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Vol. 17 No. 2 December 2013

CONTENTS

Corporate as a Citizen ... 1-8

– *Dipankar Chatterji*

The Valuation Effect of Stock Splits and Bonus Issues in Indian Stock Market ... 9-28

– *Satyajit Dhar & Sweta Chhaochharia*

Environmental, Social and Governance Challanges to Business : The Emerging Paradigm in Managing Risks ... 29-48

– *Ria Sinha & Manipadma Datta*

Financial Inclusion of Urban Microfinance Beneficiaries - An Assessment of Service Quality of Banks in Select Districts in West Bengal ... 49-66

– *Samirendra Nath Dhar & Surajit De*

Voluntary Disclosures by Nifty Companies : A Content Analysis ... 67-82

– *B. Charumathi & Latha Ramesh*

International Conference News ... 83-85

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Corporate as a Citizen*

Dipankar Chatterji
e-mail : dchatterji@lbjha.com

ABSTRACT

The idea of corporate citizenship has taken root because of two factors - the enormous growth in size of transnationals and the wave of globalisation which has dismantled national barriers to trade and investment. Corporates influence not only consumer behaviour but also shape national policies. Transnationals who operate around the globe have felt the need to create a framework for overseeing their global behaviour and the concept of corporate citizenship has been formalised. Corporates as citizen enforce a code among themselves and also take over the duty of safegarding social, civil and political rights of citizens because it is in their enlightened self-interest to do so.

Key Words : Transnationals, Influence, Rights, Responsibility, Citizenship.

1. THE ISSUE

The topic of this paper is the Corporate as a Citizen. It must be made clear at the very beginning that the phenomenon of the corporate acting as a citizen and the concept of corporate citizenship as a whole go much beyond the concept of corporate social responsibility or issues such as corporates taking care of sustainability. This concept is gradually getting global attention and needs to be discussed and debated across the globe.

If history, as it is written till today, is analysed it will be seen that it is primarily a history of nation states. It is seen that the progress and momentum of history has been driven by the emergence of kingdoms and empires, which were essentially led by nations. Ancient history was dominated by the emergence of powerful nations in Persia, Iraq, Greece and Rome. Mediaeval history was dominated by the nations of Europe. Modern history has seen a shift away from Europe into the Americas. History, as has been written has traced the rise and fall of civilizations, of social movements and economic trends which have created and developed nations, of wars fought between nations and also of the decline and fall of nations. Today, however, in the 21st century a new trend has emerged, a trend which has been visible over the last half a century but now has become the focus of world attention. It is the emergence of global corporations. It is the growth

* Revised version of the Keynote Address given at the annual National Seminar of the IAA Research Foundation held at Syamaprasad College, Kolkata, on 1st September, 2012.

in their size and influence, it is the measure of their footprints across the world that is getting attention of those who are writing the history of the 21st century. It is seen today that large corporations riding the crest of globalization are larger in size, global reach and influence than many nation states. A simple example will make this clear. What is the size of the total debt of the State of West Bengal? It is roughly U.S. $ 4 billion. What is the size of the cash and bank balance of just one large global corporation like Wal-Mart? It is U.S. $ 7.395 billion (as per 2010-11 balance sheet). What is the size of India's total external debt as on March 2012? It is U.S. $ 345 billion. If the cash and bank balances of a few large global corporations such as Exxon Mobil, General Electric, General Motors, Ford Motors, Berkshire Hathaway, Chevron Corporation, etc. are added together, it is very obvious that these corporations can use their loose cash lying around to buy out India's total external debt without even feeling a pinch. India's total GDP is only U.S. $ 1700 billion and the total net worth of the top fortune ten companies is equivalent to or larger than the total GDP of India - one of the largest economies in the world.

The point is that power and influence wielded by these large corporations today far outstrip the economic and at times the political might of many nation states. These global corporations work across boundaries and are, therefore, not subject to national jurisdiction. And within the national boundaries within which these corporations operate, at times their wealth, power, influence and reach are far more than that of the Governments of the countries in which they operate.

There is also another aspect to be kept in mind. The reach and influence of these corporates go much beyond their financial might. It is the corporates who control the so-called free markets and decide interest rates, currency rates and commodity prices. Their market researchers and market gurus influence consumer preferences and decide what cereals one has for breakfast and which tablet one will take before going to sleep and in which tablet one will store one's data. It is not often realized it but most of the choices consumers make in a so called free market are not choices made of their free will but are choices that are influenced by large advertising budgets. If we look at life around us, if we look at the power of advertising which is deciding global choices, if we look at the role played by the social media and specifically the ability of corporates to dominate social media like Facebook and twitter, we realize that the nature of power of the corporates is quite different from the power wielded by a nation state over its citizens. The nation states and the Governments exercise their power over citizens mostly by documented policies and written laws and constitutions. The corporates, on the other hand, use the forces of marketing to decide product availability and consumer choices, use the power of lobbying to influence political decisions and these actions are often not open to public viewing or public scrutiny. The power of the corporation is, therefore, far more subtle and because of their reach stretches across borders. The real superpowers of the 21st century are, therefore, no longer the nations but the corporations which dominate our lives. This enormous power exercised by the corporates has become a world issue and opinion across the globe has been asking some questions. These are :

- If citizens are governed and controlled by law as well as by a social contract which define their rights and responsibilities should there also not be an overriding framework as to how corporates behave?
- Secondly, if over the last hundred years the world has been trying to oversee the behaviour of independent nations by creating agencies, such as the League of Nations, the United Nations, the G-7, the G-20, the Kyoto Protocol etc., should not there also be a framework for overseeing the conduct of the affairs of the corporates?
- And, thirdly, following from the first two questions - should corporates around the world having become global citizens, not follow a charter of citizenship?

The remainder of the paper is organized as follows. Section 2 states how a framework for global corporate citizenship was developed. The next section deals with the theory of corporate as a citizen. Difficulties and contradictions, and role of transnational corporation are briefly touched respectively in sections 4 and 5. Section 6 outlines the underlying assumptions. Conclusions are drawn in section 7.

2. THE EARLY HISTORY

In the above backdrop of global opinion, the first global effort in developing a framework for global corporate citizenship was made in January 2003 at the World Economic Forum meeting in New York. At this meeting the Chairman and CEOs of 34 leading companies of the world - including companies such as ABB, Coca-Cola, DHL, McDonald's, Boots, ING, Deutsche Bank, Siemens, Lafarge, etc.- drew up a charter for corporate citizens and outlined the tasks for responsible corporate citizenship which went much beyond corporate social responsibility, much beyond corporate philanthropy. The charter was divided into four parts:

- the challenge for leaders of the corporate world,
- the action plan,
- the case for action and
- global cases and examples of corporate citizenship action.

The first part setting out the leadership challenge for the large corporates acknowledged that the large corporates being global corporate citizens, have to make a commitment about the way they run their businesses and also spell out the relationship with key stakeholders. In the second part of the statement, an action plan was drawn up which raised the issue of globalization and the role of business in global development. The action plan also asked each corporate citizen to define the key issues, stakeholders and the areas of action which were relevant for them. In the last part of the action plan, there was emphasis on how to measure the impact of corporate citizenship and how to develop a programme for external reporting of corporate citizenship. In the third part of the charter, a business case for action was made out and an understanding was sought to be developed that business prospers in societies that are prosperous.

Interestingly, this statement which was signed by the business leaders of the world was also signed by Mr. Rahul Bajaj and Mr. N.R. Narayan Murthy.

That was the formal acceptance of corporate citizenship by corporate leaders of the world. However, since then this concept has come a long way. There is now a quarterly journal on corporate citizenship which is published from the Boston College, USA. There are dedicated research centres carrying out research on corporate citizenship at the Boston College, at the Warwick University in the United Kingdom, at the Deakin University in Australia and at the Eichstatt University in Germany. There are also think tanks dedicated to corporate citizenship, such as, the U.S. Chamber of Commerce Centre for Corporate Citizenship, the African Institute for Corporate Citizenship, the Copenhagen Centre and the London-based Corporate Citizenship Company. A whole mass of theoretical work is coming out of these centres on the concepts and implications of corporate citizenship. Before I go on to the difficulties and contradictions which make the concept of corporate citizenship a difficult one to implement, let us review the theory on the corporate as a citizen that is coming out of these research centres.

3. THE THEORY OF CORPORATE AS A CITIZEN

If we analyse the theories of corporate citizenship which have been developed, there are basically three views.

- The first view is the limited traditional view of corporate citizenship in which corporate citizenship is considered to be the equivalent to corporate philanthropy.
- In the second, slightly extended view of corporate citizenship which is known as the equivalent view of corporate citizenship, corporate citizenship is equated with corporate social responsibility concept and the four aspects of corporate social responsibility, viz., economic, legal, ethical and philanthropic aspects are considered and the extent to which such businesses meet these requirements are considered to be the citizenship responsibilities. In this view of corporate citizenship, there is no analysis of the term citizenship or of the modern day concept of the corporate which is a global citizen.
- In the extended and the modern view of corporate citizenship, this concept is seen in terms of its distinctly political connotations such as corporate claims to citizenship entitlements, firm's participation in global governance and corporate involvement in the administration of individuals' social, civil and political rights.

The first plank of this extended definition is the term citizenship. If we analyse citizenship in modern societies, it is defined as a set of individual rights viz. civil rights, social rights and political rights. Civil rights consist of those rights that provide freedom from abuses and interference by third parties (most notably the Government), among the most important of which are the right to own property, to engage in free markets or freedom of speech. Social rights consist of those rights that provide the individual with the freedom to participate in society such as the right to education, health care, etc. The key factor here is the Government, which on the one hand respects

and grants the civil rights of citizens and also cares for the fulfillment and protection of social rights. The third category of rights which are only available in a democratic society are the political rights which move beyond the mere protection of the individual's private life towards his active participation in society. This includes the right to vote and the right to hold office.

4. DIFFICULTIES & CONTRADICTIONS

If we transpose these ideas to the corporate area, obviously there are problems. Firstly, while a corporate is an artificial juridical person and is, therefore, entitled to civil rights, it is clear that a corporate citizen cannot be entitled to social and political rights. The second difficulty is that an individual as a citizen is subject to the laws of a nation state and its government. Corporates which operate beyond national boundaries operate in multiple cultures, environments and under multiple laws and no individual government has complete jurisdiction over them.

What is clear is that globalization has brought major changes in the equation between a nation and a multinational. It is out of this changed equation that the role of a transnational corporation has to be understood and defined.

5. THE ROLE OF A TRANSNATIONAL CORPORATION

What are the main trends or thrusts of globalization? The rights embedded in the traditional concept of citizenship are linked to a state that is sovereign in its own territory whereas the central feature of globalization is the deterritorization of social, political and economic forces. This means that the states are being disempowered and a growing number of social, political and economic forces are in operations which are beyond national control. For example, the American Government is committed towards guaranteeing pension rights to a large number of its citizens but pension funds are invested by large corporations in international capital markets and pensioners, therefore, have to depend on these international corporations to protect their pension dues and these are beyond the full control of the U.S. Government. Similarly, if we look at economic forces at play such as commodity prices and currency rates, these are shaped by forces which are beyond the control of national states but yet affect the life of the common man most intimately. It is the international oil companies whose control over output decides the price of crude oil but the impact is felt by those who ride in auto rickshaws in Kolkata. It is the international bankers who decide on the interest rates in London but that has an indirect impact on the rate at which an young man will borrow in India to buy his 2-wheeler. In Africa in some states, because of ethnic war, governments have given up on protection of human lives which is the most basic function of the government and such functions have been taken over by global corporations which are carrying on mining activities in these areas. The point I am trying to make is - globalisation has created a climate by which giant corporations have greater influence over global forces than national governments and, therefore, globalisation undermines the capacity of the state as the sole guarantor of individual rights and it is the corporation which has tended to

take over certain functions with regard to the protection, facilitation and enabling of citizens' rights.

7. CONCLUSION

To sum up, therefore, the concept of corporate citizenship deals with the social role of the corporation in administering citizenship rights. In respect of social rights, the corporation is often the provider. In respect of civil rights, the corporation is often the enabler and in case of political rights corporations, because of their enormous power over their Governments, sometimes act as the channel.

To give well-known examples of the above - for decades the Central and State Governments in India failed to enforce the ban on the employment of child labour in the carpet industry in Uttar Pradesh. However, when the international buyers of carpets from India boycotted carpets made in factories which employed child labour and started a process of inspection of such factories, the use of child labour by factories which supply to international markets came to a stop. When farmers in France were agitating against unremunerative farm prices and such agitation was targeted against the Government, they were not effective. When they targeted Macdonalds' corporation on the same issues, their agitation bore fruit and they gained international attention and coverage. This is an example of political rights of interest groups becoming effective by targeting the same against corporations. Similarly, in the U.S. there was discontent about the lax environment protection policies of the Government but such protests gained momentum after they were directed towards B.P. after the enormous oil spill in the Gulf of Mexico and B.P. rather than the American Government, became the target of the environment protection movement.

This expanded concept of corporate citizenship and the role of the corporate citizen in a globalized world, however, rests on certain assumptions. The first assumption is that corporate citizens fulfill their role because it is in their self-interest to do so. Thus, they carry out citizenship activities which are by and large for the benefit of society and praiseworthy. If governments fail in their responsibility to facilitate citizenship, society can only be happy if corporations fill this gap. However, several questions arise at this stage. Firstly, what if it is not in the short-term interest of the corporation to act as a responsible citizen? There are countless examples where corporations have acted against the broader interests of citizenship. The role of Shell in restricting tribal rights in Africa, the role of Exxon Mobil in persuading the United States Government to withdraw from the Kyoto Protocol, the action of Levi Strauss in closing down three of its four plants in Texas, thus throwing an entire town into unemployment, the role of corporates in India in cornering natural resources without a transparent process are only some of the examples where corporations have acted against the interests of citizens in general because it was in their immediate self-interest to do so. The Maoist disturbances in large parts of India have to some extent been triggered by the acts of irresponsible corporates who have exploited mines and forest resources in tribal areas without respecting traditional rights of tribals. The second issue is that corporations run on the agency principle i.e. those who run them do not own them and those that own them

have often little say in how they are run. This often allows CEOs of corporations to be self-serving rather than act in the long-term interest of the corporation. Corporations often are driven by the compulsion to show increasingly better quarterly results, to declare bonuses for CEOs, to increase values of stock options held by senior managers and when such compulsions ride high, the long-term interest of the corporation along with the responsibilities of corporate citizenship are often sacrificed. There are many examples of this from the financial sector in the Western world where corporates have been led to wrongdoing by unchecked greed of top management. The third question which arises is the inherent aggressive nature of the corporation. Businesses believe in not letting competition survive. Their motto is live and let die. It is not in their interest that Sony and Colombia should co-exist, it is not in their interest that Bridgestone and Firestone should co-exist and it is not in their interest that Cadbury and Kraft should co-exist and, therefore, one has to buy out the other. This inherent trait in business often pushes a corporate towards higher profitability, higher growth and, sometimes, irresponsible acts. In the modern liberalized environment in which trade controls are being abolished and international capital flow controls are being abolished, greater international competition being the desired objective in fact the results can be sometimes very opposite. Unbridled competition does not always lead to greater choice for citizens. You are, of course, free to consume the cold drink of your choice as long as the choice is restricted between Coca-Cola and Pepsi because other soft drink manufacturers have ceased to exist. The nature of competition is to destroy competitors. You are free to use the cell phone of your choice as long as the choice is restricted between Apple, Samsung and Nokia. The lesson is that competition leads to consolidation and consolidation leads to oligopoly. This trend of the market place restricts choice, restricts freedoms and allows corporates to wield unprecedented power.

There is also another more basic problem connected with corporate citizenship. Many management gurus and management corporates and thought leaders do not believe in the concept of corporate citizenship. As late as in 1970, Milton Friedman, the U.S. Nobel Laureate, wrote in the New York Times magazine that “the one and only responsibility towards the society of business is to increase profit for shareholders”.

One must admit, however, in spite of all the questions and uncertainties and hesitations, corporate citizenship is an idea whose time has come. KPMG carried out a survey of reporting of Corporate Responsibilities in 2011. The Survey looked at 3,400 companies from 34 countries and 16 sectors around the world including the 250 largest global companies. It was found that 95% of the 250 largest companies in the world now report on their corporate citizenship activities. The survey also included the 100 largest companies by revenues and it was found that out of these 100 companies, 69% of the listed companies report on corporate citizenship whereas, only 36% of the family owned enterprises do. Among those who reported on corporate citizenship, 27% of the largest 250 companies included a part of their reporting in their annual report and half of these 250 companies reported gaining financial value from their corporate citizenship programmes. As reported by these companies, reputational or brand considerations were

the main drivers in corporate citizenship reporting. To conclude, the concept of corporate citizenship is now gaining acceptance. Corporate citizenship reporting is also taking shape. The track record of action on corporate citizenship is, however, a mixed one. While the irresponsible acts of a handful of large corporates in the U.S. triggered an entire global financial meltdown in 2008-09, while mining companies in Africa still engage in financing tribal wars, while very large oil companies often act against the interest of underdeveloped nations, we must also remember that the war against HIV/ Aids has primarily been won with the help of corporate intervention. We must also remember that post liberalization much of India's development and growth has been at the initiatives of the corporates in spite of poor governance both at the Centre and in the States. Also in India, corporates have taken up responsibilities of the Government in providing education and health infrastructure, have come forward in carrying out tsunami relief, have carried out sustained social awareness drives in enhancing the responsibility and awareness levels of individual citizens. It is clear, therefore, that responsible corporate citizens can step into a governance vacuum of nations and states and play a positive role whereas the ability of corporates to go against the interests of society is also substantial. To be fair to corporates, the January 2003 declaration at the World Economic Forum acknowledged these difficulties and emphasized the role of enlightened corporate leadership. What needs to happen is strengthening of corporate governance, strengthening of the institution of independent directors and better and more enlightened interaction between national Governments and transnationals. What the G-20 leaders have done is to create an institutional mechanism called the B-20 and every time the leaders from the G-20 nations meet, the Business leaders of these nations also meet under the aegis of B-20 and the B-20 group is taking steps to institutionalize global corporate behaviour. The steps are in the right direction and we need to acknowledge that in the 21st century progress will be driven by large corporates around the world and we need to create opinion so that they can flourish and improve the society with which they engage and create an institutional framework for their citizenship action.

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The Valuation Effect of Stock Splits and Bonus Issues in Indian Stock Market

Satyajit Dhar*
Department of Business Administration
University of Kalyani
&
Sweta Chhaochharia†
Department of Business Administration
University of Kalyani

ABSTRACT

It is often argued that stock splits and bonus issues are purely cosmetic events. However, many studies have found numerous stock market effects associated with these events. This paper examines the effects of these events in Indian stock market. We use the standard event study methodologies. The abnormal returns are calculated using the Market Model. Consistent with the existence literatures, the events are associated with significantly positive announcement effect. For bonus issues, the abnormal returns were about 1.8% and for stock splits, it was about 0.87% on the announcement day. Overall, the paper finds evidence of semi-strong form efficiency in the Indian stock market.

Key Words : Bonus Issue, Stock Split, Event Study, EMH, Abnormal Returns, Indian Stock Market.

I. INTRODUCTION

Stock splits and bonus issues (equivalent to stock dividend in the US and scrip issues in the UK) continue to generate interest as none of them have any direct valuation implication. A stock split simply involves a company altering the number of its shares outstanding and proportionately adjusting the face (par) value of each share. In a bonus issue, a company distributes bonus stocks free of cost out of retained earnings or accumulated capital reserves. These events are sometimes described as 'cosmetic' events as they simply represent a change in the number of outstanding shares. In theory, there should not be any significant effect on the value of the firm as corporate actions like stock splits or bonus issues do not alter future cash flow. The reason for the interest is, therefore, to understand why managers would undertake such (potentially costly) cosmetic decisions. Empirical research has shown that the market generally reacts positively to the announcement

* Corresponding author's e-mail : satyajitdhar@yahoo.co.in
† Former Research Scholar.

of a stock split / bonus issue. Several justifications have been put forward to explain the market reaction around the announcement date. Of these, the signaling hypothesis (Asquith, Healy and Palepu, 1989; Rankin and Stice, 1997) and the liquidity hypothesis (Baker and Powel, 1993; Muscarella and Vetsuypens, 1996) have received the most attention, although the empirical evidence for the latter is mixed. The evidence that announcements of stock splits or bonus issues are associated with positive abnormal return is supportive to the semi-strong form of Efficient Market Hypothesis (EMH). Prior empirical research generally focused on firms listed in developed stock markets and, as per our knowledge, no study has investigated the comparative information content of the stock splits and stock dividends (bonus issues) announcements in Indian context. This deficiency provided the primary impetus for this study. It is important to compare market effect of stock splits and bonus issues simultaneously as except for dissimilar accounting treatment these two corporate actions are similar. A comparative study of market response to these two events provide a useful insight on the effect of signaling through accounting treatment in the context of an emerging economy like India which is distanced from developed countries in the West in terms of economic development, culture, institutional and regulatory framework.

The purpose of this paper is to analyze the information impact of the announcement of stock splits and bonus issues for Indian companies. We investigate whether there is substantial difference between announcement effects of stock splits and bonus issues. The study seeks to explore the opportunity to make a comparative study after restriction on stock splits is withdrawn by the Securities & Exchange Board of India (SEBI)[2].

The remainder of the paper is organized as follows. Section 2 reviews the related studies and states the hypotheses. Section 3 describes the data and methodology employed. The results are reported in section 4. The last section contains a short discussion and concluding remarks.

II. LITERATURE REVIEW AND FORMULATION OF HYPOTHESES

Several studies have considered the stock market reaction to the announcements of stock splits and stock dividends since Fama *et al.* (1969) found that the two types of events are associated with a positive stock market effect. Broadly speaking, the literature in this area can be split into three categories: the first category deals with the potential theoretical reasons that can explain why managers may resort to stock splits and stock dividends. The second category consists of papers that are predominantly of empirical nature and investigate and document the reaction of the stock market around the announcement (and/or the ex-date) of the decision to split or issue bonus; we term this literature as 'event' analysis literature since it follows a classical event analysis methodology. Our study relates to this category. Thirdly, papers that deal with the long term implications of stock split/stock dividend and compare variables such as rates of returns, variance, short interest, market betas, traded volume, bid-ask spread, liquidity around pre and post announcement periods are covered. Our study relates to the second category.

Fama *et al.* (1969) were the first to document the split announcement effect. Subsequent empirical researches have shown that the market generally reacts positively to the announcement of stock splits/bonus issues, (Bar-Yosef and Brown 1977; Charest, 1978; Foster and Vickery, 1978; Grinblatt, Masulis and Titman 1984; McNichols and Dravid, 1990; Masse, Hanrahan and Kushner, 1997; Andersan and Bollerslev, 2001). Ikenberry, Rankine and Stice (1996) report long-term excess performance in the three years following the announcement. Most of such studies not only documented the results of the announcements, but also attempted to provide justification for valuation effects at the announcement of a stock dividend or split. A notable attempt in this direction is the study by Grinblatt, Masulis and Titman (1984). The authors first discuss various signaling hypotheses as proposed by Ross (1977), Leland and Pyle (1977) and Bhattacharyya (1979). Signaling hypothesis framework assumes asymmetric information between managers and investors and managers try to convey favourable information to investors through corporate actions like stock splits or bonus issues. A stock split or bonus issue should credibly signal such information if it is costly for firms without favourable information to mimic such financial decision. Grinblatt, Masulis and Titman (1984) propose an alternative form of the signaling hypothesis which they term as the 'attention' hypothesis. Under this hypothesis, managers use stock splits or stock dividends to attract attention from financial analysts and to trigger a re-rating about the future prospect of the firm. The authors also suggest that firms use stock splits or stock dividends to convey information in preference to direct communication (e.g., Press release) to avoid liability to stockholders for damages if directly communicated information turns out to be misleading. Stock splits or bonus issues being relatively ambiguous than direct communication, will be less risky for the firm and its managers. Several other studies (Lakonishok and Lev, 1987; Brennan and Copeland, 1988; Asquith, Healy and Palepu, 1989; Klien and Paterson, 1989; Pilotee and Manuel, 1996) provide support for signaling hypothesis.

Another important theoretical justification for stock splits or bonus issue is trading range hypothesis. The optimal trading range hypothesis suggests that a stock split and a stock dividend change the stock price to a more optimal trading range which in turn increases the demand for stock, leading to a positive stock price effect (Barker, 1956; Baker and Gallagher, 1980; Lakonishok and Lev, 1987; McNichols and Dravid 1990; Baker and Powell, 1993). Dolley (1933) identified the liquidity hypothesis which is based on the proposition that lower priced stocks draw more investors and generate greater trading volume. Empirically, several studies provide evidence that supports the liquidity hypothesis (Copeland, 1979; Murray, 1985; Forjan and McCorry, 1995; Muscarella and Vetsuypens, 1996; Desai, Nimalendran and Venkataraman, 1998; Wulff, 2002). Several studies (including; Dolley, 1933; Barker, 1956; and Lamoureux and Poon, 1987) report that the number of shareholders increases after a split.

However, majority of the studies in this area do not consider stock split and stock dividend simultaneously. Only a few studies have compared stock split and stock dividend when examining the announcement effect (Grinblatt, Masulis and Titman, 1984; Murray, 1985; Lijleblom, 1989; McNichols and

Dravid 1990; Masse, Hanrahan and Kushner, 1997; Bechmann and Raablle, 2005). One of the few studies making this distinction is that of Grinblatt, Masulis and Titman (1984) who posit that stock dividend signal greater future earnings expectations than stock split. They interpreted it as evidence in favour of the 'retained earnings hypothesis': the dissimilar accounting treatment of these two types of stock distributions affects retained earnings in different ways. Rankine and Stice (1997) also document that stock dividends are generally associated with a higher announcement effect than stock splits. Their explanation for these findings is that stock dividend announcements provide a stronger signal since 'by voluntary reducing the existing pool of distributable funds, managers of undervalued firms can signal their confidence that such a reduction will not negatively impact the firm's ability to make future cash distributions. 'Hence, they also support the retained earnings hypothesis. Wulff (2002) makes a study in the context of the German stock market, and similar to Rankine and Stice (1997), finds that the announcement effect is more positive for stock dividend than for stock split.

A few studies have been carried out to test the announcement effect of bonus issue in the Indian stock market. Ramachandran (1985) found mixed evidence for semi-strong form efficiency of Indian stock market. Obaidullah (1992) and Rao (1994) found positive stock market reaction to bonus announcements. Some other recent studies also report significant abnormal returns around bonus issues in Indian market (Srinivasan, 2001; Mishra, 2005). Gupta & Gupta (2007) investigate effect of stock splits and find no market effect associated with such announcements. However, they find ex-date effect. Their study does not support the liquidity or trading range hypothesis. They find support only for the neglected firm hypothesis. On the other hand, Mishra (2007) reports a negative effect of stock splits on price and return around the ex-dates and results of the study support liquidity hypothesis and rejects signaling hypothesis. Overall, results of earlier studies in Indian context are mixed and do not give any clear cut findings regarding market response to stock split/ bonus issue announcements. To the best of our knowledge, there is no study that deals with effect of bonus issues and stock splits simultaneously.

Hypotheses

The preceding discussion makes it clear that there are various models to explain stock price reaction around the announcement of stock splits and bonus issues. Efficient Market Hypothesis also suggests that any effect of such announcement would be impounded in stock price instantaneously. On the other hand, there is competing argument that stock dividends and splits are purely cosmetic events that do not alter future cash flows of a company. Hence, what happens to stock prices on announcement of stock splits or stock dividends are empirical issues and need to be tested in the context of Indian Stock market having market microstructure different from that of developed countries. Accordingly, the hypotheses to be tested are:

H_1: There is no positive and significant abnormal return around the announcement of stock splits.

H_2: There is no positive and significant abnormal return around the announcement of bonus issues.

To track the pattern of movement of abnormal returns over a number of trading days, it is necessary to make time series analysis. Such a time series analysis helps to find out how the return is clustered around the event date. The study of the cumulative average abnormal return (CAAR) over different event windows may help one to understand whether there is any leakage of information before the split or whether the market takes time to absorb stock split/bonus issue news post-announcement. Our decision about acceptance/ rejection of null hypothesis is based on results on the pattern of daily average abnormal returns (AARs) and CAAR.

III. DATA AND METHODOLOGY

3.1 Data and Sample

We have considered a period of seven financial years from April 2001 to March 2007. Our choice of study period stems from the fact that stock split practice have become popular in India only from 2001 after issue of guidelines by the SEBI in 1999 (Dhar and Chhaochharia, 2008). Our sample consists of all bonus issues and stock splits of the firms that form part of S & PBSE 500 index (Standard & Poor's Bombay Stock Exchange 500 index)[3] during the study period i.e., April 2001 to March 2007. A total of 81 bonus issues and 90 stock splits announcements took place during the period under study and all those events comprise our sample.

The event date is defined as the announcement date of the board meeting in which stock split or bonus issue is an item of the agenda. This approach assumes that the information is first known to the market on the event date itself. Data related to announcement dates are taken from BSE website. In order to identify the announcement date as exactly as possible, the event dates are cross checked with the Prowess[4] database maintained by the Centre for Monitoring of Indian Economy (CMIE). Our calculation of returns is based on closing prices of securities and market index. The daily security and S & P BSE 500 index closing prices are taken from BSE Website. Other required data are obtained from CMIE Prowess database.

3.2 Research Methodology

In the study we considered the event window of 81 days consisting of t-40 to t+40 relative to event day t_0. Event date is date of announcement of bonus or stock split. From the review of available literature, we find Lihua (2003) uses 30 days window prior and after the announcement and ex-dates. Kemerer (2010) and Mishra (2005) compare 20 days windows whereas Lamoureux and Poon (1987) consider 60 trading days and Muscarella and Vetsuypen (1996) use 120 trading days window. The event window in this study is closer to that of Farinha and Basilio (2006) and Yague and Sala (2002), who compare 45 trading days before and after the event. Following Fama *et al.* (1969), Wulff (2002) and Dennis and Strickland (2003), we use the standard event study methodology to test the market efficiency of the Indian capital market in the context of stock split/bonus issue. To provide a

more substantive example of how the equilibrium price of a security adjusts to information about future cash flow changes we use the market model to define equilibrium. Brown and Warner (1980) report that 'a simple methodology based on the market model is well-specified and relatively powerful under a wide variety of conditions.'

3.3 Estimation of Return

A return on a security at day t is calculated by the price of the security on the day t minus the price of the security on day $t\text{-}1$, divided by the price of the security on day $t\text{-}1$. Symbolically, this is written as:

$R_t = (p_t - p_{t-1}) / p_{t-1}$

where, R_t = return on a security at day t.

p_t= price of the security on the day t.

p = price of the security on the day $t\text{-}1$.

However, for statistical purposes, it is convenient to define the return in logarithmic terms as $R_{m,t} = \log(I_{m,t} / I_{m,t-1})$ where $I_{m,t}$ is the index at time t. Arithmetic returns are often positively skewed due to those being in the range -1 to +∞. A log transformation helps reduce their skewing and improves the power of significance tests appropriate to normally distributed variables. We take natural logarithms of the returns.

To ensure comparability over time, stock prices are adjusted for split and bonus. Symbolically, stock returns are calculated as follows:

$$R_{i,t} = \log(p_{i,t} / p_{i,t-1}) \quad (1)$$

where,

$R_{i,t}$ = the return on equity i on trading day t,

$p_{i,t}$ = the adjusted stock price (closing) of equity i on day t and

$p_{i,t-1}$ = the adjusted stock price (closing) of equity i on the previous day t-1

Same method has been used for calculating the return on market index (BSE 500). Symbolically, it can be written as:

$$R_{m,t} = \log(I_{m,t} / I_{m,t-1}) \quad (2)$$

where,

$R_{m,t}$ = the return on S & P BSE 500 index on trading day t,

$I_{m,t}$ = the closing value of S & P BSE 500 index on trading day t,

$I_{m,t-1}$ = the closing value of S & P BSE 500 index on trading day t_{-1}.

3.4 Calculation of Abnormal Return

In the next step, abnormal returns for 81 days are calculated as the difference between observed returns of security i at event day t and the expected return generated by a particular benchmark model (S & P BSE 500 index for this study). Abnormal returns are calculated for each security in the sample for each day during the event periodt_{-40} to t_{40} using market model.

We describe the market model following Watts and Zimmerman (1986). The market model can be written as:

$$R_{i,t} = \alpha_i + \beta_i R_{m,t} + \varepsilon_{i,t} \quad (3)$$

Where $R_{i,t}$ is the rate of return of the common stock for the ith firm on day t, and $\beta_i = \text{Cov}\,(R_{i,t} + R_{m,t})/\sigma^2_{m,t}$

and $\alpha_i = E(R_{i,t}) - \beta_i E(R_{m,t})$ and $\varepsilon_{i,t}$ is a disturbance term with $E(\varepsilon_{i,t}/R_{m,t}) = E(\varepsilon_{i,t}) = 0$ and $\sigma^2(\varepsilon_{i,t}/R_{m,t}) = \sigma^2(\varepsilon_{i,t})$.

Abnormal return is defined as the actual return minus the expected return. The abnormal return for equity i on day t is calculated as:

$$AR_{i,t} = R_{i,t} - \hat{R}_{i,t} \quad (4)$$

$$AR_{i,t} = R_{i,t} - \hat{\alpha}_1 - \hat{\beta}_1 R_{m,t} \quad (5)$$

$R_{i,t}$ is the observed return of stock i on day t and $\hat{R}_{i,t}$ is the estimated normal return of stock i on day t. The co-efficient $\hat{\alpha}_1$ and $\hat{\beta}_1$ are Ordinary Least Square (OLS) estimates of a_i and b_i, estimated from a regression of daily security returns for 12 months preceding the event month. The abnormal return represents that part of actual return which cannot be explained by market movements and capture the effect of the event.

In order to eliminate the effect of any one or group of securities on the abnormal returns, the abnormal returns (ARs) are averaged over the number of companies. The daily ARs of individual companies are averaged for each day surrounding the event day (i.e.-40 to +40 days) to compute cross-sectional average abnormal returns (AARs) using the following model:

$$AAR_8 = \sum_{i=1}^{N} \frac{AR_{it}}{N} \quad (6)$$

Where N is the number of events in the sample.

To understand the cumulative effect of cross-sectional AARs on days surrounding the event, the Cumulative Average Abnormal Return (CAAR) is calculated for event days t_1 through t_2 by summing the average abnormal returns for these days, that is:

$$CAAR_t = \sum_{t_1}^{t_2} AAR_t \quad (7)$$

Again Mean CAAR is calculated to analyze the intensity of stock price reaction around alternative event windows. Mean CAAR signifies average time-series abnormal return during a particular event window.

$$\text{Mean CAAR} = \frac{\text{CAAR}_t}{\text{T}} \quad (8)$$

where, T is the number of days in the event window.

We also calculate median daily abnormal returns (MARs) to find out characteristics of return for majority of sample companies.

IV. RESULTS & DISCUSSION

4.1 Stock Splits

Table 1 depicts the results of our analysis for entire stock split sample. It reports daily AARs, median daily abnormal returns (MARs) for most of the 81 days (t_{-40} to t_{40}) of the event window. CAARs for day t_{-40} to t_{+40} along with summary statistics for test of the null hypothesis for AARs are also reported.

Results reported in Table 1 indicate that for most of the days in pre-event window (t_{-40} to t_{-1}), AARs are positive (29 positive and 11 negative). Daily AARs are statistically significant at 10% level for 4 days (t_{-35}, t_{-26}, t_{-20} and t_{-5}). On the day before the announcement, daily AAR is 0.33% and such return is highly significant at .01% level. On the announcement day (t_0) AAR is 0.87% (significant at .01% level) and abnormal returns for most of the sample events (61 out of 90) are positive.

TABLE 1

Stock price reaction around stock split announcements

Day	AAR	MAR	CAAR	t-value	Sig 2 tail (AAR)
-40	0.001327	-0.0016	0.001346	0.834	0.407
-35	0.003987	-0.0004	0.015039	2.617	0.01
-30	0.00534	-0.0004	0.021044	3.532	0.001
-25	0.001955	-0.0002	0.03114	0.86	0.392
-20	0.002818	0.0001	0.038112	1.85	0.068
-15	-0.00153	-0.0015	0.039235	-1.37	0.174
-10	-0.00053	0.0027	0.041911	-0.468	0.641
-9	-0.00059	0.0000	0.04132	-0.409	0.684
-8	0.000999	0.0013	0.042319	0.768	0.444
-7	-0.00031	-0.0005	0.042012	-0.281	0.778
-6	-0.00027	-0.0014	0.041743	-0.279	0.781
-5	0.002064	0.0017	0.043806	1.684	0.096
-4	0.001071	0.0010	0.044877	0.839	0.404
-3	0.000139	-0.0011	0.045017	0.141	0.888
-2	-0.00048	0.0009	0.04454	-0.363	0.718

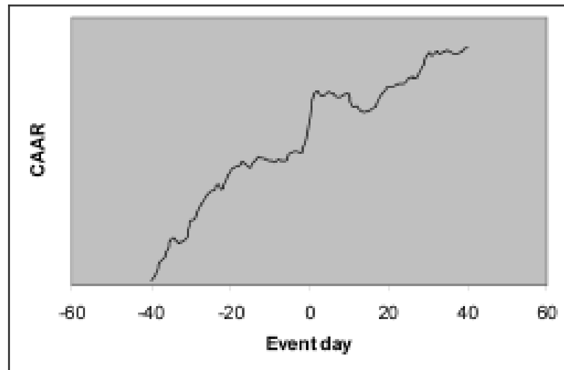
TABLE 1 (Contd.)

Day	AAR	MAR	CAAR	t-value	Sig 2 tail (AAR)
-1	0.003294	0.0049	0.047834	2.676	0.009
0	0.008677	0.0112	0.056512	4.824	0
1	0.006664	0.0066	0.063176	3.54	0.001
2	0.002109	-0.0004	0.065285	1.499	0.137
3	-0.00183	-0.0007	0.063459	-1.353	0.179
4	0.0005	0.0020	0.063959	0.405	0.686
5	0.001139	0.0017	0.065098	0.76	0.449
6	-0.00073	-0.0020	0.064371	-0.591	0.556
7	-0.00132	0.0000	0.063051	-0.955	0.342
8	0.000015	-0.0016	0.063065	0.109	0.914
9	0.00073	0.0001	0.063795	0.222	0.825
10	0.000116	-0.0007	0.063912	0.01	0.992
15	0.000361	0.0003	0.058463	0.345	0.731
20	0.001478	0.0002	0.066713	1.087	0.28
25	0.001946	-0.0004	0.069707	1.484	0.141
30	0.00369	-0.0007	0.077889	2.815	0.006
35	0.000573	-0.0003	0.078902	0.524	0.602
40	0.00062	0.0013	0.080022	0.585	0.56

During post-split event window (t_1 to t_{40}), day after the announcement (t_{+1}) has statistically significant AAR at 0.01% level. On this day median return is 0.66 % and abnormal returns for 64 events (out of 90) are positive. High abnormal return on day after the announcement is expected as announcement often become public after the close of trading on the announcement day. Only three other days (t_{13},t_{28} and t_{30}) have statistically significant AAR.

Turning to CAAR, we observe that CAAR is positive from the starting day of the event window (t_{-40}) and it remain positive with minor fluctuations during entire event window of 81 days. Figure 1 plots the CAAR for stock split sample. There are large jumps at t_{-1}, t_0 and t_1. The significant jump before the announcement date and gradual increases in CAAR over the entire pre-event window may signify information leakage or insider trading. There is a positive drift over the entire post-split event window.

Figure 1: CAAR for stock split announcements



In Table 2, we present summary results for stock splits and bonus issues for comparison purposes. Panel A of Table 2 presents daily AARs for 9 days around announcement (t_{-4} to t_4) and panel B shows CAARs for samples of stock splits and bonus issues over alternative event-period windows. Focusing on CAAR and Mean CAAR in panel B, we observe positive and significant wealth effect for alternative event windows (t_0 to t_1, t_{-2} to t_{+2}, t_{-4} to t_{+4} and t_{-20} to t_{+20}) surrounding announcement of stock splits. Interestingly, Mean CAARs for both pre-split event window (t-40 to t-5) and post-split event window (t+5 to t+40) are positive and statistically significant. CAAR for post-event window is only 1.60% as compared to 4.38% CAAR for pre-event window. However, post-announcement positive drift for stock splits is puzzling and may signify that companies experiencing bull run are resorting to stock splits and such momentum is maintained after the announcement.

TABLE 2

The stock market reaction to announcement of stocks splits & bonus issues in Indian stock market

A. Daily Abnormal Returns (AR)

	Mean		Median	
Day	Stock Splits	Bonus Issues	Stock Splits	Bonus Issues
- 4	0.0011 (0.839)	0.0033 (1.514)	-0.0005	0.0010
-3	0.0001 (0.141)	0.0006 (0.423)	-0.0001	-0.0011
-2	-0.0005 (-0.363)	0.0027 (1.607)	-0.0001	0.0009
-1	0.0033*** (2.676)	0.0051*** (2.864)	0.0018	0.0049
0	0.0087*** (4.824)	0.0177*** (6.087)	0.0057	0.0112

TABLE 2 (Contd.)

	Mean		Median	
Day	Stock Splits	Bonus Issues	Stock Splits	Bonus Issues
1	0.0067*** (3.54)	0.0071*** (2.843)	0.0061	0.0066
2	0.0021 (1.499)	0.0005 (0.2690)	0.0006	-0.0004
3	-0.0018 (-1.353)	-0.0003 (-0.149)	-0.0012	-0.0007
4	0.0005 (0.405)	0.0031 (1.613)	-0.0004	0.0020

B. Cumulative Returns

	CAAR		Mean CAAR	
	Stock Splits	Bonus Issues	Stock Splits	Bonus Issues
Period				
t-40 to t-5	0.0438	0.0141	0.0012*** (4.568)	0.0004 (1.162)
t-1 to t-0	0.0153	0.0213	0.0120* (7.7)	0.0249* (2.34)
t-2 to t+2	0.0203	0.0332	0.0041* (2.477)	0.0066** (2.218)
t-4 to t+4	0.2147	0.0399	0.0031* (1.949)	0.0044*** (2.411)
t-20 to t+20	0.0314	0.0604	0.0008** (2.291)	0.0015*** (2.99)
t+5 to t+40	0.0160	-0.0086	0.0004* (1.926)	-0.0002 (-0.711)

Note: Announcement-induced daily abnormal returns (panel A) and selected cumulative abnormal returns (panel B) for Stock Splits (n=90) and Bonus Issues (n=81) using market model. t-statistics are in parentheses.*,**,***, significant at the .10,.05, and .01 level, respectively.

The results are supportive to rejection of hypothesis H_1. The positive stock market reaction to stock splits is consistent with an information signaling role of split decisions. But, the analysis of post-split stock price of sample companies (Table 3) provides support for trading range hypothesis. Table 3 indicates that in India, trading ranges of less than Rs. 100 and Rs. 100 to Rs. 200 are most popular, since 81% of the split cases fall into these two categories.

TABLE 3

Stock split classification based on post-split price

Less than Rs. 100	Rs. 100- Rs. 200	Rs. 201- Rs. 300	Rs. 301- Rs. 400	Rs. 401- Rs. 500	Rs. 501- Rs. 1000	More than Rs. 1000	Total
43 (47.8%)	30(33.3%)	6 (6.6%)	6 (6.6%)	2 (2.2%)	2 (2.2%)	1 (1.2%)	90
Note: Figures in bracket represent percentage.							

Source: Prowess Database. Results computed.

4.2 Bonus Issues

Table 4 presents results of the entire bonus sample consisting of 81 events. Like Table1, it reports daily AARs, MARs, and CAAR for selected days between t_{-40} to t_{40} . The t statistic values and corresponding significance levels for test of null hypothesis for daily AARs are also given.

Table 4 indicates that for the 40 days before the announcement day there is no consistent pattern of abnormal return for companies announcing bonus issues. The AARs before the announcement period (t_{-40} to t_{-1}) are positive for 29 days out of 40 days and are negative for 11 days. Except for three days(t_{-21}, t_{-16} and t_{-1}) on other days of pre-event window, AARs for cross section of sample companies are not statistically significant. Median returns are negative for most of the days during pre-event window. The evidence suggests that positive median abnormal return occurs 2 days before the announcement day. On this day, for 44 companies (54.32%) abnormal returns are positive. On day t_{-1} AAR is positive and statistically significant at 1%. This might be due to leakage of the management decision or insider trading activities. On the day of announcement for 67 companies (74.44%) abnormal returns are positive and AAR is 1.77% (highly significant at .01% level).

The days after the announcement date show no consistent pattern of the AARs. Out of 40days of post-event window, AARs are negative for 16 days. All AARs after the bonus announcement day are statistically not significant at any conventional level.

TABLE 4

Share price reaction around bonus issue announcements (81 days window)

Day	AAR	MAR	CAAR	t-value	Sig 2 tail (AAR)
-40	-0.0005	-0.0016	-0.00047	-0.3620	0.718
-35	0.0005	-0.0004	-0.00779	0.4260	0.671
-30	0.0015	-0.0004	-0.00481	1.0920	0.278
-25	0.0012	-0.0002	-0.00323	0.7040	0.483
-20	-0.0007	0.0001	-0.00198	-0.5700	0.57

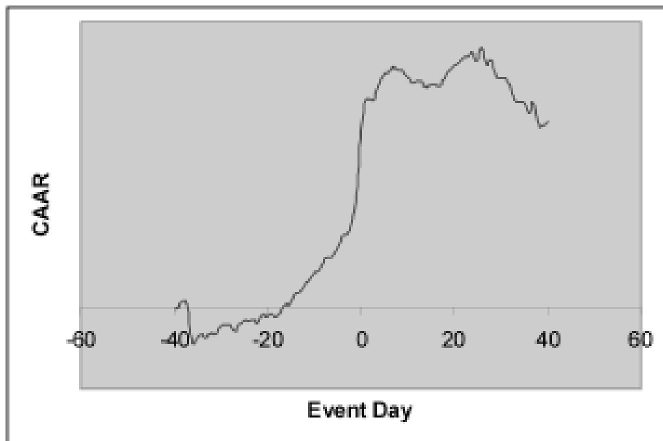
TABLE 4 (Contd.)

Day	AAR	MAR	CAAR	t-value	Sig 2 tail (AAR)
-15	-0.0005	-0.0015	0.000597	-0.3860	0.701
-10	0.0016	0.0027	0.008321	0.9270	0.357
-9	0.0005	0.0000	0.008869	0.2880	0.774
-8	0.0024	0.0013	0.011278	0.9550	0.342
-7	0.0009	-0.0005	0.012227	0.5760	0.566
-6	0.0001	-0.0014	0.012343	0.0660	0.947
-5	0.0019	0.0017	0.014292	1.3420	0.184
-4	0.0033	0.0010	0.017589	1.5140	0.134
-3	0.0006	-0.0011	0.018241	0.4230	0.673
-2	0.0027	0.0009	0.020933	1.6070	0.112
-1	0.0051	0.0049	0.026135	2.8640	0.005
0	0.0177	0.0112	0.044104	6.0870	0
1	0.0071	0.0066	0.051305	2.8430	0.006
2	0.0005	-0.0004	0.051858	0.2690	0.789
3	-0.0003	-0.0007	0.051572	-0.1490	0.882
4	0.0031	0.0020	0.054661	1.6130	0.111
5	0.0034	0.0017	0.058094	1.8850	0.063
6	0.0000	-0.0020	0.058128	0.0210	0.983
7	0.0016	0.0000	0.059776	0.9850	0.328
8	-0.0011	-0.0016	0.058669	-0.8730	0.385
9	0.0000	0.0001	0.058637	-0.0160	0.987
10	-0.0013	-0.0007	0.057314	-0.9390	0.351
15	0.0008	0.0003	0.055327	0.7270	0.469
20	0.0012	0.0002	0.059874	0.9150	0.363
25	-0.0019	-0.0004	0.061252	-1.1590	0.25
30	-0.0008	-0.0007	0.057031	-0.6100	0.544
35	0.0001	-0.0003	0.051043	0.0830	0.934
40	0.0010	0.0013	0.045954	0.4280	0.669

The time series cumulative average abnormal return (CAAR) also confirm inconsistent pattern. Figure 2 plots the CAAR for bonus event sample. It highlights cumulative abnormal returns during pre-event window is negative up to t_{-17} day. Positive CAAR occurs only from t_{-16} and it starts picking up thereafter. During the period covering t_{-16} to t_{-2} CAAR increases from 0.11% to 0.21% and there is large jump only on t_0 and t_{+1} days.

During the post-event period, CAAR shows fluctuating trend and there is no post-announcement drift, unlike stock splits. CAAR declines on t_{+4} and again during t_{+27} to t_{+34}. Thus the pattern of CAAR for bonus issue is consistent with semi-strong form EMH. Furthermore, from Table 2 we find that CAAR for alternative event windows (t_0 to t_1, t_{-2} to t_{+2}, t_{-4} to t_{+4} and t_{-20} to t_{+20}) are positive and Mean CAARs for those event windows are significant. Mean CAAR for 2 days event window (t_0 to t_1) is higher than other alternative event windows.

Figure 2 CAAR for bonus announcements



On the basis of results we reject hypothesis H_2 and concludes that there is positive and significant abnormal returns around bonus announcements. Our findings on bonus issues are supportive of signaling hypothesis consistent with the findings in the developed stock market.

4.3 Stock Splits vs. Bonus issues

Table 5 presents summary results of daily average abnormal returns (AARs) for stock splits and bonus issues for comparison purposes. During pre-event window of 40 days (t_{-40} to t_{-1}), daily AARs of 29 days are positive for both bonus issues and stock splits. Post-announcement daily AARs are mostly positive (29 out of 40) for stock splits and four days (t_1, t_{13},t_{28} and t_{30}) have statistically significant AAR. Only 24 AARs are positive (including 5 zero values) for bonus issues and none is statistically significant at any conventional level.

Again, for the purpose of comparison of information content of stock split and bonus announcements, selected daily AARs and CAAR over alternative event period windows are presented in Table 2. A comparison of daily AARs (for each of the nine days during t_{-4} to t_{+4}) reveals that seven of the nine returns are positive for stock splits and eight such returns are positive for bonus issues. However, during this 9 day period each of the positive daily abnormal returns for stock splits (except that of day t_{-2}) are lower than those of bonus issues. AARs of 3 days (t_{-1}, t_0 and t_1) are statistically significant for both bonus issues and stock splits. Moving to cumulative abnormal returns, we observe that bonus announcements lead to comparatively higher CAAR returns for short event windows surrounding the announcement day viz. (t_{-1} to t_0) and (t_{-2} to t_{+2}). When the event window is widened to include 9 trading days (t_{-4} to t_{+4}) CAAR for stock splits sample is higher than that of bonus issues sample. For pre-event window (t_{-40} to t_{-5}) and stock splits generate higher CAAR as compared to bonus issues. During post-event window (t_{+5} to t_{+40}), CAAR for bonus sample is negative but that of split sample is positive. Considering the entire event window of 81 days, we find CAAR of stock split sample is much higher (0.0800) than bonus sample (0.0456).

Mean CAARs of all the selected event windows (both pre-announcement and post-announcement) are positive and statistically significant at 10% level for stock splits. For bonus issues, most of the pre-event Mean CAARs are positive and statistically significant at 10%. Unlike stock splits, for bonus sample, pre-event and post event CAAR are not statistically significant and Mean CAAR for last 36 days (t_{+5} to t_{+40}) after event is negative.

TABLE 5

Daily abnormal returns of stocks splits & bonus issues in Indian stock market

	Stock Splits		**Bonus Splits**	
	No. of days	**%**	**No. of days**	**%**
Positive AARs during pre-event window	29	72.50	29	72.50
Statistically significant AARs during pre-event window	4	10.00	3	7.50
Positive AARs during post-event window	29	72.50	24	60.00
Statistically significant AARs significant during post-event window	4	10.00	1	2.50

Overall, the results indicate that announcement induced returns for bonus issues support semi-strong form EMH. For stock splits, there are positive abnormal returns over the entire event window and but the positive market reaction around the announcements is comparatively lower than

that of bonus issues. But positive abnormal returns continue for stock split sample during post-event window unlike bonus issue sample where there is no positive drift. Furthermore, for stock splits positive abnormal returns are observed over the entire event window contrary to bonus issues and there is no significant clustering of abnormal return around announcement days. Stock split being a relatively new concept (introduced from 1999), it may be popular among naïve investors and momentum is retained for split candidates even after the announcement.

V. CONCLUSION

This paper examines the comparative effect of stock splits and bonus issues announcements on the Indian stock market during the period April 2000 to March 2007. An event study is conducted using an 81-day event window. In respect of stock split, the AAR on announcement day is of 0.8% which is very positive and highly significant at 0.01% level. Except the first post announcement date, three other post announcement dates are having significant AAR for stock splits. Our findings about stock splits differ from that of Gupta and Gupta (2007) who found that there was no announcement effect associated with stock split in India. Results of our study on stock splits differ from Mishra (2007). But such difference may be due to consideration of different event dates; 'ex-date' by Mishra and announcement date by present authors. Furthermore, we find post-announcement positive drift stock splits in contrast to prior studies. However, our results on stock split supports the findings of Masse, Hanrahan and Kushner,1997 in Canadian market, Charitou, Vafeas and Zacharides (2005) in Cyprus market and Kunz and Majhensek (2008) in the Switzerland stock market.

The study finds a positive AAR of 0.87% in respect of bonus issues on announcement day which is relatively high and very significant at 0.01% level. AARs far before the announcement dates are not generally significant. Post announcement AARs for bonus issues are mixed and not significant except the first day. Our findings support the signaling hypothesis for bonus issues consistent with the findings in the developed stock markets. For stock splits, trading range hypothesis may provide appropriate explanation.

Bonus issues and stock splits are considered to be cosmetic events and except accounting treatment, their impacts are likely to be the same. Interestingly, we found that bonus issues result in sharp spike on the announcement date. Stock splits announcements are resulting in positive returns during entire event window although effect on announcement date is not that sharp. It may be due to the fact that stock splits are more common for momentum stocks whereas bonus issues are made for all type of stocks. This phenomenon may need further exploration.

At this juncture, it is important to admit that time and resource constraints are main impediments to carry out the research. The study does not extend towards eliciting views of the corporate decision makers on stock

splits and hence the researchers have to rely on all the publicly available materials. Sample size may be enlarged to include corporate actions of all listed firms instead of those included in S& P BSE 500 index.

Despite the limitations noted above, the results of the study remain useful and may be a pointer towards the state of efficiency of Indian capital market. Future research on this topic may include a different methodology, and other factors such as firm size, book-to-market value, firm's performance etc. may also be considered. The time period of the study can be expanded further. A study of the implication of ex-date of stock splits/bonus issues as an event is also desirable. Future research should focus on how the characteristics of the shareholders of a firm changes after the stock split or bonus issue. Such a study may highlight whether splitting the stock or issuing bonus share is a way to attract less sophisticated investors? Finally, any future study in this area can extend beyond stock split and consider other corporate events such as dividend announcement, earnings announcement, management decision to grant employee stock options, mergers and acquisitions and many others. These may be associated with stock splits and bonus issues or else studied in segregation.

End Notes

1. A stock dividend or bonus is shown in the accounts as a transfer from retained earnings to equity capital, whereas a split is shown as a reduction in the par value of each share. Hence, for stock split there is no change in retained earnings but in bonus issue existing amount of retained earnings is reduced.

2. The Securities & Exchange Board of India (SEBI), withdrew the concept of fixed face value (Rs. 10 and Rs. 100) was withdrawn by the SEBI through Circular No. SMDRP/ policy/Cir-16/99 dated June 14, 1999. The Circular has changed the requirements of the Circular No. 1/7/SE/81 dated January 22, 1983 issued by the Ministry of Finance, Government of India and provides that a company may issue shares in any denomination as long as it is not fractional (i.e., not below Re. 1.)

3. S &P BSE 500 is a broad-based index and comprises 500 listed firms. The total market capitalization the 500 companies comprising the index represents 93% of market capitalization of all listed companies of BSE. S&P BSE 500 covers all 20 major industries of the economy (www.bseindia.org, accessed 6 December, 2013).

4. Prowess is a database of Indian corporate maintained by Centre for Monitoring Indian Economy (CMIE). It provides detail information on around 10000 individual companies.

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Environmental, Social and Governance Challenges to Business: The Emerging Paradigm in Managing Risks

Ria Sinha*
Department of Policy Studies, TERI University
&
Manipadma Datta
Department of Business Sustainability, TERI University

ABSTRACT

Environmental, Social and Governance (ESG) challenges have given birth to newer risks and uncertainties to business and all other economic activities. The basic rule of business being risk-return trade-off, the actual profit depends on how well they can manage and measure these risks. This article is an attempt to elucidate the emerging paradigm of ESG risk management by business sector, the world over. Creation of a market for innovative eco-friendly products is surely a way to manage these risks. However, the pertinent role of institutional investors in incorporating these risk factors into portfolios is a pioneering way of measuring these risks.

Key words : Environmental Changes, Environmental Risks, Stock Indices, ESG Issues, Greenhouse Gas (GHG), Responsible Investment, GEO-5.

I. INTRODUCTION

Environmental challenges have long been posing threats to mankind in various forms. In other words, environmental volatility has been with us since the dawn of organized efforts. But as is observed correctly, this volatility has changed in nature and dimension both in last century, which is, ironically, the era of maximum development of the mankind in science, technology and commerce too. Mainly because of unwarranted, careless and irresponsible exploitation of natural resources, a large imbalance has been already created in nature that manifests in various ways so far unknown to history. And this largely goes on! All these anthropogenic hazards have added newer dimension to the mankind. Apart from global warming, unpredictable weather the world over, or, arctic meltdown, gradual increase in sea-level, there are so many other social and governance hazards that give birth to newer and newer risks and uncertainties to business and all other economic activities.

* Corresponding author's email : ria.sinha@students.teriuniversity.ac.in

Businesses are at the very core of economic activities. There has been a remarkable change in the business operations the world over keeping in mind the environmental risks and uncertainties. But, in many cases, they might also tend to realize the potential threats associated. However, the basic rule of business is in risk-return trade off. More the risk more is the expectation of profit. However, as we all know, the actual profit in any business depends on how the risk is managed. So, risk management remains at the core of management. Actual challenges lie in the management's power to identify, recognize and measure the risk. As we know the well-known proverb: what is measured is managed. However, put a little differently, what's not identified and recognized can't be measured. So, what is primarily important is to identify and acknowledge the risks or risk variables. Here lies the actual challenge.There has been an increasing recognition that good ESG performance makes good business sense. Risks and uncertainties associated with these variables affect businesses in a large number of ways, affecting investment decisions, consumer behaviour and government policies, etc. In fact, businesses, are likely to suffer in the longer run if they fail to recognize these factors. Hence, this article addresses emerging paradigm of ESG risk management by the business the world over. The remainder of the article has been organized as follows. Section II of the article states the importance and implications of environment and climate change risks to business. Section III provides the key components of environmental risks to business. Sections IV and V provide ways to measure and manage ESG risks and emerging opportunities respectively. Section VI states the role of stock market indices in ESG risk measurement and Section VII is the concluding section which provides a road ahead.

II. IMPORTANCE AND IMPLICATIONS OF ENVIRONMENT AND CLIMATE CHANGE RISKS TO BUSINESS

As a matter of fact, the physical environment and climate is drastically changing in the last few years and research institutions and organizations all over the world are trying to assess its implications on the business sector. A recent report by the UNEP, lists the impacts of the various changing forms of environment such as water pollution, extreme weather events, land conversion, wastes, biodiversity etc. on the business sector. Table 1 is indicative of the same (UNEP, 2013).

TABLE 1

Environmental Implications for the Business Sector, GEO-5

Environmental Trend from Global	*Key Implications for the Business Sector*
Greenhouse Gas (GHG) Emission : GHG emission is likely to double in the next 50 years, leading to global average surface temperature increases of 3-6°C	Might lead to market shifts to lower carbon products, operational and supply chain disruptions, higher cost of energy, food, and other commodities

TABLE 1 (Contd.)

Environmental Trend from Global	*Key Implications for the Business Sector*
Extreme Weather : Report states that during the time interval 1980 and 2000 there has been a 230 per cent rise in the number of flood disasters and 38 per cent rise in drought disasters	Operational and supply chain disruption, increased cost of operations and materials, damage to shared public infrastructure, increased demand for reconstruction services
Waste : Estimated 20-50 million tonnes per year and has hazardous substances and metals which can be recovered	Growing market opportunity to recover/re-use e-waste, increasing regulatory and customer pressure to reduce/manage waste, reputational damage resulting from uncontrolled waste
Chemical Exposure : More than 2,48,000 chemical products are commercially available but there is less availability of data on their impacts on health and environment	Market shifts toward "greener" products
Water Pollution : Report states persistent toxic chemical pollutants degrade the aquatic systems	Increased demand for pollution control devices and systems, increased cost of water treatment, increased demand for healthcare services to treat health impacts
Water Availability : Decreasing rapidly due to the increased demands from agricultural, industrial and domestic sectors	New markets for water-efficient products, constraints on growth due to water scarcity, operational and supply chain disruptions
Biodiversity : Rapid decline in the forest lands, wetlands and drylands leads to an increased rate in species extinction	Increased market, reputational, and regulatory pressure to reduce biodiversity impacts, reduced opportunity for new product breakthroughs, limitations on access to land
Land Conversion : Projected increase in land requirements for urban usage by 100-200 million hectares over the next 40 years	New and growing markets from urban expansion, restricted access to land-based resources, loss of ecosystem services, competition for arable land, increasing pressure to protect critical natural resources

Source : GEO-5 report, UNEP, 2013.

These risks are not only important for the common people, but it can have a degrading impact on the company's performance and shareholder value, if not taken into account. These risks are also pertinent to supply chain management as shareholders take interest in the company's suppliers. A well prepared company can combat the perils associated with environmental risks. In fact, investors have begun pressing corporations for more disclosure of climatic and other environmental risks, including the impact of climate change on competitiveness and investment returns. Companies which are able to deal with these risks well, engage themselves with stakeholders, disclose their strategies to investors and take concrete actions to manage risk, capitalize on opportunities, and emerge as winners, (Knobloch and Leurig, 2010). Table 2 lists some of the sector specific risks posed by environment and climate change and its impact on the value chain (Grossman, 2011).

TABLE 2

Environment and Climate Change Impacts on the Business Sector and its Effects on Value Chain

Business Sector	*Relevant Short and Long Term Physical Climate Impacts*	*Illustrative Effects on Value Chain*
Agriculture Food and Beverage	Increased severity of floods, storm, changing rainfall pattern, rising temperature, extreme weather, shift of seasons, rising sea-level, loss of biodiversity, changes in pest	Decreased crop yield, loss of productive land, increased exposure to pests and irrigation, volatile commodity prices, water conflicts
Apparel	Water scarcity, extreme weather events, rising temperature and sea-level, changing rainfall pattern	Disruptions in supply chain, shifting consumer choices, Fluctuating availability, quality, and cost of agricultural raw materials
Insurance	Hurricanes and storms, wildfires, floods, droughts, sea-level rise, thawing permafrost, and increased exposure to diseases	Increased claims, losses, Reduced availability and affordability of some types of insurance, Reduced value of investment portfolio, need for new products to address physical climate risks

TABLE 2 (Contd.)

Business Sector	*Relevant Short and Long Term Physical Climate Impacts*	*Illustrative Effects on Value Chain*
Mining	Water scarcity, extreme weather events, rising temperature and sea-level, changing rainfall pattern, increased wildfires	Constrained exploration, Damage to infrastructure, Higher decommissioning costs, Altered access to mining deposits, Risks to worker health and safety
Oil and Gas	Extreme weather events, floods, increased coastal erosion, sea-ice melting	Rising risks to employee safety and health, Altered access to fossil fuel reserves, Constrained production of water-intensive oil and gas resources, such as oil sands, and water conflicts with communities and other users, Disruption of transport
Tourism	Flashfloods, rising temperature, droughts, changing precipitation patterns, increased wildfires	Damage to infrastructure, Decreased attractiveness of tourism destinations, Loss of ski trails, coral reefs, Altered tourist seasons
Electric Power	Water scarcity, extreme weather events, rising temperature and sea-level, changing rainfall pattern	Reduced output, Damage to infrastructure, Changing seasonal power demand, Increased electricity losses in transmission and distribution systems due to heat load

Source: Physical Risks from Climate Change, Report prepared by Oxfam, Calvert and CERES, 2011.

Another report prepared by Baglee and others lists a wide range of over 120 impacts, risks and consequences for the Business, Industry and Services sector. The extreme events due to climate change affect financial performance and results in huge monetary and financial losses compounded with asset damage (Baglee *et. al*, 2012).

III. KEY COMPONENTS OF ENVIRONMENTAL RISKS TO BUSINESS

Broadly, the above mentioned common types of risks faced bythe business sector across the world can be categorized into Regulatory risk, Physical risks, Competitive risks, Legal risk and Reputational risk (CERES, 2006; KPMG, 2008). According to the KPMG 2008 study, it is the physical risks which are often cited, with 72% discussing about the regulatory risks that businesses face. Generally, companies have to abide by the new laws and legislations relating to environment that government impose, failing to which they face competitive disadvantages. Apart from this, the expectations from the new regulations in the arena of environment and climate change also pose newer challenges for companies. Government regulations might also lead to change in prices and change in the market situation, which might pose additional challenges to companies.

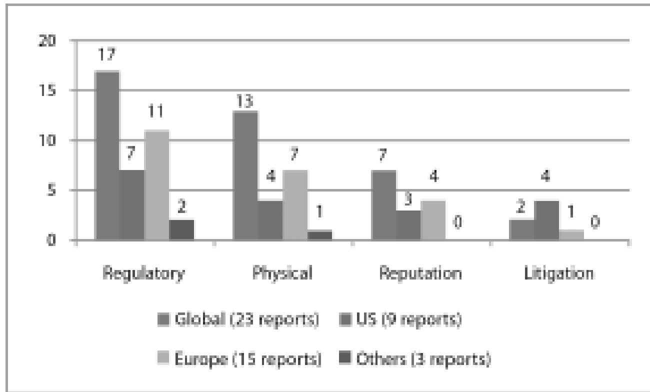
Companies also face physical risks due to environment and climate change in such a way that might lead to change in historical economic models. In fact the weather related events might have both direct and indirect impacts on companies. Examples include changing patterns of precipitation and drought that compromise freshwater availability and crop viability, melting permafrost threatening fuel pipelines, fewer freezing nights to kill off insect pests, and other trends that may disrupt supply chains, contribute to volatile commodity prices or pose unexpected capital costs. In many instances, insurers have to re-adjust their rates keeping in mind the weather related extreme events such as hurricanes, floods and landslides (Knobloch and Leurig, 2010).

Competitive risk is a new type of risk to the business sector emerging from the fact that a changed environment might lead to change in fuel costs, thereby leading to an increase in competition for scarce resources such as water. This might lead to increased costs.

Risks of litigation and other reputational risks are also some of the pertinent risks faced by the business sector. Tort liability is emerging as a risk management concern for some firms, as individuals, corporations and governments faced with financial damages or non-recoverable expenditures seek to recover these costs from alleged contributors to climate change (Knobloch and Leurig, 2010). Reputation of a company might be in stake if it is not able to manage these risks appropriately and fear of losing the market hold and brand value coupled with stakeholder pressure might create some new challenges. Reports analyzed by KPMG shows that Regulatory risk is the most predominant risk (KPMG, 2008).

FIGURE 1

Frequency of Different Risks discussed as analyzed by KPMG, 2008

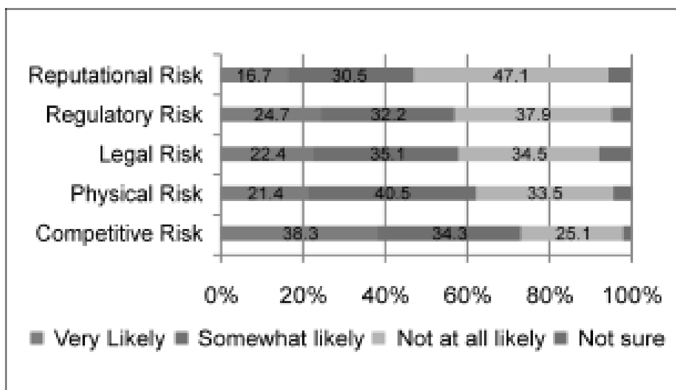


Source: Climate Changes your Business, KPMG, 2008.

There have been studies across the world relating to the perception and management of these types of risk. A Survey by CERES highlights the degree of the above mentioned risks and the likelihood of these risks as perceived by the business sector (Knobloch and Leurig, 2010).

FIGURE 2

Likelihood of Climate Risks analyzed by CERES

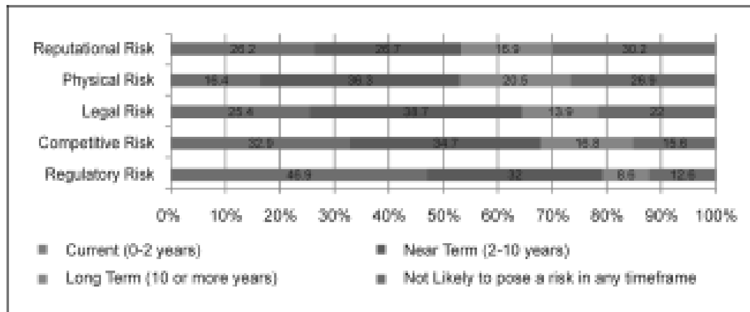


Source : Climate Change Risk Perception and Management: A Survey of Risk Managers, 2010, Report prepared by CERES.

In this study, the respondents were also asked about the timeframe within which they expected the risks to manifest. As is quite evident from Figure 3, Regulatory risk is considered to be more imminent in the near term and reputational risk is of least concern, receiving the highest response of 30.2% that is 'not likely to pose a risk in any timeframe'.

FIGURE 3

Climate Risks Timeframe, analyzed by CERES



Source : Climate Change Risk Perception and Management: A Survey of Risk Managers, 2010, Report prepared by CERES.

IV. WAYS TO MEASURE ESG RISK

Apart from the environmental factors, social and corporate governance issues also impose considerable risks and opportunities for business sector across the world. ESG risksfaced by corporations in the emerging markets differ greatly among countries. The threats vary in accordance to the level of regulations and the level of ESG integration into business operations in the BRICS countries. This has been explained with an example. In Brazil, deforestation and relationship with native people are a concern, whereas in Russia, complicated governance framework discourages influence from foreign investors, which pose the greatest risk. Similarly, in China, quality and safety of product is a matter of concern and depleting water resources pose strategic risks to industries in India and South Africa (Dijk *et. al*, 2012). According to the opinion of Koehler and Hespenheide, poor corporate strategy, differences in corporate culture and business legislations pose a severe threat. Other social issues such as labour management, human capital development, health, safety are some of the social factors which might hamper a company's reputation if not properly dealt with. These ESG factors can influence a company's financial performance through direct operations risk (accidents, environmental pollution, social factors and the like), supply chain risk (child labour, natural resource use, weather catastrophes) and product risk (Koehler and Hespenheide, 2012).

In the wake of the global financial crisis, business leaders, investors and financial practitioners are continuously rethinking and rebuilding the fundamentals of mainstream asset pricing and business models (UNEP FI and WBCSD, 2010). As a matter of fact, ESG factors can hardly be ignored by the business any more. They instead constitute the building blocks for a sustainable business strategy. These factors have now attained the status of mainstream investment and business issues which are also substantiated by the emergence of the United Nations (UN) backed investors' initiative of Principles of Responsible Investment (PRI) in recent times. The ramifications of the principles are very expansive and pervasive in character.

They are directed towards building a durable and sustainable impact on the nature of investments across the globe. Henceforth the nature of world investments would be more and more ESG focused. Applying these principles would better align investors with broader objectives of society. In essence, this is a great recognition to the fact that ESG issues can affect performance of investment portfolios. A number of studies have pointed to the fact that there is some sort of correlation between ESG factors and portfolio performance. In 2007, UNEP FI and Mercer reviewed academic and broker research on the relationship between ESG factors and portfolio performance. Of 20 academic studies, it found evidence a positive relationship in half of these, with 7 reporting a neutral effect and 3 a negative association. The negative links were found in studies of screened portfolios rather than studies of ESG integration. The European Centre for Corporate Engagement (ECCE) in the year 2007 had also studied the relationship between ESG factors and financial performance (UNEP FI and Mercer, 2007). The results of the studies have been listed in Table 3.

TABLE 3
Different Studies relating to the Influence of ESG factors on Stock Performance

Authors	Year	Market Studied	Period Studied	Outcome
Bauer, Koedijk, Otten	2004	Germany, UK, US	1990-2001	No Difference
Bello	2005	US	1994-2001	No Difference
Boutin-Dufresne, Savaria	2004	Canada	1995-1999	No Difference
Derwall, Guenster, Bauer, Koedijk	2003	US	1997-2002	'Good' Stocks Outperform
Derwall, Guenster, Bauer, Koedijk	2005	US	1995-2003	'Good' Stocks Outperform
Foerster, Asmundson	2001	Canada	1995-1999	No Difference
Gluck, Becker	2004	US	1998-2003	Incorporating SRI higher alpha
Hong, Kasperczyk	2006	US	1962-2003	'Bad' Stocks Outperform
Kempf, Osthoff	2006	US	1991-2004	'Good' Stocks Outperform
Mill	2002	N/A	1982-2002	No Difference
SRI World Group	2002	US	1999-2001	No Difference
Statman	2000	US	1990-1998	No Difference
Statman	2005	US	1990-2004	No Difference

TABLE 3 (Contd.)

Authors	Year	Market Studied	Period Studied	Outcome
Translating ESG into Sustainable Business Value	2010	Developed Markets	_	'Good' Stocks Outperform
Abramson and Chung	2000	US	1990-2000	'Good' Stocks Outperform
Gompers, Ishii and Metrick	2003	US	1990-1999	'Good' Stocks Outperform
Humphrey, Lee and Shen	2011	UK	2002-2008	No Difference
Matin et. al	2011	Developing	2005	'Good' Stocks Outperform

Source : The Value of Environmental, Social and Governance Factors for Foundation Investments (2009), EIRIS Foundation Charity Projects, EIRIS Foundation and compiled from other sources.

Regarding the materiality of the ESG issues in the developing and emerging markets, EIRIS conducted a market survey in 2012 based on 20 questions on a range of investment issues related to ESG factors. Based on a total of 44 responses, EIRIS research showed that investors named strategies ESG-themed funds as the most popular emerging markets investment strategy followed closely by general socially responsible investment (SRI) funds (EIRIS, 2012). Hoepnerhad studied the positive correlation between portfolio diversification and ESG criteria contradicting the age-old finding related to the negative correlation between them. According to the author this positive effect of ESG criteria leads best-in-class ESG screened funds to be better diversified than otherwise identical conventional funds (Hoepner, 2010).

In an innovative study for institutional investors, Risklab has conducted a study by integrating the ESG risk factors in portfolio data analysis. The report is a pioneering work in the field of ESG risk management by considering ESG factors along the investment process. This is one of the key components of responsible investing (Risklab, 2010). The report highlights the fact that one of the key considerations of incorporating ESG factors into portfolio analysis is ESG related risks. The report also highlights the modeling of ESG risk factors by considering the individual environment, social and governance factors as a stochastic process. The focus of this particular report has been analysis of long term risks on a 20 years horizon. The report has also been able to show the influence of ESG risk factors on Equity returns of portfolios by considering three equity asset classes: Equity of companies that are in line with ESG criteria (+), of those that are not (-) and of those that have an average exposure to ESG risks. The findings of risk/return matrix are quite interesting, which has been highlighted in Table 4:

a. The Conditional Value at Risk (CVaR) risk of +ESG/Global[i]/-ESG Equity is quite different.

b. The CVaR risk of +E.S.G. Equity is approx. one-third less than Global Equity.

c. The CVaR risk of –E.S.G. is approximately double that of +E.S.G. Equity.

d. E.S.G. risk is assumed to have no impact on expected equity returns but is a risk driver.

TABLE 4
Risk/Return Characteristics of Equity Returns

Return/Risk Matrix	**+ESG Equity**	**Global Equity**	**-ESG Equity**
Expected Return	7.6%	7.6%	7.6%
CVaR 95%	-26.7%	-38.8%	-52.3%
Volatility	15.5%	19.3%	23.7%

Source : Risklab, 2010.

The report also shows that +ESG Equity is even attractive with lower expected returns. For this purpose, three portfolios were chosen: Balanced Portfolio[ii] (on Global Equity Efficient Frontier), Lower Risk Portfolio[iii](on +ESG efficient frontier). The findings are as follows:

a. All equity asset classes (+E.S.G., -E.S.G., and Global Equity) provide the same expected return by assumption.

b. Compared to the "Balanced" portfolio the "Higher Return" portfolio has a higher expected return due to the higher equity allocation (at equal CVaR 95% levels of -7.4%).

c. Therefore, a decrease in expected +E.S.G. Equity return of up to 0.7% would still lead to a higher portfolio return expectation at similar levels of risk.

TABLE 5
Risk/Return Characteristics of Selected Portfolios

Return/Risk Matrix	Portfolio 'Balanced'	Portfolio 'Lower Risk'	Portfolio
Expected Return	5.5%	5.5%	5.8%
CVaR 95%	-7.4%	-5.1%	-7.4%
Volatility	6.2%	5.2%	6.8%

Source : Risklab, 2010.

V. WAYS TO MANAGE ESG RISKS AND EMERGING OPPORTUNITIES

Businesses over the world are trying to build up new business models that are capable of incorporating the extreme events, disaster and other environmental hazards. This is quite a continuing process, efforts are continuously been made in identifying and operationalizing these risks. Although the risk management strategies might differ across sectors, but the basic objective is the same. There are few financial institutions that are incorporating current and future climate risk and adaptation considerations into their governance and risk management processes (Stenek*et al.,* 2010). Financial risk modeling tools are generally test portfolios against known historic stress points. Insurers are also beginning to acknowledge the importance of longer term climate models.

A report by KPMG states that actions should be taken by companies at the sectoral level. According to the report, companies should invest in understanding environmental risks and developing risk management techniques, invest in newer opportunities and provide disclosure to its stakeholders (KPMG, 2008). Generally accepted control frameworks in enterprise risk management are applicable to climate risks. With the help of these control frameworks, it is usually easier to assess the risks related to the extreme events and frame out responses required to deal with such events. According to the report, established risk management approaches offer a variety of responses for the business sector. The business sector can deal with the risks themselves or transfer it to other parties, treat it with control or terminate the activity related to the specific risk. It is equally pertinent to understand whether the new risks are able to give rise to a new set of opportunities. A Guidance document for fund managers prepared by Forum for the Nature is highly indicative of the newer set of opportunities along with the risks on input costs, assets and operating costs and revenue due to climate change and degrading environment. The findings of some of the selected sectors are tabulated in Table 6 (Forum for the Nature, 2010). Similarly, another study conducted by UNEP is also indicative of the emerging opportunities relating to environment risk management by the business sector vis-à-vis the risks associated with it. The study focuses on nine major sectors namely Building and Construction, Chemicals, Electric Power, Extractives, Finance, Food and Beverage, Healthcare, IT, Tourism and Transportation. It is highly interesting to note although there are lot of risks associated due to environment with each sector, but the market related opportunities for innovation of new products and services cannot be ignored. This can provide corporations in reputational advantages over companies which do not innovate newer and environment friendly products. Those companies which respond promptly to the risks are more likely to get competitive advantages over others. As a matter of fact, companies which

are able to innovate newer products are capable to handling the risks better (UNEP, 2013).

Apart from creation of newer opportunities, providing disclosure to different stakeholders relating to company ESG policies including carbon emissions is also a challenge. Generally stakeholders might take greater interest in the companies if they are able to create strong credibility by creation of new methodologies to calculate the total supply chain carbon footprint. In this perspective, the role of Carbon Disclosure Project is eminent. Even the Global Reporting Initiative (GRI) guidelines contain an indicator of financial implications and other risks and opportunities for an organization's activities due to climate change (GRI, 2011).

On the investment perspective, hedging environmental risks is another approach towards risk mitigation in portfolios. Palma and Prigent rightly describes a financial hedging model based on portfolio insurance under hedging constraints. The authors describe a model for investors where they are assumed to maximize their expected utilities defined on financial and environment asset values (Palma and Prigent, 2007). Their results suggest that environmental derivative assets have to be introduced in order to maximize the expected utility of individuals.

TABLE 6

Risks vs. Opportunities in Different Sectors arising from Environment Degradation and Climate Change

Sector	Impacts on the Corporate Business Model		
Agribusiness	**Input Costs Risk :** Regulations imposing a 'cost of carbon' on high carbon intensity materials used for packaging, driving up costs for these raw materials. **Opportunity:**Understanding supply chain exposure and early action to manage these risks will enable organization to better withstand climate shocks, and ultimately outperform less prepared competitors.	**Assets and Operating Costs** **Risk:**Increased incidence of food poisoning related to prolonged periods of higher temperatures. **Opportunity:**Companies which can develop resilience to input cost increases, through efficiency gains or diversification will outperform their competitors.	**Income and Revenue** **Opportunity :** Increased consumer awareness of carbon footprints for products may create brand value for products, which can be positioned, as 'low-carbon'. Additional revenue through carbon markets for agricultural-based emission reduction, and carbon sequestration. **Risks** to agriculture will vary significantly across the geographic regions as climate changes impacts local environmental conditions. Producers in better climate-adapted regions will have a competitive advantage in the marketplace, and may start to gain market share from current market leaders.
Energy and Utilities	**Risk:** Reduced access to water for cooling plants	**Risk:** Increased peak electricity demand due to warmer and more frequent days leading to increased maximum transmission capability, Increased damage to facilities and infrastructure, Water shortages impact power output from hydroelectric plants, Reduced transmission capacity due to prolonged periods of higher temperature.	**Opportunity :** Carbon capture and storage comes on line, with growth in market share for those who have access to this technology.

TABLE 6 (Contd.)

Sector	Impacts on the Corporate Business Model		
Financial Services	**Risk:** Insurance provision may change as climate impacts are understood, possibly making some activities uninsurable	**Risk:**Financial institutions that do not integrate the impact of climate change into their funding decisions, based on long-term scenarios for the relevant business sector, will be less able than competitors to handle climate shocks in these sectors, on the contrary, Competitors' allocation of capital will be more efficient in relation to the assumed risks.	**Opportunity:** Offer differentiated financial services which address climate risk or opportunities, Financial institutions with an integrated climate strategy may acquire a competitive advantage with organizations seeking to drive down carbon impacts across their portfolio
Industry and Materials	**Risk:** Regulations imposing a cost of carbon' on high carbon intensity materials, driving up costs for these raw materials. **Opportunity:** Understanding supply chain exposure and early action to manage these risks will enable organisation to better withstand climate shocks,	**Risk:** Increased peak electricity demand due to warmer and more frequent days leading to increased maximum transmission capability, Increased damage to facilities and infrastructure, Water shortages impact power output from hydroelectric plants, Reduced transmission capacity due to prolonged periods of higher temperature.	**Opportunity:**Significant potential to reduce emissions from manufacturing. Carbon market funding may enable an organisation to create markets advantage from 'low carbon' manufacturing processes.

Source: Adapted from Forum for the Future, Managing the Growing Risks and Opportunities from Climate Change, 2010

VI. MARKET RELATED ESG RISK MEASUREMENT : THE ROLE OF STOCK MARKET INDICES

Stock Exchanges all over the world are emphasizing on the evolution of sustainability indices, proxied by ESG factors, which can provide an edge to companies to develop their strategies by incorporating ESG concerns. One of the pertinent reasons to integrate ESG considerations into the investment process is to manage the pertinent ESG factors which are believed to be drivers of long term risks and return (Barclays and MSCI, 2013). ESG factors can help direct the market to the long term because they frequently focus on issues where risks and rewards are best measured in years and decades, not months and quarters (Lydenberg, 2009). Investors now understand that investing in ESG factors can be beneficial from both the financial and value based dimensions. Needless to mention, the terms - socially responsible investment (SRI), green investing, responsible investing, ESG investing - have gained impetus. Socially responsible investors encourage corporations to increase their commitment towards areas such as environmental protection, corporate governance and social good (Sun *et.al.*, 2011). Governments in Brazil and South Africa have also taken initiatives to encourage corporate ESG performance along with China, Turkey, Mexico and Hong Kong making good progress. Exchanges have come a long way in a relatively short period of time to move towards sustainability (Morales and Tichelen, 2010). Table 7 lists the various exchanges across the world which has undertaken these efforts.

TABLE 7

Sustainability Pricing Efforts by Stock Exchanges worldwide

Stock Exchange	Country	Number of listed companies (2009)	Market Capitalization 2009 (US bn)	Sustainability Indices
Australian Stock Exchange	Australia	1,966	1,261.9	No
BM&FBOVESPA	Brazil	386	1,337.2	Yes
BME Spanish Exchanges	Spain	3,472	1,434.5	Yes
Bolsa de Comercio de Santiago – Santiago Stock Exchange	Chile	236	230.7	No
Bolsa Mexicana de Valores	Mexico	406	352.0	Planning
BorsaItaliana	Italy	364	656.0	No
Bursa Malaysia	Malaysia	959	286.2	Planning
Deutsche Borse AG	Germany	783	1,292.4	Yes
Hong Kong Exchanges and Clearing	Hong-Kong	1,319	2,305.1	Planning

TABLE 7 (Contd.)

Stock Exchange	Country	Number of listed companies (2009)	Market Capitalization 2009 (US bn)	Sustainability Indices
Indonesia Stock Exchange	Indonesia	398	214.9	Planning
Istanbul Stock Exchange	Turkey	315	233.9	Planning
Johannesburg Stock	South Africa	396	799.0	Planning
Exchange				
Korea Exchange	Korea	1,788	834.5	Planning
London Stock Exchange	UK	2,792	2,796.4	Planning
Moscow Interbank Currency Exchange	Russia	234	736.3	No
Nasdaq OMX	US	2,852	3,239.5	Yes
NASDAQ OMX Nordic Exchange - Stockholm, Helsinki, Iceland and Copenhagen	Denmark, Sweden, Finland and Iceland	797	733.4	Yes
NYSE Euronext	France	1,160	2,869.4	Yes
Philippine Stock Exchange	Philippines	248	86.3	No
Saudi Stock Market Tadawul	Saudi Arabia	135	318.7	No
Shanghai Stock Exchange	China	870	2,704.7	Yes
Shenzhen Stock Exchange	China	830	868.3	Yes
Singapore Exchange	Singapore	773	481.2	Planning
SIX Swiss Exchange	Switzerland	339	1,064.6	No
Taiwan Stock Exchange	Taiwan	755	657.6	-
The Stock Exchange of Thailand	Thailand	535	176.9	No
Tokyo Stock Exchange	Japan	2,335	3,306.0	Planning
Toronto Stock	Canada	3,700	1,676.8	Yes
Exchange				

Source : The Value of Environmental, Social and Governance Factors for Foundation Investments (2009), EIRIS Foundation Charity Projects, EIRIS Foundation and compiled from other sources.

The Johannesburg Stock Exchange (JSE) has developed the Socially Responsible Investment Index in the year 2004 which provides an inspirational benchmark for integrated risk management trading issues from FTSE/JSE (SRI Index JSE, 2010). India is also on world's map of SRI indices. S&P ESG India Indices with 50 securities and BSE Greenex with 25 were launched in January, 2008 and February, 2012 respectively (S&P ESG India Index, 2008; S&P Greenex, 2012). However, considering the time of inception, Greenex with its very short life till date cannot be commented upon as to its performance. But S&P ESG India index has indeed made a mark which is worth considering. It has been observed that since its inception ESG India Index has shown remarkable growth finally outsmarting the conventional market portfolios.

VII. ROAD AHEAD

The business sector is getting more and more concerned about ESG risks and the pertinent impacts of these risks on its assets. Adjusting to these risks and innovating newer products and policies is a continuous process and it will take some time to get fully operationalized. Although the ESG risks vary across countries, it is the role of the investors to be aware of this and carefully analyze the pertinent ESG factors which can influence investment decisions. The inconsistency in taking account of the ESG factors is a serious cause of concern. Many a times, comparison of indices and portfolios is not possible due to incorporation of heterogeneous ESG factors. Hence, it is required to develop uniform ESG metrics for the purpose. Since there cannot be a fixed set of metrics, a due-diligence-audit like approach is necessary (Datta, 2013). Regarding identification of variables, the G3 guidelines of the Global Reporting Initiative is highly beneficial. G3's sustainability performance indicators have been organized into three categories: Economic, Environmental and Social. The Social category is further broken down by sub-categories like Labour, Human Rights, Society and Product Responsibility (GRI, 2011). Table 8 highlights the guidance provided by UNEP, 2010 on what companies and investors translate the ESG factors are quite pertinent (UNEP and WBCSD, 2010).

TABLE 8

Guidelines for Companies and Investors on ESG Investing

Steps	For Companies	For Investors
Step 1	Draw clear links between ESG factors, sustainability, financial performance and strategy	Build Expertise on the Fundamental of ESG valuation
Step 2	Standardize the disclosure of quantitative data	Use both qualitative and qualitative data for investment analysis
Step 3	Formalize a communication process for qualitative ESG data	Formalize a process for gathering qualitative ESG data

Source : Translating ESG into Sustainable Investment Value, UNEP FI and World Business Council for Sustainable Development, 2010.

For institutional investors, it is pertinent to understand the concept of risk exposure and devise a proper portfolio analytic framework which can incorporate the key ESG factors and ensure proper risk management. MSCI has conducted considerable research in this area. In collaboration with Barclays, MSCI has developed a new family of rules based fixed income benchmark indices that incorporate measures of ESG risk and involvement (Barclays and MSCI, 2013). This index series is broadly based on three different ESG investment themes, namely, Socially Responsible Indices, Sustainability Indices and ESG Weighted Indices. In the wake of the global financial crisis, corporate governance has indeed become one of the major ESG factors that investors are concerned about. In this context, the Basel III guidelines on risk data aggregation and management are pertinent. The principles stated by the Committee are extremely useful for the corporations, investors and financial institutions especially the banking sector. The exhaustive list of principles stated in the report will enable the banking sector to enhance risk management and decision making processes (BIS, 2013).

ESG risk management is a very crucial area of research given its implications and importance for the business sector. Proper management and measurement of the risks associated with it can not only increase profitability of the business sector but will also help in saving the environment from further degradation.

Endnotes

[i] Global Equity represents an equity allocation with an average ESG exposure

[ii] Starting point is a comparatively conservative portfolio (equity share, 30%)

[iii] Equal return expectation to "Balanced Portfolio" but lower risk

[iv] Equal risk expectation to "Balanced Portfolio" but higher return

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Financial Inclusion of Urban Microfinance Beneficiaries - An Assessment of Service Quality of Banks in Select Districts in West Bengal

Samirendra Nath Dhar*
Department of Commerce, North Bengal University
&
Surajit De
Department of Commerce, Raiganj University College
Norh Bengal University

ABSTRACT

Financial inclusion processes can be effective when the savings and credit linkages of beneficiaries are smooth and hassle-free. When beneficiaries perceive a lack of sensitivity on the part of financial institutions to their financial needs or linkage processes do not operate as per their expectations, as well as the bankers, the financial inclusion efforts are retarded. In this context, this study focuses on a holistic urban microfinance programme, SJSRY (now NRLM) and investigates the problems faced by the beneficiaries and their expectations and perceptions about the services provided by the banks for financial access as prescribed by the scheme.

Key words : Financial Inclusion, Urban Poverty, Financial Access, Urban Self and Wage Employment, Bank Linkage, Service Quality.

I. INTRODUCTION

Access to financial services, especially for those at the 'bottom of the pyramid' has been drawing attention of researchers, policy makers and financial service providers since it has become an integral part of the development agenda for inclusive growth and financial inclusion. "The gap in access to finance for the unbanked and underserved has been so large for a long time that the focus is simply on closing the gap. More attention is needed to deliver the portfolio of services that will meet low-income people's underlying financial needs" (Ardicet *et al.*, 2012).

* Corresponding author's e-mail : dharsnd@gmail.com

Inclusive growth has been a priority of the Government of India (GoI) over the past decade. The policy making and regulating institutions in India have instituted various programmes, regulations and guidelines for fostering financial inclusion. The Reserve Bank of India has constituted a high level Financial Inclusion Advisory Committee (FIAC) to lead the efforts toward better financial inclusion. The combined proficiency and know-how of the members of the committee is expected to investigate issues, such as, developing feasible and sustainable banking services delivery models, focusing on accessible and affordable financial services, developing products and processes for rural and urban poor currently not included in the banking network. The implementation of the Financial Inclusion Plan (FIP) 2010-13, introduced for the first time in April 2010, has led to the establishment of banking outlets in more than two hundred thousand villages (Subbarao, 2013). In order to take financial inclusion to the next stage of providing universal coverage and facilitating Electronic Benefit Transfer (EBT), banks have been advised to draw up the next FIP for the period 2013-16. It has been targetted that by the end of the year 2013 more than three hundred and fifty thousand villages and semi-urban areas will be covered by establishing bank branches and employing banking correspondents. Though these targets provide an impetus for extending financial services to the poor, yet the issue which crops up is whether the banks visualise business potential in the delivery of financially inclusive services and gear up to deliver services in a user friendly way to the poor or whether they simply perceive it as an additional regulatory requirement. Managing accounts for government microfinance, self employment and wage employment schemes are usually high cost activities and can be perceived as burdens upon the normal work load of the bank.

While these targets focus on the rural areas, the urban poverty problems cannot be bypassed or ignored. The urban population of India increased from 286 million in 2001 to 377 million in 2011. 93 million urban residents are estimated to be slum-dwellers. The number of urban poor in India was estimated to be 81 million in 2004-05 based on NSSO data. The figure indicates the percentage of urban poor at 25.7%. What is disturbing is the fact that in spite of the impressive growth of the Indian economy, the number of urban poor has gone up by 4 million between 1993-94 and 2004-05. Urban poverty is increasingly becoming a vital concern to deal with, due to the escalating levels of urbanisation across the country. Moreover urban poverty cannot anymore be viewed as a simple quandary of inadequate income and underprivileged livelihoods, but it is to be addressed on a multidimensional basis – self and wage employment avenues, fortification against exploitation, social empowerment, access to public services and, most importantly, availability of financial services and easy access to formal financial systems. Financial access again has to be considered on a multidimensional basis. i.e., the quantity, type and quality of financial services being offered and cost at what price are financial services available, Murdoch (1999) identified additional dimensions as reliability, i.e., is finance available when needed/ desired; convenience, i.e., what is the ease of access; continuity, i.e., can finance be accessed repeatedly; and flexibility, i.e., is the product tailored to the needs. CGAP (2011) stressed that “financial inclusion does not mean

mere availability of services but rather whether various dimensions of the financial system are working effectively to extend demand-driven services to clients."

II. PROBLEMS IN FINANCIAL ACCESS AND BANK LINKAGE

It is sometimes opined that paucity of funds is one of the main obstacles for the urban poverty reduction strategies of the Government. However, research shows that a significant proportion of funds, available through Central Government and state programmes as well as international agencies, are simply not being used. Exact information about the amount of Central and State Government and external donor funds available and disbursed, is in many cases difficult to find. "But estimates suggest that approximately 60% of available funds are spent at the national level and 30% at city level.......,. 80% of package is released via banks, yet bankers are reluctant to liaise with beneficiaries to implement schemes. Excuses for not sanctioning funds include lack of experience, security and entrepreneurship. In fact, the main problem is lack of commitment on the part of the bankers to implement SJSRY." (10th Urban Think Tank, 2000).

Basu (2006) observes that "Serving the poor is a high-risk, high-cost proposition for banks. First, there is the uncertainty about the repayment capacity of poor rural borrowers, with their irregular/volatile income streams and expenditure patterns. In the absence of credit information, this drives up default risk. Such problems are exacerbated by the borrower's lack of collateral, and/or difficulties in contract design and enforcement"

But in practice, it is witnessed that in most of the times the process does not operate as per expectation of the beneficiaries as well as the bankers. Jones and Dawson (2002) reported that access to banks by small scale borrowers can be inhibited by the nature, characteristics and requirements of formal financial institutions. "Reluctance of officials from Banks to extend loans for micro-enterprises under SJSRY, etc. has been found to be the foremost obstacles affecting the accomplishments under the scheme. It is due to some problems that have been faced during the process of bank linkage."(NULM Draft Mission Document 2011). "A key critique of the scheme has been its inability to galvanise finances for self-employment ventures of the urban poor. ...... From the borrower's perspective, beneficiaries perceive a lack of sensitivity on the part of financial institutions to their financial needs." (Steering Committee on Urbanisation, Planning Commission, 2011). A similar observation was made by Johnson and Rogaly (1997) where they found bankers to be insensitive to poor customers and commented, "disdain and contempt meted out to the poor by bank staff may not have a monetary cost, but the acts do have a cost all the same." These non-monetary costs are more serious in the sense that they liquidate the environment for fostering financial access. In this context, this study has been targeted to explore whether the services delivered by the banking institutions are up to the expectations of the urban poor who have been brought under the coverage of remainder of the self employment programmes which pave the way for

financial inclusion. The remainder of the paper has been organised as follows. Section III deals with the brief features of self employment programmes which foster financial inclusion of the urban poor. In Section IV brief review of literature is presented followed by the objectives of the study. The research methodology adopted in this study is presented in section V. The findings of the study are given in section VI.

III. SELF-EMPLOYMENT PROGRAMMES FOSTERING FINANCIAL INCLUSION IN INDIA

In an effort to financially include a large section of the urban poor and help them in taking up income generating activities, while catering to dimensions stated above, the Government of India launched the Swarnajayati Sahari Rojgar Yojana as a holistic urban microfinance programme in 1997. The scheme has been restructured and replaced with the National Urban Livelihood Mission (NULM) from the year 2012-13. The brief features of the schemes and system of providing access to funds from formal sources are given below.

Swarna Jayanti Sahari Rojgar Yojana (SJSRY) is a centrally and state sponsored scheme aiming at alleviation of poverty in urban areas. It has merged the three major schemes like (i) Nehru Rojgar Yojana (ii) Urban basic service for the poor and (iii) Prime Minister's Integrated Urban Poverty Eradication Programme. The scheme focuses on foundation of community empowerment in urban area. Rather than traditional top down approach, it aims at creating community organisations and community structure for the development. As regards the empowerment, the yojana envisages the creation of a three tier community structure of the poor women and involve them in the decision making process pertaining to the planning and execution of not only employment promotion programmes but also other public services provided in their localities by different Government agencies. Such involvement of community organizations would help in better focusing of governmental interventions to meet the needs of the localities and in realizing optimal utilization of scare public funds by covering major gaps and avoiding redundancies, overlapping etc. The SJSRY consists of two sub schemes - the Urban Self-Employment Programme (USEP) and the Urban Wage Employment Programme (UWEP). Since the USEP primarily depends on effective linkages with banks for financial access to savings and credit facilities, the discussion will focus on the linkage and access systems and problems of the aforesaid sub-scheme.

This sub-scheme has three distinct components:

1. Assistance to individual urban poor beneficiaries for setting up gainful self -employment ventures.
2. Assistance to groups of urban poor women for setting up gainful self-employment ventures. This sub-scheme is called "The Scheme for Development of Women and Children in the Urban Areas (DWCUA)". The new nomenclature is Urban Women Self-Help Programme (UWSP).

3. Training of beneficiaries, potential beneficiaries and other persons associated with the urban employment programme for acquisition or up-gradation of vocational and entrepreneurial skills.

Project Cost : The maximum unit project cost for individual cases can be ₹ 2,00,000. If two or more eligible persons join together in a partnership, the project with higher costs would also be covered provided share of each person in the project cost is ₹ 2,00,000 or less. Subsidy would be provided at the rate of 25% of the project cost subject to a ceiling of ₹ 50,000/- per beneficiary. In case more than one beneficiary join together and set a project under partnership, subsidy would be calculated for each partner separately.

Margin Money : Each beneficiary is required to contribute 5% of the project cost as margin money in cash. Loan (inclusive of subsidy) : 95% of the Project Cost would be sanctioned as composite loan by bank at the rates of interest applicable to such priority sector loans fixed by Reserve Bank of India, from time to time. The loans would not require any collateral guarantee. Only assets created under the programme would be hypothecated / mortgaged/pledged to the bank advancing the loans (SJSRY Guidelines).

Based on the experiences from the Swarna Jayanti Shahari Rozgar Yojana, and experience gained in the implementation of National Rural Livelihoods Mission (NRLM), the Ministry of Housing & Urban Poverty Alleviation has accordingly proposed National Urban Livelihoods Mission (NULM) to replace the ongoing scheme of SJSRY in the 12th Plan. NULM aims to achieve universal financial inclusion, beyond basic banking services, covering all urban poor individuals/households, SHGs and their federations. On one hand, it will promote financial literacy among the urban poor and provide support through a Revolving Fund. On the other, it will coordinate with the financial sector to encourage the use of ICT-based technologies, financial correspondents and community facilitators like “Bank Mitras” and “BimaMitras”.

Some of the mentionable components for self-employment proposed for NULM are: (i) Individual Enterprises (SEP-I), (ii) Group Enterprises (SEP-G), (iii) Technology, Marketing and Other Support, and (iv) Skills Training for Self-Employment. Under this scheme, a Revolving Fund support to the tune of ₹ 10,000/SHG will be provided to SHGs with more than 70 percent BPL members and those, which have not availed such support earlier. Similarly, a Revolving Fund support of ₹ 50,000 would be available to a registered Slum/Ward/Area Level Federation (ALF) to sustain their activities. A separate Credit Guarantee Fund (CGF) for supporting urban poor livelihoods will be proposed in consultation with the Department of Financial Services and Department of Expenditure to enable credit support for NULM beneficiaries with a corpus of ₹ 1000 crore. CGF will guarantee loans made by lending institutions to urban poor individuals–up to a sum of ₹ 2,00,000 and to groups up to ₹ 10,00,000 for the purposes of setting up micro-enterprises.

Process of Bank Linkage under SJSRY and NULM

Bank linkage is the most important function under these schemes. The success of any scheme depends on the successful bank linkage. Under these schemes, the beneficiary has to contribute only 5% of the project cost, 15% will be provided as subsidy by the Government and the rest 80% will be provided as loan by the commercial banks. Therefore, the successful institution of an income generating project by the beneficiaries depends to a large extent on the amount of funds which can be granted from banks as loans. However, since the beneficiaries under the scheme are very poor, there is always a chance of delinquency by them if they cannot put the loan funds to viable income generating activities. Being cautious about delinquencies and build up of non-performing assets, banks follow some procedures for linkage with the groups. These procedures are briefly stated. At the very first stage, a Thrift and Credit Group (TCG) is formed and a bank account is opened in the name of the group. The group contributes a monthly subscription as own corpus which is deposited into the bank in the group's name. During this stage, bank watches the activities and the viability of the group. After expiry of one year, if the group can satisfy the terms and conditions of the concerned bank, it will be eligible to get the government grant, loan and subsidy through the bank. The name of the beneficiary or group is selected in the Neighbourhood Group (NHG) meeting and forwarded to the Community Development Society (CDS) through Neighbourhood Committees (NHC). The beneficiary or group has to submit a project for getting loan from bank. The CDS after getting the name of the beneficiary or group send it to the Board of Councillors meeting for approval. The Board of Councillors finally selects the name of the beneficiary or group and sends it to the bank through the chairperson of the municipality. The bank after getting the name of the beneficiary along with the project goes for door-to-door inspection to see the viability of the project for which the loan has been applied. The decision to sanction the loan is made only if the bank finds that all procedural requirements are met and the project is viable. The technical body of the bank fixes the amount of loan required to run the project. It appears from the above procedure that in order to meet the technicalities of the schemes, the involvement of the bankers is a *sine-quo-non* for effective credit delivery. The services that they render are vital for the successful administration of these schemes and needs to be explored in the light of quality of services that are meted out to the beneficiaries. Researchers have been focusing on service qualities for quite a considerable period of time. A brief review of such research findings are presented in the next section.

IV. REVIEW OF LITERATURE AND OBJECTIVE

Financial inclusion and providing financial access is a two way circuit. On the one hand, it is the efforts, systems and attitude of the providers of finance and, on the other, it is the awareness and perception of the users of the funds, i.e., beneficiaries who frequent the banks for savings and credit linkage. Providing better quality of services to the customers, more specifically

for customers on whom focus has been made through microfinance schemes for financial inclusion is of utmost importance for banks. Buttle (1998), Lee (2000), Gilbert and Veloutsou (2006) and Sulieman (2011) suggested that service quality leads to customer satisfaction. To achieve a high level of customer satisfaction, most researchers suggest that a high level of service quality should be delivered by the service provider as service quality is normally considered an antecedent of customer satisfaction. As service quality improves, the probability of customer satisfaction increases. Ravichandran et al. (2010) emphasised that the quality of services offered by banks will determine customer satisfaction and attitudinal loyalty and make financial inclusion through microfinance successful. Roy, Vaijayanthi and Shreenivasan (2011) investigated the factors that are associated with satisfaction among the customers of Indian Foreign Banks in Tamil Nadu. The customer satisfaction was evaluated by applying Gap Model of service quality proposed by Parasuraman, Zeithaml, and Berry. The differences between the perceived quality and the services provided were analyzed with parameters such as Need Analysis, Service Features, Infrastructure and Behaviour of Bank personnel. Alhamadani (2011) examined the level of service quality as perceived by customers of commercial bank working in Jordan and it's effect on customer satisfaction, based on modified version of SERVQUAL in thirteen commercial banks in Jordan. The results of this study indicated that service quality is an important antecedent of customer satisfaction. Bootwala and Gokhru (2012) attempted to investigate the service quality issues from the perspective of the customers in the banking industry of India. For the purpose, the three groups of banks, operating in city of Ahmedabad, i.e. public sector, private sector and foreign banks have been compared with respect to eight different factors of service quality, namely, Reliability, Responsiveness, Assurance, Empathy and Tangibles. Saghier and Nathan (2013) measured the quality of service from customers' perspective in the Egyptian banking based on questionnaire survey. Four factors that influence users' evaluation of service quality of banking services were identified. The important among them are reliability, responsiveness, empathy. The authors pointed out that these factors are important to enable bank managers to have a better understanding of customers' perception of service quality of banking and consequently how to improve their satisfaction with respect to aspects of service quality.

However, defining and measuring quality in services might be difficult due to the intangible nature of the service being offered. Researchers have defined service quality as a mixture of three elements - the quality of the consumption process itself, the quality of the outcomes of the process, and image of the provider of the service. In the increased focus on financial inclusion, banks in India can ill afford to stay away from meeting the quality of services which are expected by the beneficiaries of the inclusion programmes. To achieve the customers' satisfaction and retention, it is critical to determine which dimensions of service quality (Reliability, Responsiveness, Assurance, Empathy, Tangibles, Price, Access and Effectiveness) are more important to different customers. Generally, service quality has been defined as the difference between customer expectations of service to be received and perceptions of the service actually received

(Groonroos, 1984; Parasuraman et al., 1988, 1991). Various models have been developed measuring service quality (Bahia and Nantel, 2000). There is a strong body of research focused on measuring preferred service quality in services, and in banks particular (Alfred and Adams, 2000; Gari and Bhat(2003) ; Sharma and Mehta, 2004), Chander, Rajendran and Anantharamanm (2003). SERVQUAL Analysis is one which measures the performance of the banks from customers' perspective. This method has been used in many settings to assess the quality of service of banks. By measuring expectations, perceptions, and satisfaction level on the dimensions of Reliability, Assurance, Tangibles, Responsiveness and Empathy as well as overall satisfaction of the customer. Many of the researchers on service quality have been carried out within the framework of widely accepted service quality model. SERVQUAL model has been developed by extensive research by Parasuraman et al. (1985,1988,and 1991). It has five generic dimensions or factors as follows: :

(1) *Tangibility:* Physical facilities, equipment and appearance of personnel.

(2) *Reliability:* Ability to perform the promised service dependably and accurately.

(3) *Responsiveness:* Willingness to help customers and provide prompt service.

(4) *Assurance: Competence, courtesy, credibility and security:* Knowledge and courtesy of employees and their ability to inspire trust and confidence.

(5) *Empathy: Access, communication, understanding the customer:* Caring and individualized attention that the firm provides to its customers.

Since then many researchers have used this 22 items scale to study the service quality of the banks.

In line with the above studies, this study attempts to measure the gap of customers' expectation and their perceptions and provide indication about the level of satisfaction the SJSRY beneficiaries have with the services offered by the banks. The beneficiaries' satisfaction with the banks services needs to be explored so that the communication and linkage developed with the banks may be more user - friendly and the urban micro finance delivery system under the SJSRY may be properly executed. In this context, this study concentrates and investigates the problems faced by the beneficiaries and their expectations about the services provided by the banks for financial access as prescribed by the scheme.

In this study, the focus has been given in the district of Uttar and Dakshin Dinajpur in West Bengal as no study was made to study the urban microfinance systems in these areas. The district of Uttar and Dakshin Dinajpur are economically backward areas. The poor people of these districts suffer from many problems specially lack of awareness, finance and training to start the self-employment activities. It was, therefore, felt that since the SJSRY programme has been implemented in the districts, it would be

worthwhile to find out :

(i) What are the problems in bank linkages faced by the SJSRY beneficiaries in these districts?

(ii) What are the beneficiaries' expectations about the quality of services from the banks and what are their perceptions about the actual service offered?

V. RESEARCH METHODOLOGY

For the purpose of the study, a random sample of 500 groups was initially taken having more or less a proportionate distribution from each municipality. For the purpose of identifying the groups, the names and addresses were collected from the respective Community Development Society (CDS) and municipalities and a random number generated from computer was assigned to each group. The groups were then chosen randomly from each CDS and municipality. Structured questionnaires were administered to group leaders of the TCG and DWCUA groups. Before final administration, the questionnaire was pilot tested on a small sample of 33 respondents.

Due to some problems in responses, a total of 42 filled in questionnaires were rejected. The number of valid responses was therefore 458. The sample distribution of groups in the two districts is shown in Table 1.

TABLE 1
Sample of TCG and DWCUA Groups Selected for the Study

District	TCGS	DWCUA	Total
Uttar Dinajpur (covering Municipal areas of Raiganj, Kaliaganj, Dalkhola and Islampur)	267	30	297
Dakshin Dinajpur (covring Municipal areas of Balurghat and Gangarampur)	157	04	161
Toal no of Groups	424	34	458

The questionnaires were supplemented by personal interviews and discussion with the group members. The questionnaire design follows the SERVQUAL (Parasuraman, 1991) instrument (Reliability, Assurance, Tangibles, Empathy and Responsiveness) by using a 5-point Likert scale with "1" being "Strongly Disagree" and "5" being "Strongly Agree". For each dimension, all questions measured the customer expectations and perceptions of beneficiaries in the districts of Uttar and Dakshin Dinajpur in West Bengal, India. As information on the various multi-item constructs represents the different components of service quality and customer satisfaction, they were first tested for reliability and validity by computing Cronbach's Alpha values. Using Cronbach coefficient a, internal consistency for SERVQUAL attributes was estimated as 0.862 for Tangiblility, 0.814 for Reliability, 0.758 for Responsiveness, 0.825 for Empathy and 0.795 for Assurance. Usually, a reliability coefficient above 0.70 is considered sufficient

for exploratory studies (Nunnally & Bernstein 1994).The reliability values were all above 0.7. Thus it can be concluded that the measures used in this study are valid and reliable.

In addition, the perceived most preferable bank service, the important criteria and importance of choosing 5 dimension service quality of bank, measures the overall satisfaction level and demographic information. For the analysis, the expectation score was subtracted from the perception score for each item in the 5 dimensions. The average SERVQUAL scores for the items pertaining to each of the 5 dimensions were totalled and then divided by the number of items making up the dimension. The scores obtained for the 5 dimensions are averaged of overall measure of service quality. The weighted score is the average SERVQUAL score multiplied by the importance weight for each dimension (total 100 points).The weights have been determined by the beneficiaries depending on the relative importance of the attributes. The lower the score, the lower is the perception level for the customers.

V. FINDINGS

On the basis of the information obtained from the questionnaires, interviews and discussions with the beneficiaries, the salient findings are reported. The first part of the findings relate to the problems faced by the SJSRY beneficiaries in access of loans from the banks and the second part of the findings relate to the expectations and perceptions of the beneficiaries regarding the services provided by the banks.

Problems Encountered by the SJSRY Beneficiaries in Accessing Loans

i) ***Long time taken for processing the loan application:*** The survey results reveal that majority of the respondents felt that entire process of loan sanctioning, i.e., from the date of receiving the application form to the date of disbursement of loan, the time requirement should be not more than one and half months. However, in practice, regarding the follow up for the purpose of loan, the beneficiaries have to wait for at least for 2 to 3 months and even more in some cases. This is shown in Table 2.

TABLE 2

Time taken by bank to process loan applications (in months)

Municipality	District	Average Time taken (months)
Raiganj	Uttar Dinajpur	3-4
Kaliaganj	Uttar Dinajpur	2-3
Dalkola	Uttar Dinajpur	12
Islampur	Uttar Dinajpur	12
Balurghat	Dakshin Dinajpur	2-3
Gangarampur	Dakshin Dinajpur	3-4

Source: Field Survey.

It has been found that in the municipality of Kaliaganj and Balurghat the time taken by the bank for processing the loan, i.e., the time from receiving the application form to the date of sanctioning the loan, is 2-3 months. In the municipality of Raiganj and Gangarampur, it is 3-4 months, and in the municipality of Dalkola and Islampur, it is almost one year.

ii) Sanctioned amount is less than applied amount: In most of the cases, it has been found that the banks allow lesser amount of loan to the beneficiaries than the amount applied for. Respondents (the clients) also stated that in most of the cases, loan sanctioned by the commercial banks are not exactly equal to the amount that the beneficiaries apply for. Commercial banks sanction a portion of the loan after scrutiny. It is seen in survey that 60% of the applicants get 80% of the loan they have applied and 15% of the applicants get loan amounting to 50% of the amount they have applied for and rest 35% get between 50% and 80% of the amount of loan they have applied for.

The reasons of allowing lesser amount of loan than application as stated by the bank officials are over-casting the amount of loan required by the beneficiaries and lack of loan payment ability.

iii) Cancellation of loan application: The banks reject a large number of loan applications. The reasons for rejection are as follows:

a) It is seen that about 50% of the loan applications are rejected because the applicants are not qualified for applications. One of the main criteria under the scheme is that the beneficiaries should be a member from a BPL family. However, in most of the cases, it is found that the applicants were not from BPL families. Again, even if the loan applicant was a member from BPL family, the other persons of the group were not from BPL families.

b) Applicants in many cases do not belong to the jurisdiction of the bank branches. A committee comprising Municipal Commissioner, chairperson of CDS and manager of the lead bank initially screens the applications for loans. After the screening work has been done, the lead bank sends the applications to the concerned bank depending on the locality of the clients. Due to over-sight, some loan applications are sent to a wrong branch and thus are rejected. Rejections on this ground can be avoided through mutual consultation among the banks.

iv) The problem of multiple visits for loan access: Beneficiaries informed that for getting any project loan sanctioned, they had to visit the banks several times. Making multiple visits to bank for getting loans sanctioned and disbursed makes the beneficiaries frustrated and they often give up the hope of getting the loan. Moreover, the transaction costs rise as the beneficiaries have to pay for the conveyance and spend a lot of time in the banks which they could have productively used for other income generating activities.

TABLE 3

Number of Visits an Applicant has to make for Getting Loan Sanctioned

Municipality	District	Number of times
Raiganj	Uttar Dinajpur	4-5
Kaliaganj	Uttar Dinajpur	3-4
Dalkola	Uttar Dinajpur	8-10
Islampur	Uttar Dinajpur	10-12
Balurghat	Dakshin Dinajpur	3-4
Gangarampur	Dakshin Dinajpur	5-6

Source: Field Survey.

The series of problems depicted above are not exhaustive as there are other problems related to access, such as, lack of awareness of the scheme, hesitation of the beneficiaries to approach the bank officials, interference of local political leaders, etc. These have not been detailed as complete information regarding these issues could not be obtained during the field study. However, it has to be comprehended that gaps in loan sanctioning and disbursement systems, multiple visits to banks and rejection of applications and problems like these result in communication and linkage developed with the banks breaking down and the urban micro finance delivery system under the SJSRY scheme being disrupted. Again, due to these problems, the beneficiaries' satisfaction level with the banks services may not move up to the desired level and the access to the financial system may suffer as they may be reluctant to get the services of the banks. It is, therefore, necessary to empirically test what the beneficiaries' expectation about the quality of services from the banks and what are their perceptions about the actual service offered. For this purpose, the SERVQUAL Analysis has been used.

Perception and assessment of quality of services of banks by beneficiaries

The results of the SERVQUAL analysis for measuring the quality of service of the commercial bank in the districts of Uttar and Dakshin Dinajpur in West Bengal, are presented in table 4. On the basis of the response of 458 members, the data table, had been constructed. In the first column, five different attributes have been taken from different dimensions like Tangibility, Reliability, Responsiveness, and Empathy. Under the attributes, total 22 statements have been taken to cover the different aspects of the services of commercial banks.

Table 4 shows the mean of expected values of the variables and the mean of perceived values of the variables as computed from the responses of the microfinance beneficiaries.The standard deviations are given in the parenthesis. The difference between these two is the mean gap between the mean expected value and the mean perceived value. If the difference is

positive, it indicates that the performances of the banks are better than perception of the members. If the gap is negative then it indicates that the performance of the banks is lower than expectation. To statistically test the assessment, the following null hypothesis has been made.

H_0: There will be no difference between the values of expected banking services and the values of perceived banking services received by microfinance beneficiaries.

H_1: The values of expected banking services and the values of perceived banking services received by microfinance beneficiaries will differ.

The differences in means have been tested using the paired t test method. The results are given in Table 4.

TABLE 4

SERVQUAL Analysis - Response of the SJSRY Beneficiaries

Attributes	E Mean	P Mean	Gap(P-E)	t value
TANGIBILITY				
1. Use of modern banking equipments	3.01(.96)	2.92(.94)	-0.09	1.45
2. Bank's physical facilities should be visually appealing.	3.05(1.01)	2.95(.96)	-0.1	1.53
3. Physical activities of the staff	4.17(.83)	3.86(.92)	-0.31	5.43**
4. Documentation papers and process	3.76(1.98)	3.49(1.07)	-0.17	1.62
RELIABILITY				
5. Staff keep promise that they made	4.02(1.04)	3.21(.95)	-0.81	12.46**
6. Staff provide accurate information	3.83(.82)	3.34(.91)	-0.49	8.59**
7. Work is done in time	4.24(.92)	3.29(1.04)	-0.75	11.71**
8. Work is done accurately	3.85(.87)	3.57(.88)	-0.28	4.91**
9. Staff are dependent	4.01(.82)	3.69(.86)	-0.32	5.81**
RESPONSIVENESS				
10. Response to enquiries is prompt	4.12(1.01)	3.58(.82)	-0.54	9.99**
11. Willingness to help beneficiaries	3.91(.99)	3.39(.96)	-0.52	8.12**
12. Provision of services is prompt	3.82(.91)	3.13(.92)	-0.69	11.50**
13. Beneficiaries valued as important customer	3.12(.97)	2.76(1.05)	-0.36	5.45**
ASSURANCE				
14. Staff are competent	4.12(.86)	3.86(.97)	-0.26	4.33**
15. Benefeciaries feel secured regarding transactions	3.96(1.82)	3.81(1.15)	-0.15	1.51
16. System grow confidence in beneficiaries	3.07(1.71)	2.93(1.05)	-0.14	1.52
17. Staff can be trusted	3.56(.88)	3.31(.81)	-0.25	4.54**

TABLE 4 (Contd.)

Attributes	E Mean	P Mean	Gap(P-E)	t value
EMPATHY				
18. Staff can understand the beneficiaries need and problems	4.36(.79)	3.79(.74)	-0.57	11.44**
19. Customer can communicate with staff	4.17(.97)	3.89(.79)	-0.28	4.82**
20. Staff takes care of beneficiaries	3.12(1.00)	2.78(.83)	-0.34	5.66**
21. Attention is given to individual beneficiaries	4.09(.82)	3.73(.88)	-0.36	6.42**
22. Comfortable time frame of operation	4.03(1.96)	3.91(1.02)	-0.12	1.16
Average	3.80	3.39		

*Note : (** denotes significance at 1% level. Standard deviations are in parenthesis; a negative gap indicates that the service quality is less than expectation.)*

From table 4 it is shown that the gap in case of different statement under five attributes are negative. It indicates that the perceptions of the beneficiaries regarding services of the commercial banks are below their expectations. The gap ranges from (_0.12 to - 0.81).The null hypothesis has been rejected in sixteen cases out of twenty two cases. The minimum gap is in case of the timeframe of the operation of the bank and it is maximum gap is in case of the staff not keeping promises regarding any kind of service.

The overall mean expectation is 3.80 and the average perceived value is 3.39 .The average gap between the expectation and perception of the customer is 0.40

Out of the sixteen cases rejected, it is seen that all cases, i.e., five cases have been rejected under the attribute Reliability. It indicates that regarding the Reliability the banks have totally failed to satisfy the beneficiaries' expectation. The same situation is also found in case of the attribute Responsiveness. Regarding these attributes all the four cases have been rejected and indicate that the banks have failed in satisfying the beneficiaries' expectations. Regarding the attribute Empathy, the null hypothesis has been rejected in four cases out of five. It also indicates that the bankers' actual activities in this attributes is much lower than the customer's expectation.

The analysis of the gap between the expectation of the customers about the services of the commercial bank and the customer's perception can also be discussed on the basis of the weighted SERVQUAL Scores. For the analysis, the expectation score is subtracted from the perception score for each item in the 5 dimensions. The average SERVQUAL scores for the items pertaining to each of the 5 dimensions are totalled and then divided by the number of items making up the dimension. The scores obtained for the 5 dimensions are averaged of overall measure of service quality. The weighted score is the average SERVQUAL score multiplied by the importance weight for each dimension (total 100 points). The weight has been determined based on the beneficiaries' assessment. The beneficiaries were asked to assigned

weight to the five attributes and they have assigned weight to different attributes according to importance to them. The lower the score, the lower is the perception level for the customers. The results show that the Reliability dimension with a mean sore of 23.65 was ranked the most important dimension, and has the highest standard deviation of 16.43, followed by the Responsiveness dimension at 22.97. The least important dimension was Empathy with a mean score of 14.50.

TABLE 5

Weighted SERVQUAL Scores of Beneficiaries Regarding Commercial Bank

SERVICE DIMENSION	Expected Value(E)	Perceived Value (P)	Gap (P-E)	IMPORTANCE WEIGHT	WEIGHTE SERVQUAL Score
Tangibility	3.54	3.18	-0.36	21.90	-7.88
Reliability	3.99	3.42	-0.57	23.65	-13.48
Responsiveness	3.74	3.21	-0.53	21.50	-11.40
Assurance	3.70	3.44	-0.26	18.45	-4.78
Empathy	3.95	3.62	-0.33	14.50	-4.78
OVERALL	18.92	16.87	-2.05	100	-42.32

Overall average weighted SERVQUAL score = - 0.4232

The findings indicate that the Reliability dimension has the greatest service gap of –0.57 followed by the Responsiveness dimension at -0.53. The smallest service gap was the Assurance dimension at -0.26. The weighted SERVQUAL scores are computed and the overall weighted SERVQUAL score is –0.4232. This score was calculated by multiplying the SERVQUAL scores of the service dimensions by the weight given by respondents in questionnaire and dividing the sum by 22 (22 items in the questionnaire). The negative score indicates that commercial banks did not fulfill the customer's expectation.

VI. SUGGESTIONS AND CONCLUSION

The findings of the study do not provide a very encouraging scenario for financial inclusion. Though savings linkages are important for financial inclusion and can be pushed through with the help of Banking Correspondents or the Brick and Mortar System, credit linkages, which are far more important for self-employment can be smoothened only by providing effective services. One of the primary causes of service quality design failure is the lack of understanding of the evolving need and preferences of targeted customers (Bateson, 1990). It is therefore suggested that :

- Special efforts be made to understand what services the microfinance beneficiaries require and what needs to be done to

solve the problems of the beneficiaries regarding communication and documentation, delivery of services on time, response time for beneficiaries' requests, etc. It is necessary to give personal attention for understanding the needs of the beneficiary with regard to subsidy and revolving fund disbursement.

- For this purpose, the bank personnel can be trained and sensitised as to how to communicate with and assist microfinance beneficiaries who are poor and lack financial literacy, Jones *et al* (2004) observed that "changes to post recruitment orientation and periodic in-service training offer important means to encourage bank staff to hold more positive attitudes towards providing financial services to the rural poor". Moreover, to meet the needs of the poor, the behaviour of an organisation's staff towards their clients requires revision and tailoring (Wright 2007), and can be done in banks through frequent counselling programmes.
- Service can probably be improved if the responsibility of providing the services are shared between the facilitating agencies, i.e, the Urban Local Bodies (ULBs), The Community Development Societies (CDS) and the bank branches dealing with the SJSRY programmes. It is suggested that instead of forwarding a large number of applications for loans to the commercial bank, it should be forwarded to ULBs. The ULBs should be authorized to make commitment about the subsidy payment, if there is any delay in receiving the budgetary allocations.
- Bank managers should be invited in the screening committee meeting, so that they be given the opportunity to seek clarifications about the loan applications. There should be combined efforts by ULBs and bank personnel regarding field verifications.
- Moreover, the CDS can be allotted the responsibility to give the assurance regarding the loan repayment. CDS is a registered body entitled for separate budgetary allocations and has a separate bank account of its own. If the bank manager is assured that the guarantee given by the CDS is enough for extending loans to the clients under this scheme, then loan processing time and hassles can be reduced. This would be in accordance with the advice by RBI in January 2006 to banks to use intermediaries, such as, NGOs/SHGs, MFIs/, Civil Society Organisations (CSOs) and community based associations as the to provide support services without handling cash.
- Doorstep banking services through the business correspondents (BC) for SJSRY for disbursing subsidies may also be explored.
- Installing bio-metric ATMs with a voice recognition technology in local languages, providing low-cost mobile phones to the beneficiaries, can be used as important ICT tools for financial inclusion.

- The National Urban Livelihood Mission has replaced the SJSRY from the 12th Plan. NULM aims to achieve universal financial inclusion and, therefore, has spelt out steps for financial literacy on the one hand and coordination with the financial sector to encourage the use of ICT-based technologies on the other. Lastly, it has to be communicated to people handling finance for the urban poor that financial inclusion initiatives are not only a corporate social responsibility, but it is a profitable business proposition for the banks. Further, though bankers agree that financial inclusion is a viable business proposition for banks, they also state that "more than sympathy or empathy, the poor need money" (Srinivasan, 2012). The outlook of the banks need to be moderated to believe that the poor has to be delivered money through sympathy and empathy and financial inclusion services be delivered with a smile.

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Voluntary Disclosures by Nifty Companies : A Content Analysis

B. Charumathi*
Department of Management Studies
School of Management, Pondicherry University
(A Central University of Government of India)
&
Latha Ramesh
Christ University Institute of Management, Bangalore

ABSTRACT

To narrow down the information asymmetry between the management and the shareholders, the laws of the land stipulate various regulations of financial reporting. While companies have to disclose what is mandated by these acts, there are many companies, which tend to disclose more information voluntarily. In the current Indian scenario, many companies make voluntary disclosure of information beyond mandatory requirements. This study attempted to find the extent of voluntary disclosure by 42 non-financial Companies, which constitute NIFTY 50 Index of National Stock Exchange (NSE). For this purpose, eight broad categories of disclosure, both financial and non-financial, were considered and a Voluntary Disclosure Index (VDI) was developed. Content analysis method is used to analyze 81 items of voluntary disclosure made by the sample companies by assigning equal weights. The required data were taken from the annual reports of the sample companies for the financial year 2011-12.

Key words : Financial Reporting, Voluntary Disclosure, Voluntary Disclosure Index, Non-financial Firms, NIFTY Index.

I. INTRODUCTION

The companies around the world strive to attract capital outside the border and expand their business, which necessitates adequate disclosure. While this practice could bring uniformity and bring the accounting practices of different countries in the same footage, researches around the world, show evidence that cultural boundaries of countries play a significant role in the accounting policies of the countries. The first study in this regard by

* Corresponding author's e-mail : charumathipu@gmail.com

Gray (1988) propounded four accounting culture in similar lines of values developed by Hofstede in 1994 which categorised countries based on the organisational culture. The four accounting cultures propounded were Professionalism vs. Statutory control; Uniformity vs. Flexibility; Conservatism vs. Optimism, and Secrecy vs. Transparency. Various studies tested Gray's model on the presence of accounting culture in different countries. Salter (1995) conducted the research in 29 countries to find that accounting culture determines the financial reporting practices of countries. Hussein (1996) argued that financial reporting of a country reflected the social, cultural and political environment. Tsakumis (2007) looked at the proposition of conservatism to compare the index of conservatism of Greek and US companies. By looking into the treatment of contingent liabilities and assets reported by the companies of both the countries, the study found no significant difference in the conservatism approach of Greek and American companies. Narayanaswamy (2007) suggested that financial reporting would evolve in the context of economic reforms and globalization. He observed that factors like market pressures, change in companies' law and secretarial law, and the advent of international accounting regulations contributed to such evolution.

The paper takes the third cultural value, namely, the secrecy vs. transparency and measures corporate disclosures, which is one of the main components of transparency. The companies are bound to disclose financial and non-financial information mandated by the regulators of the respective countries. After the infamous corporate frauds in many countries, the regulators are putting the onus on the board for transparency, which has significantly increased the cost of compliance for the companies. Even in this scenario, few companies go extra mile and disclose financial and non-financial information voluntarily, which help to narrow down the information gap between the management and stakeholders.

II. SIGNIFICANCE OF VOLUNTARY DISCLOSURE

Financial reporting is one of the important means for the management to communicate to the stakeholders. In the corporate form of business, there is separation of ownership and control and hence it is important that the management disclose the key figures on the affairs of the business that would help the users make informed decisions. If companies do not disclose adequately that could cause price dispersion in the market for want of critical information (Singhvi & Desai, 1971). A good corporate disclosure is one of the important factors to reduce the information asymmetry (Healy & Palepu, 2001). The growing number of knowledge-intensive industries implies the presence of intangibles. To improve the usefulness of financial reporting, the companies need to focus on intangibles and innovation. Options, such as capitalisation of intangible investments and restating the financial reports, though might promote earnings management to some extent, would also remove the information gap (Lev & Paul, 1999). Thus, there is a greater need to have an integrated approach to disclosure that encompasses forward-looking statements and other voluntary disclosures (Hutton, 2004). There are various reasons such as competition, privacy, time and resource

constraints (Fick, 2010) for reluctance for the companies to disclose. A firm has to set an optimal disclosure policy of public and private information. Though a transparent disclosure could result in some benefit, it could be offset by precision in private information (Botoson & Yuan, 2004). Financial reporting evolved with globalisation and economic reforms and capital, labour and product market pressures play important roles in the corporations in emerging countries like India to adopt globalised financial reporting practices (Narayanswamy, 2001)

Voluntary disclosure practice is a widely researched area where several studies across the world, developed and under-developed, are being conducted. Most of these studies have applied content analysis to measure the extent of the disclosures.

III. THE FINANCIAL REPORTING EVOLUTION IN INDIA

India has a fairly controlled and developing financial market. SEBI is the capital market watchdog. Companies Act 1956 governs the companies and there is new Companies Act 2013 enacted by the Parliament. Companies have to comply with the legal disclosure requirements including relevant accounting standards issued by the ICAI and approved by Government of India.

SEBI has promulgated various clauses in the listing agreement with respect to financial reporting. Clause 49 on corporate governance reporting and Clause 55 on business responsibility reporting prescribe provisions for various mandatory and voluntary disclosures for listed companies.

IV. REVIEW OF LITERATURE

The literature is very rich in terms of voluntary disclosure practices of various countries in the economy. As multi-country studies, Hope (2003) analysed the data of 890 companies across 22 countries to analyse the relationship between forecast accuracy and disclosure practices. The index consisted of 86 items with seven categories. Webb & Sun (2008) examined the hypothesis that the legal environment of the countries would affect the voluntary disclosure. The study analysed the disclosure practices of 11 common law countries and 19 civil-law countries during 2003-04. This study used 11 disclosure items to measure the disclosure practices at the broader level. Kang & Gray (2011) focused on the leading 200 emerging market companies to analyse the intangible disclosure index.

The literature on disclosure practices touch all the continents and countries of different economic and regulatory status such as developed countries, emerging economies and underdeveloped countries.

The studies that compared the voluntary disclosure of the respective countries primarily conducted content analysis to record the presence of the disclosure items. Most of these studies used a disclosure index to measure the extent of disclosures. The disclosure index either was self-constructed

by the authors or adopted version of Voluntary Disclosure Index practised elsewhere. For example, Cheng & Coutenary (2008) adopted a disclosure index followed by Botoson (1997) and revised it to the requirement of Chinese regulations. Studies such as Sanam & Yadav (2011), Baek, Johnson, & Kim (2009) and Chen (2008) used S&P disclosure norms to measure the extent of disclosure. The norms laid by the respective regulators formed the basis to construct voluntary disclosure list. For example, Dahway (2009) referred to the requirement of CMA (Capital Market Authority) of Egypt in the study.

Few studies used primary data in questionnaire form to assess the importance of the disclosure items. Binh (2012) conducted survey of financial analysts and the financial managers-users and providers of financial information to shortlist the number of disclosure items. Another study by Zeghal, Moueli, & Louti (2008) surveyed the financial analysts to understand the important R&D disclosure items.

There are different proxies of disclosure used in the literature to measure the voluntary disclosure. The important proxies of disclosure found in the literature are AIMR (Gelb 2000 ; Huang & Zhang, 2012 ; Xu, 2009), RMR (El-Gazzar, Fornaro, & Jacob 2008; Botoson 2002), CIFAR (Hope, 2003); (Francis & Periera, 2005); FAF scores (Report of the Financial Analysts Federation Information Committee 1987-91) were used by Partha (1998), Lang & Lundholm (1996) and Belkaoui (2001).

There are different categories of voluntary disclosures both under financial and non-financial aspects. The non-financial disclosure level had various sub-components such as intellectual capital, social and environmental disclosure. Sustainability reporting practices, R&D disclosure, and corporate social responsibilities are the other themes in which there are works conducted earlier by researchers. For example, Faisal, Tower & Rusimin (2012) created sustainability disclosure index by selecting items as per GRI (Global Reporting Initiative) which consist of sub-categories on economic, environmental and social disclosures. Chiong (2010) analysed the impact of corporate sustainability reporting on the performance. Kang & Gray (2011), Cormier, Aerts (2009), Dawkins & Ngunjiri (2008) focused on the social and human capital disclosures by creating the disclosure grid that consisted of social and human capital disclosure. Whiting (2011) used intellectual capital reporting with sub-categories such as internal capital which included corporate culture; external capital such as customers and brands and human capital including employees and work related knowledge. Mukerjee & Zambon (2011) measured the intangible disclosure of R& D intensive pharmaceutical companies.

There are two methods used in the literature to calculate the overall score i.e., weighted and unweighted. Weighted index used different weights for each disclosure items. The rationale used by the researchers using this type of weights was that each item of disclosures might vary in terms of importance and impact. The weights were assigned based on survey that captured the relative importance of each of the items. Few examples of such studies include Botoson (1997), Chow & Boren (1987), Barako, Hancock, & Izan (2006), Hashim & Saleh (2007), Robb, Single, & Zarzeski (2001). Unweighted indices used equal weights to each items of disclosure and used

dichotomous score. The method reduced the subjectivity argument being that assigning weights to each of the items would add more subjectivity to content analysis, which already suffered from these limitations. Weighted Index gave varying weights to the disclosures. There were other studies by Cooke (1992), Al-Akra, Eddie & Ali (2010) which though did not give weights for each of the items, considered only those disclosure items which were applicable to the companies in question. Thus, a company was not penalised for not disclosing an item if it did not pertain to it.

V. RESEARCH GAP AND OBJECTIVE OF THE STUDY

The authors find that there is dearth of studies on voluntary disclosure practice in the Indian context. Certain disclosure items found in the studies abroad are mandatory in India. Companies Act and other market regulators in the country have put in certain specific voluntary disclosure norms in the Indian context. With the recent enactment of Companies Act, certain disclosure items hitherto prescribed by the market regulators only for listed companies are now applicable for all companies. Thus, there is a scope to develop a list of voluntary disclosure items specific in the present Indian context and the measurement of disclosure by Indian companies.

The study aims to develop a comprehensive voluntary disclosure index (VDI) that can be used to measure the disclosure levels of Indian companies. The VDI should, to the extent that would be applicable in India, contain both financial and non-financial disclosure items that are widely used in foreign countries to measure the disclosure practices. It also uses this index and conducts a pilot study using the index to measure the voluntary disclosure of Nifty companies for financial year 2012. It also tries to understand the disclosure score differences across different industry type and ownership pattern and sub-categories of disclosure. The remainder of the paper is thus organised as follows. Section VI gives research methodology, followed by presenting hypotheses in section VII and results and discussion in the next and penultimate section. The paper is concluded in section IX. There is of course a reference list at the end.

VI. RESEARCH METHODOLOGY

The study has followed a systematic procedure to arrive at the VDI by using the approach given below.

1. Construction of Voluntary Disclosure Index

i. Referring to the available literature, both Indian and international, collating and consolidating all the disclosure items (more than 200 items)

ii. Scanning the award winning annual reports to find out items disclosed (e.g., Volkswagen which won the best annual report award of the ARC in 2011)

iii. Taking into account the latest development in India on voluntary disclosures (e.g., voluntary disclosures in Clause 49 such as whistle blower policy)

iv. Considering the usefulness of an item of disclosure by getting expert opinion (from equity analysts who use financial statements extensively for valuation)

v. Removing the items that are specific to certain industries (e.g., input/ output ratio)

vi. Dropping the items that are mandatory in India by referring to Accounting Standards (ICAI); listing agreement (SEBI); various provisions of Companies Act (2013) and other regulations. (e.g., segment reporting)

An outcome of the above process is the VDI constructed in the Indian context. See Appendix for more details.

2. Sample & Scoring

The sample taken to test the VDI is the 42 NIFTY indexed companies (excluding Banking and financial companies) for the financial year 2012. The exclusion is due to the different parametres and regulations of disclosure items of such type of companies. Thus, for 2012, the sample had 42 companies. The index so constructed was used to measure the VD score of the non-financial companies in the Nifty Index for the financial year 2012. The industry classification and the number of companies in the sample are given in Table 1.

TABLE 1

Industry classification of the companies in Nifty as on 31st March, 2012

Industry	No. of companies
Automobile	5
Information Technology	4
Cement, Engineering, Textiles	5
Steel and Metal	7
Electricity, Infrastructure	8
Pharma	4
Diversified	4
Total	42

Source: CMIE Prowess database.

The study used content analysis which involves reading the annual reports and corporate sustainability reports (if available) of the sample companies and see if an item in the VDI was reported or not. It constructed an unweighted index i.e., all the items in the VDI carry equal weight. The dichotomous coding was used to mark (1) if the item is disclosed and (0) if not disclosed.

The VDI contains items which are objectively measurable. The study used key words to check the presence of disclosures. The examples of the sample are given in Table 2. By using the keywords, total score and the percentage of the score (out of 81) were measured.

TABLE 2

Key words and the examples of disclosure

Disclosure item	Keywords	Example of the lexicons	Reference
General outlook of the economy	Economy, Impact	Global economy is passing through uncertain times....	Hindalco (page 30)
Outlook of the industry	Growth rate, Industry, Outlook	However, long term fundamentals of the aluminium industry are still intact and are indeed very promising	Hindalco (page 30)
Strategy-Marketing	Promotion, Marketing, Initiative	..New market initiatives, such as the NEEV programme, a rural marketing initiative, and Tata OK, the used vehicle Exchange business; have provided rural customers, greater access to Tata commercial vehicles...	Tata motors (Page 25)
Political influences on future profit	Political, Policies, Government	In countries where the political systems are still evolving, frequent changes to investment and economic policies are common and any unforeseen changes can expose the Group's businesses.	Tata Steel (Page 109)
Technological influences on future profit	Technology, Evolving, Trend	...With technologies like cloud computing and grid computing gaining momentum, also cloud based services such as Software as a Service (SaaS), Platform as a Service (PaaS) offer new opportunities for small and medium businesses.	Bharati Airtel (Page 48)
Qualitative forecast of profit	Outlook, Cost	Once the power plant at Tuticorin is commissioned, it is expected that the cost of power incurred in smelting and refining will come down substantially and will reduce gross cost of production by 3cents/lb	Sterilite (Page 32)

VII. HYPOTHESES

H_{01} : There is no significant difference between the voluntary disclosure levels of public and private sector companies.

H_{02} : There is no significant difference between voluntary disclosures across its various sub-categories.

VIII. RESULTS & DISCUSSION

1. Category of VDI

The VDI developed consists of 81 items that are voluntary in India. In order to consider different aspects, the VDI has two main categories, non financial and financial and many sub-categories under them. Table 3 gives the category-wise summary of the final VDI.

TABLE 3

Voluntary Disclosure Index

Category	Sub-category	No. of items
1. Non-Financial	General & Strategy (SG)	14
	Forward looking statements (FLS)	12
	Human and Intellectual capital (HIC)	17
	Social & Environmental (SE)	9
	Clause 49 voluntary disclosure (C49)	4
	Sub-total	56
2. Financial	Non-GAAP financial (NGAAP)	15
	Stock market information (SM)	5
	Foreign exchange information (FE)	5
	Sub-total	25
Total disclosure items (1 + 2)		81

Note: Voluntary Disclosure Index is developed by the authors.

The final VDI consits of 8 sub-categories in all. 56 non-financial disclosure items and 25 financial disclosure items make a total of 81 items These are given in the appendix.

2. Reliability Test for Voluntary Disclosure Index

One of the major concerns in content analysis and indices is the robustness that is the ability to give consistent results while measuring it repeatedly. The previous studies have used three common types of reliability tests, namely, test-retest; inter-coder reliability and internal consistency. Test-retest involves using automated content analysis and testing it against

the one done manually. Internal consistency tests are performed by statistical methods such as Cronbach's Alpha. The present study considered internal consistency and inter-coder reliability.

Cronbach's Alpha is a common test to perform the internal consistency. For the current study, total score obtained through the VDI of eight categories and the total disclosure scores are taken to perform Cronbach's alpha and inter-item correlation and the results are tabulated in Tables 3 & 4.

TABLE 4

Cronbach's Alpha of the sub-categories of the VDI

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.775	0.918	9

Note: Results computed using SPSS 16.0.

Table 4 suggests a Cornbach's alpha of 77.5% which is generally accepted as a good internal consistency score.

TABLE 5

Correlation between various sub-categories of VDI

	SG	FLS	FED	SMI	NGAAP	C49	SED	HIC	Total
SG	1.000	.							
FLS	.501	1.000							
FED	.277	.472	1.000						
SMI	.442	.362	.563	1.000					
NGAAP	.504	.546	.450	.559	1.000				
C49	.554	.419	.379	.544	.446	1.000			
SED	.640	.470	.344	.501	.533	.565	1.000		
HIC	.623	.589	.446	.455	.626	.515	.765	1.000	
Total	.784	.725	.556	.656	.789	.684	.841	.890	1.000

Note: Results: computed in SPSS 16.0.

Table 5 indicates the item-wise correlation of the different sub-categories of the disclosure index indicating a good correlation between them.

The next reliability measure is Intercoder relaibility which was carried out by checking the coding done by the coder with that of another coder. The entire coding was perfomed by one of the authors and another researcher and both the scores have been used as a basis to conduct Kappa coefficient and the result is shown in Table 6.

TABLE 6

Inter-coder Reliability Test

Symmetric Measures

		Value	Asymp. Std. Errora	Approx. Tb	Approx. Sig.
Measure of Agreement	Kappa	.721	.096	6.343	.000
N of Valid Cases		42			

Note: Result computed using SPSS 16.

A Kappa coefficient of 70% and above is considered reasonable agreement between coders indicating the reliability of the index.

3 Voluntary Disclosure Levels

The disclosure score of the companies ranged from 14% to 77% and the other descriptive statistics across the eight categories are shown in Table 7.

TABLE 7

Descriptive Statistics of Sub-categories of Disclosure

	N	Minimum	Maximum	Mean	Total no. of items	Percentage of each category	Std. Deviation
SG	42	1	12	7.07	14	50	2.654
FLS	42	0	10	3.81	12	31.75	2.167
HIC	42	1	15	6.88	17	40.4	3.808
SED	42	1	10	5.50	9	61.11	2.813
C49	42	0	4	2.29	4	57.25	1.215
NGAAP	42	0	13	5.71	15	38	2.848
SMI	42	0	5	3.19	5	63.8	1.215
FED	42	0	28	2.21	5	44.2	4.141

Note: Results Computed using SPSS 16.0.

Table 7 shows that the average total disclosure percentage is 45.32% and across the categories, disclosure on the social and economic front is the highest with 61% and the least with the forward looking disclosures with the average disclsoure level of 31.75%. The maximum dislosure score is 66 signifying 81% of disclosure while the minimum score is 13, i.e., 16%.

4. Testing of Hypotheses

One sample t test is used to check hypothesis-I on the mean disclosure difference between public and private sector companies and the result is as given in Table 8(a).

TABLE 8(a)

Group Statistics

	Ownership	N	Mean	Std. Deviation	Std. Error Mean
TOTAL SCORE	public sector	8	31.50	6.211	2.196
	private sector	34	37.94	13.578	2.329

TABLE 8(b)

Independent Samples Test

		F	Sig	T	Df	Sig (2 tailed)	Mean difference	Std. error difference
Equal score	7.445 variances assumed	.009	1.301	40	.201	-6.441	4.953	
	Equal variances not assumed			2.012	24.914	.055	-6.441	3.201

Note: Results Computed using SPSS 16.0.

Tables 8(a) and 8(b) show that there is no significant difference in the voluntary disclosure score of public and prive sector companies at 5% significance level and thus H01 is accepted.

To check if there is a significant difference of scores acorss the differenent categoies, ANOVA has been used and the results are given in Table 9.

TABLE 9

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
SG	Between Groups	257.036	30	8.568	2.968	.030
	Within Groups	31.750	11	2.886		
	Total	288.786	41			
FLS	Between Groups	165.226	30	5.508	2.223	.081
	Within Groups	27.250	11	2.477		
	Total	192.476	41			

TABLE 9

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
HIC	Between Groups	538.405	30	17.947	3.525	.016
	Within Groups	56.000	11	5.091		
	Total	594.405	41			
SED	Between Groups	294.750	30	9.825	3.633	.014
	Within Groups	29.750	11	2.705		
	Total	324.500	41			
C49	Between Groups	55.321	30	1.844	3.864	.011
	Within Groups	5.250	11	.477		
	Total	60.571	41			
NGAAP	Between Groups	288.071	30	9.602	2.374	.065
	Within Groups	44.500	11	4.045		
	Total	332.571	41			
SMI	Between Groups	48.226	30	1.608	1.444	.265
	Within Groups	12.250	11	1.114		
	Total	60.476	41			
FED	Between Groups	360.321	30	12.011	.385	.981
	Within Groups	342.750	11	31.159		
	Total	703.071	41			

Note: Results Computed using SPSS 16.0.

Table 9 shows that there is no significant diffrerence in the cateogy-wise disclosures in the sample companies during the study period.

IX. CONCLUSION

The current study shows that for the financial year 2012, the extent of voluntary disclosures of the companies listed in the Nifty is a little above 45%, which indicates that the companies need to improve the disclosure environment in financial and non-financial information. The Companies Act 2013 makes the disclosure requirements stringent to bring in more transparency. The firms are increasingly turning into knowledge driven and hence the disclosure regime will see dynamic change with the emergence of

intellectual property disclosures and social and economic performance disclosures. Thus, the listed companies would move to better disclosure norms eventually.

The VDI can be used to measure the disclosure practices of larger number of companies for longer years to understand the trend of disclsoures. Using the score as proxy for disclosures, the factors determing the disclosure practices of the companeis and the impact of such disclsoures on the market value of the firm can be analysed.

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APPENDIX

(CONSTITUENTS OF VDI)

A. STRATEGY &GENERAL

1. General corporate information
2. Organisation structure
3. Corporate Mission, vision and objective Statements
4. Description of major goods/ products
5. General outlook of the industry
6. General outlook of the economy
7. Competitive environment, Barriers To entry
8. Analysis of enterprises market share
9. Multi language presentation
10. Strategy-Financial
11. Strategy- Marketing
12. Strategy- HR
13. Strategy General
14. Mergers and acquisition or disposal

B. FORWARD-LOOKING STATEMENTS

15. Quantitative forecast of cash flows
16. Quantitative forecast of profits
17. Quantitative forecast of sales
18. Qualitative forecast of cash flows
19. Qualitative forecast of profits
20. Qualitative forecast of sales
21. Rate of return on project
22. Order book
23. Political influences on future profit
24. Economical influences on future profit
25. Technological influences on future profit
26. Planned capital expenditure

C. HUMAN & INTELLECTUAL CAPITAL

27. Marketing innovation
28. Brand values
29. Value of customer relationship
30. Value of patent/trademarks
31. R&D facilities
32. No. Of employees engaged in R&D
33. R&D focus areas
34. Total No.of employees
35. Category of employees by gender
36. Policy on training
37. Category of employees undergoing training
38. Amount spent on employee training
39. Equal opportunity policy statement
40. Employee safety policies
41. Human resources accounting
42. Value added statement

D. SOCIAL & ENVIRONMENTAL

43. Health and safety
44. Energy conservation
45. Adoption of environment friendly technology
46. Training education for environmental protection
47. Noise/air emission
48. Internal environment audit
49. Community programmes (general)
50. Student employment
51. Product responsibility and safety

E. CLAUSE 49 VD

52. Training of board of directors
53. Whistle blower policy
54. Mechanism for evaluating non executive board of directors
55. Remuneration committee

F. NON GAAP

56. Cash flow ratio
57. Ageing of receivables
58. Index of selling price
59. Financial history of 6 years or more
60. Effect of inflation on assets
61. Effects of inflation on profits
62. Inflation adjusted financial statements
63. Cost of capital
64. Economic value added
65. Fund flow statement
66. Bank account details
67. Dividend payout policy
68. Financial statements of other

G. GAAP

69. Off balance sheet financing
70. Qualified audit report
71. Transfer pricing policy

H. STOCK MARKET INFORMATION

72. Stock exchange listing information
73. Market capitalisation trend
74. Share price trend
75. Volume of shares traded
76. Types of shareholders

I. FOREIGN EXCHANGE INFORMATION

77. Foreign currency fluctuations
78. Major exchange rates used in accounts
79. Effects of foreign currency fluctuations On future operations
80. Foreign currency exposure management description
81. Long term/ short term debt currency

International Conference News

26th Asian-Pacific Conference on International Accounting Issues
Taipei, Taiwan, R.O.C.
October 26-29, 2014

Home Page: www.apconference.org

Call for Papers

The Twenty-sixth Asian-Pacific Conference on International Accounting Issues will be held on October 26-29, 2014 in Taipei, Taiwan, R.O.C., co-sponsored by National Taipei University and Taiwan Accounting Association. The theme of the conference is "Challenges and Opportunities in the IFRS Era". The conference will provide an important forum for the interaction of different ideas and information between academicians and practitioners, in order to enhance the understanding of international accounting and business issues in various countries. All **submissions** must be received by **May 15, 2014**. Notification about the **decision** will be made by **June 30, 2014**. For details about guidelines and topics go to the Home Page.

VERNON ZIMMERMAN BEST PAPER AWARDS

The best three papers will each be awarded US$500, to be selected by a panel of distinguished reviewers. In addition, the best doctoral student paper will also be awarded US$500.

PUBLICATIONS

- Authors of all accepted papers must submit a ONE-PAGE ABSTRACT that will be published in the hard copy of the conference proceedings.
- Authors have the option of publishing the full paper in the CD version.
- Accepted papers may be published in the International Journal of Business (IJB) – International Journal of Business (IJB) will publish 5-6 selected accepted papers from the 26th Annual Conference. All accepted papers at the 26th Annual Conference will be eligible for consideration.

CONFERENCE REGISTRATION FEE

US $350

A special registration fee of US $250 is available to full-time graduate students.

Registration fee includes:

Welcome Reception, Luncheons, Coffee Breaks, Gala Dinner (Banquet and Entertainment), Copy of Conference Program and Proceedings, Admission to all Conference Sessions.

CONFERENCE ACCOMMODATIONS

The conference will be held at the **Regent Hotel**, Taipei, Taiwan.
Room rate will be US $230 net, including breakfast.

FOR MORE INFORMATION, PLEASE CONTACT:

Crystal Cui
Asian-Pacific Conference on International Accounting Issues
Craig School of Business
California State University, Fresno
5245 North Backer Avenue M/S PB7
Fresno, California 93740, U.S.A.
Phone: +1-559-278-2602; Fax: +1-559-278-7336
Email: lcui@csufresno.edu

TWELFTH INTERNATIONAL ACCOUNTING CONFERENCE

January 10 & 11, 2015 (Saturday & Sunday)

Science City, Kolkata*

Indian Accounting Association Research Foundation

(An Associate of International Association for Accounting Education & Research)

Jointly with

Deloitte

Home Page : www.iaarf.org

Call for Papers

Conference Theme and Venue

The Indian Accounting Association Research Foundation (IAARF) will hold its Twelfth International Conference on **Contemporary Issues in Accounting and Finance** in Science City, Kolkata (**confirmation awaited*), on Saturday and Sunday, the 10th and 11th January, 2015 in collaboration with Deloitte.

Topics

Papers are invited on the following topics:

- Implementation of IFRS -- Learning from the International Experience
- Corporate Sustainability Reporting
- Accounting and Corporate Governance
- Net-Banking / On-line Banking - Challenges and Opportunities
- Financial Inclusion
- Micro-finance
- Behavioural Finance
- Accounting and Financial Management of Public Sector Entities
- Role and Responsibilities of Internal Audit in the Changing Scenario
- Teaching and Sensitization of Accountants about Professional Ethics
- Emerging Issues in Capital Market
- The Attest Function - the Quest for Assurance
- Global Climate Change and Environmental Reporting
- Accounting Education and Research in Changing Perspectives
- Contemporary Issues in Taxation
- Other Related International Business Topics.

Research papers will be presented by well-known international and national accounting scholars and practitioners on the Contemporary Issues in Accounting & Finance. Distinguished academicians and practitioners from different parts of the world are expected to attend the Conference. Besides, members of the IAA Research Foundation, representatives of IAAER and Deloitte, members of Indian Accounting Association (IAA) and its key office-bearers, academic heads and deans of many reputed business schools and universities in India, representatives of three professional bodies, viz., the Institute of Chartered Accountants of India, the Institute of Cost Accountants of India and the Institute of Company Secretaries of India, will grace the occasion by their kind presence and active participation in different sessions. About 225 delegates are expected to attend the Conference.

Guidelines for Paper Submission

(1) Two hard copies and one soft copy of the paper should be submitted. The text of the paper will be in double space, 12 font, Times New Roman, keeping a margin of one inch in three sides. MS Word 2003 for Windows (.doc format) is required. Each paper should be preferably within 5000 words including tables and references, in addition, an abstract of not more than 500 words in a separate page.

(2) There should be a separate title page on each paper giving details of author/s, affiliation, address, telephone numbers and e-mail.

(3) Paper presentation will take place in concurrent sessions and abstract of each accepted paper will be published in the conference proceedings.

(4) Papers must be received within **September 15, 2014.**

(5) Notification about the **acceptance** or otherwise of a paper will be made **by November 21, 2014.**

(6) The submission of a paper for review means the author certifies that the manuscript is not copyrighted, and has not been published elsewhere. Therefore, a declaration must be submitted, along with the paper, by the author(s) to this effect.

(7) Papers submitted for presentation will be subject to blind review and the decision of the Scientific Committee will be final.

Registration Fees

(For delegates from India and other SAARC Countries)

	For payment on or before November 27, 2014	For payment after November 27, 2014
Member of IAARF / IAA	Rs. 2000	Rs. 2250
Non-member	Rs. 2250	Rs. 2500
Corporate	Rs. 4000	Rs. 4500

- **Deadline for Registration**: **December 17, 2014 (no spot registration)**.
- Accommodation Charges for delegates from outside West Bengal only (for 3 nights, i.e., January 09, 10 & 11): **Rs.1000 per delegate** on a double occupancy basis.

  (*Only a few rooms at YMCA, State Guest House, etc. in Kolkata will be available on a first come, first served basis.)

Registration fees will cover 2 breakfasts, 2 luncheons, 2 dinners, copy of conference proceedings and transport facilities within the city (for attending conference only).

A **cultural programme** will be organized in the evening of **January 10, 2015**. The cultural programme will be followed by conference dinner at the adjacent space of the auditorium.

In December-January, the weather in Kolkata is pleasant, with temperature varying between 12°C and 22°C. There are many beautiful places and monuments of tourist attraction in the City. Popularly known as the cultural capital of India, the City is famous for the warm hospitality of Kolkatans. Kolkata is well connected by air (Netaji Subhas Chandra Bose International Airport) and rail (Howrah Station, Shalimar Station, Sealdah Station and Kolkata Station).

Contact Persons for Sending Queries, Papers, Registration of Interest :

Dr. Dhrubaranjan Dandapat
Secretary, IAA Research Foundation
Professor, Dept. of Commerce
University of Calcutta
Kolkata 700 073
e-mail:dhrubacal@yahoo.co.in
(M) 0 9433538800

CA Dr. Somnath Ghosh
Treasurer, IAA Research Foundation
Ghosh & Associates
166/17 Lake Gardens
Kolkata-700 045
e-mail: sghosh_40@yahoo.com
(M) 09432646156

OUTSTANDING ACCOUNTING EDUCATOR AWARD

Dr. Shyam Sunder, James L. Frank Professor of Accounting, Economics, and Finance, Yale School of Management and past President (2006), American Accounting Association (AAA), has received the **Outstanding Accounting Educator Award** of the American Accounting Association at the Annual Conference of the AAA held in Anaheim, California, in August, 2013.

The award, established in 1972, recognizes sustained contributions to accounting education from scholarly endeavours in research and teaching over a sustained period of time through educational innovation, excellence in teaching, publications, research guidance to graduate students, and significant involvement in professional and academic societies and activities.

Professor Sunder, an accounting theorist and experimented economist, is a pioneer in the fields of experimental finance and experimental macroeconomics. His current research includes the problem of structuring U.S. and international accounting and auditing institutions to obtain a judicious and efficient balance between regulatory oversight and market competition.

Prof. Sunder's research is at the highest level of quality. He has received the AAA's Competitive Manuscript Award in 1975; twice, in 1982 and 1998 respectively, he won the AAA and AICPA's Notable Contribution to Accounting Literature Award. He was the AAA's Inaugural Presidential Research Lecturer (1999) and the AAA's Distinguished International Visiting Lecturer in Accounting (2000). Consistent with his commitment to strengthen other's research, he has assumed numerous editorial responsibilities, including serving as a founding member of four academic journals, as well as serving as associate editor or on the editorial board for approximately 20 journals, including all the major journals of the AAA.

Professor Sunder encouraged the launch of a new academic journal in India, *Indian Accounting Review*, and contributed the first article, Accounting and the Firm: A Contract Theory, in its maiden issue (June, 1997). He has been in the Advisory Editorial Board of the Review since 1997. As President of the AAA, Prof. Sunder gave keynote address on “From Norms towards Standards of Corporate Financial Reporting : Transition and Consequences” in our 8th international accounting conference held in Taj Bengal in January, 2007. Besides, he also participated as a resource person in our Management Development Programme held in 2007 and many international seminars organized since then in Kolkata by the IAA Research Foundation.

On behalf of the members of the IAA Research Foundation, we congratulate Professor Shyam Sunder for receiving the Outstanding Accounting Educator Award (2013) of the AAA. We wish him good health and long life.

Editor, IAR

EMIENT TEACHER AWARD

The University of Calcutta honoured Professor Bhabatosh Banerjee as an **Eminent Teacher** in the Annual Convocation (November 29, 2013) for "outstanding contribution to teaching and research for over two decades and for encouraging and nurturing students who have distinguished themselves by their scholastic achievements."

During his 42-year career, Professor Banerjee was Head of the Department of Commerce (1989-91), Dean of the Faculty of Commerce, Social Welfare and Management twice (1987-89 & 2003-05), Co-ordinator, DSA in Commerce and Co-ordinator, CAS-I (2010-2011) and Convener of Ph.D. Committee (two terms since 1988). He supervised 19 Ph.Ds. in Commerce and Management. He was also a member of various committees of U.G.C. including Committee for evaluation of selected universities under "Potential for Excellence" scheme. Dr. Banerjee was Visiting Professor of Accounting in The State University of Rutgers and New Jersey Institute of Technology, USA, during 1995-97.

Prof. Banerjee completed and published several major research projects. Accounting Education in India (1994), Regulation of Corporate Accounting and Reporting in India (2002) and Corporate Environmental Management (2009) brought international recognition to him. He (jointly) edited six research publications and published 77 articles. His text books (for post-graduate and professional courses) include Cost Accounting (since 1972), Financial Policy and Management Accounting (since 1984) Fundamentals of Financial Management (since 2010).

Several important positions occupied by Prof. Banerjee in India and abroad were: Director of Research, ICWAI (1984-85), President, Indian Accounting Association (1990-91), Vice-President, International Association for Accounting Education and Research (1993-1997), Member, Standards Advisory Council (IAAER) of IASB (2010-2011) and International Council Member (2009-2011) of the American Accounting Association. He attended 19 conferences abroad, and visited 30 reputed universities in several countries to give seminars on contemporary accounting issues. He has been in the advisory editorial board of three international journals and served as the Chief Editor of Indian Journal of Accounting (1987-97).

He is the recipient of several national and international awards, viz. "Active Member" certificate from the American Accounting Association (August, 2006), "International Educator Award" (December, 2006) from the Indian Accounting Association, "Dedicated Service" award from the International Association for Accounting Education and Research (January, 2011).

On behalf of the members of the IAA Research Foundation, heartiest congratulations to Professor Bhabatosh Banerjee.

Associate Editors
IAR

INDIAN ACCOUNTING REVEIW

Statement of Policy, Requirements & Guidelines

Policy

Indian Accouting Review (IAR) is a bi-annual research sponsored by the Indian Accouting Association Research Foundation. It is published in June and December each year. It is a referred international journal with the review process being double blind.

The scope of the journal encompasses all areas of accounting including auditing, taxation, management accounting and information systems. IAR seeks to publish high quality, research-oriented and original article. It encourages both fundamental and applied research works.

Submission requirements

Two copies of manuscripts along with a C.D. should be submitted for consideration for publication in IAR. Manuscripts from abroad should be accompanied by a US $50 non-refundable submission fee payable by cheque in favour of 'IAA Research Foundation'. For authors from SAARC coutries, non-refundable submission fee is Rs. 500 but for each published article, Rs. 1,000 will be awarded.

All manuscript should be typed double-spaced. A separate list of references should be used, not made a part of the footnotes. Footnotes, also double-spaced, should be listed at the end of the paper. Manuscripts should not normally exceed 20 pages including figures, tables, footnotes and references, printed on 8½" x11" paper.

Each manuscript should contain a non-mathematical abstract of not more than 100 words. There should be a title page containing the name of the article, authors' names, affiliations and corresponding author's address. The names of the authors should not appear on the first page of the manuscript to facilitate blind review.

The submission of a manuscript to IAR means that the author certifies that the manuscript is not copyrighted, nor has it been accepted for publication (or published) by any refereed journal; nor is it being submitted elsewhere, at the same time.

Manuscript-preparation guidelines

The following guidelines should be followed.
Heading : Bold, centred and 14 pint. Each word should start with a capital letter.
Author Name : Centred 12 point, with affiliation below the name in 12 point.
Abstract : Indented from both sides in 10 point.
Headings : Bold, upper case only centred in 12 point
Sub-headings : Bold, upper-lowers, 10 point, from left margin.
Text : In 12 point and there should be one-inch margins on all four sides.
Tables and Figures : Table in capital and centred in 10 point, and the table description in bold, upper lower 12 point

References : Samples

(i) **Book :** Choi, F.D.S., Frost, C.A. & Meek, G.K. (1999). *International Accounting,* Upper Saddle River, N.J. : Perntice Hall, 24-31.
Iii) **Journal :** Rivera, J.M. (1991). Prediction performance of earnings forecasts : the case of U.S. multinationals. *Journal of International Business, 22, 265-288.*

Submission address

Manuscripts from the U.S.A. Canada, Mexico, South-American and European countries should be submitted to : Professor Bikki Jaggi, Consulting Editor, IAR, Dept of Accounting & Information Systems, School of Business, University of Rutgers, Piscataway, N. J. 08854, USA.
E-mail : jaggi@business.rutgers.edu

Manuscripts from other countries should be submitted to : **Professor Bhabatosh Banerjee**, Editor, IAR, EIILM, 9 Hare Street, Kolkata-700 001, India.

INDIAN ACCOUNTING REVIEW

[Vol. 17 No. 2, December 2013]

Corporate as a Citizen — *Dipankar Chatterji*

The Valuation Effect of Stock Splits and Bonus Issues in Indian Stock Market — *Satyajit Dhar, Sweta Chhaochharia*

Environmental, Social and Governance Challenges to Business : The Emerging Paradigm in Managing Risks — *Ria Sinha, Manipadma Datta*

Financial Inclusion of Urban Microfinance Beneficiaries - An Assessment of Service Quality of Banks in Select Districts in West Bengal — *Samirendra Nath Dhar, Surajit De*

Voluntary Disclosures by Nifty Companies : A Content Analysis — *B. Charumathi, Latha Ramesh*

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