



# MANAGEMENT TODAY

*- for a better tomorrow*

**An International Journal of Management Studies**

Volume : 5

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Quarterly



# Management Today

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## EDITORIAL

After a careful scrutiny seven articles have been selected for publication in this issue. The first article is on management of change. Organizations do change. Change is inevitable, changes are illimitable and change processes are not always imitable. Change is for better. Those who respect the change succeed and those who resist the change suffer. In order to survive the organizations try to recognize the need for change, try to find out the means for change and try implement the change. Hence many firms, companies and institutions are watchful and continuously be monitoring the structures and procedures with the view to improve themselves. Businesses that have been in existence for long have a need to change, to accommodate new advances and improve the work flows. Change management is a necessity for an organization. Change is not only necessary for business organisations but also necessary for not-for-profit organisations like NGOs. The author in her article has shown how an NGO of earlier period transformed itself to a regulated MFI and later to an NBFC-MFI bringing with it a plenty of opportunities. Transitioning into business and offering multiple banking products, furthering India's ambitious financial inclusion goals is a significant change for MFIs, which the author has highlighted in her article. In support of her argument she has given a few National and International case studies.

The second article is on "attitudes of younger generation towards Indian politics". Processions, protests, demonstrations, strikes and lockouts have become part of Indian life. Not even a single day passes without a protest, demonstration or a strike. A large number of youngsters join the demonstrations and strikes. The author rightly investigates how the political views of young people are shaped in the early days of their life and how they perceive the political scenario in the country. The findings are useful in understanding the youth and in managing things.

Emotional intelligence and transformational leadership play an important role in managing the people. This is more so important in rectifying behavior of the people who err on wrong side. In the third article the author has rightly studied "emotional intelligence and transformational leadership skill of correctional officers of West Bengal". This study aims to investigate the employees' perceptions regarding emotional intelligence and transformational leadership. The results support the model which suggests that supervisors' overall emotional intelligence and its component perception of own emotion are positively associated with overall transformational leadership and its component management of self, which is supposed to increase effectiveness of the team. This study is supposed to contribute to our understanding of the linkage between emotional intelligence and transformational leadership of correctional officers of West Bengal correctional service.

The major aim of the fourth paper was to identify factors that determine liquidity of commercial banks in Ethiopia. For the purpose, five Ethiopian banks have been selected. By using different techniques, the author found that liquidity of commercial banks in Ethiopia increases with the increase of their capital share in total assets and improvement in asset quality. In contrary, it is found that the increase of banks profitability, its risk taking behavior, opportunity cost of holding liquid assets and advancement of the economy adversely affect commercial banks' liquidity position. The impact of bank size on liquidity is somewhat inconsistent. He suggested for the conduct of further study by grouping banks based on their size.

Women empowerment and poverty alleviation of rural women are the subjects much talked about in the country. The fifth article aims at evaluating the empowerment and poverty alleviation of rural women through self-help groups. Though there is a lot of literature on this subject the author has selected the topic, collected data, analysed the data and interpreted the results in a systematic way. It makes a valuable contribution to the existing knowledge and is useful for prospective researchers on self-help groups, poverty alleviation and women empowerment.

Bottom line of the business depends on employee performance. Employee performance in turn depends on a variety of personal, organizational, educational, sociological and psychological aspects. Two such things, as recognized by the author for the purpose of intensive study are "improved sense of ownership" and "fulfillment of expectations". The sixth article is on "Increasing Employee Performance through Improved Sense of Ownership and Fulfillment of Expectations". The research article aims at understanding the influence of employee expectations and perception of ownership on employee's job performance. The study was undertaken in three major corporations of Bhutan. Results are interesting and useful.

The last paper is on non-performing assets of public sector banks in India. "Non-performing assets" is an important matter of concern for public sector banks in India. Government tries to implement its policies through public sector banks. As the public sector banks are perusing the goals of financial inclusion, low cost services, priority lending, etc., the levels of non-performing assets are on increase. These levels are much higher than the levels of many countries. Management of non-performing assets has evolved as an important aspect of the functioning of banks today. But there may exist some difference between one public sector bank and the other. The author, in this article makes a humble effort to compare non-performing assets of one public sector bank with the other. The study has suggested that all public sector banks portray similar behavior in terms of levels of non-performing assets.

All these articles, I hope, make a valuable contribution to the existing knowledge in the areas concerned. From this issue it has been decided to give continuous page numbers for all the four issues in a volume. In compliance with that decision page number has been continued from the previous issue. Readers are requested to take note of this.

Babujee Apparao Punaty

CHIEF EDITOR

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## Organizations Must be Adept at Managing Change that is Necessary for Growth and Survival

Hema Satagopan

Consultant, APT Source Corporate Service Private Limited, Chennai, Tamilnadu, hv\_hema@yahoo.co.in

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### ABSTRACT

Organizations that embrace change are likely to be the most successful. Hence many firms, companies and institutions are watchful and continuously supervising their structures and procedures with the view to improve them and moving with ever changing speed and changes. Businesses that have been in existence for long have a need to change, to accommodate new advances and improve their work flows. Change management is a necessary component for any organizational performance improvement process to succeed, including programs like: Six Sigma, Business Process Reengineering, Total Quality Management, Organizational Development, Restructuring, Reengineering and continuous process improvement. An NGO of earlier period transformed to a regulated MFI and later changed to an NBFC-MFI being a continuous process bringing with it plenty of challenges and opportunities. Transitioning into Business Correspondents, offering multiple banking products is a significant change for MFIs, promising a bright future for furthering India's ambitious financial inclusion goals. Currently RBI is issuing Small Bank Licenses and making NBFC's at par with Banks. This article is based on secondary data alone focusing on the need for change, and the transformation of NGOs/NBFCs to NBFC-MFIs and the success of implementing the change by quoting a few case studies both International and National. In order to survive and sustain the organizations of varying businesses, size and ethnicity move towards change. The organization's mission may not change spectacularly but a significant shift in institutional culture is required to meet the demands of the new form.

### Introduction

#### The story of the eagle

Our Hindu mythology from the Garudapurana a sathvikka purana shows that change is needed to survive and live. Companies can take this as an example and implement change. Both change and change management can be illustrated by giving the example of the eagle "Garuda" (Tarquir Alan 2013). The Eagle has the longest life-span of its species. It can live up to 70 years. But very difficult decision has to be taken to live. In its 40<sup>th</sup> year, the eagle's long and flexible Talons

can no longer grab a prey which serves as food. Its long and sharp beak becomes bent. Its old-aged and heavy wings, due to their thick feathers, stick to its chest and make it difficult to fly. Then, the eagle is left with only two options: **DIE** or go through a painful process of **CHANGE**. This process lasts for nearly 150 days (5 months) the process requires the eagle to fly to a mountain top and sit on its nest. There the eagle knocks its beak against a rock until it plucks it out. Then waits for the new beak to grow back after which it will pluck out its talons. As soon as the talons grow back, the eagle starts plucking its old aged feathers. It is then that the eagle takes its famous flight of rebirth and **LIVES** for 30 more years. The process of change is easily understood before the change, during and after the change. Change is to be accepted gracefully and fear of change to be dispensed. The reality of yesterday proves wrong today, and nobody really knows what will be the truth tomorrow. Change management means empowering organizations and individuals for taking over their responsibility for their own future. Today change is the essential of survival and a way of carrying any business. Every business firm whether big or small has to change with time or it will perish. The organizational changes that are commonly

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seen in today's modern world are: Downsizing, introduction / implementation of new technologies, mergers and acquisitions, and technological changes.

*“Change is the law of life and those who look only to the past or present are certain to miss the future.” John F. Kennedy.*

“Change is uncomfortable, and adapting to change is messy. But change is vital - it defines life itself.” (Hemamalini Suresh, 2001). Research reveals that globally, businesses are “transforming and changing the way they work with the need to exceed investor expectations. They are trying their level best to excel in their transformational journey, offering incremental as well as quantum improvements to clients.” (Dr.Vijju & Mary Kavitha)

“They always say that the only thing certain in business is change and, with that, comes the need to successfully manage and implement change (Jennifer Miller, 2010). Today's business leaders have a challenge of recognizing the need for change and successfully managing business transformations. In a recent survey of enterprise level companies, conducted by Capgemini Consulting in partnership with the Economist Intelligence Unit, 86% of European Senior Executives consider Business Transformation an Integral Part of Management. But the interesting fact is that very few major corporations successfully 'reinvent' themselves. Many do not understand the need for transformation. Others do not understand how to go for transformation and many others are confused in the process of adopting appropriate strategies for transformation. As stated by Heraclitus, (c.535 BC - 475 BC) “the only constant is change”. Since change is there almost in everything around us, every time we are changing our action. So we say that “change is constant” Further. “Business Transformation can be defined as change management strategy which has the aim to align People, Process and Technology initiatives of a company more closely with its business strategy and vision”. (Hema Satagopan and Ravindran)

### Change

Change in simple words "moving from one state of position to another" for benefits. Change happens continuously and rapidly. Change Management is concerned with two sets of people i.e., one

those who want to effect change and second is those on whom change is to be effected. (www.indianmba.com Effective Change management by Jyothi Raghavan)

Continuous and overlapping change has become a way of life in organizations but change is imperative and defines life itself. The key is to learn how to embrace the changes that face us both professionally and personally. According to Stephen P. Robbins (Robbins, Stephen P (1999), Organizational Behaviour, Eight edition, Prentice Hall of India,) - “change is concerned with making things different. Things must be different because they change constantly. Change can be defined as – when an organizational system is disturbed by some internal or external force, change frequently occurs.”

“The world is changing faster, that is a cliché, but it is also the truth, no matter what we do today, we will be doing something different tomorrow” (De Jager, 2007) Change can be defined as when an organizational system is disturbed by some internal or external force, change frequently occurs. As Prussian military theorist Carl von Clausewitz famously stated, "No good plan survives first contact with the enemy. In other words, the second that you hit the battlefield, every variable can change. So to succeed, you need to be prepared to meet those potential changes, and respond in kind.” (Steinberg, 2012). The pace of change is increasing day by day and it is an art to develop the skill of living with the change and also managing the change. Management encompasses in itself certain elements like changing the overall strategy of the organization or includes or deletes certain practices which are under operation. The change has to be undertaken carefully at various levels and needs to be developed according the nature, size and type of organization (Hema 2012 Successful factors).

“Change is constant. But more importantly, change is necessary. While the strategy and objectives behind change initiatives may differ from one organization to another, all face the same imperative: Companies must be adept at managing change that is necessary for growth and survival.” (Leadership Insights -White Paper)

There are three types of Changes: (1) developmental (2) transitional and (3) transformational (Change Leaders network) refer to Fig.1 below.

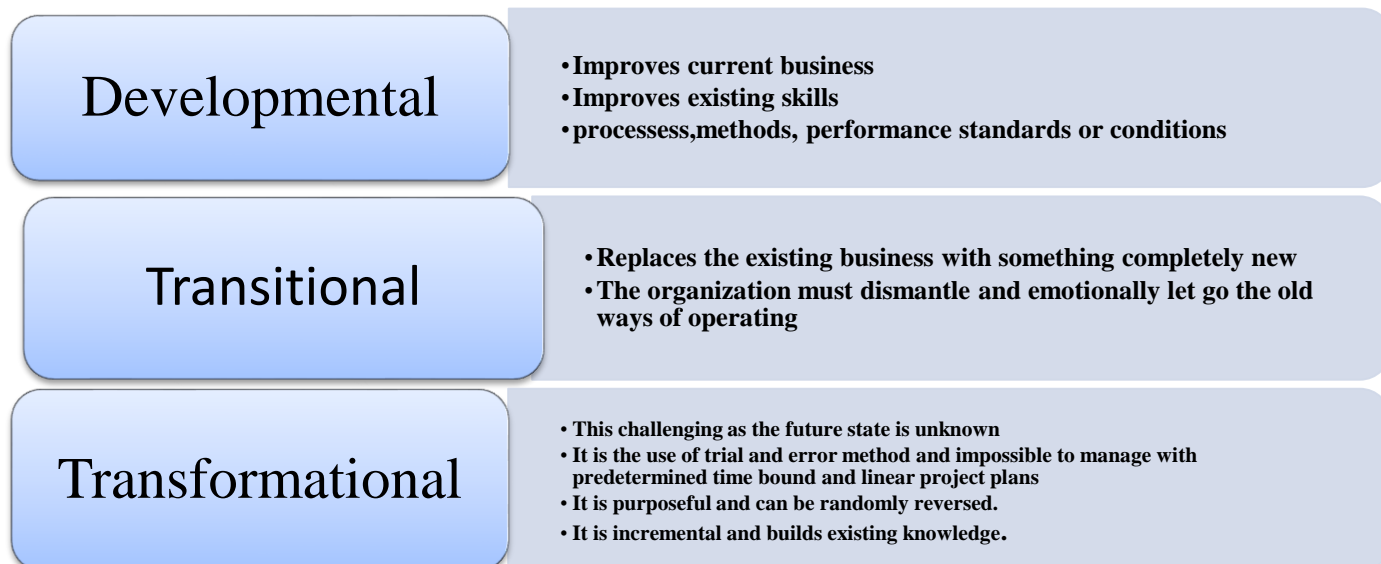


FIG 1.Three types of Change Source: Change leadersnetwork.com

Change subscribes to vision. Quoting Kotter, "Vision can provide both a corporate sense of being and a sense of enduring purpose. Without a sensible vision, change efforts can dissolve into a list of confusing projects that take the organization in the wrong direction. It is important that the vision be easy to communicate (Kotter 1995). **Vision, Mission, and Strategy development alone will not bring about complete change. The same must effectively be communicated because publishing the mission statement whenever possible promotes its significance and relevance to employees' day-to-day activities, such as in meetings, or exceeds customer's expectations; fosters a managerial culture that is customer-responsive; and contributes to individual and business performance. It is necessary for the support of the stake holders, staff, principal clients and supporters for success of the transformation. "Any technology changes identified in a company's business plan must be seen to contribute to the main objectives, its stated mission and longer-term vision statement."** (Chapter 2, Change management and Organizational Development p.28)

Transformation Prescribes Vision: Vision can provide both a corporate sense of being and a sense of enduring purpose. While incorporating a measure of today's success, vision transcends day-to-day issues. And, by providing meaning in both the present and the future, vision can empower and encourage leaders and followers to implement change (Sullivan & Harper 1996).

Organizations must **"Have Vision, Share a vision and stick to vision."**

Sullivan & Harper express that, "Strategic leaders, those who communicate the vision well, must incorporate messages about the vision into their hour-to-hour activities and use every communication channel to get the word out (Kotter, 1995)."

**Causes for Change** May be **i) external** such as Government policies, change in economy, competition, cost of raw materials, pressure of the groups, technology push, scarcity of labour, social pressure and legal requirement or **ii) Internal** such as change in leadership, implementation of new technology, decline in profitability, change in employee profile, union actions, low morale etc.

### Change Management

Researcher, David Frantz (2004) cited many reasons for the increased focus on change management. He identified the following reasons: i) Globalization ii) Changing demographics iii) higher employee improvement iv) new information and v) manufacturing technology (Jennifer Miller 2010). John S. McCallum wrote in the Ivey Business Journal. "Successfully leading and managing change is and will continue to be a front-burner responsibility for executives."

"Unlike bygone years there is an increase in participation of the shareholders and other stakeholders demand in an organization today which presses the organizations to move. Therefore accepting change whether it is structural, operational, functional, role oriented, compensatory or strategic is important." (Hema Success Factors)

"The Kaizen Consulting group defines Change Management on its website as —the process of developing a planned approach to change in an organisation. Typically the objective is to maximize the collective efforts of all people involved in the change. At its core, change management is primarily a human resource management issue. This is because implementing new procedures, technologies, and overcoming resistance to change are fundamentally "people issues" (Drivers .....

**Table-1: List of Various Change Management Models/Theories**

S. No.	The Action Research Model/Theory	1945; Lewin, 1946; French, 1969; Schein, 1980
1	Lewin's Three-Step Model	Lewin, 1945; Lewin, 1951
2	Schein's Extension of Lewin's Change Model	Schein, 1980
3	The Lippit, Watson and Westley model	Lippit, Watson, and Westley 1958
4	Kotter's Strategic Eight-Step	Kotter, 1996
5	Mento, Jones and Dirmdofer's Twelve-Step Model	Mento, Jones and Dirmdofer 2002
6	Jick's Ten-Step Model	Jick, 2003; Jick, 2001
7	Schild's five-step model	Schild, 1999

(Source: Mildred Golden Pryor, Sonia Taneja, John Humphreys, Donna Anderson, and Lisa Singleton)

While there are many **change management models**, most companies will choose at least one of the following three models to operate under: 1. Lewin's Change Management Model 2. Mc Kinsey 7-S Model 3. Kotter's 8 Step Change Model. (Quick base intuit)

There are some versions that have stimulated change management. The Adkar method was developed by Prosci. This version outlines five distinct stages that need to be attained for a company or a person to evolve with success. The five phases are: Knowledge, desire, understanding, capacity and support.

"Resistance to Change: Leading Change", a book published by Harvard professor, John P. Kotter, in 1996 is taken seriously by Change managers and practitioners. Kotter's first discussion of change management was a 1994 Harvard Business Review article "Leading Change: Why Transformation Efforts Fail" but the book provides a much more comprehensive discussion of Kotter's ideas. Kotter defined transformation efforts as: Business Process Reengineering, Restructuring, Quality Programs, Mergers and Acquisitions, Strategic Changes and Cultural Changes. Kotter reveals that only 30% of change programs succeed. Further a 2008 worldwide survey of 3,199 executives, by McKinsey, suggested that only one transformation effort in three succeeds.

Cummings and Worley (Organization Development and Change, 1995) describe a comprehensive, five-phase, general process for managing change, including: 1) motivating change, 2) creating vision, 3) developing political support, 4) managing the transition and 5) sustaining momentum.

It is known worldwide that PDCA (Plan, Do, Check, Act) is followed by competitive producers but Stankard looks at the same with different aspect of continuous improvement cycle. The phase of planning is primarily about observation and generating new theories based upon these observations. This phase is quite similar to compiling hypotheses. It is about finding new ways to improve, independent on one specific area. The ongoing process is to describe how it should be. Once an observation and prediction is made, it must be proved. (Stefanie Dentinger Erwan Derlyn)

It is said that 'Most People Resist Any Change That Doesn't Jingle in Their Pockets'. In every company "To do List" includes Change management and the employees have to understand these changes. Terry Paulson, the author of *Paulson on Change*, quotes an uncle's advice: "It's easiest to ride a horse in the direction it is going." In other words, don't struggle against change; learn to use it to your advantage. **Today the top management holds the Corporate Social**

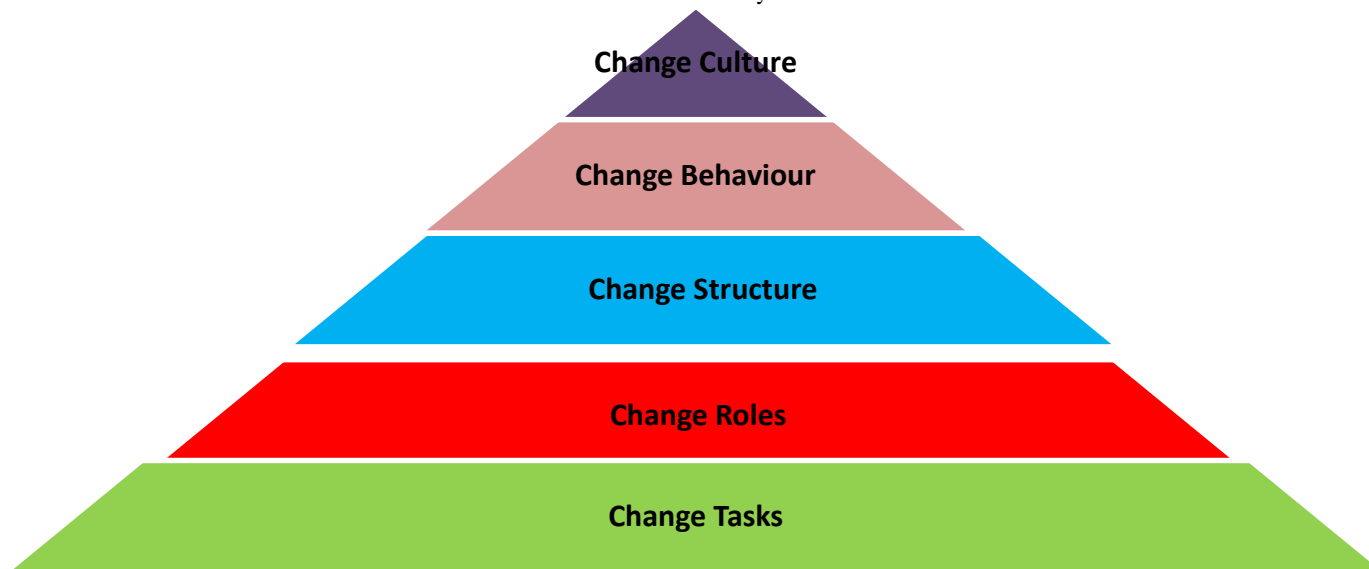
**Responsibility (CSR) of implementing change leading to better corporate image, better brand name and attain global esteem.**

#### Success of Change Management

Change can only become successful when people are engaged and committed to its planned outcomes. For change to be successful in the knowledge economy, an organization has to overcome all the challenges (Hemamalini Suresh, 2001): i) Leadership ii) Focus iii) Commitment and iv) Resistance. But , Ashrat Hussain (2010) states

that “Success of an organization is dependent on its flexibility to cope to the changing environment and change itself in accordingly.

The pyramid model also suggests that embarking on the lower level changes first may be a good way to develop an acceptance to a change programme especially if quick, beneficial and easy to observe changes can be realized by this staged approach. The mid to bottom of the pyramid organization, process and job designs are easy to do and visible but the top Change in culture and behaviour are difficult to carry out and not visible.



**Fig. 2: Change Pyramid**

**Source:** Change Management Chapter 2

Quoting Ashrad Hussain (2010) “where there are human beings, there is always a resistance to change, an inertia which opposes the changes in the structure, processes and culture of the organizations, as people have an innate preference for stability and continuity.(Brooks,1994).”

Bateman and Zeithaml (1990) explained resistance as follows “Individuals, groups, and organizations must be motivated to change. But if people perceive no performance gap or if they consider the gap un-important, they will not have this motivation. Moreover, they will resist changes that others try to introduce.”

“Recognition of the need to justify, communicate and train staff in change management to minimize resistance to proposed change not only needs to be sensitively managed, but has always been a feature of undertaking change from established practices across the ages.” (Change Management Chapter 2)

“Although a cycle of continuous improvement represents change and is not easily implemented, the current ISO9000 standard requires firms to make a start on continual improvement” (Stankard, 2002, p.71) Stefanie Dentinger Erwan Derlyn

#### NGO

A non-governmental organization (NGO) is a citizen-based association that operates independently of government, usually to deliver resources or serve some social or political purpose. The World Bank classifies NGOs as either operational NGOs, which are primarily concerned with development projects, or advocacy NGOs, which are

primarily concerned with promoting a cause. (What is .com Target Search?) The term NGO means Non-Government Organisations. Most Indian MFIs are NON Government Organisations NGOs registered under Societies Act/Trust Act and they do not have equity capital and are not treated as part of the main stream of the financial sector. Generally the NGOs are accepted for an intermediate role for the delivery of financial services to the poor. Matt Leonard of MicroSave specifies in Focus Note 20 that “Some of the largest and most successful MFIs in India have transformed from NGOs into regulated for-profit companies (SKS, SHARE, and Spandana) or even banks (SEWA). However, a diverse group of smaller, nascent NGO-MFIs make up the large majority of MFIs in India and they are also increasingly opting for transformation. Transformation here refers to when an NGO retains its original legal status, but spins off a new entity (Section 25 Company or NBFC) dedicated exclusively to microfinance.”

#### MFI

Micro-Finance Institutions (MFI) in India exist in the form of Registered Trusts, Registered Societies, Registered Co-operatives, Non-Banking Financial Companies, Corporate Organizations, etc. MFIs provide various services like credit, capacity building, training, marketing products of NGOs and micro-insurance. Additionally there are **specialized lenders** called apex MFIs that provide both loans and capacity building support to the MFIs. (Mosley, P. and Arun, T. 2003).The MFIs may lend to either groups or to individuals. In India the latter is prevalent in the form of the Self-Help Group (SHG) model the MFI lends to a group of 10 to 20 women (currently we find groups

for men also) and the Joint-Liability Group (JLG) / solidarity group model. In the SHB-bank linkage model the MFI promotes the group and seeks the bank's help to extend financial assistance to the group. The JLG model pertains to loans being extended to each member of the group distinct from SHG model which is group based. Professor Muhammad Yunus a Nobel Prize winner introduced the concept of Microfinance in Bangladesh in the form of the "Grameen Bank". As Professor Muhammad Yunus and the Grameen Bank began to prove that microfinance is a viable method to ease poverty, their methodology and program began to spread around the world. Another is the ASA model developed by a leading MFI ASA in Bangla Desh. In India a hybrid of group models is prevalent. They have achieved success with a variety of credit products and collection mechanisms. MFIs have brought banking to the doorstep of the borrower, whereas commercial banks typically expect the borrower to come to their doorstep. MFIs have expanded their operations into five different continents and penetrated both rural and urban markets. India has a large number of MFIs, varying significantly in nature, size, outreach and delivery mechanisms. The sector has been going through rapid transformation in the past few years, experimenting with different models. MFIs operate under various legal structures, as 'for profit' and 'not for profit' organizations. The entry of commercial ventures in the form of NBFCs is of recent origin, but over a couple of years the sector has grown rapidly with new entrants, and old entities such as NGOs transforming into regulated companies.

## NBFC

### RBI ACT

Sec 45 I (c) of the **RBI Act, 1934** defines "financial institution". A non-banking company carrying business of financial institution will

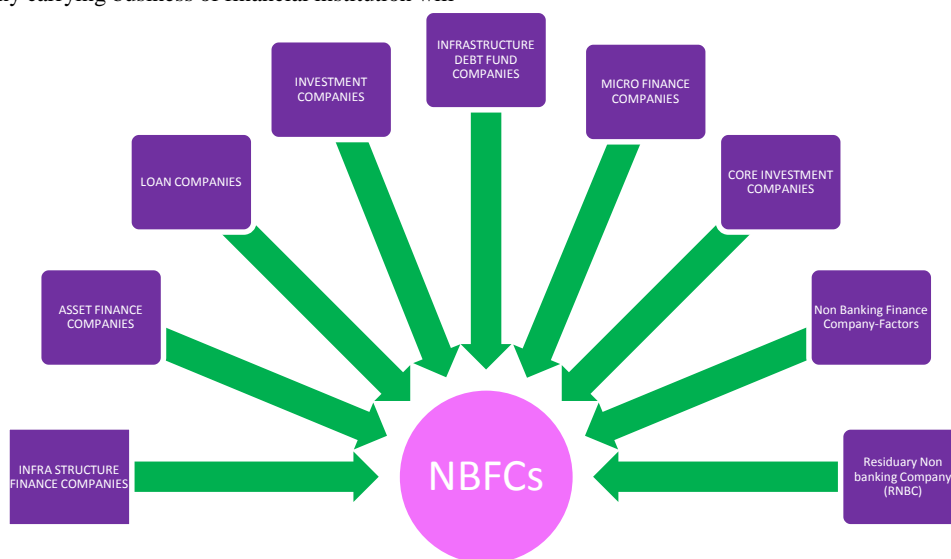
be an NBFC. Activities included in the definition are: Financing, Acquisition, Hire purchase, Insurance, management of Chits, Kuries etc., and Money circulation schemes. If principal business is industrial, trading, etc., the company will not be an NBFC.

### The various Laws governing the Non-Banking Finance Companies:

i) Companies Act, 1956 ii) Reserve Bank of India Act, 1934 iii) NBFC (Acceptance of Public Deposits) Directions, 1998 iv) NBFC (Deposit Accepting or Holding) Prudential Directions, 2007 v) NBFCs Auditors Directions, 2008 vi) Guidelines, directions and instructions issued by RBI through notifications and circulars. Non-Bank Financial Companies (NBFCs) are largely involved in serving those classes of borrowers who are generally excluded from the formal banking sector. NBFCs are competing with banks in providing financial services such as infrastructure finance and housing finance among others. The characteristics of NBFC financial services include simpler processes and procedures in sanction and disbursement of credit; timely, friendly and flexible terms of repayment aligned to the unique features of its clientele, albeit at a higher cost.

### Types of NBFCs

**A. Based by Asset:** i) Asset Finance Companies ii) Loan Companies iii) Investment Companies iv) Infra Structure Debt Companies v) Micro Finance Companies vi) Core Investment Companies vii) Infra Structure finance Companies viii) Non-banking Finance Company Factors ix) Residuary Non-banking Company (Refer Fig:3).



**Fig.3: Types of NBFCs (Author's Own)**

**B. Based on Acceptance /non acceptance of Deposits:** i) Deposit taking NBFC (D), ii) Non Deposit taking NBFC (ND)

- a) NBFC (ND) SI
- b) NBFC (ND)

### NBFC-MFI

An NBFC-MFI is defined as a non-deposit taking NBFC (other than a company licensed under Section 25 of the Indian Companies Act, 1956) with Minimum Net Owned Funds of Rs.5 crore (for NBFC-MFIs registered in the North Eastern Region of the country, it will be Rs.2 crore) and having not less than 85% of its net assets as "qualifying assets". NBFC micro lenders constitute over 90 per cent of the microfinance industry. Bank credit to microfinance institutions extended on or after April 1, 2011, for on-lending to individuals and self-help groups is classified under the priority sector. According to



RBI data, credit flow from commercial banks to NBFCs has so far seen a year-on-year growth of 7 per cent with priority sector lending rising 16 per cent. The RBI regulations of June 26, 2014 permitting non deposit accepting NBFCs to act as business correspondents (BC) could enhance NBFCs position as a conduit for banks to meet PSL lending requirements and support the non-interest income of the NBFCs. Most of these NBFC-MFIs adopted the JLG (Grameen) methodology to extend the micro-credit as it permits rapid expansion and credit distribution compared to the traditional SHG route. Many of these MFIs have grown so fast and thereby they have become the all India operators. "The Hindu" reported in November 2014 that "there are about nine NBFC-MFIs in Tamil Nadu, of which three of them, meet

most of the criteria spelt out by the Reserve Bank including the promoters capital in small finance banks. Two MFIs do not have adequate capital and two more are adopting 'wait and watch' policy. Grama Vidiyal Micro Finance (GVMF), Equitas Holdings and Madura Micro Finance have started the evaluation process. Asirvad Micro Finance and S.M.I.L.E Micro Finance are planning to wait for some more time (Anand, 2014)."

### Transformation

To understand transformation an example of the life cycle of a butterfly is sufficient. The stages from: the egg, to larva, to pupa, and then to a beautiful butterfly are the stages of transformation.

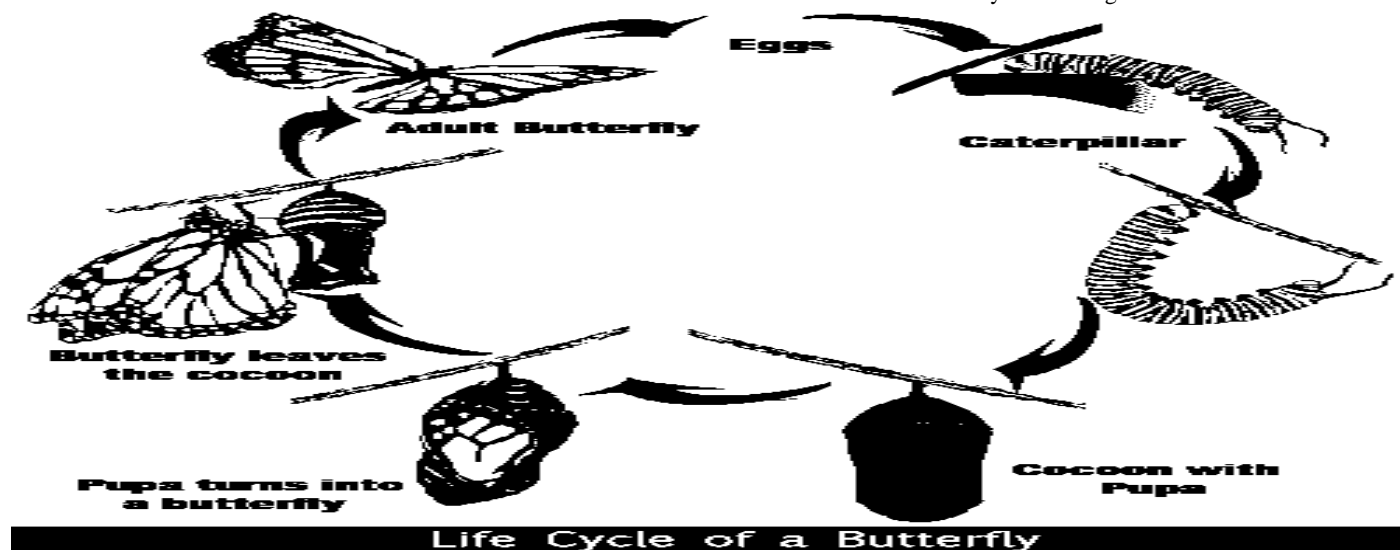


Fig. 4: Transformation: Life Cycle of a Butterfly (Source: Free images from Ask .com)

Maria Daszko and Sheila Sheinberg (2005) state that, "To transform means to change in form, appearance or structure. Transformation in the context of the management of organizations and systems occurs first in individuals, and then, in the organization."

"Transformation can be defined as change management strategy which has the aim to align People, Process and Technology initiatives of a company more closely with its business strategy and vision...Transformation has become a popular, common, overused word in organizations in the twenty-first century." (Hema Satagopan and Ravindran, 2012)

During transformation, MFI governance structures also change: new boards form to protect stakeholder interests. Boards are composed to forge a balanced combination of social mission and profitability, including new members with diverse skills and expertise. (Hema, 2012 Zenith). Further the "People and organizations must continually be transforming. Transformation can occur in individuals, organizations, industries, societies, etc." (Marcia Daszko and Sheila Sheinberg, 2005). Arshad Hussain (2010) states that, "continuous process improvement ensures that there is an ongoing culture of continuous incremental improvements throughout the processes of the organization, while transformational change refers to the complete makeover of systems."

ACCION states that, "In a microfinance context, transformation refers to the process by which a nonprofit community organization or an NGO becomes a regulated financial institution." According to Campion and White (1999), a transforming institution needs to adapt

its organizational structure and culture as BancoSol did. This is because the structure and culture should be able to support the methodology and operations of the new MFI.

PRODEM had an informal internal culture and the lending was based on trust. The culture encouraged innovation, commitment to the organization's mission, and recognition of individual contributions to a team effort. But with the expansion and growth of the organization the informal culture required changes to support additional new staff and many more branches. Further better strategy and communication was required in order to meet more businesslike approach for decision making. This resulted in new chain of commands, improved systems and stringent management structure. Sometimes there are requirements for changes in infrastructure, physical facilities and premises. The regulatory requirements dictate the kind of premises and facilities that are within acceptable standards (Campion & White, 1999). For example in the case of MIBANCO, the regulations specified the kind of walls, doors, windows, and security systems to be installed. For the case of K-Rep, there were additional issues regarding the location as the banking laws in Kenya then did not allow banks to be located in slums and remote areas for security reasons. At the same time, as Ledgerwood (1999) asserts, transforming MFIs are often limited by a lack of funding sources because of their institutional structures. This is because most of them were initially created as semi-formal institutions (as NGOs or some form of savings and credit cooperative). Hence for the transformation process it is evident that the MFIs have to plan to deal with financial demands for transformation and growth. The expansion therefore requires the MFIs to go for commercial loans apart

from Donor Funds which will involve costs and is challenging. The challenge goes even further because success depends on the willingness of the potential investors (Hishigsuren 2006). For instance, K-Rep in Kenya sought institutional investors believing them to be more transparent with a longer-term commitment. An institution is considered to have transformed successfully if it manages to overcome the challenges faced before and during the process of transformation. "Successful transformation, therefore, is indicated by an MFI ultimately gaining the RFI status by getting issued with a license to operate." (CBK, 2008).

Many research reports that facilitate the evolution of MFIs and further the goal of financial inclusion, RBI has permitted MFIs to act as Business Correspondents (BCs) and invited applications for diversified banks. The competition from various private and public models of delivering financial services may force MFIs to provide a range of services to retain their clients.

### Case Studies

#### BANCOSOL

BancoSol is a donor support NGO later transformed to regulated Micro finance institution. Banco Solidario, S.A. (BancoSol) in Bolivia "stands out amongst the many microfinance institutions world-wide as the first private commercial bank to specialize in Microfinance." (Glosser, 1994). Promotion and Development of Microenterprises (PRODEM) created the first regulated financial institution dedicated to microfinance, BancoSol, in 1992, BancoSol has become one of the most successful commercial bank not only in Bolivia but also the world. This single event changed the way in which microfinance was viewed, revealing new possibilities for other microfinance nongovernmental organizations (NGOs) and sparking great debate within the microfinance community. **This transformation has set an example worldwide and NGOs have followed PRODEM.** It was created in 1986 as a joint venture between Bolivian business leaders and ACCION International, a U.S.-based NGO. PRODEM grew rapidly, and by the end of 1991 it had four main offices, 7 branch offices and 116 employees, and was providing loans to more than 45,000 micro businesses, equivalent to \$US 28 million, with a default rate close to zero. PRODEM was well positioned to act as the transformation leader, not only because of its financial viability but also because it had board members with influential commercial contacts who were willing to put their reputation on the line. In 1997, BancoSol became the first microfinance institution in the history to issue dividends to shareholders. Currently the organization has 400 sales points and includes internet/mobile banking. There are around 100 OTC Branches, 210 ATMs and the remaining are Correspondent branches open beyond the standard banking hours. There are also seven Mobile branches which are small trucks equipped with banking facilities traveling to small rural villages weekly taking banking to the door steps of the clients. Besides it has been five years since online banking was incorporated trying to reach far away remote clients. The company intends to spread geographically to Brazil and Mexico with advancement of technology through Internet, mobile phone banking, ATMs, and as correspondent bank providers.

#### XAC BANK Case study of merger of 2 NBFIs

The XAC Bank of Mongolia has successfully transitioned from a microfinance/non-bank financial institution to the fourth largest commercial bank in Mongolia. (Institutional transformation: Story of XAC Bank of Mongolia/UNDP). XAC is a symbol of eternity and the sun in sanskrit . The three words represented means **Golden Fund for Development** . XAC is a micro lending company with a Non-Bank Financial Institution License from the Central Bank of Mongolia. XAC

started operations in September 1998, and is the first registered microfinance company in Mongolia, licensed by the Central Bank in 1999. As reported in 2001 seventy five percent are women members. Owing to severe competition because of overlapping geographic area and complimentary services such as micro and small loans Ganhuyag Chuluun, the Executive Director of XAC, and Stephen D. Vance, Chairman of GE decided that merger was the best way out. The merger aimed at outreach to the remotest unapproached area, where nomadic herders were prevalent in Mongolia by 2002. The merger went through, after proper due diligence, non-opposition of the merger as well as a definite planned strategy. XAC Bank resulted from merger between XAC a registered MF in Mongolia licensed by Central bank in 1999 and Goviin Edhel (GE) an SME lending operator with 5 branches in Gobi province . **The fascinating factor was the importance of two CEOs, the former Directors of both the organizations who carried equal strenghts complementary skills and images—one with a micro lending background and knowledge of the local community, and the other with professional banking and international experience—the board chose to establish each as "co-CEO" of XAC Bank.** Legal transaction involved swapping shares of XAC for GE assets . GE became holding company and the resulting organization upgraded with commercial banking license. XAC Bank provides credit franchise package at low cost to rural co-ops in Mongolia .The Franchise Package is a Development Guide handbook manualwith 5 modules covering details of loan products , training , legal and regulatory, accounting , goveranace . XAC has established an MIS system.The Bank collects franchisee fee with the view of future profitability. Outreach was achieved to cover all provinces in Mongolia offering full package of financial services both micro and SME loans. **XAC became a market leader in environment of mounting competition.** Cultural difficulties of merger were: "Staff morale is something that requires extra effort since the merger process tends to create lots of tension at all levels" (Ganhuyag Chuluun co-CEO of XAC bank.). The Success of transition from a non-bank financial institution to the fourth largest commercial bank in Mongolia are as follows: well-coordinated support from development partners, capitalization on existing human resources and engaging national experts and staff, continuous innovation and improvements (introducing new range of products every year), introducing social and environmental responsible business models. XAC Bank recently has established an Eco-Unit, provides subsidized loans to 'green' businesses and promotes sustainable practices such as energy efficiency.

#### EDIFICAR

EDIFICAR is an example of **transformation under the cable leadership**. Transformation took place under the leadership of Mr. Guillermo Fajardo leading some of the employees who volunteered and managed the process. Soon the leader became the president of the EDIFICAR board. The evidence of the fact that staff continued to work for EDYFICAR showed the process of transformation was handled diligently. The system and procedures established by CARE were very progressive and useful. The forceful MIS is a standing example of connecting field to top management. The challenges faced were tough competition in both urban and rural markets. Yet it attracted new investors and increased the capacity of the staff and management to handle growth and complex tasks in future. EDYFICAR a Peruvian Finance Company is an example of financing challenges, opportunities and tradeoff faced during transformation and continuous expansion. In1985 with assumed assets of CARE it began a number of programs to improve the quality of life of low income people. In 1994 the Peruvian Banking Superintendent established a new, non-deposit taking regulated financial entity called an EDPYME in order to

regulate Micro Finance Sector. During recession and financial crisis in 1997-1998 in Peruvian economy the Superintendent passed a regulation that required all NGOs providing microcredit services to pay a general sales tax on all interest generated from microcredit. In 1997 CARE felt its growth was constrained as an NGO and therefore transferred its assets which included the loan portfolio and certain fixed assets, to EDYFICAR in return for majority shares in the new EDPYME. EDYFICAR incorporated in 1997 and began operations as an EDPYME (Entities of Development for the Small and Micro-business). In 1998 EDPYME was modeled by CARE. With the growing period of recession, 1998-2001, EDYFICAR faced difficulties in diverting funds and accessing commercial help. During this period International investors found micro finance as good investment because of low default rates and double bottom line returns. Even though EDPYMES were not required to be rated, Anna María and her team took the first step toward securing international funding for EDYFICAR when it received two ratings in 2001—one local and one international. This attracted new funders and rendered CARE to use it as Bench marking to obtain international funds. Soon in 2001, the Latin American Challenge Investment Fund (LACIF) became the first international microfinance fund to invest debt in EDYFICAR, followed by Triodos. In 2003, EDYFICAR began receiving loans from local commercial banks that were secured by borrowing from international institutions in foreign currency (e.g. U.S. dollars or Euros) and placing that loan on deposit with a local commercial bank as a guarantee for a loan in the local currency equivalent. These loans were called “**back-to-back**” loans and provided close to a 100% guarantee, depending on prevailing exchange rates, for the local commercial bank EDYFICAR’s strong business plans have earned it a five-diamond rating on the Mix Market, the highest rating, as well as a transparency award from CGAP. Gradually these funds began to increase by 2004. In 2004, EDYFICAR was able to secure three long-term loans. The strategy resulted not only in increased leverage, but currency mismatch of its assets and liabilities, exposing it to foreign exchange risk and the cost of exchange rate coverage EDIFICAR had stopped pursuing loans from local commercial banks due to their comparatively unattractive rates and terms. It by passed, commercial banks and sought loans from international investors, in essence trading-off local currency loans for lower costs of funding. But soon because of pressing demand in need to manage liquidity risk and reduce foreign debt they were forced to go to commercial banks. In addition, the rating of “C” EDYFICAR received in 2001 from Apoyo & Asociados, was raised to a “B-” by 2006. Therefore in 2006, EDYFICAR acquired Crear Cusco, a small MFI with a portfolio of US\$2.3 million. This was viewed as a pioneering transaction and the start of a new trend of consolidation in the Peruvian microfinance market. To facilitate this expansion, in 2006, EDYFICAR formed an alliance with Banco de la Nación, a state-owned development bank with a broad branch network. Soon products were enhanced to meet the client’s demands. Internal research and surveys showed that what EDYFICAR’s target client base valued most was: **speed, flexibility and cost, followed by the quality of client services and range of products**. Therefore Board decided to transform to a FINANCIERA with advantages like i) greater access to the capital markets and local currency funding, ii) better valuation by local banks and iii) offer better products such as credit cards, leasing and factoring iv) it could employ hedging techniques such as swaps and forwards to manage its foreign exchange risk which was not permitted as an EDPYME. EDYFICAR determined that improving its client service would be the most strategic way to differentiate itself from competitors. The vision of EDIFYCAR was to become one of the top five MFI in Peru by 2010 with persistent competition. FINANCIERA EDIFICAR has experienced two transformations over a decade and met untoward

competition in Peruvian micro finance market. The company faced various challenges and the management created appropriate capital structure at every stage of development. 1985-2010 (over 12 years) the growth story is solid and healthy. The local markets offered and continue offering significant opportunities. The company continues its consolidation and expansion of client base. It continues to maintain #1 ranking in MES segment.

#### **Bandan Financial Services Private Limited**

Bandan Financial Services Private Limited is the first MFI to get **a Banking License from the Reserve Bank of India**. On 2<sup>nd</sup> April 2014 RBI granted in-principle approvals for the bank under the guidelines on licensing of new banks in the private sector. This is valid for a period of 18 months and within this period these firms will have to comply with the rules stipulated by the RBI. The company was incorporated in 1995 and is based in Kolkata, India. Its roots lie in a society named Bandhan Konnagar, which began lending in 2002. The Bengal-based microfinance institution has grown manifold since its inception in 2001. In May 2006, Bandhan acquired a non-banking finance company, Ganga Niryat Pvt. Ltd, which was incorporated in 1995, and rechristened it Bandhan Financial Services Private Limited. In 2007, Forbes magazine ranked it #2 in its first ever list of the global top 50 microfinance institutions. It has 5 million borrowers’ in 22 states. It was just half the size of SKS, but in 2011 it has doubled SKS. In 2011 the International Finance Corporation, the investment arm of the World Bank, took up 11 per cent stake in Bandhan for nearly Rs 135 crore-fastening its value at Rs 1,227 crore. SIDBI holds 10 per cent stake in Bandhan. Interest rate charged is 22 percent for its smallest loans of up to Rs.15,000 and bigger ones between Rs.16,000 and Rs 50,000, which together form over 97 per cent of its portfolio. Bandhan has been engaged in the delivery of microfinance service etc, to the poor women for the last 12 years. “In September 2013 Bandhan became a Non-Banking Finance Company. Bandhan wants to reach 1 crore poor households by 2020,” Economic Times reports. Bandhan has stated that the award of the banking license was recognition of the microfinance sector and their hard work to reach unbanked areas and provide financial services. The bank is also looking to expand in the southern states - Karnataka, Tamil Nadu, Andhra Pradesh and Kerala.

#### **Sarvodaya Nano Finance Limited**

**SNFL is a NBFC – MFI creating financial intermediation models that raise funding resources from the financial market using community resources as leverage.** Association for Sarva Seva Farms (ASSEFA) is a Non-Governmental Organization (NGO) founded on Gandhian principles. It has been initiating various developmental interventions focused on rural Tamil Nadu and several North Indian states covering different sectors. The Women’s Development Project of ASSEFA started in the late 1980s with the formation of women’s Self-Help Groups (SHGs) in different locations of Tamil Nadu. This initiative gathered momentum and by the year 2000, there were close to 3,000 SHGs with about 50,000 members. The Mid-Term Assessment of the Women’s Development Project carried out in March 2000 revealed that though there was a good system of thrift, savings and internal credit, 40% of the SHG members had not accessed any external credit. The origins of Sarvodaya are in the Self-Help Groups promoted by the Association of Sarva Seva Farms (ASSEFA). The SHGs were unable to access bank finance in the mid-1990s when they were formed by ASSEFA. A reliable access to finance, especially to credit, was thought to be necessary by ASSEFA and it began its search for a suitable form of organization that could provide financial services to the SHGs and their members. BASIX had a NBFC registered with RBI which had not commenced any financial operations. ASSEFA took over this company with the purpose of

setting up the financial services operation for the SHGs and members ASSEFA's original line of thought was a for-profit company with an equity-based structure was deemed to be necessary to fulfill the ever-increasing need for credit. It was found that in actual practice it is very difficult for the poor to access loans without security. So it was felt that the only sustainable long-term solution was to have in place a financial institution, which is not only oriented to the needs of the poor, but is also fully owned by the rural communities. Sarvodaya Nano Finance Limited (SNFL) took the role of such a financial institution. Based on this strategy, the SHGs were assisted and helped to federate at the regional level into Mutual Benefit Trusts, called the Sarvodaya Mutual Benefit Trusts (SMBTs). These trusts are permitted by their bye-laws to raise external resources for meeting the credit needs of the SHGs and also to invest in shares of other corporate entities. The SHGs have given their concurrence in the form of a resolution to the proposal to utilize the community resources to invest in the shares of corporate entities. These trusts have now bought all the shares of Sarvodaya Nano Finance Limited, a Non-Banking Financial Company (NBFC) registered with the Reserve Bank of India. So, in effect, this is a NBFC owned by the Self-Help Groups. The objectives of the Company is to carry on the business of financing development activities in the rural areas for the purposes of Agricultural Development, Industrial Development, Market linkages Development, Habitat Development. The strength of SNFL lies in the following: i) Support of ASSEFA, ii) Strong Board, iii) Strong and cohesive network, iv) good internal audit and v) control and profitability. SNFL has a three-tier structure with SNFL at the apex, having the SHGs at the base. The SHGs are federated into MBTs which serve as intermediaries between the SHGs and SNFL. The strategy of **Sarvodaya Nano Finance Limited**, in attaining its vision and mission, is to build sufficient internal financial and human resources and to use them to leverage resources from external sources. From 2012 the company has started lending directly to individuals at its 91 branches. The Company has undergone losses due to write offs and NPAs. The NBFC is on its way to be a NBFC-MFI and Business Correspondent in due course.

### Findings and Conclusion

The story of the eagle is a steadfast example for change. The awareness that Change is constant has spread fast and wide. Follow the Leader BancoSol with the intention to spread geographically with advancement of technology through Internet, mobile phone banking, ATMs, and as correspondent bank providers. A business firm big or small requires meeting changes, challenges whenever needed to withstand competition and survival under capable leadership as seen in EDIFICAR attracting new investors by utilizing rating obtained as Bench marking to obtain international funds, increasing the capacity of the staff and management to handle growth and complex tasks in future. FINANCIERA EDIFICAR has experienced two transformations over a decade and met untoward competition in Peruvian micro finance market. The company faced various challenges and the management created appropriate capital structure at every stage of development which is an eye-opener. The want for good planning, change management model, good and effective communication, competent leadership, acceptance, are essential for the smooth change process. The process is long and continuous and cannot take place at once. The management and staff have to coordinate and participate to build harmony for change, before, during and after transformation. EDIFICAR is a standing example of capable leadership guidance in transformation. One of the primary reasons for transformation is to expand access finance to the poor. Transformation from a social to a more business like environment cannot and should not happen suddenly- the shift should be gradual and incremental. As the NGOs transform to MFIs they are often better able to grow,

mobilize funds and meet the needs of the poor as seen in BancoSol. Effective translation, dissemination and implementation of best practices into a formal code of conduct are even more crucial for an MFI with tremendous ambitions for portfolio growth, geographical expansion, and subsequent extensive recruitment plans as seen in SNFL. Implementing social performance management implemented through systematic policies and a procedure acknowledged by all stakeholders, and promoted via appropriate training and incentives is seen in the growing organizations. Some of the players have already started getting the benefit by using MIFOS, MIS and similar IT solutions, while the majority of the MFIs have yet to realize the importance of its use to achieve outreach and sustainability. Effective translation, dissemination and implementation of best practices into a formal code of conduct are even more crucial for an MFI with tremendous ambitions for portfolio growth, geographical expansion, and subsequent extensive recruitment plans. The MFI Bill and RBI Directives as on 3<sup>rd</sup> May 2011 have come as a breather to the MFI Sector and transformation of NGOs to NBFCs is welcomed for further outreach. Promotion of Cloud Computing has emerged as a new area in IT and is at the top of the mind for every chief information officer. SMEs that contribute to one-third of IT investment find Cloud Computing as the most appealing IT feature. As per the EMC-Zinnov study, the Cloud Computing market in India is estimated at around \$400 million and is expected to reach \$4.5 billion by 2015 driven by SMEs that constitute the backbone of Indian economy. SMEs in India need to take steps towards cloud services implementation and derive maximum benefits from the cloud-based software and services can be powerful solutions that offer fantastic benefits to companies – both large and small – that use them wisely (Hema, 2012 on Cloud technology). By building strong, well-functioning human resource systems and tools, your institution will be poised for growth, ready to manage the challenges of an evolving environment, and responsive to the needs of your clients.(Hema, 2012 on HRM ). The world is changing faster, that is a cliché, but it is also the truth, no matter what we do today, we will be doing something different tomorrow (De Jager, 2007) (Stefanie Dentinger Erwan Derlyn)

**“If an eagle can make a lifesaving and life changing decision at the age of 40....why can't we? In order to take on a New Journey ahead, let go of your negative old limiting beliefs. Open up your fixed mindset and let yourself fly high like an eagle”**

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#### Profile of Miss. Hema Satagopal

**Ms. Hema Satagopan**, is a Bachelor of Arts, Master of Business Administration in Human Resource, completed M. Phil (Mgt.) a research scholar for Ph.D. and submitted thesis in 2014, has presented 24 Articles of which 17 are published in various journals. The present working domain involves an integration of the core skills set comprising of research, communication, drafting and conveyance, legal consultancy, Training and HRD related policies together with Secretarial services and consultancy . A consultant of APT Source Corporate Service Private Limited, Chennai, Tamilnadu.



## Indian Politics and Attitudes of Young Generation towards It

Amal Krishna Saha<sup>1</sup> and Bhagyasree Saha<sup>2</sup>

<sup>1</sup>Associate Professor, Pailan College of Management and Technology, Bengal Pailan Park, Kolkata—700104, West Bengal, E-mail: [amal.saha.07@gmail.com](mailto:amal.saha.07@gmail.com), <sup>2</sup>Post- graduate Student, Jadavpur University, Jadavpur, Kolkata – 700008, [sree.saha.09@gmail.com](mailto:sree.saha.09@gmail.com)

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### ABSTRACT

Demonstration and strikes are a part of Indian life. There is not a single day when some kind of demonstration or strike is not taking place in India. A large number of young generations are joining with these demonstrations or strikes, every day. The present study investigates how the political views of young people are shaped in the early days of their life and how they perceive the political scenario of India. The research findings suggest that job quota for minorities is not desirable to them when unemployment rate among the youth is high in the country. Indian political scenario is dominated by the criminal and wealthy men, and they are not accountable to the public. Indians are very much conscious about their political rights, and to protect their political rights, election commission is conducting the election in a free and fair way in the country.

### Introduction

The population of India is over 1.21 billion according to 2011 census. Half of its population is under 25 years of age. Young people, as much as 150 million, participated in the 2014 parliamentary election first time in their life. The young generation of 21<sup>st</sup> century has been growing up in a world which is significantly different from that of their parents. Young generations who are unemployed, uprooted, frustrated and have few opportunities for positive engagement, represent a ready pool for recruits in politics, crime and extremist groups. National as well as state level politicians are less and less capable to address unemployment, which is the main issue to the young generation. They are not capable of attracting the potential investors, due to global recession and unfriendly working environment and labour laws. Political parties without vision and mission are functioning as mere election machinery in the country.

After 67 years of independence, India still faces two burning

problems - that is of unemployment and poverty. As the number of qualified youth increases on one hand, the slowing growth of the Indian economy on the other hand has caused tremendous unrest among the young generation as they are unable to find jobs that are compatible with their qualification. The young job seekers make up 49 percent of the total unemployed in India (Sinha, 2013). The unemployment rates among the youth (20-24 years) at the all India level according to usual status were 6.9, 9.9, 11.6 and 21.90 percent for rural males, rural females, urban males and urban females respectively (NSS, 2014). On the top of that there is job reservation for scheduled castes (15%), scheduled tribes (7.5%) and other backward classes (27%). To justify the reservation, it is considered that historically they are deprived of economic, social, cultural and political opportunities in the country (Galanter, 1984). This ratio is followed in Central Government funded higher education, and even in parliament and all election purposes. These groups of minorities have free access to compete for unreserved jobs, which are open to all.

It is widely believed that when young generation cannot dream of their future, frustration gets hold of them and they may get engaged in any kind of violence and social conflict. In recent years, the political participation of the young generation, in terms of attending rallies of Anna Hazare's anti-corruption crusade in 2011, or protecting against the violence of women after the Delhi gang rape, reflects their growing angst over social problems. Over the years, the involvement of the youth in different types of crime and conflict are

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on a rise all over the country. Every day one or two persons die, few houses are burnt or looted due to political violence in the country.

During the parliamentary election of 2014, Narendra Modi, the Prime ministerial candidate of BJP (Bharatiya Janata Party) build up a hope in front of the young generation that he can create more jobs for them. The other parties played the old game of discrimination on the basis of caste, creed and religion. They tried to polarize the Muslim vote in favour of them, indicating that they are the savior of their interest, and that they are the only secular party in the country. Religion and politics work hand in hand not only in India but all over the world. Burdwan blast in West Bengal reveals that a significant number of Muslim youth is not staying with the main stream of the society. A large number of Muslim youth from all over the world are joining with ISIS (Islamic State of Iraq and Syria) in Middle East to create an Islamic state across Sunni areas of Iraq and Syria. They are ready to sacrifice their life for the cause of religion. It is alarming for any democratic society.

### Review of Literature

An analysis of the recent Lok Sabha election showed that nearly 71 percent of urban youngsters cast their vote in 2011, as compared to 45 percent in 2009. It indicates that the interest in politics among the young generation is on the rise in India (Times of India, 2013). Though, youth interest in politics in the developed countries is on the decline but the countries like India, China and Nigeria are on the rise (Desouza, Sanjay & Sandeep, 2009).

Political dynasties are common in many contemporary democracies such as India, Argentina, Japan, Mexico and Philippines (Querubin, 2011). Even in The United States political dynasty is present such as Bush and Kennedy families. U. S. Congress is also heavily dynastic. In India, it is the Gandhi family who ruled the country most of the years after independence. Many members of Lok Sabha are below 30 years of age. They have inherited their seats from their parents, siblings or other members of an extended family. Politics in India is a family business now, more than ever. The scenario is not different in state level either. Few families are ruling some states, such as Karunanidhi family (Karnataka), Mulayam Singh Jadav family (Uttar Pradesh) and Abdulla and Mufti families (Kashmir).

In India, general population is afraid to have any change. They are very loyal to particular family. On the top of that, religious leaders influence (diktat) their followers to cast their vote in favour of a particular party for their community interest. One recent study (Dal Bo, Dal Bo & Synder, 2009) shows that the longer is one's tenure in power, the more likely he is to establish a political dynasty. Due to this dynasties' interest, there is a fair chance to have an incompetent person in power as a minister/chief minister or even as a Prime Minister.

The Indian political scenario is dominated by the criminals, wealthy persons and muscle men. They are entering into State Legislative Assemblies and National Parliament in large numbers. 30 percent of Lok Sabha members and 31 percent of State Assembly members have criminal cases against them. 14 percent of them in both Lok Sabha and State Assemblies have serious criminal cases against them (Times of India, 2013). The role of money in politics influences the quality of democracy and governance undeniably. Transparency of money in politics is the key factor for better governance and also for overall development of the country. The Election commission of India (ECI) during 2014 parliament election sized over Rs. 195 Crore (\$ 32.50 million) in cash all over the country (Indian Express, 2014). It had also seized over Rs. 200 crore

of unaccounted cash from poll-bound states (Tamil Nadu, Uttar Pradesh, Andhra Pradesh and Delhi) during its last election period (Thakur, 2013). Election commission is an autonomous, constitutionally established federal authority, responsible for administering all the electoral process free and fair way.

### Objectives of the Study

After globalization, more opportunity has been created for potential students to get admission in institutions of higher learning at home and abroad. An increasing number of boys and girls are joining these institutes for all types of professions, for their career which was unthinkable even few years before. The awareness about education, economic and technological development, use of religion in politics, social and political change at home and abroad have given young generation broader outlook about politics. In this context, the present study aims to investigate:

- i. How political views are shaped among the young generation in their early age?
- ii. Perception about Indian political scenarios among the Indian youth
- iii. Find out the attitudes towards some social burning issues in the country

### Methodology

The data were collected from a private management and engineering college in Kolkata (West Bengal). Students were chosen randomly from different branches of graduate and post graduate courses. The questionnaire used in the present research, consisted of three parts.

The first part enclosed questions regarding the socio-biographical variables of the respondents. Socio biographical variables such as gender, age, area of study and residence of the students were considered in this research.

The second part consisted questions regarding 'who shaped their political views'. It also included few social burning issues such as corruption, unemployment, poverty, crime, law & order, safety of women and quality of education which are dominating the political scenario in the country at the present moment. They were asked to tick it against 'most important, fairly important and important' according to their importance to them.

The third part consisted of 17 questions regarding their views about Indian politics. Five point Likert scale with anchors using strongly agree (5), fairly agree (4), do not know (3), fairly disagree (2), and strongly disagree (1) was used in the questionnaire. Out of 195 students, 119 were males, while the rest 76 of them were females. To explore which factors are significantly playing dominant role to measure the attitudes of young generations towards Indian politics, factor analysis was carried out. Factor analysis is a multivariate statistical procedure which reduces a large number of variables into a smaller set of variables (referred to as factors or components). The form of factor analysis used was principle component analysis with varimax rotation. To justify the factor analysis, Kaiser-Meyer-Olkin (KMO) test for sampling adequacy and Bartlett's Test of Sphericity were used (Hair; Anderson; Tatham & Black, 1998).

### Results and Discussion

The sample consisted of 119 male and 76 female students. The percentages of male and female students were 58.97 and 43.08 percent respectively. The age group of the sample was 18 to 24 years.



About one fifth (16.41%) of the students only came from rural background.

### Shaping the Political Views of Young Generation

Political ideology plays a very significant role in the minds of the young generation. They are influenced by media, parents, peers, political leaders and political events. Every day, they experience political processions and protests on the street and read in newspapers about political violence in urban and rural areas. The way they participate in college and universities' students union activities, indicates that all of them are politically conscious and aware of their rights. Now, the question comes 'who has most influence in shaping their political views?' Nearly 42.0 percent and 32.82 percent of the sample mentioned that media and self-reading shaped their political views. Only 16.41 percent and 8.72 percent of the sample indicated parents and leaders influenced their political views respectively. A research study (Sidney, Schlozman & Brady, 1995) mentioned that youngsters, when they discuss current events with their parents and saw their parents participating in civic activities become more involved in political activities in adulthood than do other youngsters. Andolina et.al. (2003) reported that Young person, aged between 18 to 25 years who regularly heard political discussion in families involved in politics in higher rates than youth who did not experience this type of home environment.

### Importance of Social Problems

Students of modern India are much concerned about their education, employment, law & order, safety of women and corruption of the country. They are accusing government at national, as well as state level of not doing enough to create more job opportunities for these young generations. They are also blaming national and state governments for corruption and lack of vision in bringing India to the international scenario as one the developed countries.

More than 90 percent of the young generations are concerned about the women abuse and their safety in the country (Table-I). Women abusing has spread all over India just like an epidemic. They experience various forms of violence from close and extended family members, neighbors, acquaintances, unknown person and by men in position of power and authority. Recent incidents of women abusing in West Bengal (Kamduni), Delhi (Nirbhay case), Mumbai (Shakti mill) etc. have shocked the nation. The trends of these types of incidents are upward. Nearly 87 percent and 84 percent of the sample mentioned that unemployment and corruption are most important to them. Employment is the basic condition of survival in industrial society.

**Table-1: Attitudes towards Some Social Burning Issues**

S. No.	Factors	Most important		Fairly Important		Important	
		F	%	F	%	F	%

1	Corruption	163	83.59	25	12.82	7	3.59
2	Unemployment	169	86.67	19	9.74	7	3.59
3	Poverty	137	70.26	45	23.08	13	6.66
4	Crime, Law & Order	138	70.77	42	21.54	15	7.69
5	Safety of women	179	91.80	8	4.10	8	4.10
6	Quality of Education	138	70.77	40	20.51	17	8.72

Due to lack of employment opportunities and social security, a significant number of unemployed youth is in bewilderment and engaging themselves in politics as a cadre where they can get some financial benefits. Political parties are using them very cleverly, holding lucrative job opportunities like enticements in front of them. There is another factor like 'No job-No marriage' which frustrates young generation and commits unsocial activities. Corruption violates the fundamental principles of democracy such as accountability, equality and openness. It causes distrust among citizens which leads to legitimacy crisis in the political system. Seventy percent of the sample believes that poverty, crime, education, law and order needs urgent attention of the Government. Everybody knows that poverty and corruption goes hand in hand. The empirical analysis of Mo (2001) reveals that 1 percent increase in the corruption level reduces the growth by about 0.72 percent. Mauro (1995), in his research, finds that an improvement in the corruption index by one standard deviation would increase investment by three percent of output. Saha and Maity (2014), in their research, find that Indian young generation believes 'corruption as a part of their daily life'.

### Attitudes of Students toward Politics

To find out the attitudes toward politics, a factor analysis was carried out. It produced seven factors from 17 variables which are capable of explaining the observed variance. In our research Bartlett's test was significant (Chi-square = 469.431,  $p < 0.000$ ) and Kaiser-Meyer-Olkin (KMO) test was 0.628, which justify the factor analysis (Hair; Anderson; Tatham & Black, 1998). The Eigen values of all significant components and variance explained by each component were calculated and shown in Table- 2 along with the chosen name of the component. To determine how many components to retain several procedures have been suggested such as use of Eigen values, Scree plot and Percentage of variance (Malhotra, 2007). The Eigen value approach suggests that components with Eigen values greater than one should be retained. The present study indicates that only seven components have Eigen values greater than one and together contribute 63.30 percent of the total variance. The first component accounts for 16.665 percent of variance. While the second, third, fourth, fifth, sixth, and seventh components interpret 10.398, 8.554, 7.677, 7.436, 6.658 and 5.913 percent respectively of the total variance. All the remaining components are not significant.

**Table-2: Attitudes towards Political Scenario of the Country (Rotated Component Matrix (Rotaated Component Matrix))**

S. No.	Variables	Component						
		1	2	3	4	5	6	7
1.	Do you agree 'Indian politics are not for the gentlemen'				0.77			
2.	Do you agree to be a politician in India, one should have muscle as well as economic power				0.81			
3.	Due to family or clan system in Indian politics, there is a probability of having an incompetent person as a minister/ chief minister or even a prime minister			0.69				
4.	The way people participate during election, it seems to me that Indians are very conscious about their right						0.81	
5.	Without monitoring by election commissioner, it would be impossible to conduct an election in India fairly today			0.77				
6.	The way our Government runs the country it seems to me that they are not accountable to the public							0.88
7.	Vote should not be casted according to the diktat/order of the religious leader			0.63				
8.	The difference between 'haves and have nots' in our country is increasing day by day in the name of democracy		0.60					
9.	Social isolation and alienation due to unemployment force the young generation to join the political parties		0.76					
10.	Indian Govt. has to take initiative to stop brain drain and should utilize our human resources most effectively and efficiently for country's development		0.57					
11.	Indian Govt. is not efficient enough to create job opportunities for young people in the country		0.52					
12.	The political conviction with ideology among the Indian politicians is commendable					0.71		
13.	Do you agree voting is the best way of making one's voice heard						0.68	
14.	Apart from voting do you agree demonstrations and strikes are also most effective ways of making your voice heard?					0.73		
15.	Politics is a profession now. One can think to make a career in politics	0.68						
16.	Politician should not polarize people on the basis of caste and creed during election for his/her benefit	0.68						
17.	The job quota for minorities used by the political parties to get vote is not desirable in a secular country like India	0.85						

*Component 1:* Job quota for minorities is not desirable (Eigen values = 2.83; variance = 16.665). *Component 2:* Unemployment force the young generation to join the political parties (Eigen values = 1.77; variance = 10.398). *Component 3:* Election commission is essential to conduct fair election (Eigen values = 1.45; variance = 8.554). *Component 4:* To be a politician, one should have muscle as well as economic power (Eigen values = 1.31; variance = 7.677). *Component 5:* Demonstration and strikes are also effective of making one's voice heard (Eigen values = 1.45; variance = 7.436). *Component 6:* Indians are conscious about their democratic right (Eigen values = 1.13; variance = 6.658). *Component 7:* The way Government runs the country it seems that they are not accountable to the public (Eigen values = 1.01; variance = 5.913).

An important output from the factor analysis is the component matrix, which contains the co-efficient, which express the standardized variables in terms of the components. A coefficient with a large value indicates that the components and the variables are closely related. The coefficient of the component matrix can be used to interpret the components. The Rotation Method (Varimax with Kaiser Normalization) was used to identify the variables that have a large loading on the same component. In our study, variables 15, 16, and 17 co-relate and combine with component 1 after rotation, because of their common nature and may be labeled as 'Job quota for minorities is not desirable'. Component 2 is related with variables 8, 9, 10 and 11 and it may be labeled as 'Unemployment forces the young generation to join the political parties'. Component 3 is related with variables 3, 5 and 7 and it may be named as 'Election commission is essential to conduct the election'. Similarly

component 4, 5, 6 and 7 are related with variables (1, 2); (12, 14); (4, 13) and (6) respectively and these components may be named as 'To be a politician, one should have muscle as well as economic power', 'Demonstration and strikes are also effective in making one's voice heard', 'Indians are conscious about their democratic right' and 'The way Government runs the country, it seems that they are not accountable to the public'.

### Discussion

The Young generation of modern India does not like to have job quota for minorities. Political parties, especially those who are in power at the Centre as well as in the State, play the job reservation game for minorities, Scheduled castes (SC), Scheduled tribes (ST) and other backward classes (OBC) to get their vote in bulk. In December, 2011, Congress Government introduced 4.5 percent quota within the 27 percent reservation available to OBCs to bait the largest minority community through this policy (Ghildiyal, 2014). The problems of unemployment and urban crowding may force many young people to engage themselves in politics which may be violent in nature (Huntington, 1996; Cincotta, Engelman & Anastasion, 2003). In India, the youth populations not only in urban areas but also in rural areas are participating in local politics in large number. The way they participate, the way they fight against the rival political parties it indicates that they are either very much ideologically motivated or they have some economic stakes in it. Lukose (2005) research mentioned that the restless, aimless and energetic young generation involves them self into riotous strikes and demonstration activities in their college campuses.

In 2014 general election, all political parties have given significant number of tickets to crorepati candidates. For example, 83 percent of Indian National Congress (INC), 74 percent of Bharatiya Janata Party (BJP), 78 percent of National Congress party (NCP), 94 percent of Dravida Munnetra Kazhagam (DMK) and 80 percent of All India Anna Dravida Munnetra Kazhagam (AIADMK) candidates were crorepaties (Association for Democratic Reforms, 2014). Besides all these, there are some other crorepati candidates, belonging to other national or regional parties, with varying degrees of percentage. Poor candidate has less chance of winning parliamentary elections. In contrast, the richest have a greater chance to win the election (Vaishnav, 2014). Corruption starts in full swing during election. The former prime minister of India, Atal Bihari Vajpaee lamented saying that 'An Indian politician starts their career with a lie--the false spending returns they submit' (Datta-Ray, 2014). Election Commission plays a significant role in this context to conduct election free and fairly. The Supreme Court on 10<sup>th</sup> July had also struck down a provision in the electoral law that protects a convicted law-maker from disqualification on the ground of pendency of appeal in higher courts. It has also made it clear that MPs, MLAs and MLCs will stand disqualified on the date of conviction (Times of India, 2013). This has created a favourable environment for curbing criminalization of politics. Accountability and transparency are indispensable pillars of good governance. Government accountability means that 'public officials elected and un-elected have an obligation to explain their decision and actions to the citizens' (U. S. Government, 2005). After voting, most of India's youth believe that demonstration and strikes are the most effective alternative of making their voice heard.

### Conclusion

Indian politics is failing to offer the young generation, a vision of their future. Though a politician creates political rhetoric, which is a fundamental component of political life in a free democratic society, but it does not appeal to the young generation any more. They have seen the difference between political rhetoric and political reality and are quite frustrated than ever before. They are losing their trust on politicians. These frustrations often burst out through demonstrations and strikes at the state level, as well as national level. Sometimes, it works very well as an alternative to voting, which takes place every five years.

India is a secular country. Young generation of India does not like the division of people on the basis of caste, creed and religion. Politicians shrewdly use these sentiments to polarize people to have their vote for coming into power. This is creating disharmony among the people and causing threat to the unity of the country at large. They do not mind providing more educational scholarships to these groups of people by the government, but they do mind to have job quotas or reservations for them when jobs are scarce in the country. They do not like to be penalized by historically dividing people on the basis of religious doctrines and diversity in faith.

Indian politics are dominated by a fair number of criminal and corrupted persons. They try to come to power by hook or by crook. The way people participate and fight under some political banner, one may conclude that they are politically conscious and believe parties' ideologies. But in real life they change their banner and shake hands with the ruling party or other parties for some mere economic gain. When the youth of a country is isolated from the main stream of the society and their problems are largely ignored or overlooked, it may lead to their frustration and they might burst out in terms of violence and all sorts of unsocial activities. Now-a-days without the help of election commission, it is impossible to conduct a free and

fair election in a country like India, with its diverse socio-political and economic background of people. The commission is deeply concerned about criminalization of politics and participation of criminals in the electoral process as candidates. Presence of criminals in politics may stand on the way of democracy in India. Indian judicial system and election commission are working against this atrocious trend. Government has the responsibility to create jobs for the unemployed youth, where they can get meaningful employment and lead a moderate life with hope and aspiration. To attract investment by the foreigners and Indians, Indian business environment has to be conducive to the businessmen avoiding unnecessary red tape, and letting the market decide the business trend.

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## Emotional Intelligence and Transformational Leadership Skills of Correctional Officers of West Bengal

Rita Basu

Associate Professor, Institute of Business Management, The National Council of Education, Bengal, Jadavpur University, [rita\\_nce@yahoo.com](mailto:rita_nce@yahoo.com)

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### ABSTRACT

This study aims to investigate the employees' perceptions regarding their emotional intelligence as well as transformational leadership. Participants were 224 correctional officers of West Bengal correctional service working at various functional units and different hierarchical levels. Data were collected by means of questionnaires in a series of face-to-face structured interviews regarding emotional intelligence and transformational leadership. Results provided support for the model which suggests that supervisors' Overall emotional intelligence and its component Perception of own emotion are positively associated with Overall transformational leadership and its component Management of self which suppose to increase the team effectiveness with subordinate. Implications for management are discussed including the need for supervisors to use emotional intelligence competencies and transformational leadership, so that their subordinates are empowered to participate and increase team effectiveness. This study contributes to our understanding of the linkage among emotional intelligence and transformational leadership of correctional officers of West Bengal correctional service and the impact on teamwork with their subordinates.

### Introduction

Emotions as a domain of intelligence has grown in recent years, which differs from Intelligence Quotient (IQ) or multiple intelligence (Gardner, 1999). In general, IQ is the yardstick to pass the hurdle of entry in an organization whereas the emotion as a domain of intelligence specifies a coping skill to deal with interpersonal relationships, and development of cooperative work culture for achievement of goal.

Salovey and Mayer (1990) coined the term "Emotional Intelligence" and described it as "a form of social intelligence that involves the ability to monitor one's own and others feelings and emotions, to discriminate among them and to use this information to guide one's thinking and action. Emotional Intelligence according to them includes i) identifying emotions, ii) understanding emotions iii)

using emotions and iv) managing emotions. In the later part, Mayer and Salovey (1997) define emotional intelligence (EI) as "the ability to perceive emotions, to access and generate emotions so as to assist thought, to understand emotions and emotional knowledge, and to reflectively regulate emotions so as to promote emotional and intellectual growth." Similarly, Goleman (1998) defines Emotional Intelligence as 'the capacity for recognizing one's own feelings and those of others, for motivating oneself and for managing emotions well in oneself and others. Emotional Intelligence has been considered as the competencies of the individual with respect to the following cluster of variables. i) Self-awareness: capacity for understanding one's emotions - strength and weakness; ii) Self-management: capacity for effectively managing one's motives and behaviour; iii) Social awareness: capacity for understanding what and why others are saying and feeling iv) Social Skills: capacity for acting in such a way that one is able to obtain the desired. Bar-On (1997) says that Emotional Intelligence reflects one's ability to deal with daily environment challenges and helps predict one's success in life, including professional and personal pursuits. These definitions and others (Boyatzis, 2001) are complimentary.

Although the concept of EI is not without its critics (e.g., Davies et al. 1998), EI is a construct that has attracted considerable attention (Goleman 1995, 1998) and has recently shown evidence of predicting

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a number of workplace outcomes, including job performance (Van Rooy and Viswesvaran 2004) and satisfaction (Wong and Law 2002). Also, EI may impact core affective processes that influence the quality of supervisor–subordinate interactions (Dasborough and Ashkanasy, 2002; Newcombe and Ashkanasy 2002). The higher levels of employee EI may influence work outcomes are via the quality of the interpersonal relationships within the organization (Law et al., 2004) which might in turn, allow employees to perform more effectively on the job (Sears, 2009). Similarly, leaders who are high in EI might be more likely to cultivate increased trust and cooperation from their subordinates (George, 2000).

In their proposed model, Mayer and Salovey (1997) have estimated that emotional intelligence plays an important role in regulating and controlling emotions as well as intellectual and cognitive processes (Lopes et al. 2005; Song et al. 2010). The absence of this skill implies an uncertainty in decision making (Petrides et al. 2007; Siu, 2009 Trautmann et al. 2009; Vieider, 2009).

Scholars and writers in management are beginning to emphasize the importance of EI on leadership effectiveness (Megerian and Sosik, 1996; Morris and Feldman, 1996; Goleman, 1998; Bass, 2002; Rahim et al. 2002, 2006). In particular transformational leaders have an emotional impact on subordinates. They stand for something, have a vision of the future, are able to communicate that vision to subordinates, and motivate them to realize it giving emphasis on team effectiveness. The transformational leader has the capacity to motivate subordinates to do more than normally expected. Transformational leaders raise subordinates consciousness about new outcomes and motivate them to transcend their own interests for the sake of the team. They create an atmosphere of change, and they may be obsessed by visionary ideas that excite, stimulate, and drive other people to work hard.

In particular, this study investigates the relationship between emotional intelligence (EI) and transformational leadership (TL) of the supervisor. The investigation was concentrated on the correctional officers of the correctional homes in West Bengal.

### **Introduction of Correctional Homes and Correctional Officers**

With the change in the perception towards prisoners, prisons are no longer considered as a place for punishment but as correctional home. Therefore in present day scenario, there is a need to create a healthy environment inside the correctional home so that inmates can return to the society as good responsible and healthy citizen. Many of the problems in the Jails are an offshoot of neglect by the correctional officers. Reason behind such that there is no organized or systematic effort to bring about changes in a sustained and institutionalized manner because of a variety of reasons, prime among them is not to give due importance of the personnel management in the Jail administration.

### **Role Expectation from a Prison Officer**

The role played by the prison Officers is not only a complex one but a totally professional task. The West Bengal Correctional Services Bill 1992, also places a lot of responsibility on the Staff in ensuring that a prison is basically for the reformation of a prisoner so that on his release from the Jail he is able to adjust easily into the community life. This includes wipe out the evil influence of anti-social ways of life from their minds and rehabilitate them in society as good and useful citizens with positive attitude, healthy social sense and a sense of abhorrence against the anti-social ways of life.

Depending on the types of inmates, types of Government order and the situation of the home, correctional officers need to take part in counseling, advising, controlling, monitoring and developing the activities inside the home. Hence a coping skill to deal with interpersonal relationships, which involves the ability to monitor one's own and others feelings and emotions, to discriminate among them and to use this information to guide one's thinking and action for the development of cooperative work culture for achievement of goal is required. Also, the fulfillment of the objectives and planning depends primarily on how far they not only act as administrative officials at the correctional home but as the genuine transformational leader.

Hence, revamping of the “correctional services”, it is necessary to identify the present levels as well as relationship between social intelligence or in broader sense emotional intelligence and transformational leadership aptitude of the correctional officers, to provide proper support and help so that they can exert their full competency for their service happily.

### **Survey of Literature**

The declaration of Indian Jails Committee about the reformation and rehabilitation of offenders is the ultimate objective of prison administration. This has brought out the essential aim of reformation and social rehabilitation (Model Prison Manual, 2003). According to Chauhan & Upadhyay (2012), India is seem to none in terms of an enlightened thinking with regard to the purpose and objectives of imprisonment of the gap between proclaimed principles and actual practices appeared to have been widening recent years. However in probing this complicated opaque world of prisons, academicians has left no stone unturned and sociology of prison is increasingly gaining dominance as an independent discipline within the gamut of social science. But there is little intervene with the study on organizational behaviour or organizational psychology to identify the psychological competencies as well as influencing organizational and personnel variables on competency.

#### **a. Emotional Intelligence**

Leban (2003) identified that the success of complex projects depends on the relationship between rational leader behaviour and emotional intelligence of the project manager.

A study on Emotional Intelligence, leadership style and coping mechanisms of executives by Purkable, (2003) opined that the organizational leaders frequently use emotions to influence the affective states of others, a significant part of charisma.

Caruso (2002), showed that the highest performing managers had significantly more 'emotional competence' than other managers. Leaders high on Emotional Quotient generated hope and conviction because they could instill confidence in people who were frightened to situations.

US Air Force (2002) began to use emotional intelligence tests to select recruiters showed that it immediately saved \$3 million a year through greater effectiveness and lower turnover and associated costs.

Boyatzis (2001) studying on several hundred managers from 12 different organizations found that one of the foundations of Emotional competence ie accurate self-assessment was associated with superior performance.

Although Gardner (1983, 1999) did not use the term emotional quotient (EQ), his concepts of intrapersonal intelligence deal with the ability to understand one's own emotions and interpersonal



intelligence is one's ability to understand the emotions of others. Goleman (2001) suggested that this intelligence is associated with social competencies, such as empathy and social skills.

Kelly and Barsade (2001), Ciarrochi et al (2001) argued that the ability to cope with aversive affect and stressful situations is related to one's ability to manage emotions.

The Consortium for Research on Emotional Intelligence in Organization (2000) points out that in a manufacturing plant, after the supervisor received a training in emotional competencies production increased by 17%.

Eighty Ph.Ds. in science undergone a battery of personality tests, IQ tests, and interviews in the 1950s at Berkeley. After forty years when their success based on resumes, evaluations by experts in their own fields were made, it turned out that social and emotional abilities were four times more important than IQ in determining professional success and prestige (Goleman, 1998). Goleman's research indicated that the managers who don't feel a responsibility to others can't handle stress, are unaware of their own emotions, lack the ability to understand others, or erupt into anger easily are viewed as likely to derail due to problems in dealings with other people.

A study of Clarke (1997) of 130 executives found that how well people handled their own emotions determined how much people around them preferred to deal with them.

Davies et al (1995) confirmed that people with higher emotional intelligence face a crisis situation more efficiently with good problem solving and decision making skills.

Sternberg (1985), suggests that there are other dimensions of intelligence - social intelligence, EQ, or practical intelligence or what scholars refer to as "street smarts" - which indicates that an individual is not limited simply because he or she has a below average academic intelligence or IQ.

Several researchers have attempted to develop measures of EQ (Bernet, 1996; Bar-On, 1997; Cooper and Sawaf, 1997; Schutte et al., 1998; Mayer et al., 2000; Boyatzis and Goleman, 2001; Law et al., 2004; Rahim et al., 2002). Goleman (1995) is the progenitor of the EQ construct. In his role as a consultant in organizations, Gardner (1983); Goleman, 1995; Goleman et al., 2002) found that EQ is twice more important than technical skills and IQ for jobs at all levels. He also reported that EQ plays an increasingly important role at the highest levels of a company. It appears that EQ relates to a number of non-cognitive skills, abilities, or competencies that influence a manager's capacity to deal with environmental demands and pressures.

Another issue is that in organizational studies, supervisors are often asked to assess their own managerial skills, but studies by Kruger and Dunning (1999) and Shipper and Dillard (2000) reported that unsuccessful supervisors overestimate their skills compared to successful supervisors. Also three studies reported that under-estimators of their managerial skills are likely to be more effective than over-estimators (Atwater and Yammarino, 1992; Van Velsion et al., 1993; Church, 1997). As a result, if the supervisors are asked to self-assess their EQ, some of them will probably provide misleading information.

#### **a. Transformational Leadership**

Polychroniou (2009), identified that informal meetings between supervisors and subordinates on a regular basis empower joint decision-making and participative management. Moreover, the

existence of accurate job description on departmental basis is associated positively with effective task allocation and the absence of role conflict.

Hull (2006), found that managers are faced with a requirement to develop, implement and if necessary challenge a range of new tasks, business processes, projects to be managed and teams to be led.

Leaders who possess empathy are likely to recognize subordinates' need, take active interest in them, respond to changes in their emotional states, and to work together to attain goals on team basis (Rahim et al., 2002). Empathy is likely to be associated with individualized consideration. Social skills that are associated with enabling followers to engage in desirable behaviours are likely to be associated with intellectual stimulation (Goleman, 2001; Rahim et al., 2006). Employees are likely to respect and emotionally identify with a leader who is considerate and is willing to help subordinates to be effective, enhance utilisation of integrating style for handling conflict and improve their job performance (Rahim et al., 2002, 2006).

The true transformational leader often does not fit within a traditional organization and may lead a social movement rather than a formal organization (Hellriegel and Slocum, 2004; Hellriegel et al., 2005).

Work teams may be more successful in achieving organizational goals if their members are empowered to do their jobs (Latham and Gary, 2004). Conversely, if their authority and responsibility are restricted, employees may well reduce their levels of commitment (Steers et al., 2004).

Theoretical contributions suggest that components of EQ may be associated with effective leadership (Morris and Feldman, 1996; Goleman, 1998, 2001; Bass, 2002). Existing literature support that dimensions of supervisors' EQ influence supervisor's transformational leadership, subordinates' outcomes and job performance (Megerian and Sosik, 1996; Rahim et al., 2002, 2006).

Burns (1978), proposed that transformational leadership is associated with distinct dimensions of charisma or idealized influence (extent of pride, trust, and respect engendered by and emotional identification with the leader), intellectual stimulation (extent the leader encourages followers to question their own way of doing things and become innovative), and individualized consideration (extent the leader provides personal attention and encouragement for self-development of followers)(Bass, 1985; Bass and Avolino, 1993).

#### **Objectives of Study**

The following objectives of the study were considered:

1. To identify the relevant factors of emotional intelligence of the correctional officers of West Bengal
2. To identify the relevant factors of transformational leadership skills of the correctional officers of West Bengal
3. To investigate the facilitating effect of emotional intelligence and its domains on transformational leadership and its domain.

#### **Hypothesis**

Scholars and writers in management are beginning to emphasize the importance of EI on transformational leadership, where these leaders exhibit behaviours associated with increasing effectiveness and handling conflict with subordinates for positive outcomes on teamwork (Sternberg, 1985; Bass, 1993; Bernet, 1996; Megerian and



Sosik, 1996; Morris and Feldman, 1996; Goleman, 1998, 2001; Bass, 2002, Rahim et al., 2002, `2006).

Several scholars use the term EI to include emotional awareness, accurate self-assessment, self-confidence, trustworthiness, conscientiousness, adaptability, innovation, and so on (e.g., Goleman, 1998; Bar-On and Parker, 2000). Also, studies reported that self-awareness is an essential ability for enhancing managerial effectiveness (e.g., Church, 1997; Shipper and Dillard, 2000), prerequisite for self-regulation, empathy, and social skills. Goleman (2001) indicates that in workplace self-awareness positively influences self-regulation, empathy, social skills, and motivation; and self-regulation, those are associated with EI.

In order to understand the emotional processes and deal with them effectively in workplace, one needs to have Perception of emotion, Managing own emotion, Managing emotion of others and Utilization of emotion of others (Church, 1997; Sosik and Megerian, 1999; Druskat and Wolf, 2001). Therefore, an attempt was made to assess correctional officers' own EI and transformational leadership. Matching with the subjects of the study we selected the domains of EI Perception of emotion, Managing own emotion, managing emotion of others and Utilization of emotion of others for the present study because we believed that manifestations of these domains of EI in an organizational context will have a significant influence on officers' perceptions of their own transformational leadership.

The leaders who possess interpersonal intelligence may be associated with transformational leadership for several reasons. Managing emotion of others and Utilization of emotion of others dimensions of EI are associated with enabling followers to engage in desirable behaviours are likely to be associated with intellectual stimulation. Employees are likely to respect and emotionally identify

with a transformational leader who is considerate and is willing to help employees to increase team effectiveness and improve their job performance. Moreover, leaders who possess capacity to perceive the emotions i.e., who possess empathy are likely to recognize followers' needs, take active interest in them, and respond to changes in their emotional states.

Managing own emotion and managing emotion of others, in the process of attaining goals, could be useful in a supervisor-subordinate conflict, which must be handled functionally for positive outcomes. Therefore, the three dimensions of EI are likely to be associated with leaders' charisma or idealized influence.

Taking lead from these contributions, it is hypothesized that the selected domains of EI are positively associated with supervisor's transformational leadership in respect to managing the attention, managing the meaning, managing the trust, concern for self & others, management of risk and management of feeling for increasing team effectiveness with subordinate.

H1. Self perceived emotional intelligence of correctional officers of West Bengal Correctional Service are related positively with their perceived transformational leadership skills.

## Methodology

### a. Sample and Procedure

The present research investigated how Perception of emotion, Managing own emotion, Managing emotion of others and Utilization of emotion of others of EI are associated with correctional officers' transformational leadership. Profile of the sample with frequency distribution are shown in Table 1.

**Table-1: Profile of the Sample with frequency distribution of sample (Sample size, N=224, M=204, F=20)**

Age (in Years)	Designations														Total	
	Superintendents		Chief Controllers		Welfare Officers		Controllers		Discipline Officers		Assistant Controllers		Probationary Officers			
	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
26-30	0	0	6 (2.8)	0	2 (.08)	3 (1.3)	9 (4.0)	1 (.04)	5 (2.2)	0	24 (10.1)	0	2 (.08)	0	48 (23.2)	4 (1.8)
31-35	0	0	2 (.08)	0	1 (.04)	8 (3.6)	15 (7.0)	1 (.04)	1 (.04)	0	15 (7.0)	3 (1.3)	2 (.08)	0	36 (16.1)	12 (5.1)
36-40	4 (1.8)	0	0	0	1 (.04)	1 (.04)	22 (9.8)	2 (.08)	0	0	5 (2.2)	1 (.04)	0	0	32 (14.3)	4 (1.8)
41-45	10 (4.5)	0	10 (4.5)	0	0	0	10 (4.5)	0	4 (1.8)	0		0	6 (2.8)	0	40 (17.9)	0
46-50	6 (2.8)	0	4 (1.8)	0	0	0	0	0	6	0	0	0	0	0	16 (7.1)	0
51-55	8 (3.6)	0	4 (1.8)	0	0	0	0	0	0	0	8 (3.6)	0	4 (1.8)	0	24 (10.1)	0
56-60	4 (1.8)	0	2 (.08)	0	0	0	0	0	0	0	0	0	2 (.08)	0	8 (3.6)	0
Total	32 (14.3)	0	28 (12.5)	0	4 (1.8)	12 (5.4)	56 (25)	4 (1.8)	16 (7.1)	0	52 (23.2)	4 (1.8)	16 (7.1)	0	204 (94.6)	20 (5.4)

**Note:** 1. 'M' stands for Male; 'F' stands for Female  
2. Figures in the parentheses are the percentages on category total.

## Data Collection

Data were collected by means of structured close-ended questionnaires in a series of face-to-face interaction regarding their self-perceived emotional intelligence and transformational leadership, group wise with a gap of 15 days or more. Furthermore, in depth interviews were conducted in order to collect some qualitative information.

## Measurement

### a. Emotional Intelligence (EI)

The selected components of supervisory EI (Perception of emotion, Managing own emotion, Managing emotion of others and Utilization of emotion) were measured with items adopted from widely used Schutte Emotional Intelligence Scale (SEIS) (1998) (Jonker & Vosloo, 2010). An important issue raised by Petrides and Furnham (2000) is whether this scale can be used in research as a face valid, unidimensional measure of EI in organizations. A look into the psychometric properties of the SEIS would therefore help to answer this question.

The SEIS comprises 33 self-referencing statements and requires subjects to rate the extent to which they agree or disagree with each statement on a five-point scale (1 = strongly disagree; 5 = strongly agree) (Ciarrochi *et al.*, 2000). Participants, reply on a Likert scale and a total score is derived by summing up the item responses (Petrides & Furnham, 2000). The brevity of the scale and its accumulating reliability and validity evidence makes this scale a reasonable choice for those that are seeking a brief self-report measure of global EI.

Initially an instrument was designed and filled out by a group of supervisors (N=90). On completion the instructor initiated an item-by-item discussion. Criticisms of the instrument were also received from two management and industrial psychology faculty. The items that were reported to be difficult, ambiguous, or inconsistent were either dropped or revised. A new item was added to compensate the elimination of an item. Special attempts were made to make the items free from social desirability contamination. After each factor analysis, the items that loaded less than 0.50 and/or loaded on an uninterpretable factor were dropped or rephrased.

### b. Transformational Leadership (TL)

Developed by M. Sashkin in the year 1997, the questionnaire was used as an instrument to assess the six basic aspects of transformational leadership: management of attention, management of meaning, management of trust, management of self, management of risk, management of feelings. The Transformational Leadership Questionnaire (TLQ), besides the measurement of six basic leader behaviour patterns, also assesses set of emotional responses usually associated with transformational leadership.

Transformational leadership was measured with 24 items adapted from the TLQ. The respondents were asked to rank each item on a five-point box scale (5= To a great extent ... 1= To little or no extent). The scale was computed by averaging the responses to the items. A

higher score indicates greater transformational leadership behavior and vice versa. Scores of 16 to 20 on a behavioural pattern are consistent with transformational leadership on that dimension. After each factor analysis, the items that loaded less than 0.50 and/or loaded on an uninterpretable factor were dropped or rephrased.

## Results

To test the hypothesis, data analysis proceeded using SPSS

- a. Exploratory factor analysis on the 33 EI items supported the four independent dimensions of EI. Factor loadings for all the domains range are 0.55 to 0.88. The internal consistency reliability coefficients of the four subscales of the EI, as assessed with Cronbach  $\alpha$ , exhibit high internal consistency (range 0.482 to 0.789) (Table 2).

**Table-2: Factors Loading and Internal Consistency for Domains of Emotional Intelligence**

Domains	Factor Loading	Cronbach $\alpha$
Perception of Emotion (PE)	0.837	0.694
Managing Own Emotion (MO)	0.774	0.482
Managing Emotion of Others (MOT)	0.876	0.639
Utilization of Emotion (UT)	0.554	0.601
Emotional Intelligence (Overall) (EI)		0.789

- b. An exploratory factor analysis on the 24 items of TLQ confirmed a significant factor representing transformational leadership with loadings ranging from 0.52 to 0.79. The Cronbach  $\alpha$  for this scale were also exhibiting internal consistency (range 0.422 to 0.610) (Table 3).

**Table-3: Factors Loading and Internal Consistency for Domains of Transformational Leadership**

Domains	Factor Loading	Cronbach $\alpha$
Management of Attention (MA)	0.794	0.430
Management of Meaning (MM)	0.785	0.439
Management of Trust (MT)	0.774	0.422
Management of Self (MS)	0.728	0.582
Management of Risk (MR)	0.519	0.610
Management of Feelings (MF)	0.731	0.555
Transformational Leadership (Overall) (TL)		0.818

- c. Table IV shows Pearson coefficients of correlation between domains of transformational leadership and domains of EI (Intra and Inter). EI and all its domains, transformational leadership and all its domains showed high correlation among them. This signifies the internal consistency of two scales for measuring the emotional intelligence and transformational leadership for correctional officers. Correlation between the domain of EI - **Perception of own emotions** and **Management of Self** of TL ( $r = 0.528$ ), and overall EI and TL are highly correlated ( $r = 0.510$ ).

**Table-4: Pearson Coefficients of Correlations between Dimensions of Transformational Leadership and Dimensions of Emotional Intelligence (Intra and Inter)**

	<i>Domains</i>											
	PE	MO	MOT	UT	EI	MA	MM	MT	MS	MR	MF	TL
<b>PE</b>	1.000											
<b>MO</b>	<b>.516</b>	1.000										
<b>MOT</b>	<b>.647</b>	<b>.556</b>	1.000									
<b>UT</b>	.223	.149	.316	1.000								
<b>EI</b>	<b>.770</b>	<b>.690</b>	<b>.849</b>	<b>.643</b>	1.000							
<b>MA</b>	.031	.099	.032	.047	.067	1.000						
<b>MM</b>	.206	.297	.167	.069	.232	<b>.527</b>	1.000					
<b>MT</b>	.265	.259	.272	.008	.253	<b>.519</b>	<b>.540</b>	1.000				
<b>MS</b>	<b>.528</b>	.212	.315	.195	.383	<b>.462</b>	<b>.469</b>	<b>.485</b>	1.000			
<b>MR</b>	.052	.072	.118	.139	.137	<b>.427</b>	.354	.178	.333	1.000		
<b>MF</b>	.125	.219	.239	.212	.274	<b>.491</b>	<b>.480</b>	<b>.556</b>	<b>.416</b>	.182	1.000	
<b>TL</b>	.258	.268	.263	.152	<b>.510</b>	<b>.788</b>	<b>.783</b>	<b>.754</b>	<b>.733</b>	<b>.572</b>	<b>.710</b>	1.000

d. Stepwise multiple regression analysis was made with transformational leadership as the dependent variable and overall EI and Perception of own emotions, as the independent variables (Table 5). It is observed from Table 5 that the component Perception of own emotions of EI explained and facilitated 17% of the total variance in Transformational Leadership. Perception of own emotions of EI were positively associated with supervisor's transformational leadership that provided full support to H1. It appears that Perception of own emotions of EI is a good predictor of supervisor's transformational leadership

**Table-5: Results of Stepwise Regression Analysis Explain the Impact of Overall Emotional Intelligence (EI) and Its Component - Perception of Own Emotions (PE) on Transformational Leadership**

<b>Impact of Emotional Intelligence (EI)</b>	<b>R</b>	<b>R<sup>2</sup></b>	<b>Adjusted R<sup>2</sup></b>	<b><math>\beta</math> Value</b>
Perception of Own Emotions (PE)	0.43	0.15	0.17	0.14

### Discussion

Modern organizations focus on supervisor's effective leading on team basis. Scholars and writers in management emphasize that the supervisors who possess interpersonal intelligence may be associated with transformational leadership for several reasons. This study contributed to the understanding of the linkage that the perception of own emotions are positively associated with transformational leadership of the correctional officers of West Bengal Correctional Home. In order to understand the emotional processes and deal with them effectively, one needs to have self-awareness and self-regulation. The implications of the study are that supervisors need to acquire and use their competencies on emotional intelligence in order to enhance their own transformational leadership and improve team effectiveness regarding supervisor-subordinate interaction. As because the transformational leadership has positive impact on subordinate's willingness to integrate goals with their supervisors and follow a creative problem solving process, this will help the supervisors and subordinates to develop participative management, team consensus and to work together to attain goals.

Appropriate interventions may be needed to enhance supervisors' emotional competencies and transformational leadership that would involve education and specific job-related training. Organizations should provide positive reinforcements for learning and improving managers' essential emotional competencies needed for specific jobs. Moreover, organizations may have to adapt the policy of recruiting

managers with vision and charisma who are likely to be high on EI giving emphasis on team building.

There should also be appropriate changes in the organization design that would require creating flatter, decentralized, and less complex structures. These changes in the organization design, culture, and positive reinforcements will encourage correctional officers to acquire emotional competencies and enhance transformational leadership needed for improving their job performance and developing effectively teams.

### Scope for Further Study

This study is limited by the domain of EI components to investigate the relationships with supervisor's transformational leadership. Further research is needed to enhance our understanding of the relationships between EI and transformational leadership of supervisors and their impact on team effectiveness. An important area of future research concerns carefully designing and evaluating the effects of intervention on supervisory EI in enhancing leadership effectiveness. Also it will be useful to investigate the differences in the perceptions regarding the leadership performance of managers with low and high EQ. Moreover, future studies should try to investigate, how other concepts (task allocation, group learning, skills development, job satisfaction and organizational commitment) are also associated with EI and transformational leadership and consequently team effectiveness.

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#### About the Author

**Dr. Rita Basu**, M Sc (Applied Psychology, University of Calcutta), MBA (Operation Research, Jadavpur University), Ph D. (Organizational Behaviour, University of Calcutta); Associate Professor, Institute of Business Management, The National Council of Education, Bengal, Jadavpur University, Mailing Address: **Office**: 188 Raja S C Mallick Road; Kolkata – 700032, West Bengal (India). **Residence**: FD 37, Sector III, Salt Lake City, Kolkata-700106, West Bengal (India).  
Tel Nos.: +91-33-24146810, +91-33-24146219 (Office); +91-33-23374019 (Residence), +91-9433052317 (mobile); Fax no: +91-33-24146357; E mail id: [rita\\_nce@yahoo.com](mailto:rita_nce@yahoo.com)



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## Determinants of Commercial Banks Liquidity in Ethiopia

**Daniel Tolesa Agama**

Assistant Professor, Department of Accounting and Finance, College of Business and Economics, Jimma University, Jimma Ethiopia,  
[dnltls2@gmail.com](mailto:dnltls2@gmail.com) / [dtolesa@yahoo.com](mailto:dtolesa@yahoo.com)

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### ABSTRACT

The major aim of the paper was to identify factors that determine liquidity of commercial banks in Ethiopia. A balanced panel data incorporating five bank specific and three macroeconomic variables for the period of 2000 to 2012 were considered. Fixed effect or random effect estimation techniques were employed based on the diagnosis tests made and nature of dependent variables. The researcher has found Ethiopian commercial banks' liquidity increases with the increase of their capital share in total assets and improvement of their asset quality. In contrary, it is found that the increase of banks profitability, its risk taking behavior, opportunity cost of holding liquid assets and advancement of the economy adversely affect commercial banks' liquidity position. The impact of bank size on liquidity is somewhat inconsistent and it is advisable to conduct further study by grouping banks based on their size.

### Introduction

Liquidity management is the company's ability to provide to business lines funding at a reasonable cost and to meet company liabilities on a short, medium and long-term horizon (Dimitiu and Oaca, 2009).

According to the study made by Adebayo, et al., (2011), effective and efficient liquidity management is one of the measures used to overcome the problem of both illiquidity and excess liquidity, which they called "financial diseases", so as to insure the healthiness of commercial banks and their profitability. Moreover, they and others also concluded that commercial banks' liquidity is inversely related to their profitability because of the higher cost of funding these loans through the high interest on inter-bank borrowings and higher rates of non-performing loans (Adebayo, et al., 2011; Vodova, 2011a; Rauch, et al., 2009; Bunda and Desquilbet, 2008 and Aspachs, et al., 2005).

Consistently, Bordeleau and Graham (2010) in their intensive study present empirical evidence regarding the relationship between liquid asset holdings and profitability; found a nonlinear relationship,

whereby profitability is improved for banks that hold some liquid assets, however, there is a point beyond which holding further liquid assets diminishes a banks' profitability, *ceteris paribus*, because this benefit can eventually be outweighed by the opportunity cost of holding such comparatively low-yielding liquid assets on the balance sheet.

According to a study by Vodova (2011a) which identified determinants of liquidity of Czech's commercial banks she concluded that there is a positive link between bank liquidity and capital adequacy, share of non-performing loans and interest rates on loans and on interbank transactions. In contrary, there is negative influence of inflation, business cycle, and financial crises on liquidity of commercial banks of Czech. Bunda and Desquilbet (2008) have also found that capital adequacy, which is measured by ratio of total equity to total assets, rate of inflation and share of public expenditure on GDP have favorable impact on bank's liquidity.

On the other hand, the loan growth rate, the risk taking behavior of the bank and level of unemployment in the country found to have negative contribution on banks' liquidity (Rauch, et al., 2009; Aspachs, et al., 2005).

The effect of bank size is somewhat mixed. For instance, Vodova (2011a) and Bunda and Desquilbet (2008), using logarithm of total asset as proxy of bank size found its statistically negative effect on banks liquidity which is similar to Rauch, et al., (2009) which used the number of customers of the bank to measure its size. In contrary, Lucchetta (2007) found a positive impact of banks size measured using

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total assets. Moreover, the findings of Aspachs, et al., (2005), were different when they used various dependent variables.

Among the macro economic factors, gross domestic product, short term interest rate and lending interest rate, all are highly and negatively related to banks' liquidity position (Aspachs, et al., 2005; Lucchetta, 2007; Bunda and Desquilbet, 2008; and Rauch, et al., 2009).

### Research Problem and Objectives

Bank liquidity refers to the ability of the bank to ensure the availability of funds to meet financial commitments or maturing obligations at a reasonable price at all times. The survival of commercial banks depends greatly on how liquid they are since illiquidity is being a sign of imminent distress and can easily erode the confidence of the public on the banking sector and results to reduce deposit.

On the other hand, commercial banks should reactivate the idle funds borrowed from the lenders (depositors) by investing such fund in different classes of portfolios to ensure continued provision of productive resources and survival through generating interest income on loan. It therefore, becomes inefficient for commercial banks to hold excess liquid assets. Such intermediation role of commercial banks is affected by liquidity problems.

A bank may be solvent, but if lenders lose confidence in the bank's ability to provide funds upon request, this can result in a liquidity crisis which can bring down otherwise healthy institutions in a short period of time. Thus, one of the main challenges to a bank is ensuring its own liquidity under all reasonable conditions.

In contrast to a good liquidity standing of private commercial banks in Ethiopia, recently they have been hit by serious liquidity crunch due to the issuance of directive number MFA/NBE/Bills/001/2011 in April 2011 which obligated them to allocate 27 percent of their gross loans disbursement for purchase of bonds from National Bank of Ethiopia (the Reporter, 2011).

Thus, from the perspective of commercial banks, sound liquidity management is crucial for reducing funding and market liquidity stresses and to meet cash flow obligations without affecting daily operations or financial conditions once the banking system comes under severe pressure.

With this background, the main aim of this research is, therefore, to identify the major bank specific and macro level factors that determine liquidity of Ethiopian commercial banks.

### Methodology and Data

#### Variable Definition

Based on the empirical literatures on the study area and the availability of data in Ethiopian banking industry context the following variables were identified.

**Table-1: Summary of Variable Selection and Expected Sign**

Variables	Definitions
Dependent Variables*	
LIQ <sub>1</sub>	[Liquid Assets ÷ Total Assets]
LIQ <sub>2</sub>	[Liquid Assets ÷ (Deposits + Short Term Borrowings)]
LIQ <sub>3</sub>	[Loans ÷ (Deposits + Short Term Financing)]

LIQ <sub>4</sub>	[Loans ÷ Total Assets]	
Explanatory Variables**		
a) Bank Specific Variables		Exp.Sign
EQTA	(Own Capital ÷ Total Assets) - as a measure of Capital Adequacy	+
LLTL	(Loan Loss Provision ÷ Total Loans) - as a measure of asset quality	-
ROAA	(Net Income after Tax ÷ Average Total Assets) - as a measure of profitability	-
LLIR	(Loan Loss Provision ÷ Net Interest Income) - as a measure of risk taking behavior of each bank.	-
INMR	(Lending Interest Rate – Saving Interest Rate) - Opportunity cost of holding liquid assets	-
b) Macro-Level Variables		
RGDP	Real Gross Domestic Product as indicator of business cycle	-
INFL	Percentage change in Consumer Price index (as indicator of banks vulnerability to nominal loans to customers)	+
LGTA	Logarithm of total assets (as a measure of bank size)	+/-

Source: \*Mainly adopted from Vodova (2011b) and \*\*Researchers own compilation based on empirical studies

### Sampling Techniques and Sample Size

The researcher has purposely selected eight commercial banks (6 private owned and 2 public owned) among 16 total commercial banks in Ethiopia. The sample banks constitute more than 95 percent share of all commercial banks' total assets, and total loans; thus can extremely represent the population.

### Data Type and Source

Secondary data which were excerpted from the audited annual financial statements of each sample commercial banks for the year 2000 to 2012 were used to capture bank specific variables while macro-economic data were obtained from the NBE and/or World Bank reports.

### Model Specification

$$LIQ_{it} = C + \beta X_{it} + \alpha_i + \varepsilon$$

Where  $LIQ_{it}$  is liquidity ratio of bank 'i' at time 't' measured using the four formulas specified in table 1 above,  $X_{it}$  is independent variables for bank 'i' at time 't',  $\beta$  = coefficient which represents the slope of variables,  $\alpha_i$  = fixed effects in bank 'i' and  $\varepsilon$  is the error term.

After data are compiled and entered to Stata SE 10.1, various data tests were conducted and based on the Hausman test and Pagan LM test made the researcher employed fixed effect to regress when LIQ<sub>1</sub>, LIQ<sub>3</sub> and LIQ<sub>4</sub> are used as dependent variable; while random effect is



used with LIQ2. The output is presented using tables and possible interpretations were conducted.

### Data Analysis and Discussion

For analysis purpose an econometric software package Stata SE 10.1 was used. Regression estimations for each of the four dependent

variables (LIQ1 to LIQ4, see table 1) were made separately. In order to get appropriate determining factors for each of the four explained variables, the researcher used different explaining variables (based on their statistical significance).

**Table-2: Determinants of Commercial Banks Liquidity Measured by LIQ1 and LIQ2**

Dependent Variable = LIQ1			Dependent Variable = LIQ2		
Variables	Coefficient	Significance	Variables	Coefficient	Significance
C	21.72273	0.086*	C	51.88497	0.000***
EQTA	0.256501	0.068*	EQTA	1.46632	0.000***
LLTL	2.352608	0.000***	LLTL	1.03992	0.000***
ROAA	-1.325358	0.084*	INMR	-4.406827	0.0420**
LLIR	-0.042864	0.073*	LGTA	-2.593923	0.091*
Adjusted R <sup>2</sup>	0.5441		Adjusted R <sup>2</sup>	0.6667	
Total Panel Obs.	104		Total Panel Obs.	104	

*Significant at 10% (\*), 5%, (\*\*) or at 1% (\*\*\*).*

Table 2 above shows liquidity measures captured when LIQ1 and LIQ2 are used as dependent variables to measure commercial banks liquidity. Both models have good explanatory power and all coefficients in the model correspond to the expectations made.

The positive coefficient of ratio of own capital in total assets (EQTA) shows the banks with higher capital has good ability to absorb liquidity problems. This is consistent with the expectations made and findings of previous studies made such as Vodova (2011a) and Aspachs, et al., (2005).

Asset quality captured by loan loss provision to total loan ratio (LLTL) has statistically positive significant impact on the liquidity of the commercial banks in Ethiopia. This is also consistent with the expectation and evident that commercial banks in Ethiopia has good loan and liquidity risk management. The higher the loan loss provision as percentage of total loan, the higher the liquidity reserve to be kept or maintained by the banks.

Banks profitability is inverse statistically significant impact on liquidity at 10%. This is consistent with the expectation made which means the higher the liquidity (large liquid assets at hand which has no return), the lower return then lower profitability. This is consistent with the findings of Rauch, et al (2009) and Aspachs, et al (2005).

The significantly high negative impact of the interest margin rate on LIQ2, shows that banks are encouraged by high interest rate to lend more. The higher the lending, the lower level of liquidity for those banks. This is similar to the findings of Moore (2010), Bunda and Desquilbet (2008) and Aspachs, et al., (2005).

The size of banks captured by using logarithm of bank's total assets and the LLIR which captures the risk taking behavior of each bank, have significantly negative impact on their liquidity position measured by LIQ2 and LIQ1 respectively. This inverse relation is similar to previous studies by Bunda and Desquilbet (2008), Aspachs, et al., (2005) and Rauch, et al (2009).

**Table-3: Determinants of Commercial Banks Liquidity Measured by LIQ3 & LIQ4**

Dependent Variable = LIQ3			Dependent Variable = LIQ4		
Variables	Coefficient	Significance	Variables	Coefficient	Significance
C	20.86062	0.000***	C	116.151	0.000***
LLTL	-1.567759	0.001***	EQTA	-0.421648	0.062*
LGTA	-22.76282	0.000***	LLTL	-0.703256	0.019**
RGDP	0.052697	0.093*	LGTA	-11.9012	0.000***
Adjusted R <sup>2</sup>	0.3644		Adjusted R <sup>2</sup>	0.4603	
Total Panel Obs.	104		Total Panel Obs.	104	

*Significant at 10% (\*), 5%, (\*\*) or at 1% (\*\*\*).*

Table 3 presents regression results when LIQ3 and LIQ4 are used as dependent variables. The LIQ3 which is captured by ratio of loans to deposit and the LIQ4 which is the ratio of loans to total assets have by themselves inverse effect on the liquidity of banks. Therefore, the discussion made in relation to regression results should be opposite to the sign of the coefficient. Thus, negative coefficient means the variables has positive impact on the level of liquidity and vice versa.

The result related to asset quality (LLTL) is similar to previous findings discussed under table 2. That means the higher the asset quality level, the better the liquidity position of the bank. In contrast to the findings shown in table 2 for LIQ2, the size of the bank has statistically significant favorable impact on the liquidity of commercial banks in Ethiopia measured by LIQ3 and LIQ4 at 1% significant level. Here larger banks are more liquid than the smaller ones which is similar to the findings of Vodova (2013) and Luchetta (2007). From

this, one can infer that the impact of bank size on their liquidity is somewhat inconsistent. This may be created due to including banks with significantly different size (total assets) within a single panel. For instance, as of June 30, 2012 the sum of total assets of the six sample privately owned commercial banks is only 40.5% of a single giant fast expanding public owned bank, Commercial Bank of Ethiopia; hence it seems illogical to regress the logarithm of total assets of these banks in one model.

The other new variable found to have significant negative impact on the liquidity of commercial banks in Ethiopia, LIQ3, is the RGDP. Here the positive sign of RGDP growth rate evident that the stage of business cycle has statistically significant negative impact on bank's liquidity level. This means during the boom the business organizations want to take more loan and commercial banks lost their liquidity level due to the actions taken to satisfy the growing demand for loan in the market. This is similar to the findings of Vodova (2011a).

Lastly, the EQTA which is measured by the equity to total asset ratio of the bank has statistically positive significant impact on banks' level of liquidity measured by LIQ4 which is consistent with what is shown in our previous analysis (table 2).

### Conclusions and the Way Forward

The general objective of this research was to identify the major determinants of liquidity of commercial banks in Ethiopia. A strongly balanced panel data from 2000 to 2012 from six private and two public owned commercial banks were used as sample of the study. A fixed effect and random effect of panel data regression for the four liquidity measures (dependent variables) adopted from Vodova (2011b) were made.

All the explanatory variables with the exception of bank size have shown consistent and similar sign as expected. Based on the analysis made and the result of the model we can draw the following concluding remarks.

- Among the four dependent variables used for measure of commercial banks' liquidity, it is the ratio of liquid assets to deposits and short term borrowings (LIQ2), which has been well explained by independent variables.
- Capital adequacy and asset quality have statistically significant positive effect on commercial banks liquidity. That is, banks liquidity increases with the increase of their capital share in total assets and loan loss provision.
- In contrast, commercial banks liquidity decreases with the increase of banks profitability, risk taking behavior of banks, opportunity cost of holding liquid assets and growth of the economy.
- The impact of bank size on their liquidity is somewhat inconsistent and we cannot conclude the direction of the effect based on this finding. Thus, it is better if further research is conducted by capturing the size of the bank by grouping them based on their size as small, medium and large size banks and regress separately for each group.
- There is no statistically significant evidence found to conclude the impact of inflation rate on commercial banks' liquidity.
- Future research should incorporate the impact of policy factors such as directives issued by governing body; for example, on housing deposit and restriction held on private commercial banks in buying Great Renaissance Dam's

(GRD) bond on banks liquidity. Moreover, the analysis should consider if there is significant difference in level of liquidity among commercial banks based on the ownership (private and public).

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## Development of Capacity Building through Self Help Groups in Tuticorin District

**Amutha, D.**

Asso. Professor of Economics, St. Mary's College (Autonomous), Tuticorin, [amuthajoe@gmail.com](mailto:amuthajoe@gmail.com)

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### ABSTRACT

Women acquire collective bargaining power and at the same time, they get an institution of their own which is managed by them. This study aims at evaluating the empowerment and poverty alleviation of rural women through SHGs and development of capacity building in Tuticorin district of Tamilnadu. Totally 185 respondents were selected from 54 SHGs (923 total members) of four blocks by using simple random sampling method. The sample size was 20% of the total members in the SHGs. This is purely a descriptive study. Percentage, average, t test, standard deviation, variance and probability analysis were used. It is found that the social service activities were ranked first followed by mobilisation of the public for women issues. Discussion on individual problems of group members was ranked third and participation in expansion activities ranked fourth. Decision on vote in the time of election and making non-members conscious about the benefits of SHG was ranked fifth and sixth respectively. In order to find out the significant difference in satisfaction of work among the SHG members based on age, the 't' value was calculated and the calculated 't' value was found to be 0.4873 which is lower than the table value 1.97 which is significant at 0.05 level. Therefore the null hypothesis is accepted and concluded that there is no significant difference in satisfaction of work among the SHG members between different age levels of the respondents. The success of women development depends on capacity building and poverty alleviation, which depends on improvement in literacy, better communication skills, better leadership skill, self-help and mutual help. 24% respondents were of the view that better communication and leadership skill; only 3% respondents were of the view that improvement in literacy and 31% respondents were of the view that self-help and mutual help were the reasons for capacity building. The remaining 17 per cent stated that SHGs increase self-confidence & risk bearing.

### Introduction

Self-Help Groups (SHGs) programme was one of the new 1991 policies on Small Scale Industries initiated with an emphasis on development of entrepreneurship among the poor (National Bank for Agriculture and Rural Development, 1992). SHGs were started and formed in 1975 (Gunasekaran, 2010). The number of members in one SHG does not exceed 20 (Surender and Manoj Kumar, 2010). The number of SHGs financed by banks in the country has grown annually

ten times and the annual loan disbursal by about thirty-seven times over the last decade (Nair, S. Tara, 2012).

As on thirty-first March 2011, there are seventy-four lakh SHGs, covering ten crores households, of which more than ninety per cent are women dominated. About 66.22 per cent of the SHGs had accessed bank credit, with the group members having an outstanding credit of over Rs. 31,000 crores and a saving of over Rs. 7,000 crores through the formal banking system. National Bank for Agricultural and Rural Development (NABARD) finds SHG-BLP to be the most preferred and viable model of financial inclusion of the unreached poor (National Bank for Agriculture and Rural Development, 2012).

A study by NABARD (National Bank for Agriculture and Rural Development, 1993) revealed that the SHG has turned out to be a channel for social mobilization, women empowerment, and new business with quality clients and significantly increased wellbeing. However, although poverty ratio in India is declining, its persistence

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and the deterioration in quality of employment in terms of increased actualisation of labour and rising inequality since the initiation of 1991 reforms policy have resulted in a rise in human deprivation in the country (National Sample Survey Organization, 2006). Women being the most affected under such circumstances, the Self-Help Groups (SHGs) programme has laid special emphasis on the development of entrepreneurship among women through training (National Bank for Agriculture and Rural Development, 1992).

The average monthly income from SHG production activity was a little more than the per capita rural poverty line income per month (Government of India, 2012) (Hannover, Wolfgang, 2011). Vinayaga Moorthy (2007) noted that the self-help group members' saving habit increased through SHG. Selvaraj (2007) pointed out that the SHG women has a major role to play in decision making and the middle age group women are highly empowered in comparison with other age group members.

Geeta Manmohan et al., (2008) view that Micro finance is such a tool, which directly hits the poverty by helping poor or enabling them not only to survive but also to improve their standard of living. Chittaranjan Mishra (2005) noted that by joining a co-operative society. Women acquire collective bargaining power and at the same time, they get an institution of their own which is managed by them. This study aims at evaluating the empowerment and poverty alleviation of rural women through SHGs and development of capacity building in Tuticorin district of Tamilnadu.

### Objectives of the Present Study

1. To analyze the socio economic conditions of SHG members
2. To know the reasons for joining SHGs
3. To know the role of SHGs in the development of capacity building through microfinance
4. To evaluate the economic and social empowerment of SHG members and poverty alleviation

### Methodology

The present study has covered four blocks from Tuticorin District viz, Oottapidaram, Pudur, Vilathikulam and Kayathar were selected for the study. These four blocks were selected for this study, because of the SHGs in these villages are functioning in a very successful manner. This study is compiled with the help of the primary data covered only six months period (2014). The primary data were collected with the help of specially prepared interview schedule. The schedule included the questions related to the general information about the SHGs' members, age, and level of education, reasons for joining SHGs, family size, savings and loan schemes available to SHGs' members. Totally 185 respondents were selected from 54 SHGs (923 total members) of four blocks by using simple random sampling method. The sample size was 20% of the total members in the SHGs. This is purely a descriptive study. Percentage, average, t test, standard deviation, variance and probability analysis were used.

### Analysis and Interpretation

The present study is related to the economic empowerment of women in the four blocks from Tuticorin District viz, Oottapidaram, Pudur, Vilathikulam and Kayathar.

**Table-1: Memberships in SHGs**

Blocks	No. of SHGs	Total Members
Oottapidaram	20	331
Pudur	12	202

Vilathikulam	16	288
Kayathar	6	102
Total	54	923

Source: Primary data

(Mean: 230.75; Standard deviation: 101.21059; Variance: 10243.58)

In the study area, a total of 54 SHGs are functioning with 923 members. From the 923 members, 185 respondents in four blocks from Tuticorin District viz, Oottapidaram, Pudur, Vilathikulam and Kayathar were selected for the study and average number of the respondents in Tuticorin District study areas was about 231 members and standard deviation was about 101.

**Table-2: Age-Wise Classification of the Respondents**

Age	Total
20-40 years	124(67.1)
40-60 years	61(32.9)
Total	185(100)

Source: Primary data

Note: Figures in bracket represent percentages to total.

From the table, it is revealed that the percentage of 20-40 years respondents is more i.e., 67%. As per the survey young and middle age group's involvements is higher than that of old aged groups in SHGs in the study area.

**Table-3: Educational Qualification of the Respondents**

Qualification	Total
Illiterate	59 (31.9)
Primary	115 (62.2)
Secondary	11(5.9)
Total	185(100)

Source: Primary data

Note: Figures in brackets represent percentages to total.

From the above table it is clear that the majority of the respondents i.e., 62 percentage completed the primary education. The illiterates were 32%. Through NGOs even the illiterate persons are enrolled. The NGOs create awareness among the illiterates.

**Table-4: Reasons for Joining SHGs**

Reasons	Total
For getting loan	131(70.8)
For social status	28(15.1)
For promoting savings	26(14.1)
Total	185(100)

Source: Primary data

Figures in bracket represent percentages to total.

In the study area, many people (71%) join the SHGs for getting financial assistance; 15% of the respondents join the SHGs for the social status, because SHGs give the identity to the members and only 14% of the respondents join for improving their savings respectively.

**Table-5: Capacity Building**

Capacity Building	Total
Better communication/ Leadership skill	44(23.8)
Improvement in Literacy	53(2.9)
Increase self-confidence & risk bearing	31(16.8)
Self Help and Mutual help	57(30.8)
Total	185(100)

Source: Primary data

Note: Figures in bracket represent percentages to total.

The success of women development depends on capacity building and poverty alleviation, which depends in improvement in literacy, better communication skills, better leadership skill, self-help and mutual help. 24% respondents were of the view that better communication and leadership skill; only 3% respondents were of the view that improvement in literacy and 31% respondents were of the view that self-help and mutual help were the reasons for capacity building. The remaining 17 per cent stated that SHG increase self-confidence & risk bearing.

**Table-6: Economic Empowerment**

Economic Empowerment	Total
Reduced Vulnerability of the women crisis	148(80.0)
Increase access & control resources at household	14(7.6)
Greater access to financial resource outside	14(7.6)
Financial Self-reliance of Women	9(4.8)
Total	185(100)

Source: Primary data

Note: Figures in bracket represent percentages to total.

Economic empowerment is the initial aspect of women development and poverty alleviation. 8% respondents were of the view that the economic empowerment has resulted in greater access to financial resources outside the household and increased access and control over resources at the household level. Further 80 per cent of them stated that economic empowerment has resulted in reduced vulnerability of the women crisis and 5% respondents were of the view that increased financial self-reliance of women.

**Table-7: Social Empowerment**

Social Empowerment	Total
Women in community & Village	35(18.9)
Equal Status participation and power of decision	35(18.9)
Increased Status Participation & decision making of	40(21.6)
Breaking social cultural, religions barrier to equal	75(40.5)
Total	185(100)

Source: Primary data

Note: Figures in bracket represent percentages to total.

Social empowerment means equal status, participation and powers of decision making of women in household level and poverty alleviation. This table shows that the majority of the respondents (41%) are of the view that the social empowerment has resulted in

breaking social, cultural and religious barriers to equal development of women and 22% respondents were expressed that increased the status of participation in the decision making of women in democratic institution. Moreover 19% of the respondents are of the view that social empowerment has led to equal status and participation and powers of decision making of women in household community and village and poverty alleviation.

**Table-8: Cooperative Activities Performed by the SHG Members**

Activities Achieved	Mean	Rank
Social service activities	58.16	I
Mobilisation of the public for women issues	53.09	II
Discussion on individual problems of group	43.97	III
Participation in expansion activities	39.62	IV
Decision on vote at the time of election	31.83	V
Making non-members conscious about the	24.61	VI

Source: Compiled from Primary Data

It is found from table 8 that the social service activities were ranked first followed by mobilisation of the public for women issues. Discussion on individual problems of group members was ranked third and participation in expansion activities ranked fourth. Decision on vote at the time of election and making non-members conscious about the benefits of SHG was ranked fifth and sixth respectively.

**Table-9: Significant Differences in Satisfaction of Work among the SHG Members Based on Age**

Age	N	Mean	SD	't' Value	Interpretation
20-40 years	124	28.35	9.14	0.4873	Not Significant
40-60 years	61	12.06	3.11		

Source: Computed from Primary Data

In order to find out the significant difference in satisfaction of work among the SHG members based on age, the 't' value was calculated and the calculated 't' value was found to be 0.4873 which is lower than the table value 1.97 which is significant at 0.05 level. Therefore the null hypothesis is accepted and concluded that there is no significant difference in satisfaction of work among the SHG members between different age levels of the respondents.

## Conclusion

From this study the researcher is able to conclude that micro finance, micro credit through SHGs has reached the people. There is a steady growth in SHGs and millions of households are being helped through micro finance and poverty alleviation. Therefore, a timely and regular check out will make the micro credit through SHGs to become a harbinger of the overall development of the socio economic development of the rural poor and poverty alleviation. To conclude, the economic activities of SHGs are quite successful. In this way, SHGs in four blocks from Tuticorin District were very successful in women empowerment in rural areas and poverty alleviation.

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## Increasing Employee Performance through Improved Sense of Ownership and Fulfillment of Expectations

**Md. Hassan Jafri**

Sr. Lecturer, Gaedu College of Business Studies, Royal University of Bhutan, Gedu, Chukha – 21007, Bhutan, [hassaan\\_j@rediffmail.com](mailto:hassaan_j@rediffmail.com)

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### ABSTRACT

Employee's job performance is critical for the sustenance and growth of an organization in an uncertain and changing work environment. The present research aimed at understanding the influence of employee expectations and perception of ownership on employee's job performance. Using random sampling procedures, data were collected from 300 employees working at different levels from three major corporations of Bhutan. Correlation and regression analysis were carried out to analyze the obtained data. Results revealed that employee's sense of ownership has positive and significant influence on employee's work performance. It is also found that perception of fulfillment of employee's expectations do explain variance in their job performance. This implies that management through their policies and practices should try to develop and maintain sense of ownership among their employees. Also organizations should make efforts to create right expectations and try to fulfill those expectations, which will encourage their employees to continue to perform. Employee's expectations have deep impact on their behaviour in an organization. Although these are so delicate and influence employee morale and performance, organizations do not always pay enough attention to these issues which may have negative influence on the employee's job performance.

### Introduction

Organizations are facing increasingly complex challenges with respect to employee's performance. Employee's individual work performance has been an issue for long and has grasped organizations all over the world. This has fueled a great deal of research in the fields of management and, work and organizational psychology (Waldman, 1994, Evans, 2004; Lerner, & Mosher, 2008). Researchers have revealed that employee's motivation, commitment and engagement is falling down at the global level (e.g. Aon Hewitt Consulting, 2011; Gallup Research, 2014), which are critical factors for their job performance. Organizations need high performing employees in order to address fast changing and diverse work demands. An organization's best source of competitive advantage lies with its employees.

Employee's job performance is extremely important for organizational performance (Davoudi & Allahyari, 2013). Organizations must obtain the highest possible level of performance from their workforce. The main purpose of management is to improve organizational performance (Juang, 2008) and it depends to a greater extent upon individual employee's performance.

Modern organizations need their employees to consider organization as their own. The assumption behind the notion is that employees should have feeling of ownership (psychological ownership) so that they give more energy and efforts to the organization. Organizations have been using economic rewards to develop ownership since long time. But Chou, Yen, and Tang (2005) pointed out that organizations cannot rely solely on the economic rewards. Organizations should pursue psychological mechanism which fulfills self-esteem, self-actualization, and other psychological levels of satisfaction to influence employee's job performance (Chou et al., 2005). One psychological mechanism could be the feeling of ownership. An employee with the sense of ownership feels that the thing (e.g. organization) is his/ her own. Ownerships are of two types – legal (e.g. having shares) and psychological. Employees can have feelings of ownership in the absence of formal or legal ownership rights (O'Driscoll, Pierce, & Coghlan, 2006; Mayhew, Ashkanasy,

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Bramble, & Gardner, 2007). Researchers have revealed that psychological ownership influences employee's attitude and behaviours (Van Dyne, & Pierce, 2004; O'Driscoll, et al., 2006). Drawing on these findings, the present research postulates that psychological ownership has the potential to influence employee's work performance. Research on psychological ownership started quite recently (Olickers & du Plessis; 2012); hence, the concept of psychological ownership is an ignored area of research. (Realizing its potential in contributing significantly in modern work organization characterized by uncertainty and change, the present study attempts to understand its influence on employee's job performance.

Employees enter into employment relationships with expectations and obligations which are different from their formal employment contract/agreement. Employee's expectations are dynamic in relation to the time and situations. These expectations and obligations are referred as psychological contract. Psychological contract have deeper and wider impact on employee's work attitude and behaviours than their formal contract. Understanding employee's psychological contract is extremely important for employee's work behaviour especially for their job performance in modern work organizations. The issue is so implicit, idiosyncratic and delicate that management either fails to realize or deliberately ignore it. Major areas of research on the construct (psychological contract) have been on employee's perception of their psychological contract breach and violation. Other important aspect of psychological contract is its fulfillment, i.e. employee's perception of meeting of their expectations by their organization. It has been shown that perception of contract fulfillments has a profound impact on job attitudes and behaviors (Zhao, Wayne, Glibkowski & Bravo, 2007). Not much attention has been given by researchers on psychological contract fulfillment (Grimmer & Oddy, 2007) and its influence on employee's job behaviour. The present study postulates that employee's perception of their contract fulfillment is crucial in enhancing their work performance. The present study is an attempt to address this gap of research as well.

## Concepts and Literature Review

### Work/ Job Performance

Employees are the backbone of any organization and in fact became more important asset than technology in modern work organization. Organizational performance is directly related to the employee's job performance. Till now no consensus has been reached in defining the concept because of its complex nature and being context specific. Viswesvaran and Ones (2000) defined work performance as scalable actions, behavior and outcomes that employees engage in or bring about that are linked with and contribute to organizational goals. Job performance consists of behaviors that employees do in their jobs that are relevant to the organizational goals. A widely accepted measure of employee's work performance has focused on objective and subjective measures (Viswesvaran & Ones, 2000; Kempplila & Lonnqvist 2003). Objective measures include those aspects of performance which can be quantified and is more of a tangible nature like number of products produced, revenue collected, or output maintained in organizational records. Subjective elements of job performance refer to employee's own perception and judgment about their task performance. In the present study employee's job performance is assessed from the perspective of task performance. Task performance is the proficiency (i.e. competency) with which employee performs his central job tasks. It is concerned with doing duties and responsibilities assigned and expected to the individual employees leading to organizational goal.

### Psychological Ownership

Concept of Psychological ownership is increasingly getting wide recognition and increased attention in a wide variety of fields including management science (Van Dyne & Pierce, 2004; Jeswani & Dave, 2011). Psychological ownership refers to the state in which individuals feel as though the target or a piece of that target is theirs (Pierce, Kostova, & Dirks, 2003). A basic of psychological ownership is the sense of possession (feeling that an object, entity, or idea is 'MINE' or 'OURS') (Furby, 1978). Ownership feelings can develop towards various tangible and intangible "targets" (Dittmar, 1992, Pierce et al. 2001). 'Targets' encompass a range of 'objects of psychological attachment'; including the organization someone belongs to (Avey, et al., 2009). It is the situation in which an individual has a sense of possession of an object (e.g. organization) in the absence of any legal and actual possession. The theory of psychological ownership considers ownership as a multi-dimensional construct consisting of sense of (1) responsibility, (2) self-identity, (3) accountability, (4) self-efficacy and (5) belongingness (Pierce et al., 2001).

Researchers have revealed that psychological ownership influences employee's attitude and behaviours (Buchko, 1993, Van Dyne, & Pierce, 2004; O'Driscoll et al., 2006). The theory of Psychological ownership argues that a sense of possession directed toward the organization satisfies three basic human motives (efficacy and effectance, self-identity, and having a sense of place). According to Pierce et al. (2001), psychological ownership has important emotional, attitudinal and behavioral effects on those that experience ownership. Studies revealed positive links between psychological ownership and employee attitudes, such as organizational commitment, job satisfaction and positive behaviour, such as improved performance and organizational citizenship (Pierce et al., 2001, 2003; Van Dyne & Pierce, 2004). However studies on this construct are very limited and conducted primarily on western context. Even though researchers have begun to explore relationships between psychological ownership and desired organizational outcomes, a need for further theory development and empirical research still needed (Avey et al., 2009). Drawing on the above findings, the present research postulates that the construct (psychological ownership) has potential to influence employee's job performance. If employees have perception of ownership towards their organization, may likely to consider organization as their own and will be dedicated and highly involved, put more energy, for the benefits of the organization. Thus the other objective of the study is to explore the influence of psychological ownership on employee's job performance. Thus the first hypothesis of the study is -

*H1: Psychological ownership will positively and significantly influence employee's job performance.*

### Psychological Contract and Its Fulfillment

Psychological contract is a set of individual beliefs or perceptions regarding reciprocal obligations between the employee and the organization (Robinson, Kraatz, & Rousseau, 1994; Morrison & Robinson, 1997). It comprises expectations and obligations which are based on perceived implicit and explicit promises. It determines what are expected of him and what are expected from the organization which is not mentioned in the formal agreement/ contract. This unwritten agreement between employer and employee contributes significantly in employment relationships in modern work organization whereby employees have lots of expectations which they expect organization to fulfill. Psychological contract can either be fulfilled or not fulfilled (referred as psychological contract breach). Psychological contract fulfillment refers to the employee's perception that employer has met

obligations of their part of the psychological contract. When employees feel that they have received inducements from the organization in a way that is consistent with the promises that the employees have perceived, then that constitutes the psychological contract (PC) fulfillment.

Extant literature revealed PC fulfillment may lead to increased commitment (Sturges, Conway, Guest, & Liefoghe, 2005), increased engagement (Bal et al., 2013), increased loyalty (Coyle-Shapiro & Conway 2005). Social exchange theory (Blau, 1964) and its central concept, the norm of reciprocity (Gouldner 1960) has been proposed as mechanism to explain the phenomenon of psychological contract. Based on the social exchange theory (Blau, 1964), employees who perceived that the organization has honored (fulfilled) its promises made in PC, may likely to be motivated to reciprocate the positive actions of their employer (PC fulfillment) by increasing the level of their performance. When employees feel employer's fulfillment to be high, they are more likely to feel obligated to reciprocate and hence increase their own sense of obligation toward the organization (Coyle-Shapiro and Kessler 2002). Previous studies have indeed shown that high levels of employer fulfillment are related to high levels of employee obligations (Coyle-Shapiro & Kessler 2002; De Vos, Buyens, & Schalk, 2003; Coyle-Shapiro & Neuman 2004). Affective event theory (AET) has also been used to explain psychological contract (Zhao et al., 2007). The AET theory states that any event in organization produces emotional reaction in employees. Applying this concept on PC fulfillment and its influence on employee's behaviour, it can be stated that perceived PC fulfillment will be considered as a positive event which in turn will influence on employee's positive emotions and consequent cognitive and behavioural responses. Hence, employees who perceive their PC as fulfilled, will respond positively by exhibiting increased work performance. Hess & Jepsen (2009) stated that employees reciprocate both cognitively or behaviorally when their PC is fulfilled by organization. Based on above arguments, it is expected that employees will increase the level at which they perform their tasks when they believe that their expectations have been fulfilled. However very limited studies exist on PC fulfillment compared to PC breach and violation. There are plenty of studies on contract breach and work outcomes including employee's performance (e.g. Robinson, 1996; Bal et al., 2010; Suazo & Stone-Romero, 2011). While PC breach and PC fulfillment are part of a continuum, the effects they create on employee attitudes are asymmetrical, and thus researchers should evaluate the effects of breach and fulfillment separately (Conway et al. 2011). The present study did not find any research related to PC fulfillment and employee's work performance. Based on the above findings and arguments, this paper argues that employee's perception of their PC fulfillment will result into increased work performance. Thus it is conjectured that –

*H2: Fulfillment of psychological contract will positively and significantly influence employee's job performance.*

## Method

### Sample and Procedures

The study was cross-sectional and is based from employee perspective. Survey was conducted from 300 fulltime employees across the levels from three major corporations of service sector in Bhutan. Random sampling procedures were used to collect the data. Respondents were called up during their working hours with the prior permission from the competent authority. Age range of respondents in this study was between 25 and 53 years, with average for the sample being 33 years approximately. Thus the sample consisted of respondents from a fairly well distributed age-group. Approximately 60 percent of the respondents were male. In terms of educational attainment, the sample population consisted of employees with graduate and above qualification (73 per cent) and the remaining was below graduate. All the necessary information regarding the study and ways to respond to the questionnaire was shared with all the respondents. Respondents were assured of confidentiality of their responses and were told that their responses shall be used for the research purpose only.

### Measurement of Variables

**Work Performance** was measured by scale taken from Work Performance Scale developed by Williams and Anderson (1991). The scale consists of 7 items of task performance. Example items are "Fulfill responsibilities specified in job description", "Performs tasks that are expected of him or her". Items were measured on a 5-point Likert type scale ranging from 1 (strongly disagree) to 5 (strongly agree). The 5 items were averaged with higher values representing greater degree of job performance. Reliability of the scale was found to be .73 (Cronbach's alpha).

**Psychological Ownership** was measured by the 12-item scale developed by Avey et al., (2009). The scale measures the construct from four dimensions – self-efficacy, accountability, belongingness and self-identity with 3 items each. Items were measured on a 5-point Likert type scale ranging from 1 (strongly disagree) to 5 (strongly agree). Higher score reflects higher psychological ownership. Reliability of the scale was found to be .76 (Cronbach's alpha).

**Psychological Contract Fulfillment:** Fulfillment of psychological contract was measured taking 3 items from the 5-items scale of psychological contract breach developed by Robinson and Morrison (2000). This is a global measure which intends to know about employees' overall view on the fulfillment of obligations by organization. An example of an item is "Almost all of the promises made by my employer during recruitment have been kept so far". Higher and more positive score on this measure indicates greater extent of psychological contract fulfillment. Responses were taken on a 5-point scale ranging from 1= Receive much less than promised, to 5= Receive much more than promised. The reliability of this scale in the current study was .79 (Cronbach's  $\alpha$ ).

## Results

**Table-1: Mean, Standard Deviation (SD) and correlation coefficient among variables (N=300)**

	Variables	Mean	SD	1	2	3	4	5	6	7	8	9
1	Gender	-	-	-								
2	Age	32.81	4.63	.166	1							
3	Qualification	1.40	.61	.165*	.035	1						
4	Self-Efficacy	2.87	.53	.027	.029	.020	1					
5	Accountability	3.12	.38	.016	-.039	-.042	.755**	1				
6	Belongingness	3.25	.45	.192*	.026	.016	.671**	.772**	1			
7	Self-Identity	3.19	.53	.034	.029	-.021	.752**	.597**	.587**	1		
8	Psy Ownership	3.48	.39	.181*	.041	.047	.763**	.721**	.701**	.722**	1	
9	PCF	3.23	.41	.196*	.191*	.131	.432**	.331**	.252*	.431**	.374**	1
10	WF	2.98	.71	.065	.020	.017	.228*	.276**	.203*	.276**	.457**	.511**

\* Correlation is significant at the 0.05level (2-tailed).

\*\* Correlation is significant at the 0.01 level (2-tailed).

Psy Ownership = Psychological Ownership; PCF = Psychological Contract Fulfillment; WF = Work Performance

Mean, standard deviation, and correlation for the study's variables are presented in table 1. Work performance was found to be positively and significantly related to psychological ownership ( $r = .457, p < .001$ ) and psychological contract fulfillment ( $r = .511, p < .01$ ). Thus correlation analysis indicated that explanatory variables and outcome variable of the study are related to each other.

## Hypotheses Testing

**Table-2: Summary of Hierarchical Regressions for Work Performance as a Function of Psychological Ownership and Psychological Contract Fulfillment**

Variables	$\beta$ (Standardized Coefficient)	$t$	$R^2$	$\Delta R^2$	$F$	$P$
Model 1						
Age	.231	2.348				.016
Qualification	.209	1.947				.053
			.069	.069	1.346	.253
Model 2						
Age	.217	2.170				.015
Qualification	.177	1.751				.081
<i>Ind. Variables</i>						
Self-efficacy	.315	2.556				.004
Accountability	.242	2.864				.007
Belongingness	.317	3.921				.001
Self-identity	.318	4.767				.000
Psy Ownership	.386	3.673				.001
			.254	.223	14.129	.000
PCF	.313	2.694				.009
			.241	.230	7.259	.009

PCF = Psychological Contract Fulfillment

Table 2 presents summary of hierarchical multiple regressions analysis of psychological ownership, psychological contract fulfillment and employee's work performance. Results showed that psychological ownership is significantly and positively related to work performance ( $\beta = .386, p < .001$ ).  $\Delta R^2$  is found to be 0.223 which indicates that psychological ownership explained 22 percent variation on job performance.  $F$  values with 14.12 corroborates this as it is found to be significant ( $p = .000$ ). Thus, the hypothesis 1 which predicted that psychological ownership positively and significantly influences employee's work performance was supported. Looking into the details of which dimensions of psychological ownership contribute in predicting work performance, summary of hierarchical regression analysis revealed that all the four dimensions significantly contribute in the prediction.

Results presented in table 2 showed that psychological contract fulfillment was also found to be related significantly and positively with work performance ( $\beta = .313, p = .009$ ).  $\Delta R^2$  is 0.230 which indicates that contract fulfillment explained 23 percent variation of job performance.  $F$  values with 7.25 corroborates this as it is found to be significant ( $p = .009$ ). Thus, the hypothesis 2 which predicted that fulfillment of employee's psychological contract positively and significantly influences employee's work performance was supported.

## Discussion

The study aimed to attain two objectives – (1) to explore influence of psychological ownership on employee's work performance and, (2) to understand influence of psychological contract fulfillment on employee's job performance.

Findings of the study supported the first assertion of the study that psychological ownership does contribute in the employee's performance. Findings from the study support the notion that having a feeling of ownership influences people's attitude and behaviour (Pierce et al., 2001; Van Dyne, & Pierce, 2004; O'Driscoll et al., 2006) and is in sync with the findings of Pierce et al., (2001, 2003), Van Dyne & Pierce, (2004). Employee's attitude is fundamental in their performance (Accenture's High-performance Business Research, 2011). It implies that if employees develop sense of ownership with the organization and believe that the organization is their own, employees put their best efforts to the organization. Feelings of sense of possession, the basics of psychological ownership, with the organization probably enhances employee's involvement, their commitment and dedication to help organization further grow and prosper. Another reason for this association could be that sense of 'Mine' or feeling of 'Possession' which result from being connectedness, accountable, belongingness and self-identity towards the organization, creates positive feelings, provides intrinsic motivation and this in turn probably translate into increased performance. Feelings of psychological ownership lead to positive attitudes about the entity (Nuttin, 1987). Another reason could be that ownership helps to fulfill basic human needs such as efficacy and effectance, and self-identity (Pierce et al., 2001). When an organization provides opportunity to employees to fulfill these needs, employees are likely to be motivated to reciprocate in the form of hard work and increased performance.

The study also supported the second assertion that psychological contract fulfillment is significant in the employee's work performance. This finding supports evidences from research (e.g. Conway & Briner, 2002; Turnely et al., 2003), that shows that fulfillment of contract has positive behavioral outcomes. Influence of contract fulfillment on employee's performance could be explained in terms of several reasons. One reason could be that perception of fulfillment creates in employees a feeling of trust, being valued and supported by organization and probably these feelings result into more and sincere work. Another reason could be that perception of fulfillment of contract probably generates positive feeling towards the job and organization, provides satisfaction in employees and probably because of these employees work hard. This is in line with the Affective Events Theory (AET) in explaining the relationship between contract fulfillment and work performance. The perception that the employer has honored his obligations by fulfilling their expectations makes employee feel that it is obligatory to reciprocate by putting more efforts and energy to organizational work which is in line with the exchange theory (Blau, 1964). Met expectations are related to positive affective states such as enthusiasm, self-worth and being cared for (Conway & Brinner, 2002). Such perception increases employee's involvement, commitment and motivations and all these lead to increased performance. Perception of fulfillment ultimately motivates employees to invest more effort in their jobs and the organization (Montes & Zweig, 2009). Perception of fulfillment of contract makes people feel that they are more or less obliged towards their organization in return for the delivery of inducements by the employer (Coyle-Shapiro, 2002). In contrast, when employees feel that the psychological contract has not been fulfilled, their needs and expectations are not adequately met. This may result in work alienation and thereby reducing their involvement and motivation which may negatively affect their work performance.

### Conclusions and Implications

Employees' performance is extremely crucial in a modern work organization to keep the organization running and growing. Employees

are considered the biggest asset in an organization especially in service sectors as its success depends on employees' performance. Poor performance is detrimental to organization's success and growth. However the present research revealed that sense of ownership among employees and the perception of fulfillment of their expectations are crucial in their performance. Some organizations have adopted the practices of giving equity to employees in an effort to develop ownership. But the equity based practice of ownership development has failed to give the desired result. (Developing a psychological ownership) can be a useful effort to that end and probably can have better and long lasting positive impact on an organization. Feelings of possession towards the organization enables employees to develop an emotional connect and identification which sets the stage for increased performance. A person with the sense of ownership and possession becomes more careful, dedicated, and puts extra efforts and energy to gain success and thinks about the organization. The study also revealed that employees should have feelings of met expectations. Perception of fulfillment of their expectations by organization provides a positive feelings and sense of being valued and this leads employees to reciprocate in the form of increased performance. To put it another way, perception of non-fulfillment of their contract may lead to withdrawal from work and reduced performance.

The present research has both practical and theoretical implications. Insights collected from this research provided strategic approaches required in bringing improvement in employee's work performance. Contextual factors play a significant role in the development of sense of ownership. Organizations should pay attention to the need for creating a good organizational culture, developing and implementing policies and practices which facilitate the development of sense of ownership towards their job and organization. Feelings of ownership and sense of possession bring deep attachment with the job and organization and employees try to give their best of abilities and energy to the demands of work and organization.

With respect to employee's expectation, organizations should try to meet their expectations as far as possible. Employee's expectations, an embedded part of employment relationship, are frequently ignored intentionally or unintentionally by management. This ignorance can have adverse effects on employee's performance. Various implicit and explicit factors and cues in organizational work as drivers in the formation of expectations. As far as explicit factors are concerned in the development of expectations and obligations, organization should be careful in their communication and practices, both direct and indirect, with employee right from the recruitment process till the employees are in employment relationship. Implicit factors also influence the development of expectations which may be real and unreal. So organizations should openly discuss their mutual expectations and obligation in order to have clarity of what is expected of him and what is obligated to him (employee). In this way organizations can develop right expectations which can be met which in turn both employees and the organizations can have long way in benefiting each other. Sense of meeting and breaking expectations have deep and wide impact on employee's behaviour in organization. Theoretically, the study will (extend contribution) and enrich the literature of employees work performance from the perspective of psychological ownership and psychological contract fulfillment.

### Limitations and Future Research

The study has several limitations, so findings of this study should be taken with some caution. One of the limitations is the small sample size. And also only three corporations have been taken in this study.



All these may affect the ability to generalize the result of the research in broader perspective. The issues explored in the present research, especially the concept of sense of ownership is relatively new and not much research is done. It would have been better if the concept is extensively explored both at organizational level and also at sectoral level. Another limitation is that the study is based on self-report measure which may be affected by the social desirability, thus affecting the research outcome. A mixed method design involving quantitative and qualitative research would have been better to get a better insight into the issue. Taking all these limitations into account, the author recommends undertaking further research considering all these issues to gain deeper and more meaningful insights into ownership and expectations in relation to employee work performance.

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## A Comparative Study on Non – Performing Assets of Public Sector Banks in India

Pavan Kumar Raju, R.<sup>1</sup> and Sheela, P.<sup>2</sup>

<sup>1</sup>Research Scholar, <sup>2</sup>Professor, Gitam Institute of Management, Gitam University, Vishakhapatnam, [viceprincipal\\_gim@gitam.edu](mailto:viceprincipal_gim@gitam.edu)

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### ABSTRACT

Management of non-performing assets has evolved as an important aspect of the functioning of banks today. While Public Sector Banks are perusing the goals of financial inclusion, low cost services, priority lending, etc., the increasing levels of non-performing assets is a cause of concern. These levels are much higher than the levels of many countries. This is more in case of Public Sector Banks. Public sector banks cater to most of the needs of rural India in terms of credit and financial services. This paper analyses the levels of non-performing assets of the twenty public sector banks in India. Through the test of ANOVA, differences in levels of non-performing assets, among banks through the period of five years are studied. The study has suggested that all Public sector Banks portray similar behavior in terms of levels of non-performing assets.

### Introduction

The Indian banking industry plays a critical role in the economic development and growth of the country. The banking industry acts as a financial intermediary between those who have surplus funds and those who need funds. Banks over the years have evolved from just accepting and lending to a more complex industry that provides almost all financial services under one roof. The importance of the banking system can be seen from the number of banks that are present in the country. Banks can be categorized as Public Sector Banks (PSBs), Private Sector Banks, Foreign Banks, Regional Rural Banks (RRBs) and Cooperative Banks. There are currently 27 Public Sector Banks in India out of which 21 are nationalized banks and 6 are State Bank of India and its associate banks, 20 Private Sector Banks, 40 Foreign Banks (only branches in India), 196 RRBs and 68 Cooperative Banks. Apart from the formal banking system there are other institutions like Non-Banking Financial Institutions (NBFCs), Micro Finance Institutions (MFIs) that function like banks.

PSBs are the acting limbs of RBI and account for nearly two third of banking activity in India. All kinds of services that RBI wishes to provide are undertaken through PSBs. Therefore the performance of PSBs is crucial for the industry. Although PSBs are more profitable than most of the private sector banks, Non-Performing Assets (NPAs) is a major concern for the PSBs. The NPA levels of Indian banks are very high compared to many other countries. This many believe is due to Priority Sector lending norms that RBI enforces. The intensity of the problem is more in case of PSBs.

This study attempts to bring out the position of NPAs of select PSBs (excluding State Bank of India and its associate banks) and study the differences in the levels of NPAs among the selected banks.

### Theoretical Background of NPA

#### Non-Performing Asset (NPA) Meaning

*“An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A ‘non-performing asset’ (NPA) was defined as a credit facility in respect of which the interest and/or installment of principal has remained ‘past due’ for a specified period of time.”* (www.rbi.org.in, 2001)

In simple terms, assets that generate regular income are called performing assets and those assets that do not generate regular income are called non-performing Assets. The term specific period are defined by RBI as:

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- i. Interest and/ or installment of principal remains overdue for a period of more than 90 days in respect of a term loan,
- ii. The account remains ‘out of order’ for a period of more than 90 days, in respect of an Overdraft/Cash Credit (OD/CC),
- iii. The bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- iv. Interest and/or installment of principal remains overdue for two harvest seasons but for a period not exceeding two half years in the case of an advance granted for agricultural purposes, and
- v. Any amount to be received remains overdue for a period of more than 90 days in respect of other accounts.

### Categories of NPA

While performing assets are called as Standard assets, non-performing assets (advances) are categorized as sub-standard, doubtful and loss assets based on the period of non-performance. Banks are required to make necessary provisions from profits for these assets based on the category they belong.

**Table-1: Categories of Assets**

Category of Assets	Provision (% of assets)
<b>Standard Assets</b>	
Direct advances to agriculture and SMEs	0.25%
Advance to Commercial real Estate (CRE)	1%
All other loans and Advances not included above	0.40%
<b>Sub- Standard Assets</b>	
Secured Exposures	15%
Unsecured Exposures	25%
Unsecured Exposures in respect of infrastructure loan accounts where certain safeguards such as Escrow accounts are available	20%
<b>Doubtful Assets – unsecured portion:</b>	100%
<b>Doubtful Assets – secured portion:</b>	
For Doubtful up to 1 year	25%
For Doubtful >1 year and up to 3 years	40%
For Doubtful >3 years	100%
<b>Loss Assets</b>	100%

- **Sub-Standard Assets:** An asset which has remained NPA for a period less than or equal to 12 months.
- **Doubtful Assets:** An asset that has remained in the substandard category for a period of 12 months.
- **Loss Assets:** An asset where loss has been identified by the bank or internal or external auditors or the RBI inspection but the amount has not been written off wholly.

### Types of NPAs

NPAs are classified based on the provisions made. Gross NPA (GNPA) is the provision to be made for the year as per RBI Guidelines. Net NPA (NNPA) is the actual provision made from the profits. The thin line of difference is explained through an equation.

$$NNPA = GNPA - (\text{Balance in Interest Suspense account} + \text{DICGC/ECGC claims received and held pending adjustment} + \text{Part payment received and kept in suspense account} + \text{Total provisions held})$$

### Review of Literature

Pradhan (2012), examined the trends in Gross advances and Gross NPA, bank-wise NPA and quantum of NPA in public sector banks. His study found that the rate of decline of Gross NPA had been extremely low during the decade of study (2001-2009). The study also revealed that there had been a small improvement in the quality of assets. The percentage of Gross NPA to Gross advances reduced in the post reform period.

Malyadri & Sirisha (2011), in their study examined the state of affairs of the NPAs of public sector banks and private sector banks in India for a period of seven years (2004-2010). They examined trends of NPAs in the weaker sections of both public sector and private sector banks. The study observed that public sector banks had achieved greater penetration compared to private sector banks vis-à-vis the weaker sections in the Indian economy.

Meenakshi & HP (2010), discussed with banks, showed that decline in asset quality was mainly due to lack of awareness of the problem of bad loans. It remained true that NPA in the priority sector was higher than that of the non-priority sector in the period of study. Within the priority sector, the SSI's (Small Scale Industries) performance was the worst. However, SSIs had shown reduction in bad loans over the time period of the study.

Zahood & Jagadeeshwaran (2013), analyzed NPAs of banks for a period of five years (2008-2012) through mean, CAGR, ANOVA and ranking of PSBs. In the analysis individual banks were ranked as per the growth trends of NPAs. It was also tested, whether there was a significant difference between NPAs of banks or not. It was found that there was a significant difference in the level of NPAs of the PSBs which reflected their varied efficiency in the control and management of nonperforming assets of Public sector Banks.

Debashi & Sukanya (2011), emphasized on the management of non-performing assets of public sector banks in India using strict asset classification norms, latest technology based core banking solutions, recovery procedures used by banks and other bank indicators in the context of stringent regulatory framework prescribed by the RBI. The study traces the movement of the NPAs of public sector banks in India by analyzing the financial performance of the banks and comparing with key performance indicators of the NPAs.

### Objectives of the Study

- To Study and understand the level of NPAs of Public Sector banks in India
- To Study the trends of NPA levels of Public Sector banks in India for the period of 5 years
- Highlight the differences in the levels of NPA for the aforesaid banks

### Hypothesis

- H<sub>0</sub>: There is a significant difference in GNPA Ratios and NNPA Ratios among PSBs.
- H<sub>1</sub>: There is no significant difference in GNPA Ratios and NNPA Ratios among PSBs.

### Methodology

This is an analytical research that uses Secondary data. Simple ratios and other financial data of banks have been used which has been taken from annual reports, RBI reports and other financial websites. The study took into consideration twenty public sector banks. Tools like averages, Standard Deviation, Compounded Annual Growth rate

are used in this study. One way ANOVA test is used to assess the differences in NPA levels between and within banks.

**Table-2: Gross NPA Ratio and Descriptive Statistics and Ranks of Individual Banks**

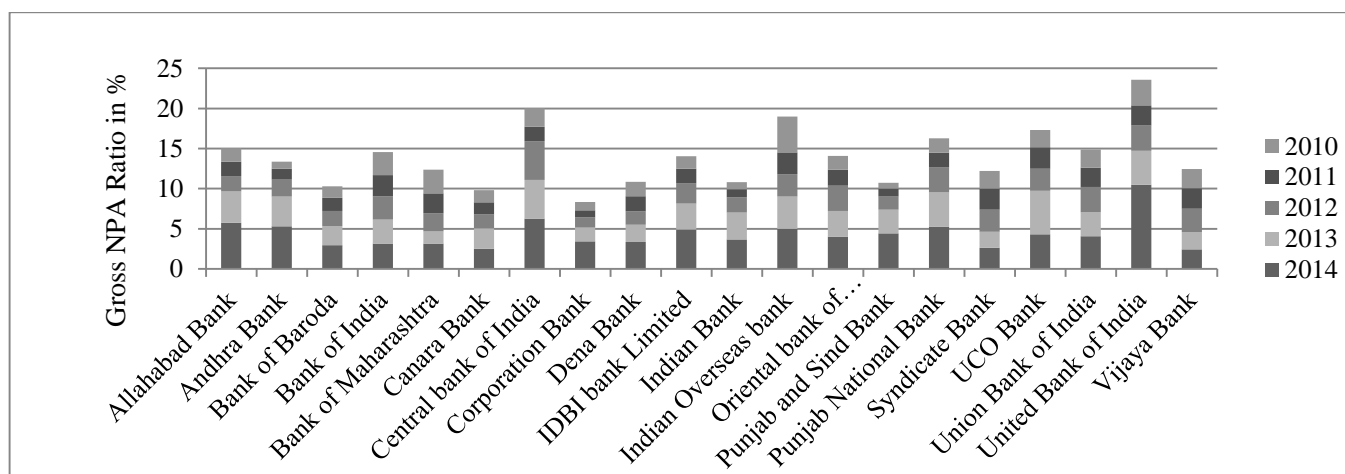
S. No.	Banks / Year	2014	2013	2012	2011	2010	Mean	SD	CAGR	RANK
1	Allahabad Bank	5.73	3.92	1.91	1.8	1.69	3.01	1.78	27.66	17
2	Andhra Bank	5.29	3.71	2.12	1.38	0.86	2.67	1.82	43.81	20
3	Bank of Baroda	2.94	2.4	1.89	1.62	1.42	2.05	0.62	15.67	10
4	Bank of India	3.15	2.99	2.91	2.64	2.86	2.91	0.19	1.95	3
5	Bank of Maharashtra	3.16	1.49	2.28	2.47	2.96	2.47	0.65	1.32	2
6	Canara Bank	2.49	2.57	1.75	1.47	1.53	1.96	0.53	10.23	6
7	Central bank of India	6.27	4.8	4.83	1.82	2.32	4.01	1.87	22.00	12
8	Corporation Bank	3.42	1.72	1.26	0.91	1.02	1.67	1.03	27.38	16
9	Dena Bank	3.33	2.19	1.67	1.86	1.8	2.17	0.68	13.09	8
10	IDBI bank Limited	4.9	3.22	2.57	1.79	1.56	2.81	1.34	25.72	14
11	Indian Bank	3.67	3.33	1.94	0.99	0.88	2.16	1.29	33.06	18
12	Indian Overseas bank	4.98	4.02	2.79	2.71	4.47	3.79	1.01	2.18	4
13	Oriental bank of Commerce	3.99	3.21	3.17	1.98	1.74	2.82	0.94	18.06	11
14	Punjab and Sind Bank	4.41	2.96	1.65	0.99	0.72	2.15	1.53	43.69	19
15	Punjab National Bank	5.25	4.27	3.15	1.79	1.81	3.25	1.52	23.74	13
16	Syndicate Bank	2.62	1.99	2.75	2.65	2.19	2.44	0.33	3.65	5
17	UCO Bank	4.32	5.42	2.75	2.65	2.19	3.47	1.36	14.55	9
18	Union Bank of India	4.08	2.98	3.16	2.37	2.29	2.98	0.72	12.24	7
19	United Bank of India	10.47	4.25	3.14	2.51	3.21	4.72	3.28	26.67	15
20	Vijaya Bank	2.41	2.17	2.93	2.56	2.37	2.49	0.28	0.34	1

Source: Money control.com

### Analysis

Table 2 gives a snapshot of the GNPA ratio of the twenty banks in the study. GNPA ratio is given as Gross Non-performing assets as a percentage of Gross advances for the period. This ratio helps us to compare the level of NPAs across years and across banks. Mean indicates that the average level of NPAs lies between 1 and 5%, however United Bank of India recorded the highest level of GNPA at 10.47% in 2014 and Andhra Bank the lowest of 0.86% in 2010. Low levels of Standard Deviations (SD) suggest few differences in the levels of GNPA's over the five years period of study. Again United

Bank of India stands out with 3.28, the highest of all the banks. Ranking of Banks on the basis of growth in GNPA help us to suggest that Vijaya Bank has the lowest growth and hence ranked one. Similarly, Andhra bank ranks 20. CAGR of the Banks in the study shows a wide range from 0.34 to 43.81. This criterion of ranking may suggest better performance of United bank of India over Andhra bank. However, ranking based on mean or sum will suggest that United Bank of India is the worst performer of all banks as shown in figure 1.



**Fig.1: Bank-wise and year-wise Gross NPA Ratios in Percent.**

**Table-3: Net NPA Ratio and descriptive statistics and Ranks of Individual Banks**

S. No.	Banks / Year	2014	2013	2012	2011	2010	Mean	SD	CAGR	RANK
1	Allahabad Bank	4.15	3.19	0.98	0.79	0.66	1.95	1.61	44.44	16
2	Andhra Bank	3.11	2.45	0.91	0.38	0.17	1.40	1.31	78.84	20
3	Bank of Baroda	1.52	1.28	0.54	0.35	0.34	0.81	0.55	34.92	13
4	Bank of India	2	2.06	1.47	0.91	1.31	1.55	0.48	8.83	5
5	Bank of Maharashtra	2.03	0.25	0.84	1.32	1.64	1.22	0.69	4.36	2
6	Canara Bank	1.98	2.18	1.46	1.11	1.06	1.56	0.51	13.31	6
7	Central bank of India	3.75	2.9	3.09	0.65	0.69	2.22	1.45	40.29	15
8	Corporation Bank	2.32	1.19	0.87	0.46	0.31	1.03	0.80	49.56	17
9	Dena Bank	2.35	1.39	1.01	1.22	1.21	1.44	0.53	14.20	7
10	IDBI bank Limited	2.48	1.58	1.61	1.06	1.02	1.55	0.59	19.45	9
11	Indian Bank	2.26	2.26	1.33	0.53	0.23	1.32	0.95	57.93	19
12	Indian Overseas bank	3.2	2.5	1.35	1.19	2.52	2.15	0.85	4.89	3
13	Oriental bank of Commerce	2.82	2.27	2.21	0.98	0.87	1.83	0.86	26.52	11
14	Punjab and Sind Bank	3.35	2.06	1.19	0.65	0.36	1.52	1.21	56.22	18
15	Punjab National Bank	2.85	2.35	1.52	0.85	0.53	1.62	0.98	40.00	14
16	Syndicate Bank	1.56	0.76	0.96	0.97	1.07	1.06	0.30	7.83	4
17	UCO Bank	2.38	3.17	1.96	1.84	1.17	2.10	0.74	15.26	8
18	Union Bank of India	2.33	1.61	1.7	1.19	0.81	1.53	0.57	23.53	10
19	United Bank of India	7.18	2.87	1.72	1.42	1.84	3.01	2.40	31.30	12
20	Vijaya Bank	1.55	1.3	1.72	1.52	1.4	1.50	0.16	2.06	1

Source: Money control.com

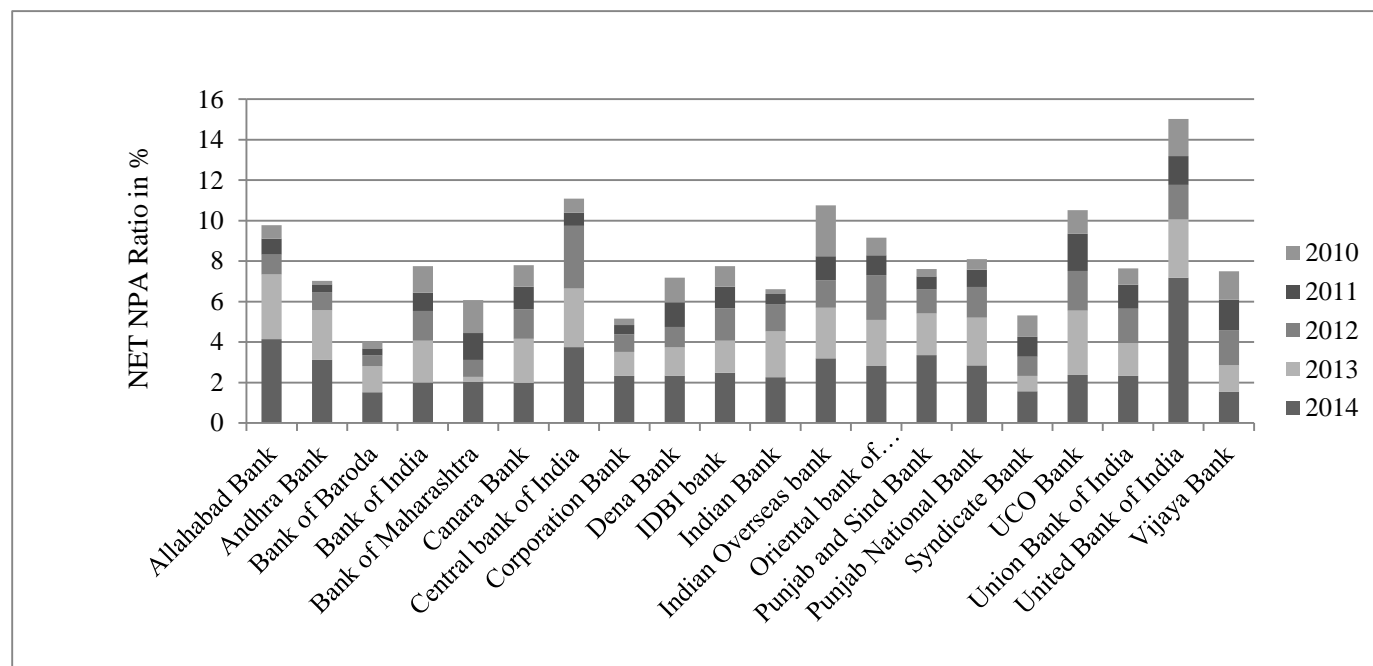


Fig.2: Bank-wise and year-wise Net NPA Ratios in Percent.



Table 3 depicts the levels of NNPA and it suggests that the ranking of Banks are almost the same as that of ranks from GNPA. NNPA range from 0.17% for Andhra bank in 2010 to 7.18% for United Bank of India in 2014. An important observation here is the difference in the level of GNPA and NNPA for the United Bank of India. The means however suggest that United Bank of India still has the highest levels of NNPA. Another important observation is that the high levels of growth of NNPA over the years of all the banks as compared to growth of GNPA. The CAGR ranges from as low as 2.06% for Vijaya bank to 78.84% for Andhra Bank.

Figure 2 is similar to Figure 1 with few changes in positions. United Bank of India still contributes maximum to the level of NNPA of Public Sector Banks.

**Table-4: Ranking of Banks as per GNPA, NNPA and Averages of Both**

S. No.	Banks	Ranks as per GNPA	Ranks as per NNPA	Average	Overall Rank
1	Allahabad Bank	17	16	16.5	16
2	Andhra Bank	20	20	20	20
3	Bank of Baroda	10	13	11.5	11
4	Bank of India	3	5	4	4
5	Bank of Maharashtra	2	2	2	2
6	Canara Bank	6	6	6	6
7	Central bank of India	12	15	13.5	13
8	Corporation Bank	16	17	16.5	16
9	Dena Bank	8	7	7.5	7
10	IDBI bank Limited	14	9	11.5	11
11	Indian Bank	18	19	18.5	18
12	Indian Overseas bank	4	3	3.5	3
13	Oriental bank of Commerce	11	11	11	10
14	Punjab and Sind Bank	19	18	18.5	18
15	Punjab National Bank	13	14	13.5	13
16	Syndicate Bank	5	4	4.5	5
17	UCO Bank	9	8	8.5	8
18	Union Bank of India	7	10	8.5	8
19	United Bank of India	15	12	13.5	13
20	Vijaya Bank	1	1	1	1

Table 4 shows the rankings as per GNPA and NNPA. It can be observed that the differences are minor and can be reduced through averaging of both the rankings and create an overall ranking. In the overall ranking, Vijaya Bank continued to be rank one due to its low growth rate in NPA levels. Andhra bank ranks 20 as was the situation in both the cases of GNPA and NNPA. Ranking of Indian Bank and Punjab and Sind Bank share the eighteenth place. Similarly, United Bank of India and Union Bank of India share the eighth place.

### ANOVA Single Factor Test

The above tables and figures may not clearly indicate us whether there are significant differences in NPAs within the banks and among the banks. For this we used the Single factor ANOVA test to see whether there are differences.

ANOVA test is used to study differences within the samples (here NPAs of each bank for 5years) and between the samples (here the 20 banks in study).

ANOVA test contains the following series of steps that are followed in this study.

- i. Means of NPAs (GNPA and NNPA) of all banks for the period of 5 years is calculated

$$\bar{X}_1, \bar{X}_2, \bar{X}_3, \bar{X}_4, \dots, \bar{X}_k ; k = \text{No. of Banks}$$

- ii. Mean of means is calculated for GNPA and NNPA.

$$\text{Mean of means} = \bar{\bar{X}} = \frac{\bar{X}_1 + \bar{X}_2 + \bar{X}_3 + \bar{X}_4 + \dots + \bar{X}_k}{k}$$

Table 5 shows that Mean of means for GNPA and NNPA are calculated as **2.80** and **1.62** respectively

- i. The next step involves calculating Sum of Squares (SS) for variances between the samples

$$SS \text{ Between} = n_1(\bar{X}_1 - \bar{\bar{X}})^2 + n_2(\bar{X}_2 - \bar{\bar{X}})^2 + \dots + n_k(\bar{X}_k - \bar{\bar{X}})^2$$

In Table 5, SS Between has been calculated as **54.98** for GNPA and **23.25** for NNPA

- i. SS between is followed Mean Square (MS) Between

$$MS \text{ Between} = \frac{SS \text{ between}}{(k-1)} ; (k-1) = \text{degree of freedom (d.f) between samples}$$

MS between the samples is calculated as **2.89** and **1.22** for GNPA and NNPA respectively (Table 6 and Table 7).

$$Df = k-1 = 20-1 = 19$$

- i. Similarly SS within and MS within is calculated as bellow

$$SS \text{ within} = \sum (X_{1i} - \bar{X}_1)^2 + \sum (X_{2i} - \bar{X}_2)^2 + \sum (X_{ki} - \bar{X}_k)^2 ; i = 1, 2, 3, \dots$$

$$SS \text{ within for GNPA} = 152.67 \text{ and NNPA} = 87.52$$

- ii. Mean Square Within =  $\frac{SS \text{ within}}{n-k}$  ( $n=n_1 + n_2 + \dots + n_k$ ) ; ( $n-k$ ) = degree of freedom (d.f) within samples

$$MS \text{ within for GNPA} = 1.91 \text{ and NNPA} = 1.09 \text{ (} n = 1+2+3+\dots+20=100 \text{); } Df = n-k = 100-20 = 80$$

Finally we calculate F Ratio as

$$F - \text{Ratio} = \frac{MS \text{ between}}{MS \text{ within}}$$

If F-Ratio is  $\geq$  F Value given in table, then Accept  $H_0$

If F-Ratio is  $\leq$  F Value given in table, then Accept  $H_1$

**Table-5: Non-Performing Assets Ratios**

S. No	Banks	Non- Performing Assets Ratios										Mean		Sum of Squares between		Sum of Squares within	
		2014		2013		2012		2011		2010							
		GN PA	NN PA	GN PA	NN PA	GN PA	NN PA	GN PA	NN PA	GN PA	NN PA	GN PA	NN PA	GN PA	NN PA	GN PA	NN PA
1	Allahabad Bank	5.73	4.15	3.92	3.19	1.91	0.98	1.8	0.79	1.69	0.66	3.01	1.95	0.22	0.55	11.45	9.42
2	Andhra Bank	5.29	3.11	3.71	2.45	2.12	0.91	1.38	0.38	0.86	0.17	2.67	1.4	0.08	0.24	13.43	6.86
3	Bank of Baroda	2.94	1.52	2.4	1.28	1.89	0.54	1.62	0.35	1.42	0.34	2.05	0.81	2.81	3.27	1.57	1.19
4	Bank of India	3.15	2	2.99	2.06	2.91	1.47	2.64	0.91	2.86	1.31	2.91	1.55	0.06	0.02	0.21	1.24
5	Bank of Maharashtra	3.16	2.03	1.49	0.25	2.28	0.84	2.47	1.32	2.96	1.64	2.47	1.22	0.54	0.79	1.71	2.01
6	Canara Bank	2.49	1.98	2.57	2.18	1.75	1.46	1.47	1.11	1.53	1.06	1.96	1.56	3.53	0.02	1.16	1.14
7	Central bank of India	6.27	3.75	4.8	2.9	4.83	3.09	1.82	0.65	2.32	0.69	4.01	2.22	7.32	1.81	22.44	13.56
8	Corporation Bank	3.42	2.32	1.72	1.19	1.26	0.87	0.91	0.46	1.02	0.31	1.67	1.03	6.38	1.73	4.19	2.70
9	Dena Bank	3.33	2.35	2.19	1.39	1.67	1.01	1.86	1.22	1.8	1.21	2.17	1.44	1.98	0.16	1.62	0.98
10	IDBI bank Limited	4.9	2.48	3.22	1.58	2.57	1.61	1.79	1.06	1.56	1.02	2.81	1.55	0.00	0.02	7.75	1.69
11	Indian Bank	3.67	2.26	3.33	2.26	1.94	1.33	0.99	0.53	0.88	0.23	2.16	1.32	2.05	0.45	7.56	4.22
12	Indian Overseas bank	4.98	3.2	4.02	2.5	2.79	1.35	2.71	1.19	4.47	2.52	3.79	2.15	4.90	1.41	3.10	2.31
13	Oriental bank of Commerce	3.99	2.82	3.21	2.27	3.17	2.21	1.98	0.98	1.74	0.87	2.82	1.83	0.00	0.22	4.81	4.33
14	Punjab and Sind Bank	4.41	3.35	2.96	2.06	1.65	1.19	0.99	0.65	0.72	0.36	2.15	1.52	2.11	0.05	9.59	6.03
15	Punjab National Bank	5.25	2.85	4.27	2.35	3.15	1.52	1.79	0.85	1.81	0.53	3.25	1.62	1.01	0.00	11.10	4.28
16	Syndicate Bank	2.62	1.56	1.99	0.76	2.75	0.96	2.65	0.97	2.19	1.07	2.44	1.06	0.65	1.56	0.35	0.35
17	UCO Bank	4.32	2.38	5.42	3.17	2.75	1.96	2.65	1.84	2.19	1.17	3.47	2.1	2.24	1.16	6.85	2.17
18	Union Bank of India	4.08	2.33	2.98	1.61	3.16	1.7	2.37	1.19	2.29	0.81	2.98	1.53	0.16	0.04	2.68	1.54
19	United Bank of India	10.47	7.18	4.25	2.87	3.14	1.72	2.51	1.42	3.21	1.84	4.72	3.01	18.43	9.68	40.84	21.40
20	Vijaya Bank	2.41	1.55	2.17	1.3	2.93	1.72	2.56	1.52	2.37	1.4	2.49	1.5	0.48	0.07	0.27	0.09
	Total													54.98	23.25	152.67	87.52
	Mean of Means											2.80	1.62				

**Table: 6 ANOVA for GNPA**

	Sum of Squares	Df	Mean Square	F Ratio	Table Value at 5% level of significance
Between Groups	54.98	19	2.89	1.5163	1.718
Within Groups	152.67	80	1.91		
Total	207.65	99			

**Table-7: ANOVA for NNPA**

	Sum of Squares	Df	Mean Square	F Ratio	Table Value at 5% level of significance
Between Groups	23.25	19	1.22	1.1185	1.718
Within Groups	87.52	80	1.09		
Total	110.77	99			

F value in the table (F distribution table) for the calculated Dfs for 5% level of significance is **1.718** (*Df between the groups is column number and Df within the Groups is the row number*)

Here F ratio is **1.5163** and **1.1185** for GNPA and NNPA respectively, which are lesser than **1.718**. Therefore, we accept the  $H_1$  and reject the  $H_0$ .

### Conclusion

Non-performing asset is an economic waste for the banks. Management of NPAs is crucial for better management of the bank's assets. This study has shown us that although the levels of NPA for PSBs are high and growing, the behavior of NPAs is same for all PSBs over the period between 2010 and 2014. The ANOVA single factor test for both GNPA and NNPA have clearly stated that there is no significant level of differences in the levels of GNPA and NNPA over the years for the PSBs and no significant differences in GNPA and NNPA among the PSBs. This could be because of the common goals, policies and procedures that most of the PSBs have adopted.

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