4
AMOUNT BORROWED BY THE RESPONDENTS

Sl. No.	AMOUNT BORROWED	NO. OF RESPONDENTS		TOTAL	PERCENTAGE
		Male	Female		
1.	Rs.1,000 - Rs.5,000	55 (58.1)	28 (24.9)	83	41.5
2.	Rs.5,000 - Rs.10,000	30 (31.5)	15 (13.5)	45	22.5
3.	Rs.10,000 - Rs.15,000	35 (32.9)	12 (14.1)	47	23.5
4.	Above Rs.15,000	20 (17.5)	5 (7.5)	25	12.5
	TOTAL	140	60	200	100.0

Source: Primary Data

(Figures in brackets represent the expected frequencies)

Null Hypothesis: There is no significant relationship between the respondents and the amount borrowed by the respondents.

Alternative hypothesis : There is significant relationship between the respondents and the amount borrowed by the respondents.

It is cleared from the above Table 4 that 41.5% of the respondents have borrowed Rs.1,000 to Rs.5,000, 22.5% of the respondents have borrowed Rs.5,000 to Rs.10,000, 23.5% of the respondents have borrowed from Rs.10,000 to Rs.15,000 and 12.5% of the respondents have borrowed above Rs.15,000. The calculated chi-square value (2.544) is less than the table value (7.815) at 5% level of significance for 3 degrees of freedom, the null hypothesis is accepted. It is inferred that there is no significant relationship between the respondents and the amount borrowed by them.

The table 5 shows the opinion of the respondents regarding rate of interest charged by the moneylenders.

TABLE 5
OPINION OF THE RESPONDENTS REGARDING RATE OF INTEREST

Sl. No.	OPINION	NO. OF RESPONDENTS		TOTAL	PERCENTAGE
		Male	Female		
1.	High rate	80 (82.6)	38 (35.4)	118	59.0
2.	Normal	40 (39.2)	16 (16.8)	56	28.0
3.	Low rate	20 (18.2)	6 (7.8)	26	13.0
	TOTAL	140	60	200	100.0

Source: Primary Data

(Figures in brackets represent the expected frequencies)
Null Hypothesis: There is no significant relationship between the respondents and the opinion for the rate of interest for their loan.

Alternative hypothesis: There is significant relationship between the respondents and the opinion for the rate of interest for their loan.

The above Table 5 shows that 59% of the respondents opined that high rate of interest is charged for their borrowings, 28% of the respondents are opined that the rate of interest is normal and only 13% of the respondents are charged low rate of interest. The calculated chi-square value (0.918) is less than the table value (5.991) at 5% level of significance for 2 degrees of freedom, the null hypothesis is accepted. It is inferred that there is no significant relationship between the respondents and the opinion for the rate of interest charged for their loan.

The table 6 shows the opinion of the respondents

regarding processing charge and penalty collected by the moneylenders.

TABLE 6
OPINION OF THE RESPONDENTS REGARDING
THE PROCESSING CHARGE AND PENALTY

Sl. No.	OPINION	NO. OF RESPONDENTS		TOTAL	PERCENTAGE
		Male	Female		
1.	High rate	63 (64.4)	29 (27.6)	92	46.0
2.	Normal	46 (48.3)	23 (20.7)	69	34.5
3.	Low rate	31 (27.3)	8 (11.7)	39	19.5
	TOTAL	140	60	200	100.0

Source: Primary Data

(Figures in brackets represent the expected frequencies)

Null Hypothesis: There is no significant relationship between the respondents and the opinion for the processing charge and penalty for their loan.

Alternative hypothesis: There is significant relationship between the respondents and the opinion for the processing charge and penalty for their loan.

From the above Table 6 it is inferred that 46 percentage of the respondents opined that high rate of processing charge and penalty is collected by the money lenders, 34.5 per cent of the respondents opined that normal rate of processing and penalty is collected and 19.5 per cent of the respondents opined that low rate of processing charge and penalty is collected by the money lenders. The calculated chi-square value (2.136) is less than the table value (5.991) at 5% level of significance for 2 degrees of freedom, the null hypothesis is accepted. It is inferred that there is no significant relationship between the respondents and the opinion for the processing charge and penalty for their loan.

The following Table 7 shows the problems faced by borrowers in obtaining loan.

TABLE 7
PROBLEMS FACED BY THE BORROWERS

Sl.No.	PROBLEMS	No. of Respondents	PERCENTAGE
1.	Delay in sanctioning of loan	85	42.5
2.	Lack of security	40	20.0
3.	High rate of interest	35	17.5
4.	Lack of guarantor	23	11.5
5.	Higher processing charge and penalty	17	8.5
	TOTAL	200	100.0

Source: Primary Data

From the above table it is understood that 42.5 percent of the respondents feel that there is more delay in

sanctioning the loan is the main problem while 20 percent of the respondents opined that lack of security, 17.5 percent of the respondents opined higher rate of interest is the main problem whereas 11.5 percent of the respondents feels lack of guarantor is the problem and only 8.5 percent of the respondents are opined that higher processing charge and penalty is the problem to getting their loan.

FINDINGS OF THE STUDY

- 64 percent of the sample borrowers are aged between 35-45 years.
- 70% of the respondents are male and 30% of the respondents are female out of 200 respondents.
- 39% of the respondents are street vendors, 25.5% of the respondents are engaged in self-employment, 19% of the respondents are labours in various activities.
- 41.5% of the respondents have borrowed Rs.1000 to Rs.5000, 22.5% of the respondents have borrowed Rs.5,000 to Rs.10,000, 23.5% of the respondents have borrowed from Rs.10,000 to Rs.15,000.
- 59% of the respondents opined that high rate of interest is charged for their borrowings, 28% of the respondents are opined that the rate of interest is normal.
- 46 percentage of the respondents opined that high rate of processing charge and penalty is collected by the money lenders, 34.5 per cent of the respondents opined that normal rate of processing charge is collected.
- 42.5 percent of the respondents feel that there is more delay in sanctioning the loan is the main problem while 20 percent of the respondents opined that lack of security, 17.5 percent of the respondents opined higher rate of interest is the main problem.
- 67% of the respondents opined that lack of sufficient is the main reason for delay in repayment of the loan.
- 74% of the respondents feel that government should take initiatives to monitor the activities of the money lenders and non-banking financial institutions.
- 66% of the respondents opined that security is not the main problems for obtaining the loan.
- 85% of the respondents say that there are no legal proceedings by the money lenders in case failure in payment of loan and interest.
- 68% of the respondents feel that the government

should give directions to the commercial banks to give loan to the needy by following minimum legal procedures.

13. 71% of the respondents feel that the money lenders do not use any force from others for collecting the loans.
14. 83% of the respondents from the street vendors opined that government should find some alternatives to provide loan to the street vendors through agencies at nominal rate of interest.

SUGGESTIONS

1. The money lenders may try to minimize the rate of interest as much as possible.
2. The government should frame policies to monitor the activities of the money lenders.
3. The borrowers should try to repay the loans within the specified tie to avoid penalty interest.
4. As there is more competition in the financial services, it is better to reduce the processing charge at a maximum which will attract the borrowers and develop the money lending business.
5. The borrowers should mobilize the borrowed money properly that will lead to settle their loan as early as possible and avoid unnecessary problems by the money lenders.
6. In Tirupur as there are lakhs of labourers, the money lenders has more opportunity for developing their business and earning. It is necessary of the money lenders to respect the human values. Otherwise sometimes it will lead to committing of suicide by the borrowers.
7. The street vendors in Tirupur actually earn more amounts every day. But due to illiteracy and lack of awareness the income is utilized for unwanted activities which will create problems in their family as well as in repayment of loan. So it is necessary to create awareness to them and they must be

explained the effect of spending their incomes in unwanted place by the NGOs and agencies.

CONCLUSION

As there are more formalities in obtaining the loan from the banks, the service of the money lenders and non-banking financial institutions is inevitable in modern scenario. Because they provide maximum support to the borrowers when and where it is required without considering the security for their amounts, further they collect their amount at minimum installment rate. In many tie they return to home without collecting the installment from various borrowers. Due to the effect of action taken by the government towards the money lenders for the past 7 years the processing fees and penalty interest are reduced considerably by the money lenders and non-banking financial institutions. The problem arises only when the borrowers try to deceive the money lenders in making payment of their loan. Sometimes the money lenders behave very hoarsely towards the borrowers in case of failure from the part of the borrowers. This led to suicide attempt by the borrowers. Many cases have evidenced in this regard. These practices are to be eliminated as a whole. The borrowers must be prompt in their payment, which will be better for both money lenders and borrowers. The government already framed many acts and rules to monitor and control the activities of the money lenders and non-banking financial institutions. But there is proper scheme for verifying the activities of the money lenders. It must be done immediately to avoid suicide attempt by the borrowers. Finally the money lenders are considered as the main sources of money for their emergency needs. They are very helpful to the needy persons. Likewise they should avoid following hoarse treatment for collecting the dues from the borrowers which will create better impression on them among the borrowers by which the money lenders and non banking financial institutions.

Visit of Foreign Dignitaries / Ambassadors

The Pearls of Wisdom-What Guest Says :

I wish IIMT a lot of success in your noble aim to prepare the young generation in this demanding and challenging period of new world for their future profession.

H.E. Mr. Alexender Ilascik
Ambassador of the Slovak Republic



Thanks for inviting me to your college. It has been delightful evening. I wish you every success in your endeavours.

H.E. Dago Tshering,
Ambassador of Bhutan



I wish to students a life without worries and lot of success in personal life.

H. E. Jaromir Novotny
Ambassador of the Czech Republic



I have been so impressed the way you organised and the achievement.

H.E. Dhaneelal Seewoo
High Commissioner of Mauritius



Thank you for the excellent presentation on History & Culture of my country. All the best in your lives.

Mr. Richard David, *Commercial Counselor, Embassy of the Czech Republic.*



It was a real honour and pleasure to be with the administration, faculty, staff & students of IIMT thank you very much.

H.E. Mrs. Laura Q-Del Rosario
Ambassador of Philippines.



Thank you very much for the warm hospitality & excellent international seminar.

H.E. U. Kyaw Thu,
Ambassador of Myanmar



I wish the Chairman, the board members and the student community the best of luck and look forward to more collaboration in the interest of your institution and the Kenyan Communities, with best regards.

H.E. Lazarus O Amayo, *High Commissioner of Kenya.*



My visit to Ishan Institute gave me a good opportunity to have knowledge about all of you. It is my wish and hope this Institute will gain a great success for contribution of this country.

H.E. Pak Myangu
Ambassador of Democratic Republic of North Korea



I am really very much impressed by your paper presentation on Ethiopia and its relation with India to be further strengthen and developed future.

H.E. Negas Kebret
Ambassador of Ethiopia



My Visit here has convinced me that India has a truly brilliant future. The interaction with students and faculty showed me that high intellectual caliber of the Ishan Family. It will be a pleasure for Zimbabwe to continue to interact with you all in many ways. Thank you for the great welcome and hospitality.

H.E. Zonathan Wutawunashe, *Ambassador of Zimbabwe*



I am very happy to meet your students and close co-operation between our two countries Comodia - India

H.E. Choeung Buntheng
Ambassador of Colombia



Many Thank for the Invitation to this impressive inaugural event.

H.E. Gastadldi Leonard
Scientific Counsellor, Embassy of Italy



I am really overwhelmed by your kindness. I hope we can do this again sometime in the near future

H.E. Jose Viceute Pimeutel
Ambassador of Brazil



Ishan Institute of Management & Technology deserve our congratulations and the blessing of LORD SHIVA. You already symbolize the flower to rule the universe through the 'third eye of shiva' Dr. D.K. Garg may we all be blessed. Long live IIMT and its Students.

H.E. Mookhesswur Choonee, *High Commissioner of Mauritius*



Deeply appreciate of your prestigious kind award. Ishan is the best Institute enabling the students to distinguish themselves from this ongoing world & creating the history....

H.E. Francisco L. Benedicto, *Ambassador of Philippines*



Great oppotunity to visit and interact with your school. A most enjoyable Presentation.

H.E. F Rutur Anarsn
Ambassador of Iceland



Parents Feelings

I thank the Institute for helping my son to come out with flying colors and wish it all the best to continue with this glorious task.

• Sh. K. S. Padmanaban, Tiruchirapalli

I thank all faculty members & staff for numerous seminars, assignments, industrial visits etc. conducted by institute that gave my son a real exposure to the corporate world.

• Sh. Shiv Narayan Dadhich, Rajasthan

We remain grateful for ever to institute for grooming our daughter to plan her career and establish herself in the society of our beloved country.

• Sh. S. C. Paul, Kolkata

I thank the Institute for security a job for my son through campus placement. Wish you all the best.

• Sh. A. K. Borpujari, Guwahati

I feel proud that my son has learnt various organisational aspects, and has gained a lot of confidence, knowledge & skill from the Institute, which are required in today's corporate world.

• Mr. Alakh Kumar Sinha, Bokaro

I have seen a great difference in the attitude and personality of my son which has been made possible of Personality Development and Art of Living Programmes periodically held in your institute.

• Mr. I. C. Mishra, Bhubneswar

I am happy that your faculty members under your leadership made it possible to expose the students to corporate world. This was evident when I interacted with my son, Sudeep Mohanty during his holidays. I am sure your students can face any challenge and cope up with eventualities in their respective field. I can't find any area where your institute lacks.

• Mr. S. K. Mohanty, Jamshedpur

My daughter has completed her Post Graduate Diploma in Management from Ishan Institute. The Institute has a very good faculty, a well equipped library and hostel. Both the faculty and the management of the Institute are well meaning people. Striving hard for imparting better education including spiritual development and Indian Ethos.

• Dr. N Mahapatra, Dehradun

I am very thankful to you about conducive approach and hardwork, made by the Institute towards my son, Mr. Sarnail Singh for the last two years, for improvements in his personality with more emphasis on overall development.

• Lt Cdr Gurdial Singh, Mumbai

With due respect, I want to mention that my son Alok Kumar Verma has completed his two years study in your esteemed Institute quite successfully. I would like to say with full sense of gratitude that it was possible only due to your consistent inspiration to my ward as also to all other students in your Institute and the efforts you have made for all round development of the character of students. Really your Institute is doing a good service to our country in providing the needful professional education and training to create the competent managers.

• Prof. Ram Bakhsh Singh Verma
M.P., (Rajya Sabha)

The entire credit goes to you & your eminent personality. I have rarely met such a progressive and nice person like you. Ishan has put considerable changes in my ward's attitude. He is now more confident and open than I had ever wished.

• Dr. J. P. Mittal, Jaipur

At the very beginning I would like to thank you for giving my daughter the opportunity to be the student of your institute. In these two years, hidden talent in her has come out in the form of grave personality, as a result of two year's sincere theoretical and practical training under your initiative and guidance.

• Mr. S. N. Brohma Choudhary,
Ex. M. P. (Lok Sabha) Assam

I am grateful to management of your institute that my son could complete his two years course of PGDBM under your sympathetic guidance to become responsible for the society in general and the management profession in particular.

• Mr. Mohan Lal Sharma, J & K

The benefits of the disciplined life, which your Institute have made him go through, has pulled him to high level of fitness in the corporate life. We also hope that our ward will receive continuous support and guidance from Ishan Institute.

• Mr. Samvel Ankala, Andhra Pradesh

My son is much more disciplined, matured and sensible than ever before. For this I heartily offer thanks to the faculty members and especially to the esteemed chairman who himself took initiatives for this great work.

• Mr. Ajay Adhikary, Siliguri

My son is very well satisfied with your excellent Institution. He has a high opinion of you and treat you not only as Chairman but a fatherly figure as well.

• Mr. Sakaram Puddov, Mauretius

I thank and appreciate your team for various co-curricular activities that made my son confident and provided various opportunities to have first hand practical exposure helping him to relate the conceptual management practices.

• Mr. Manoj S. Yagnik, Ahmedabad

I am glad that Ishan has really helped my son to become smart, confident and ultimately a responsible citizen of the Country.

• Mr. B Kuriakose, Kottayam

I am very happy that my daughter's personality grew after getting admission in your institute and provided my ward with all resources that was executed for her professional & personal growth.

• Mr. M. P. Sharma, Shimla

I feel proud to say that your Institute is unique because, there every student gets individual attention. My ward is placed through campus placement in one of the reputed company of India, for which credit goes to continuous proper guidance from the Institute.

• Mr. Deep Chand, Kapurthala

I feel my son is lucky enough to get the opportunity of studying in your distinguished Institute under your dynamic leadership.

I saw your programme on issue of "Reservation" on T.V. & Logics discussed with Parliamentarians and your lively interactions and wide vision makes me to feel proud of your Institute.

• Mr. V. N. Dwivedi, Bhilai