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Editorial

Dear Readers,

At the outset, warm greetings from Acharya Bangalore B School, Bengaluru, India.

I am happy to present the Volume 7, Issue 1 of AMBER, with the theme of 'Financial Markets'.

'Financial Markets' are undergoing rapid transformations due to cross border movement of capital, technology and changing role of regulators. Seamless cross border movement of capital is making capital markets integrated. Technology is acting as the enabler of this movement. Technology is also enabling marketing of financial products at lower cost and with improved agility. On the other hand, regulators are also changing their roles and redefining them in tune with the changing times. In a nutshell, we are seeing interesting transformations of financial markets worldwide.

This issue of the journal consists of five research papers, and other regular features like one case study, one book review and one student article. Wide ranging topics like stock index and national economy, foreign direct investment, investment preference of investors, impact of dividend announcement, mutual fund, corporate governance etc. are covered as part of this volume.These contributions are thought provoking, and will add to the existing body of knowledge in the domain.

I profusely thank the contributors of this volume and the management of Acharya Bangalore B School. I would like to thank the executive editor Dr.Souvik Banerjee, for his relentless effort to bring out this edition of the journal.

Dr. H.R. Venkatesha
Chief Editor

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1 Relationship Between Stock Index And National Economy In India: An Empirical Analysis

P K Mishra
Associate Professor in Economics
Central University of Punjab, Mansa Road, Bathinda-151001

Abstract

It has been accepted that developed capital markets are able to mobilize domestic savings and able to allocate funds more efficiently. Thus, stock markets can play a role in inducing economic growth in emerging market economies like India. Thus, this paper is an attempt to investigate the causal relationship between the stock index and the national economy in the context of India over the period 2006 to 2015 using the Toda-Yamamoto approach. The empirical findings provide the evidence of unidirectional causality running from real economic growth to stock market in India over the entire observation period. This finding is significant for the policy makers of the country. Plans and policies should be formulated such that the demand side factors are made influential. This would necessitate higher resource mobilization and thus, contribute to the development of stock market of the country.

Keywords: *India, Stock Market, Real economic Growth, Causality, Toda-Yamamoto Approach*

Introduction

The Indian stock market though one of the oldest in Asia and even older than New York stock exchange being in operation since 1875, remained largely outside the global integration process until the late 1980s. And, the reform of Indian stock market began with the establishment of Securities and Exchange Board of India (SEBI) in 1988. However, the reform process gained momentum only in the aftermath of the external payments crisis of 1991 followed by the securities scam of 1992. Among the significant measures of integration, portfolio investment by Foreign Institutional Investors (FIIs) allowed since September 1992 has been the turning point for the Indian stock market. Following the commissioning of the National Stock Exchange (NSE) in June 1994, National Securities Clearing Corporation Ltd. (NSCC) in April 1996 and National Securities Depository Ltd. (NSDL) in November 1996, a screen-based, anonymous, order-driven online dematerialized trading has been the order of the day coupled with improved risk management practices for clearing and settlement.

Indian capital market has undergone tremendous transformations since 1991, when the government has adopted liberalization and globalization more seriously than ever before. As a result, there can be little doubt about the growing importance of the stock market from the point of view of the aggregate economy. It has been observed that Indian capital market has been evolved as a major source of raising resources for Indian corporate sector. Despite the slowdown during 2008-09, today, Indian capital market features a developed regulatory environment, a modern market infrastructure, a steadily increasing market capitalization and liquidity, better allocation and mobilization of resources, a rapidly developing derivatives market, a robust mutual fund industry, and increased issuer transparency.

In the primary market, the total resources mobilized through the issuance of securities by corporate and government in 2014-15 increased

by 10.5 per cent as compared to 2013-14, to Rs.14,479 billion from Rs.13,097 billion. Resource mobilisation by corporates in the primary market rose by 13% in 2014–2015 to Rs.4,659 billion. This rise was driven by an increase in the resources mobilised through the private placement route; the capital raised through private placement went up by 12% to Rs.4,465 billion. However, the resources mobilised through public issues witnessed a drop of 26% to Rs.98 billion, accounting for a mere 1% of the total resources mobilised domestically. Private placement accounted for 98% of the domestic total resource mobilisation by the corporate sector. Resource mobilisation through Euro Issues surged significantly to Rs.96 billion in 2014–2015 from a mere Rs.1 billion in 2013–2014. The resources raised by Indian corporates from the international capital market through the issuance of Foreign Currency Convertible Bonds (FCCBs), GDRs, and ADRs recovered from the downward trajectory in 2013–2014. Indian corporate raised Rs.96 billion from international capital markets in 2014–2015, as against Rs.1 billion in the previous year. Compared to 2013–2014, the share of resources raised by Indian corporates from the international capital market surged from almost nil in 2013–2014 to 1% in 2014–2015. The sudden surge in the resources mobilised through Euro issues was partly driven by the improved investor sentiment in view of the future prospects of the Indian economy.

In 2014–2015, the resources mobilised from public and rights issue decreased, unlike in the previous year. In particular, the capital raised from public and rights issue fell by 66% (compared to the 71% increase in 2013–2014) to Rs.192 billion. This was mainly driven by a 76% fall in the resources mobilised through public issues, which fell from Rs.511 billion in 2013–2014 to Rs.125 billion in 2014–2015. However, the amount raised through rights issue (which increased from Rs.46 billion in 2013–2014 to Rs.68 billion in 2014–2015) partially offset the decline in the total resources mobilised from public and rights issue. The mobilisation of resources through rights issues recorded an increase of 48% in 2014–2015, following a 48% drop in 2013–2014. Resource mobilisation through rights issue increased from Rs.46 billion in 2013–2014 to Rs.68 billion in 2014–2015. In 2014–2015, the number of companies using the rights route to raise capital was 18 (as against 15 in the previous year).

In the primary debt market, the government and the corporate sector collectively raised a total of Rs.14,244 billion from the primary market in 2014–2015 which is an increase of 18 percent as compared to a decline of 2 percent in the preceding year. About 69 percent of the resources were raised by the government (the central and the state governments), while the balance was mobilized by the corporate sector through public and private placement issues. The corporate sector showed an increase of 41 percent in the primary market borrowings. The turnover in the secondary debt market in 2014-15 aggregated Rs.1,83,191 billion, 11 percent higher than that in the previous fiscal year.

Similar to the previous years, government borrowing in the secondary market accounted for more than 98 percent of the total secondary market borrowings. In the government securities market, the aggregate trading volumes in central and state government-dated securities on Subsidiary General Ledger (SGL) increased from Rs.8,971 billion in FY 2014 to Rs.9,820 billion in FY 2015.

In the secondary market, the market capitalisation of NSE and BSE has surged by 37% in the past 1 year. The turnover of the cash segment of stock exchanges across India has increased by 55% from 2013–2014 to 2014–2015.

India's experience with the equity derivatives market has been extremely positive. The turnover of derivatives on the NSE increased from Rs.24 billion in 2000–2001 to Rs.3,13,497 billion in 2011–2012, and further to Rs.3,82,114.1 billion in 2013–2014. In 2014–2015, the figure reached

Rs.5,56,064.5 billion, maintaining a continuous upward trend. In the derivatives market, the equity derivatives market turnover on the Indian exchanges increased from Rs.4,74,308 billion in FY 2014 to Rs.7,59,692 billion in FY 2015. Currency derivatives trading in India was started in August 2008 at NSE with currency futures on the underlying USD-INR exchange rate, followed by future trading in currency pairs such as GBP-INR, EURO-INR, and JPY-INR. Later, in October 2010, currency options trading were allowed on USD-INR. The currency derivatives trading turnover (Rs.56,345.6 billion) in India declined by 19% in 2014–2015 as compared to a year ago.

The monthly trend in FII investments in 2014–2015 shows that the net FII investments were positive for all the months, which reflects the positive investor sentiment and the growing affinity for India as a popular investment destination. The net FPI investments surged four times in 2014–2015 compared to the numbers in 2013–2014.

The total market capitalization at BSE as a percentage of India's real Gross Domestic product (GDP) has increased from 49% in 1990-91 to around 138% in 2009-10. Similarly the total market capitalization at NSE as a percentage of India's real Gross Domestic product has increased from 35% in 1994-95 to 114% in 2009-10. Thus, not only has the stock market increased relative to the real economy, but also it appears that the inter-relationship between them has strengthened. It has always been recognized all over the world that the stock market reflects to some extent the activities in the rest of the economy, but recently there has been widespread recognition that the influence is also in the opposite direction - dramatic events in the stock market are likely to have an impact upon the real economy. Therefore, the most sought after issue is now 'should the national economy lead the stock market or the other way around? This paper is an attempt to investigate the dynamics of the relationship between the stock index and the national economy in the case of India for the period 2006 through 2015.

Literature Review

The relationship between stock market and real economic growth of developing and developed nations has been widely studied, but the extant literature provides the evidence of mixed results. Some studies conclude about the positive relationship between capital market development and real economic growth, while others point to no relationship between them. Levine & Zervos (1996) and Beck & Levine (2004) found a strong and positive correlation between stock market development and economic growth. This finding is also supported by an extended study by Levine and Zervos (1998) which concludes that stock market liquidity and future economic growth rate, rate of capital accumulation and output growth rate were positively correlated with each other. Agarwal (2000) and Nieuwerburgh et al. (2005) supports the findings of Levine & Zervos (1996, 1998). Bader & Qarn (2005) argued that financial development leads to real economic growth of a nation either through increasing investment efficiency or through increasing resources for investment.

In the context of India, Biswal & Veerashekharappa (2002) argues that the stock market development plays a significant role in the economic growth process of the country. Agrawalla and Tuteja (2007) found that a stable long-run equilibrium relationship between stock market development and economic growth in India is fostered by transparent and efficient stock markets. Similarly, Pradhan (2007) advocated that a well-developed stock market could enhance economic activity in an emerging market economy like India, and the findings of Deb and Mukherjee (2008), Pal & Mittal (2011) and Kumar (2014) corroborate to it.

While distinguishing between the short-run and long-run causality effects, Naik and Padhi (2012) provide the evidence of the existence of long-run (but not the short-run) equilibrium relationship between the macroeconomic variables and stock market development. In a similar study, Ted *et al*

(2005) found no evidence of association between the Indian stock market development and economic growth in the entire period observation; the evidence is that stock market development was relevant for economic development during pre-liberalization era, but not in the post-liberalization period. Chakraborty (2010) found no support to the theoretical prediction that the stock market development plays an important role in enhancing economic growth in India in the post-reform period. In the case of Egypt, Badr (2015) found no causal relationship between stock market development and economic growth.

Thus, a mixed empirical evidence is provided by the finance literature concerning the relationship between capital market development and real economic growth of a country. Theoretical arguments however, always predict a positive relationship between financial market development and economic growth (Mishra & Pradhan, 2011; Mishra, 2015). This relationship may be supply leading and/or demand driven. Thus, an investigation of the lead-lag relationship between financial market development and real economic growth in a multivariate time-series framework is warranted. It is with this backdrop, this paper is an attempt to investigate the dynamics of the causal relationship between the stock market development and the growth of national economy for India over an observation period spanning from 2006 through 2015.

Data and Methodology

The very objective of this study is to explore the dynamics of the causal relationship between the stock market and the real national economy in the context of the emerging market economy like India over the sample period 2006 to 2015. This paper uses India's Real GDP as the variable of macro-economic performance, and BSE Sensex and S & P CNX Nifty as the representative of Indian stock market movements. The study uses quarterly data for the sample period. All the data have been collected from different volumes of the Handbook of Statistics on Indian Economy, published by Reserve Bank of India on an annual basis. The time series are then expressed in their log forms. Thus, the variables of the study are GDP, SNX, and NTY. The study uses the Toda-Yamamoto method of studying the causal relationship between stock index and the national economy in the case of India.

The Toda and Yamamoto (1995) method of Granger causality test is relatively more efficient in small sample data sizes and is particularly appropriate for time series for which the order of integration is not known or may not be necessarily the same, or the order of integration is more than two. Another advantage of this procedure is that it does not require the pre-testing of the time series for cointegration properties so long as the order of integration of the process does not exceed the true lag length of the model. Toda and Yamamoto (1995) methodology of Granger causality test by directly performing the test on the coefficients of the levels VAR, minimises the risk associated with possibly wrongly identifying the orders of integration of the series and the presence of cointegration relationship (Galies, 1997; Mavrotas and Kelly, 2001).

The basic idea in the Toda and Yamamoto (1995) procedure is artificially augmenting the correct VAR order, k with d extra lags, where is the maximum likely order of integration of the time series in the empirical system. Thus, at the outset, it is required to determine the maximum order of integration of time series, say, . Then the optimal lag length of the VAR model is to be determined using Akaike Information Criteria (AIC), say, . In the third step, the ()th order of VAR is to be estimated with Seemingly Unrelated Regression(SUR). At last, the null hypothesis of no-causality is to be tested using a standard Wald statistic, say, . The implementation of the Toda and Yamamoto approach to Granger causality necessitates linking the three variables of the study in a trivariate system as follows:

$$Y_t = A_0 + A_1 Y_{t-1} + ... + A_k Y_{t-k} + \varepsilon_t .... (1)$$

Where $Y_t = \begin{bmatrix} Y_{1t} \\ Y_{2t} \\ Y_{3t} \end{bmatrix} = \begin{bmatrix} GDP_t \\ SNX_t \\ NTY_t \end{bmatrix}$ and $\varepsilon_t \sim i.i.d\ N(0,\mu)$

and A's are 3x3 matrices of coefficients.

The following augmented levels $VAR(\ p=k+d)$ shall be estimated to test the null hypothesis of no-causality:

$$Y_t = \alpha + A_1 Y_{t-1} + ... + A_k Y_{t-k} + A_{k+1} Y_{t-k-1} + ... + A_p Y_{t-p} + \varepsilon_t \quad ....(2)$$

This augmented VAR system is to be estimated using the Seemingly Unrelated Regression (SUR) technique. The null hypotheses of the study are:

H_{01}: Y_{1t} does not cause Y_{2t} : GDP does not cause SNX

H_{02}: Y_{2t} does not cause Y_{1t} : SNX does not cause GDP

H_{03}: Y_{1t} does not cause Y_{3t} : GDP does not cause NTY

H_{04}: Y_{3t} does not cause Y_{1t} : NTY does not cause GDP

These null hypotheses are to be tested by Wald test which can be formulated as follows:

Let $e_3 = \begin{bmatrix} 0 \\ 0 \\ 1 \end{bmatrix}$, $e_1 = \begin{bmatrix} 1 \\ 0 \\ 0 \end{bmatrix}$ and $D = I_k \otimes e_3$ with I_k being the $k \times k$ identity matrix. Let

be the column vector obtained by stacking the rows of the matrix A. Then the Wald Test statistic is given by:

$$W = T\left((e_1' \otimes D')vec(\hat{A})\right)\left((e_1' \otimes D')\hat{\Sigma}(e_1' \otimes D')'\right)^{-1}(e_1' \otimes D')vec(\hat{A})$$

where $\hat{\Sigma}$ is a consistent estimator of the asymptotic variance matrix of $\sqrt{T}vec(\hat{A} - A)$

The Wald test statistic (W)has an asymptotic χ^2 distribution with k degrees of freedom. The reason for ignoring the remaining $d_{\max}$ autoregressive parameters in testing for Granger causality is that it helps overcoming the problem of non-standard asymptotic properties associated with standard Wald test for integrated variables. It has been shown that Wald test experience efficiency improvement when SUR models are used in the estimation (Rambaldi and Doran, 1996).

Analysis and Discussion

At the outset, the Pearson's correlation coefficient matrix between variables has been calculated over the sample period and its significance has been tested by the t-test. The results are presented in Table-1. The correlation matrix reports positive and high degree correlation between variables. Furthermore, such positive correlations are significant at 5% level. Correlations, however, do not say anything about causal relationship and thus, leaves unsettled the debate concerning the causal relationship between stock market indices and real economic growth in India.

Table 1: Correlation Matrix

Variables	GDP	SNX	NTY
GDP	1	0.85	0.85
SNX	-	1	0.99
NTY	-	-	1

Source: Author's Own Calculation

In the first step of the causality analysis, the order of integration for each of the three variables used in the analysis has been determined. The Augmented Dickey-Fuller (ADF) unit root test has been used for this purpose. The results of ADF unit root test are reported in Table -2. It is quite clear that the hull hypothesis of no unit roots for GDP is rejected at its level form since the ADF test statistic value is less than the critical values at 10% levels of significance. Thus, this variable is stationary and integrated of order 0, i.e., I(0). But the variables SNX and NTY are both integrated of order one, i.e., I(1) as the ADF test statistics at

the first difference form for them are less than the critical values at 5% level of significance.

Table 2: Results of Unit Root Test

ADF test statistic							
VARIABLES	Level form with intercept and linear trend		First Difference form with intercept and linear trend		Second Difference form with intercept and linear trend		Order of Integration
GDP	-3.33	1%: -4.44 5%: -3.63 10%: -3.25	NA	NA	NA	NAI	(0)
SNX	-2.58	1%: -4.35 5%: -3.59 10%: -3.23	-3.42	1%: -4.35 5%: -3.59 10%: -3.23	NA	NA	I(1)
NTY	-2.60	1%: -4.35 5%: -3.59 10%: -3.23	-3.56	11%: -4.35 5%: -3.59 10%: -3.23	NA	NAI	(1)

Source: Author's Own Calculation

Thus, the results obtained from the ADF test suggest that the maximum order of integration of the series under study is two, i.e., $d_{max} = 1$. Therefore, the Toda-Yamamoto test involves the addition of one extra lag of each of the variables to control for potential Cointegration. Then, it is required to select the appropriate lag length for the VAR in order to perform causality test. In this study, the Akaike Information Criterion (AIC) and Final Prediction Error (FPE) techniques are used to determine the optimal lag length.

In small sample study (n<60), AIC and FPE are superior to other information criteria (Lutkepohl, 1991; Liew, 2004). The results of such test are presented in Table-3. The optimal lag length, thus selected is $k = 2$.

Table 3: Selection of Lag Length

Lag	FPE	AIC
0	0.000000351	-6.349837
1	0.00000000909	-10.00940
2	0.00000000651*	-10.37695*

*indicates lag order selected by the criterion at 5% level

Source: Author's Own Calculation

In the next step, the augmented VAR of order 3 ($p=k+d_{max}$) is estimated with Seemingly Unrelated Regression (SUR) and the Wald test is carried out using standard chi-square distribution. And, the results of Toda and Yamamoto Ganger non-causality test are reported in Table-4.

Table 4: Results of Toda-Yamamoto Granger Non-Causality Test

Null Hypothesis	Chi-Square statistic(d.f)	p-Value	Decision
GDP does not Granger Cause SNX	12.00074(3)	0.0074	Reject
SNX does not Granger Cause GDP	2.6658(3)	0.4461	Accept
GDP does not Granger Cause NTY	11.613 (3)	0.0088	Reject
NTY does not Granger Cause GDP	2.719 (3)	0.4369	Accept

Source: Author's Own Calculation

The results show that the null hypotheses that 'GDP does not Granger Cause SNX' and 'GDP does not Granger Cause NTY' are rejected at 5% level of significance. This means GDP causes SNX and NTY, i.e., unidirectional causal relationship holds between real economic growth and stock market in India over the sample period. In other words, real economic growth spurs stock market development in the country. Furthermore, the null hypotheses that 'SNX does not Granger Cause GDP' and 'NTY does not Granger Cause GDP' are accepted at 5% level of significance. This means stock market movements do not lead to real economic growth of the country.

Therefore, it is inferred that real national economy of India is very important in influencing the stock market activities. It is the strong fundamentals of the real national economy that leads to such positive effect on the capital market. Perhaps, this is the reason why Indian capital market could saw quick recovery from the clutches of global financial slowdown. It may thus, be stated that the stock markets in India are demand driven and output led which means that demand for greater equity finance is led by higher growth rate of national output. That is, the state of the economy has a bearing on the share prices, but the health of the stock market in the sense of a rising share price index is not reflective of an improvement in the health of the economy. In other words, a bull run or rising prices in the stock market cannot be taken to be a leading indicator of the revival of the economy in India. This finding has important implications for policy makers.

Expansion in national output always exerts tangible multiplier effects on income and employment. This will cause increase in purchasing power and thus, aggregate demand will increase which in turn will call for greater investment and higher production thereby demanding greater mobilization of financial resources in the economy. Such an expansionary economic environment, although sometimes inflationary, would lead to stock market development. Therefore, the policy makers should devise prudential norms to facilitate sustainable growth of the producing sectors, and resource mobilizing intermediaries in the country.

Concluding Remark

Financial markets have been well recognized in providing efficient access to capital required by business houses thereby influencing not only the financial health of firms but in a significant way their real productivity. Such productivity gains again not only contribute to individual profit gains, but in a larger sense the development of other sectors together constituting the entire macro-economy of a nation. Thus, it is worthy to take up a study examining the causal relationship between the stock market development (i.e., the stock index movements) and the national economy in the case of India for the period spanning from 2006 through 2015. The Pearson's correlation coefficient indicates the existence of a positive and high degree of correlation between the stock market movements and real national economy in India. Correlation, however, does not say anything about causal relationship and thus,

leaves the debate unsettled. So, the causal relationship has been examined by the Toda-Yamamoto approach. The results provide the empirical evidence of unidirectional causality from real economic growth to stock market in India over the sample period. This finding is very important for the policy makers of the country. Plans and policies should be formulated such that the demand side factors are made influential. This would necessitate higher resource mobilization and thus, contribute to the development of stock market of the country.

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2

Indian Working Women's Gold Obsession and Stock Market Dilemma: An Empirical Investigation

P. Hemavathy
University Grants Commission – Senior Research Fellow
Full time Doctoral Research Scholar, Department of Commerce, University of Madras, Chepauk, Chennai – 600 005

Dr. S. Gurusamy
Professor and Head, Department of Commerce
Chairman – Board of Studies of Commerce, University of Madras, Chepauk, Chennai- 600 005

Abstract

This paper attempts to investigate the adoring Gold market and panic-stricken Stock market in India by exploring the perception of Indian working women. The researcher analyses the influence of demographic variables and gold obsession factors on the Knowledge, Social, Psychological, and Demographic factors which affects the stock market participation. Results revealed that the working women need to be financially knowledgeable in order to manage their finances especially in the stock market. The researcher also finds that the gluttonous demand for gold in India that has been predominantly resisting the retail participation in the Indian equity market. Rigorous financial education will influence the Indian working women to revisit the Indian stock market.

Keywords: *Gold obsession, Stock Market Participation, Capital appreciation, Religious factor, Social factor, Working Women*

Introduction

The enthusiastic eagerness of Indians for gold, over the ages, has amazed the economists. The demand for gold is reverse to "Law of Demand". Gold has fortunately remained in the headlines of both consumer and financial media, which served to emphasize both the continuing intrinsic value and its antique role as a store of value. This situation strikes a chord of 2007, when the stock markets bang all time highs and there was euphoria across the nation. Although Indian stock market has expanded in the post liberalization era, with regard to volatility the market does not demonstrate any significant transform. This long-lasting volatility in the stock market since the global financial crisis has been gloomy issue for the retail investors to invest in equity markets. Due to high volatility, new clients are afraid to burn their fingers and existing investors are uncomfortable in roiling their portfolios. The initiative of long term investment is hitherto to be embedded in the retail investor's mind set. Retail investors are often coaxing into inappropriate investment decisions allured by the vested interest. In the era of high frequency trading, pathetic internet penetration, interruption in internet connectivity, frequent power failures which hinder the retail investor's efficiency to harvest the paramount price movements. Costs of trading in an exchange have a significant bearing on the capital market efficiency. The three important constituent of cost of trading are user charges which includes brokerage fees, DP chargers, exchange transaction charges, impact cost statutory levies such as service tax on brokerage and stamp duty. The cost of trading in India remains relatively high. More pressure is levied on the overall brokerage revenue pool due to low retail equity participation.This paper is structured as follows: Section 2 encompass of review of related literature including Statement of problem need and Objective of the study. Section 3 reports the research methodology employed to undertake the study. Section 4 portrays the robustness of empirical investigation evidence. Finally, Section 5 concludes the study.

Review of Literature

In this section we review some empirical literature relating to gold market and stock market that provide innovative insights to undertake the research. Nicholas Apergis, Christina Christou and James E Payne (2014) demonstrate the importance of precious metal markets and the vibrant behavior of information transmission in the global stock exchange systems. This study highlights the behavior of precious metal vis-à-vis equity markets which provides highly valuable information for investors who design their investment strategies by taking into consideration the use of precious metals in building their portfolio. The researchers present an empirical methodology to investigate the nature of spillovers between precious metal prices, ie, Gold and silver and macroeconomic variables for the G7 countries over the period 1981 to 2010. This study utilizes a relatively new methodological approach known as the factor-augmented vector auto regressive (FAVAR) model. Results indicate that the price transmission across precious metal markets, stock markets and the macro economy is substantial.

Somnath Mukhuti, Amalendu Bhunia (2013) investigated the Indian stock market index reaction on Indian gold price by using daily time series data between 2nd January 1991 and 10th August 2012 with the application of econometric methods such as bi-variate and multivariate co integration test. Results confine that in times of national crisis, bank failures, rupee deprecation and negative interest rate, people consider gold as a solid asset and safe haven. There is a diminutive chance of getting better returns in the stock investment due to a fragile economic and financial position.

Amalendu Bhunia and Somnath Mukhuti (2013) asserted that the domestic gold price in India is eternally escalating in consequence to its intense domestic demand on account of protection, liquidity along with efficient portfolio diversification. The underlying principle behind the retail investors not entering the equity markets is high returns which they obtain from the alternative asset class, viz., gold. Moreover, there is high volatility in the equity markets. When the stock market crashes or when the dollar exacerbates, gold prolongs to be a safe investment haven.

Baur (2011) analyses the conditional volatility using GJR model and presents a new explanation for the abnormal symmetries of gold volatility. This study reveals that while negative return shocks in equity markets signal 'bad' news and positive return shocks imply 'good' news, this situation is inverse in case of gold market: positive shocks in the gold market imply 'bad' financial and negative returns in gold imply 'good' news. The author explains this inverted asymmetric reaction related to the safe haven property of gold: investors interpret positive gold price changes as a signal for future adverse conditions and uncertainty in other assets markets. Results shows that the dynamic correlation of gold to be negative during adverse stock market conditions.

Statement of Problem

Indian stock markets mobilize a very small fraction of household financial savings in India. Indian Stock market is beleaguered with severe price volatility and suffers from menace of over speculation and excessive price fluctuation. Many households shy away from stock markets, because of lack of adequate financial knowledge on stocks, the stock market working and asset pricing. This leads to stumpy retail participation putting the Indian stock markets in "dilemma". Gold is an inoperative asset in the hands of individuals and there is a massive unlocked economic value of the Indian economy. India is recognized to be among the largest importers of gold in the world. Massive gold demand leads to deterioration in current account deficit.

Need for the study

Women are progressively more entrepreneurial in nature, grabbing new business prospects. Thus women are becoming one of the largest groups of

investors across the globe. The avid appetite and importance of gold among Indian women cut across caste and economic boundaries. Gold is the rescuer of Indian women in times of crisis. This circumstance has given inauguration to "Gold Mania" in India over the ages. Many households shy away from stock markets, because of lack of adequate financial knowledge on stocks, the stock market working and asset pricing. This leads to stumpy retail participation putting the Indian stock markets in "dilemma".

Objective of the study

To study the collective influence of demographic variables, gold obsession factors on stock market participation factors.

Hypothesis of the study

Ho: There exists no influence of demographic variables, gold obsession factors on stock market participation factors.

Research Methodology

The methodology adopted for the study is based on primary data. Simple random sampling has been used to collect responses from the Indian Working Women. 177 questionnaires were distributed for conducting the study among the Indian working women in Chennai City. The number of questionnaire collected after sustained follow up was 170. Out of the 170 responses only 150 were complete and suitable for statistical analysis. Out of the total 177, 7 questionnaires were not returned and 20 were eliminated for inconsistent replies and incomplete answers. Therefore, the exact sample size for this study is 150.

Statistical Tools Employed

The researcher has used Statistical Package for Social Sciences to perform statistical techniques such as Factor analysis by principal component method, to reduce the number of factors creating obsession towards gold as an asset class among the Indian working women into five meaningful factors and Stock Market participation factors into four meaningful factors respectively.

Multiple Regression Analysis has been applied to study the collective influence of demographic factors, gold obsession factors on stock market participation factors.

Empirical Results and Discussion

In this section, the researcher attempts to present the empirical results obtained from statistical analysis such as Principal Component Factor Analysis and Multiple Regression Analysis.Cronbach alpha test was used to determine the degree of consistency among the multiple measurements of each factor. It measures the inter-item reliability of a scale generated from a number of items. Ideally, the reliability coefficient above 0.5 is considered acceptable as a good indicator of construct reliability, above 0.6 is treated satisfactory, but alpha above 0.7 is considered sufficient. The questionnaire responses exhibited Cronbach-Alpha value of 0.926 for items relating to gold obsession variables among Indian Working Women as depicted in Table 1. The alpha values are statistically significant to ensure a smooth normal distribution and to justify the sample statistics for the representation of population parameters.

Factor Analysis – Gold obsession

Grouping the variables gives more clarity on the subject and also on the decision mechanism design. In view of this, the researcher grouped the items using Principal Component Analysis with Varimax and Kaiser Normalization. In this part of the analysis the researcher attempts to identify the factors responsible for creating obsession towards gold as an asset class among the Indian working women. There are 25 variables quoted in the Questionnaire therefore the data reduction is done through the application of factor analysis by principal component method and the following results are obtained. From the table No 2 it is found

that Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is .865, Bartlett's Test of Sphericity with approximate chi square value 1944.418, p = .000 are statistically significant at 5 percent level. Therefore, it can be concluded that the variables considered for Factor Analysis form the normal distribution less than 5% admissible error to represent the factors emerged. This implies that the sample size is adequate for data reduction process and creates a conductive situation to ascertain the latent factors responsible for creating obsession towards gold as an asset class.

It is found that the 25 variables exhibit the variances from .518 to .855. This implies that the range of variations defined "between" 51 percent to 85 percent, which is statistically significant to go ahead for the meaningful data reduction process. This is adequate for factor segmentation from the variables. This leads to the factor formation. 25 variables are reduced into 5 predominant factors. It is found that 25 variables exhibit the total variance of 72.404 percent. It is also ascertained that the five factors individually possess the variances 22.684 percent, 19.609 percent, 12.131 percent 9.898 percent and 8.082 percent respectively. This leads to variable loading of each factor that creates obsession towards gold as an asset class among the Indian Working Women. This leads to factor segmentation through grouping of variables as shown in the rotated component matrix.

The rotated component matrix in the factor analysis grouped the variables as follows. The factor I consists of eight variables having the towering variance of 22.684% which represent gold as an efficient store of value, portfolio diversifier. The Factor I accentuate to embolden financial aspects involved in possessing the gold which facilitates fascination among the Indian working women towards gold as an asset class. Thus, the factor I is labeled as "Financial factor".

The factor II consists of eight variables having the variance of 19.609% which signifies gold as an ideal investment avenue which brings consistent and assured returns. The Factor II highlights on various beneficial aspects involved in holding gold among Indian working women Thus, the factor II is tagged as "Benefit Factor".

The factor III consists of two variables having the variance of 12.131% which highlights the fact that women prefer to wear gold due to beauty and personality reasons, Gold plays an essential part in the marriage ceremony and when it comes to Indian weddings, gold is considered a prerequisite rather than an extravagance. There exists deep cultural affinity for gold in India. The Factor III explains about the cultural cause for possessing the gold which creates allure among the Indian women. Thus, Factor III is labeled as "Cultural Factor".

The factor IV comprises of two variables possessing the variance of 9.898% which represents that traditionally, gold has been considered auspicious among Hindus and is regarded to bee symbolic of Goddess Lakshmi, the goddess of wealth. The Factor IV deals with the religious rationale behind holding gold as an asset class among the women. Thus Factor IV is tagged as "Religious Factor".

The factor V consists of three variables possessing the variance of 8.082% which signifies that in India gold is seen as a symbol of security. The Factor V deals with societal aspects involved in holding gold which creates fascination among the Indian working women. Thus, Factor V is labeled as "Societal Factor".

Factor Analysis - Stock Market Participation

Cronbach alpha test was used to determine the degree of consistency among the multiple measurements of each factor. It measures the inter-item reliability of a scale generated from a number of items. Ideally, the reliability coefficient above 0.5 is considered acceptable as a good indicator of construct reliability, above 0.6 is treated

satisfactory, but alpha above 0.7 is considered sufficient. The questionnaire responses exhibited Cronbach-Alpha value of 0.939 for items relating to Stock market participation variables among the Indian working women as specified in Table 4 (Appendix). The alpha values are statistically significant to ensure a smooth normal distribution and to justify the sample statistics for the representation of population parameters.

There are 23 variables quoted in the Questionnaire therefore the data reduction is done through the application of factor analysis by principal component method and the following results are obtained.

From the table No 5 (Appendix) it is found that Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy is .854, Bartlett's Test of Sphericity with approximate chi square value 1866.962, p = .000 are statistically significant at 5 percent level. It is found that the 23 variables exhibit the variances from .484 to .824. This implies that the range of variations defined "between" 48 percent to 82 percent, which is statistically significant to go ahead for the meaningful data reduction process. This is adequate for factor segmentation from the variables. This leads to the factor formation. 23 variables are reduced into 4 predominant factors. It is found that 23 variables exhibit the total variance of 69.816 percent. It is also ascertained that the four factors individually possess the variances 25.752 percent, 15.402 percent, 15.271 percent and 13.390 percent respectively. This leads to variable loading of each factor that affects the stock market participation among the Indian Working Women. This leads to factor segmentation through grouping of variables as shown in the rotated component matrix.

The rotated component matrix in the factor analysis grouped the variables as specified in Table 6 (Appendix) as follows. The factor I consists of ten variables having the towering variance of 25.752% which represent Fluctuating stock prices with high trading. The Factor I accentuate to embolden financial education to Working women in India to accelerate the stock market participation rates. The factor I is labeled as "Knowledge factor". The factor II consists of five variables having the variance of 15.402% which signifies the age, income, religion, wealth and health of the female investors to facilitate stock market participation among the female investors. The Factor II highlights on various demographic aspects which affects the stock market participation among the women. Thus, the factor II is tagged as "Demographic Factor".

The factor III consists of four variables having the variance of 15.271% which corresponds to information sharing among the family members, social interaction and seeking professional financial advice for equity investment among the women workforce. The Factor III explains that social interaction and trust in professional financial advice has economically significant effect on the stock market participation among the Indian working women.Thus, Factor III is labeled as "Social Factor". The factor IV comprises of four variables possessing the variance of 13.390% which represents that there exist lack of trust and confidence among the investors who invest in risky equity investment. The Factor IV deals with the psychological aspect and underscores that strong cognitive ability to bear the risk is essential for female investors to amplify the stock market participation rates among the Indian women workforce. Thus Factor IV is tagged as "Psychological Factor".

Multiple regression analysis

The researcher employs multiple regression analysis to examine the collective influence of gold demand and retail participation in Indian equity market. Multiple regression analysis is used to predict the variance between the dependent variable and independent variables (Warne, R. T. (2011)). The multiple regression analysis explores the interrelationship among variables and the contribution of each predictor to explain the variance in the dependent variable (Cohen, J,(2003)).

This method is used to determine how much variance exist in the demographic variables such as age, marital status, religion, occupation, annual savings and gold obsession factors can be explained by Stock market participation factors. In this regression approach demographic variables such as age, income, wealth, health, religion and gold obsession factors are considered as independent variable and the knowledge factor which affects the stock market participation among the working women which is determined by the conducting Principal Component Factor analysis is expressed as an dependent variable.

Table 7 (Appendix) displays that R^2 value is 0.537, adjusted R^2 value is 0.472. This shows that the variance ranges from 47.2% to 53.7%. That is the independent variable which comprises of demographic aspects of working women such as education, age, annual savings and gold obsession factors is able to create variance on the Knowledge factor which is formulated by conducting Principal Component factor analysis compressing various variables such as Financial education, Financial knowledge, Adequate financial information, Knowledge in Manipulation of share valuation, Knowledge in fluctuating share prices and trading cost, Knowledge in strong investor protection and Knowledge in the availability of Insurance protection for the equity investors. This leads to the resultant confirmation of regression model fit in the following ANOVA table.

Table 8 (Appendix), reports that the regression fit coefficient F=8.415, p=.000 are statistically significant at 5% level. Therefore, it can be concluded that the independent variables namely age, income, religion, occupation and gold obsession related factors which is considered to exhibit the regression model is critically related to Knowledge factor which affects the stock market participation among Indian Working women. The following correlation table obviously elucidates the restrained impact of dependent variable on the independent variable.

Table 9 (Appendix) portrays that Education (t=1.948, p=.005), Annual Savings (t=2.072,p=.004), Financial Factor (t= 2.966, p= .004), Cultural factor (t= 3.890, p=.000), Credibility factor (t= 1.600, p=.003) are the independent variables which is statistically significant at 5% level than other variables such as Age (t=.580, p=0.563), religion factor (t=.778, p=.006) and Societal factor (t=.375, p=.709). This reveals that among the various demographic variables, Education and Annual savings of the individual are predominant variables which influences the knowledge factor affects that the women's participation in the Indian equity market. The working women need to be financially knowledgeable in order to manage their finances especially in the stock market.

Table 10 (Appendix) exhibits that R^2 value is 0.454, adjusted R^2 value is 0.365. This shows that the variance ranges from 36.5% to 45.4%. That is the independent variable which comprises of demographic aspects of working women such as education, age, income, and gold obsession factors is able to create variance on the Demographic factor which is formulated by conducting Principal Component factor analysis compressing various variables such as age, religion, wealth, health, This leads to the resultant confirmation of regression model fit in the following ANOVA table.

Table 11 (Appendix) explain that the regression fit coefficient F=5.057, p=.000 are statistically significant at 5% level. Therefore, it can be concluded that the independent variables namely age, income, education, gold obsession related factors which is considered to exhibit the regression model is critically related to Demographic factor which affects the stock market participation among Indian Working women. The following correlation table obviously elucidates the restrained impact of dependent variable on the independent variable.

Table 12 (Appendix) reports that Age (t= 3.085, p=.003), Education (t=2.044, p=.004), Cultural factor (t= 6.036, p=.000), Credibility factor (t= 3.364, p=.001) are the independent variables

which is statistically significant at 5% level than other variables such as Income (t=.750, p=0.455), religion factor (t=1.472, p=.145) and Societal factor (t=.503, p=.616). This reveals that among the various demographic variables, Education, age of the respondent are considered as the chief variables which influence the demographic factor which affects the women's participation in the Indian equity market. The purchase of gold is entwined with its creditability and cultural beliefs. Results are consistent with the WGC Report on India: Heart of Gold Strategic Outlook (2011) which reveals that gold provides an attractive investment for people who believe that inflation will pick. Gold serves as a store of wealth, providing strong alternative to interest bearing deposits and equities and fulfilling the precautionary saving motive. Gold purchase among the Indian is highly influenced by socio-economic and cultural sentiments.

Table 13 (Appendix) explicate that R^2 value is 0.491, adjusted R^2 value is 0.407. This shows that the variance ranges from 40.7% to 49.1%. That is the independent variable such as age, education, income and Gold Obsession factors is able to create variance on the psychological factor which affects the female stock market participation which is devised by conducting Principal Component factor analysis compressing various variables such as Trust, strong cognitive ability, Confidence and risk averse. This leads to the resultant confirmation of regression model fit in the following ANOVA table.

From Table 14 (Appendix), it is found that the regression fit coefficient F=5.854, p=.000 are statistically significant at 5% level. Therefore, it can be concluded that the independent variables namely education and gold obsession factors which is considered to exhibit the regression model is significantly related to Psychological factor which affects the stock market participation among Indian Working women.

Table 15 (Appendix) highlights that Education (t=1.315, p=.002), Financial factor (t= 4.103, p=.000) are the independent variables which is statistically significant at 5% level than other variables such as Credibility factor (t=1.838, p=0.050), religious factor (t=1.117, p=.267) and Societal factor (t=1.457, p=.149). This reveals that among the various demographic variables, Education and Financial aspects of holding gold are major variables which influences the Psychological factor affects that the women's participation in the Indian equity market. Results are consistent with the research undertaken by Campbell (2006) emphasized that the psychological barriers that make stock market participation uncomfortable for the households. (Cole and Shastry 2009) highlights it is easier for educated investors to understand the risk-reward tradeoff of markets.

In this regression approach, demographic variables such age, income, education and gold obsession factors are considered as an independent variables and social factor which is obtained by conducting Principal Component Factor analysis by compressing four variables namely social interaction, seeking professional active, Willingness to learn from others and Information sharing among the family members is expressed as dependent variable.

Table 16 (Appendix) reports that R^2 value is 0.423, adjusted R^2 value is 0.328. This shows that the variance ranges from 32.8% to 42.3%. That is the demographic variables and gold obsession factors is able to create diminutive variance on the social factor which is devised by conducting Principal Component factor analysis compressing various variables such as social interaction, seeking professional active, Willingness to learn from others and Information sharing among the family members. This leads to the resultant confirmation of regression model fit in the following ANOVA table.

From Table 17 (Appendix) portrays that the regression fit coefficient F=4.459, p=.000 are statistically significant at 5% level. Therefore, it can be concluded that the independent variables

namely demographic variables and gold obsession is considered to exhibit the regression model is significantly related to social factor which affects the stock market participation among Indian Working women.

From Table 18 (Appendix), it is found that Education (t=1.864, p=.005), Financial factor (t= 1.932, p=.005), Cultural factor (t=3.563, p=.001) are the independent variables which is statistically significant at 5% level than other variables such as Credibility factor (t=.773, p=0.442), religious factor (t=.053, p=.958). This reveals that among the various demographic variables, Education, financial aspects of holding gold and cultural motive for buying gold are prime variables which influence the Social factor which affects the women's participation in the Indian equity market. Indians affinity for gold as an asset class is deep rooted, as the women consider buying gold as "status symbol" and "Icon of security". Thus, the null hypothesis is rejected; there exist influence of demographic variables, gold obsession factors on stock market participation factors

Previous research undertaken in different countries possesses similar results. Feng and Seasholes (2004) findings suggest that common reaction to public information, rather than word-of-mouth effects, seems to be a primary determinant of investors trading behavior in China. Thus, the influence of social interaction on stock market participation remains partly unclear. Social interaction and social learning function also as an additional channel for financial awareness if information distribution otherwise is scarce. Widespread financial unawareness and illiteracy raises concerns as households are facing ever more complex options in household finance and retirement planning. Guiso and Jappelli (2005) analyze the role of deficient financial awareness as an information barrier to financial market participation.

The path diagram given below explains about the Indian Working Women's Stock Market participation factors, Gold obsession factors that exist among the Indian working women, and the influence of Stock Market Participation factors on the Gold obsession factors.

Diagram 1 Represents Stock Market Participation Factors

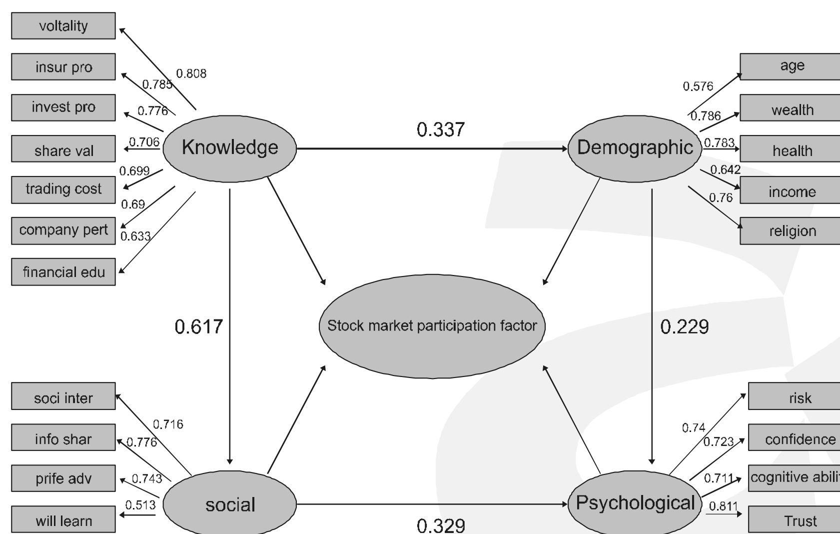


Diagram 2 Represents the Gold Obsession Factors among the Indian Working Women

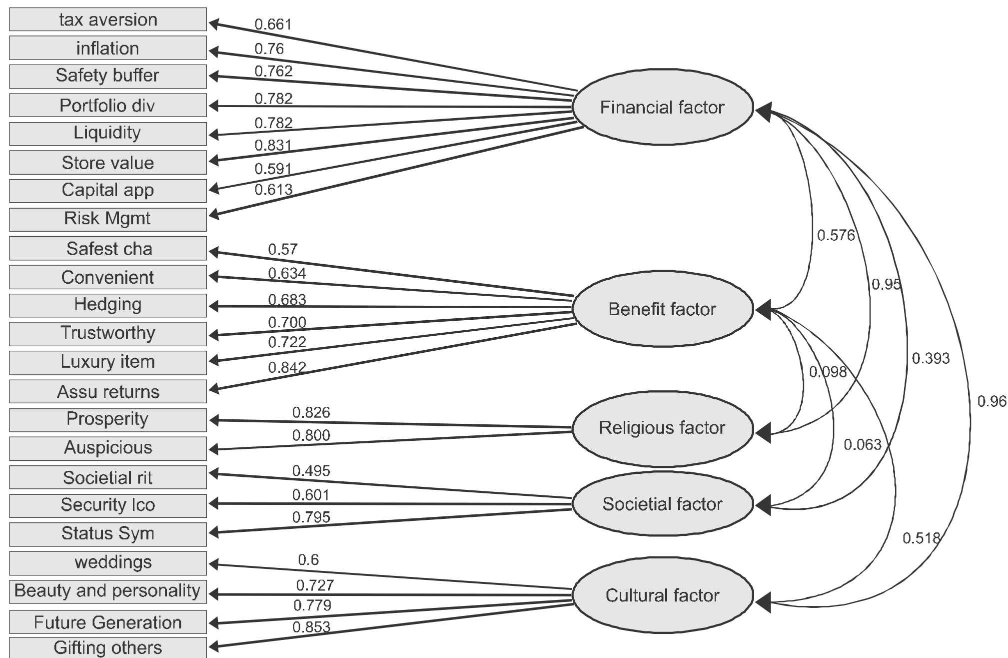
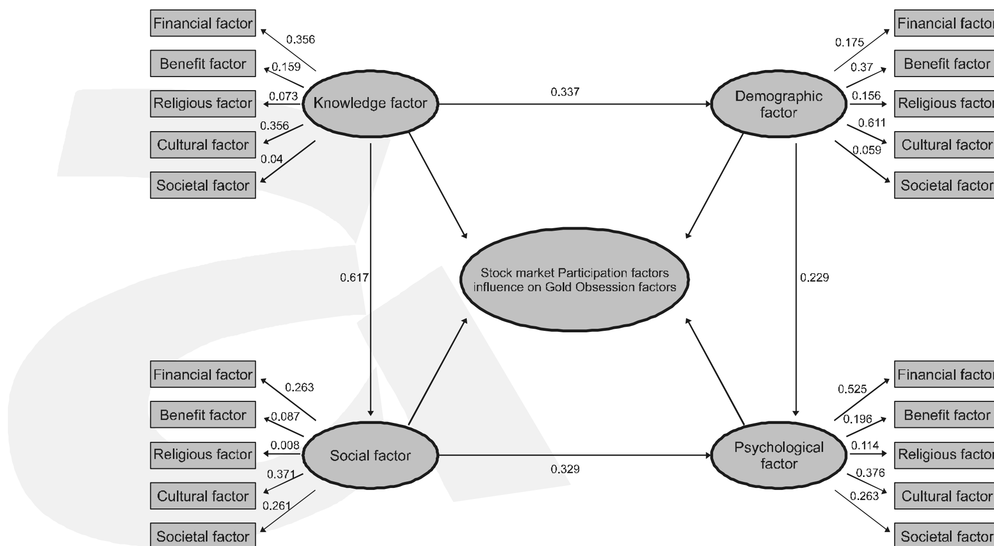


Diagram 3 Represents influence of Stock market Participation factors on Gold Obsession Factors among Indian Working Women



5. Conclusion

Gold is an inoperative asset in the hands of individuals and there is a massive unlocked economic value of the Indian economy .The real attraction for gold is apparent and straightforward. High returns, high liquidity and no taxation and lack of documentation related hassles makes gold a sought after investment option. Over 1.3 billion population of India would customarily prolong to create demand for gold due to cultural, religious, economic and social motive. Awareness about gold as a profitable investment and store of wealth is growing and, hence, it is complicated to shatter the attract for gold from both the investors and the jewellery consumers. In the wake of the financial market turbulence and loss of equity values across the globe, investor's inclination seems to robustly shift towards gold as an asset class. Whilst the general global economy is slipping into global recession, the gold market is a lucrative investment for investors. Slump in equity market could stimulate a change to safety and hence in the short run, there could be augmented demand for gold in domestic market leading to ascend in domestic gold prices. The movements in stock market indices can surrogate positive or negative exceptions, regarding future, and hence it can be an idyllic challenger variable to symbolize features like shift to safer assets during times of crisis. Investor education and financial literacy are significant for people who live in rural areas who are unaware of the gold investment instruments or do not have access to invest in gold backed financial products. Effective steps need to be undertaken to enhance awareness of potential physical gold buyers to get shifted to alternative available gold backed financial instruments in the financial market.

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Appendix

Table 1 - Reliability Statistics

Factors creating obsession towards gold as an asset class	Cronbach's Alpha	No. of variables
Gold obsession variables	.926	25

Source: Computed Data

Table 2 - KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adqueacy		.865
Bartlett's Test of Sphericity	Approx Chi square	1944.418
	df	300
	Sig	.000

Source: Computed Data

Table 3 - Rotated Component Matrixz

Factors creating obsession towards gold as an asset class among Indian Working women force	Component				
	1	2	3	4	5
I consider, gold acts as an efficient store of value	.831				
I recognize, gold as a form of money	.782				
Gold acts as a portfolio diversifier for me	.782				
I consider, gold is a safety buffer	.762				
Investing in gold is potentially way to maintain purchasing power	.760				
Buying gold has no tax hassles involved	.661				
The risk of losing money by investing in gold is lower than other investments	.613				
Buying gold brings capital appreciation	.591				
I cannot deposit money in bank, so it's best to invest in gold		.874			
Investments in gold have yielded consistent and assured returns		.842			
Gold is a luxury item to buy		.722			
Gold bought at any time will prove to be beneficial		.709			
I recognize, gold as a hedge against foreign currency		.683			
Gold acts as a convenient medium for concealment of my taxable income		.634			
Gold is the safest channel of my investment		.570			
I usually buy BIS Certified Hallmark gold as it has purity certification		.402			
I buy gold for gifting others			.853		
I buy gold for my future investment			.779		

Factors creating obsession towards gold as an asset class among Indian Working women force	Component				
	1	2	3	4	5
Wearing gold enhances my personality			.727		
I buy gold for my daughter's wedding			.600		
Gold is auspicious, so I will buy it				.899	
Gold is seen as a sign of prosperity, so I will buy it				.826	
Buying gold is a status symbol					.795
Gold is an icon of security for me					.601
Buying gold is a societal ritual					.495

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a Rotation converged in 15 iterations.

Table 4 - Reliability Statistics

Factors affecting stock Market participation among Indian Working Women	Cronbach's Alpha	No. of variables
Stock Market participation variables	.939	23

Source: Computed Data

Table 5 - KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adqueacy		.854
Bartlett's Test of Sphericity	Approx Chi square	1866.962
	df	253
	Sig	.000

Source: Computed Data

Table 6 - Rotated Component Matrix

Factors affecting the Stock Market participation	Component			
	1	2	3	4
There exist volatility in the stock prices	.808			
If there is availability of insurance, then I will Invest in equity	.785			
I believe, strong investor protection brings higher stock market participation rates	.776			
I consider, investors are often cheated due to manipulated share valuations by fraudulent corporate management	.706			
Cost of trading in stock exchange is relatively high	.699			
I track the record the company performance, before I invest in equities	.690			
I believe that there is an erosion of investor's confidence on Corporate India	.699			
I consider financial education empowers me	.633			
I think, equity investments requires knowledge of finance	.630			
I am able to understand all the necessary financial information needed to invest invent on equity	.571			
I consider, rich women participates more than poor and middle class women		.786		
Women in poor health conditions do not hold equities in their portfolios		.783		
Religion plays an important role for women's stock market participation		.760		
With the increase in my income I increase my equity investment		.642		
I consider, age brings maturity in the equity investment		.576		

Factors affecting the Stock Market participation	Component			
	1	2	3	4
I believe, information sharing among the family members plays a vital role in stock market participation			.776	
I trust the professional financial advice to invest in equities			.743	
Socially active women hold more equities			.716	
I always observe how others invest in equity			.512	
I lack trust to invest in equity				.811
I think, equity investment involves risk				.740
I lack confidence and adequate knowledge to invest in equity				.723
I possess strong cognitive ability to bear the risk				.711

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Rotation converged in 15 iteration

Dependent Variable: Knowledge Factor

Table 7 - Model summary

Model	R	R square	Adjusted R square	Standard error of the estimate
I	.733 (a)	.537	.473	3.97366

Source: Computed data

Table 8 - ANOVA

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	1594.459	12	132.872		
Residual	1373.726	87	15.790	8.415	.000(a)
Total	2968.186	99			

Source: Computed data

Table 9 - Coefficient table

Model I	Unstandardised Coefficient		Standardised coefficient	T	Sig.
	B	Standard error	Beta	B	Standard error
Constant	14.736	4.354		3.384	.001
Education	1.062	.545	.179	1.948	.005
Annual Savings	1.232	.595	.227	2.072	.004
Financial factor	.492	.166	.356	2.966	.004
Cultural factor	.568	.146	.356	3.890	.000
Credibility factor	.217	.136	.159	1.600	.003
Age	.345	.596	.058	.580	.563
Religious factor	.399	.513	.073	.778	.006
Societial factor	.147	.392	.040	.375	.709

Source: Computed data

Dependent Variable: Demographic Factor

Table 10 - Model summary

Model	R	R square	Adjusted R square	Standard error of the estimate
I	.674 (a)	.454	.365	2.75568

Source: Computed data

Table 11 - ANOVA

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	537.578	14	38.398		
Residual	645.472	85	7.594	5.057	.000(a)
Total	1183.050	99			

Source: Computed data

Table 12 - Coefficient table

Model I	Unstandardised Coefficient		Standardised coefficient	T	Sig.
	B	Standard error	Beta	B	Standard error
Constant	9.431	3.173		2.972	.004
Age	1.275	.413	.340	3.085	.003
Education	.787	.385	.210	2.044	.004
Income	.323	.431	.092	.750	.455
Cultural factor	.614	.102	.611	6.036	.000
Credibility factor	.320	.095	.370	3.364	.001
Financial factor	.153	.116	.175	1.321	.190
Religious factor	.535	.363	.156	1.472	.145
Societial factor	.137	.272	.059	.503	.616

Source: Computed data

Dependent Variable: Psychological Factor

Table 13 - Model summary

Model	R	R square	Adjusted R square	Standard error of the estimate
I	.701 (a)	.491	.407	1.74910

Source: Computed data

Table 14 - ANOVA

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	250.716	14	17.908		
Residual	260.044	85	3.059	5.854	.000(a)
Total	510.760	99			

Source: Computed data

Table 15 - Coefficient table

Model I	Unstandardised Coefficient		Standardised coefficient	T	Sig.
	B	Standard error	Beta	B	Standard error
Constant	.753	2.014		.374	.000
Education	.321	.244	.130	1.315	.002
Financial factor	.301	.073	.525	4.103	.000
Credibility factor	.111	.060	.195	1.838	.050
Religious factor	.258	.231	.114	1.117	.267
Societial factor	.252	.173	.165	1.457	.149

Source: Computed data

Dependent Variable: Social Factor

Table 16 - Model summary

Model	R	R square	Adjusted R square	Standard error of the estimate
I	.651 (a)	.423	.328	1.81757

Source: Computed data

Table 17 - ANOVA

Model	Sum of squares	Df	Mean square	F	Sig.
Regression	206.235	14	14.731		
Residual	280.802	85	3.304	4.459	.000(a)
Total	487.037	99			

Source: Computed data

Table 18 - Coefficient table

Model I	Unstandardised Coefficient		Standardised coefficient	T	Sig.
	B	Standard error	Beta	B	Standard error
Constant	5.390	2.093		2.575	.001
Financial factor	.147	.076	.263	1.932	.005
Cultural factor	.239	.067	.371	3.563	.001
Credibility factor	.048	.063	.087	.773	.442
Religion factor	.013	.240	.006	.053	.958
Education	.474	.254	.197	1.864	.005
Age	.003	.273	.001	.010	.092

Source: Computed data

3

A Study of Corporate Governance as a Tool of Value Creation in India

Dr. Tanuja Kaushik
Professor & HoD, School of Management,
G.D.Goenka University, Sohna Road, Delhi (NCR)

Arpana Singh
Research Scholar, School of Management,
G.D.Goenka University, Sohna Road, Delhi (NCR)

Abstract

In the present era the interest of modern corporations are in corporate governance practices, basically in relation to accountability, increasing level of the high-profile collapses of a number of large corporations during 2001–2002, most of which involved accounting fraud; and then again after the recent financial crisis in 2008. Corporate scandals always attracted the public and political interest in the regulation of corporate governance. Corporate governance is required to build a corporate culture of consciousness, transparency and openness. It includes the combination of laws, rules, regulations, procedures and voluntary practices to enable the companies to maximize the shareholders' long-term value. This paper analysed that corporate governance practices of the sampled companies in association with the mandatory recommendations of Kumar Manglam Birla committee for improving it in India. Authors have sourced the data from S.K Gupta study. He has taken the opinion of the company secretaries and Chartered Accountants are associated on the question of adequacy of corporate governance measures available in India in today's scenario. The evidence collected from 150 respondents and 30 companies situated in and around New Delhi (India). This suggests that only few companies covered in the survey are complying with the mandatory recommendations of Birla Committee.

Keywords: *Corporate Governance, Ownership, Managers, Shareholders, Financial Crisis, Risk Management.*

Introduction

Corporate governance consists of set of rules, duties, principles, ethics, values, morals, regulations, & procedures etc. Corporate governance leads a system whereby directors are confide with duties and responsibilities in dealings to the direction of the company's affairs.

The literal meaning of "governance" is control i.e. controlling a company, an organization etc. or a company & corporate governance is governing or controlling the corporate bodies i.e. ethics, values, principles and morals. In the present context corporate governance has become synonymous with the practices and processes used to direct and manage the affairs of a corporate body with the objective of balancing the attainment of corporate objectives with the association of corporate behavior to the expectations of society and accountability to shareholders and other stakeholders.

Corporate governance having a base of principles such as conducting the business with integrity and fairness, being transparent in transactions, making necessary disclosures and decisions, complying with the laws, accountability and responsibility towards the stakeholders and commitment to conduct business in an ethical manner.

Corporate Governance: Definition and Importance

"Happy companies have robust growth in revenues, strong balance sheets and healthy profits that reflect genuine business success, not phony book keeping.

And they share other important traits as well. They abide by high ethical standards, which is a key to their solid success. They don't obstruct the flow of information to shareholders, but rather view the shareholder as the ultimate owner and the ultimate boss. They choose directors on the strength of their abilities, character and capacity for independent judgment. And their internal controls work well, so that the company's executives can take immediate corrective action when something goes wrong."

— Chairman Christopher Cox,
U.S. Securities and Exchange Commission,
Washington D.C., March 21, 2006.
(Remarks before the Committee for Economic Development.)

An important part of Corporate Governance is timely and accurate discloser of information about the financial situation, performance, ownership and Governance of the company. It improves public understanding of the structure, activities and policies of the organization. Consequently, the organization is able to attract investors and enhance the trust and confidence of the stakeholders.

Governance and Management:

The terms 'governance' and 'management' are used interchangeably though conceptual difference exits between the two. The main difference lies in activity orientation – the governance is "strategy oriented" whereas management is "task oriented". The management concerns itself with 'execution of tasks' in order to achieve pre-determined goals and objectives. The focus under governance is wider than management; it encompasses framing of policy and ensuring disclosure and transparency. The focus under 'management' is internal – to control, direct and monitor the activities of the management personnel and executives and to make them accountable for proper implementation of pre-determined polices. On the other way, the focus under governance is external – it involves accountability of promoters and directors to the outside world, namely, the stakeholders. Though the concepts are distinctive, there is a common thread, which establishes irrefutable inter-relation between the two –

"Better governance leads to better management".

Who are Stakeholders?

The focus under Corporate Governance is shifted from 'shareholders' to 'stakeholders'. Nobel Prize winner in Economics, Milton Friedman linked Corporate Governance to the conduct of business in accordance with the shareholders' desires, which primarily meant to create wealth for shareholders/ owners but at the same time conforming to the laws, rules, regulations and customs established by the society. The Corporate Governance is no longer restricted to creation of wealth for the shareholders. The concept now encompasses interest of stakeholders. But who really are the stakeholders?

The stakeholders include, besides the shareholders, other participants in the corporation such as the Board of Directors, managers, employees, workers, customers, vendors, lenders, and community goals can't be overlooked under the Corporate Governance.

For good corporate governance it's necessary for a manager to meet its responsibilities towards its owners (shareholders), creditors, employees, customers, government and the society at large.

For achieving effective corporate governance, it's necessary that policies need to be such that the directors of the company should not exploit their power and instead should understand their duties and responsibilities towards the company and should act in the best interests of the company in the broadest sense.

The concept of 'corporate governance' is not an end; it's just a beginning towards growth of company for long term prosperity.

Corporate governance concept emerged in India after the second half of 1996 due to economic liberalization and deregulation of industry and

business. With the changing times, there was also need for greater accountability of companies to their shareholders and customers. The report of Cadbury Committee on the financial aspects of corporate Governance in the U.K. has given rise to the debate of Corporate Governance in India.

Numerous studies emanating from academic and non-academic circles over the years show that good Corporate Governance will yield numerous benefits to the investors, company and nation as a whole. Better CG can provide shareholders with greater security on their investment and ensures that shareholders are sufficiently informed on decisions concerning fundamental issues like amendments of statutes or articles of incorporation, sale of assets, etc.

The benefit to a company is that it can raise capital more easily. The company will have support from its stakeholders in a situation of downturn. Any wrong business judgment by the board will not be seen as a scandal but as a consequence of the risk/reward ratio involved in equity investment. The company's business will be more sustainable and its reputation will be enhanced through good Corporate Governance. Good Corporate Governance will also help to survive in an increasingly competitive environment through mergers, acquisitions, partnerships, and risk reduction through asset diversification. Also, adopting good CG practices leads to a better system of internal control, thus leading to greater accountability and better profit margins. Good CG practices can pave the way for possible future growth, diversification, or a sale, including the ability to attract equity investors –nationally and from abroad – as well as reduce the cost of loans/ credit for corporations. It will have good impact on share price and improves business performance thereby improving nation's economy.

In India Confederation of Indian Industry (CII), took a special initiative on Corporate Governance in 1996. The objective was to develop and promote a code for corporate governance to be adopted and followed by Indian companies, in the Private Sector, the Public Sector, Banks or Financial Institutions, all of which are corporate entities. This initiative by CII flowed from public concerns regarding the protection of investor's interest especially the small investor, the promotion of transparency within business and industry. As a result the Government of India brought in a separate legislation by the name of Securities and Exchange Board of India (SEBI) Act 1992 and conferred statutory powers to it. Since then, SEBI had introduced several stock market reforms. These reforms significantly transformed the face of Indian Stock Markets. The Kumar Manglam Birla Committee was constituted by SEBI in May 1999, to promote investors' interest and to raise the standards of corporate governance in India. The committee has made 23 mandatory recommendations that have become a benchmark and standard for corporations in India.

This study further deals with literature review, objectives of the study, null hypothesis, research methodology, analysis and findings, conclusions, suggestions for better corporate governance and lastly with references.

Literature Review

Jenson and Fama, (1983), stated in their study that in modern corporations, basically which are in United States and the United Kingdom, main objective of corporate governance is to ascertain that the interests of top-level managers are aligned with shareholders' interests. Corporate governance gives insights in areas where owners, managers and board of directors may have conflicts of interests. These areas include the selection of directors; supervision of Chief Executive Officer and director's pay; and the corporation's overall structure and strategic direction. Tricker, (1984), in his study explored that there is a significant difference between management and governance. He argued that whereas management is all about running the business, governance is about running it properly. Governance identifies rights and

responsibilities, legitimizes actions and determines accountability.

Felton, Hudnet and Witt, (1995), in their study stated out that the decisions and actions of a corporation's board of directors can be effective deterrent to unethical behaviors. The most important aspect of corporate governance participate actively in setting boundaries for business ethics and values. Rao and Lee Sing,(1996),explored that good governance practices leads active participation of shareholders in the direct and indirect management of corporation through the board of directors and an arrangement of productive checks and balances among shareholders, board of directors and management of corporations.

Business Today-AIMS, (1997), in their survey of the best board of directors, among the country's 100 most valuable corporate, on the basis of four parameters of corporate governance, i.e. accountability, transparency, quality and independence found that the best five boards in India are Hindustan Lever Limited, Telco Limited, Bajaj Auto Limited, HDFC Limited and Larsen &Toubro Limited. Mckinsey,(2002) a research-based company in its investor-opinion survey of 200 institutional investors showed that three-quarters of investors polled regarded board practices to be as important as financial performance. Institutional investors are willing to pay share premium for companies with good corporate governance practices over equivalent companies without good corporate governance practices, range from 18 percent for companies in the U.K. to 27 percent for companies in Indonesia.

An important empirical study by Chakraborty, Megginson&Yadav (2007) has explored the evolution of Indian corporate governance and identify how this system has supported by the top world rank of economies. Researcher analysis suggest that the framework of the legal system of the country's demonstrated some of the best investor protection in the world; but major problem is the enforcement and slow functioning of overburdened court under the widespread prevalence of corruption. Some of the changes are indicated welcomes sign of maturing corporate sector. SME sector of India involved in relationship-based informal control and mechanism of governance.

In recent years in spite of low faith in the formal and legal system of governance Indian economy and its financial markets have achieved prominent growth that it is only second to china.

Author stated that the problem pertinent to Indian governance is not unique but similar issues are found in other Asian countries also. In this study author found that major issues are weak legal protection of property whereas it is one of the important factors of concentrating ownership and family owned businesses. Another dominating factor is poor development of external financial market.

A comprehensive study by Balasubaramanian & Radhakrishnan (2011) explains the clear view about corporate governance best practices and accountability and performance.

"Corporate governance is the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administrated or controlled. "

In India success of corporate governance depend upon the sound systems of company's operations. To enhance the bar of standard of corporate governance, Kumar manglam committee recommended to form audit committee. Kumar manglam committee propounded that minimum three members should be in committee, one of the member should possess financial and accounting knowledge and majority should be independent with non –executive directors. The chairman of the committee should be independent director and he should present at annual general meeting to handle the shareholders queries and provide answer to shareholders question. Auditors are appointed to

check the books of accounts honestly, companies are also bound to appoint internal auditor but both the auditor are failed to prove their honesty as we experienced lots of scams in India. So, that it became mandatory to rotate auditors committee after every three years.

If market not work for poor and not able to give prosperity to poor corporate governance is not success. In a major issues or conflict is between dominant shareholders and minority shareholders. Foreign companies having restriction on percentage of investment which creates problem for corporate governance as all business are meant to generate profit all though after liberalization MNC's are attracted towards India for investment.

Shivan (2014) declare that Past research recognizes that companies following sound governance practices having good weightage in the market. Author explains that board of directors play a very prominent role in corporate governance, the present study has identified some selected voluntary board practices and examined them with the help of a sample of top listed companies in India. Moreover, this study also underscores the significance of firm size by exposing that the relationships between some of the selected voluntary board practices do vary according to the firm size status. Although the analysis covered in this study presents preliminary investigation, yet the overall findings drawn herein provide implications for the different sizes of companies with respect to the adoption of various voluntary board practices covered.

From the above review it can be concluded that significant efforts have been made by the eminent scholars all over the world to study various aspects of corporate governance practices and their impact on various stakeholders. But no such type of attempt has been made in India so far to study the current corporate governance regime in Indian straddles and to study how far, both voluntary and mandatory requirements, on corporate governance are being implemented to safeguard the interest of various stakeholders'. This study is a humble attempt to bridge the gap

Objectives of the study

1. To study the current context of corporate Governance in India

2. To examine the role of non-executive directors in context to corporate governance.

3. To evaluate the role of Institutional investor in maintaining good corporate governance.

4. To examine the state of affairs of discloser and transparency practices and financial reporting and auditing practices in Indian companies.

Research Methodology

The present study is an experimental research in which the rigorous literature review has been done. Secondary data are used to attain objective of study.

Mandatory Recommendations:

- Applies to listed companies with paid up capital of Rs. 3 crore and above
- Composition of board of directors – optimum combination of executive & non-executive directors
- Audit committee – with 3 independent directors with one having financial and accounting knowledge.
- Remuneration committee
- Board procedures – at least 4 meetings of the board in a year with maximum gap of 4 months between 2 meetings. To review operational plans, capital budgets, quarterly results, minutes of committee's meeting. Director shall not be a member of more than 10 committee and shall not act as chairman of more than 5 committees across all companies
- Management discussion and analysis report covering industry structure, opportunities, threats, risks, outlook, internal control system
- Information sharing with shareholders

Compliance of Kumar Manglam Birla Committee Recommendations

The KBC gave recommendations which are compulsory for directors, management, employees and professionals associated with all listed private and public sector companies in India in accordance with the time schedule mentioned in report. A scoring system was developed to measure the extent of adoption of the KBC report's mandatory recommendations. Each recommendation has been assigned a score 0 or 1 by the committee. If a recommendation is being followed it has been assigned score 1 and if it is not being followed by the companies, score 0 has been given. This test was done on 30 companies following corporate Governance mandatory recommendations.

Company following mandatory recommendations

No. of Mandatory Recommendation	No. of Companies
16	2
17	-
18	5
19	8
20	6
21	2
22	3
23	4
Total	**30**

Source: S. K. Gupta "Governance Practices in Developing Nations: An Empirical Study of India" World Journal of Social Sciences Vol. 5. No. 1.January 2015 Issue. Pp. 51 – 66

Table shows that only 4 companies are fully following all mandatory recommendations. These companies are GTL Limited, Kotak Mahidra Limited, Mahindra and Mahindra Limited and Ansal Housing and Construction Limited. While the average of the 30 companies with corporate governance recommendations is 19.8 (594/30).

Appointment of non-executive Directors

S.No.	Method of Appointment	Percentage of Agreed Respondents
1	A panel of Eminent persons maintained by the company.	33
2	Among the names finalized by the nomination committee who are persons of eminence and proven track record.	40
3	Among the persons working as directors / senior professionals in other companies.	80
4	Among the names proposed and approved by the shareholders.	93

Source: S. K. Gupta "Governance Practices in Developing Nations: An Empirical Study of India" World Journal of Social Sciences Vol. 5. No. 1.January 2015 Issue. Pp. 51 – 66

Table depicts that 93 percent respondents have agreed that non-executive directors must be appointed from the list which is proposed and approved by the shareholders.

Role of Institutional Investors

S.No.	Role	No. of Respondents
1	Take Active interest in the composition of the Board of Directors.	22 (73)
2	Maintain regular and systematic contact at senior level for exchange of views on management, strategy, performance and the quality of management.	20 (67)
3	Ensure that voting intentions are translated into practice.	21 (70)
4	Evaluate the corporate Governance performance of the company.	23

Source: S. K. Gupta "Governance Practices in Developing Nations: An Empirical Study of India" World Journal of Social Sciences Vol. 5. No. 1.January 2015 Issue. Pp. 51 – 66

The above table depicts that majority of respondents advocated all the four variables to comply by the institutional investors for better corporate governance practices in Indian corporations.

Factors strengthening the role of Company Secretary

S.No.	Factors	No. of respondents
1	Vital Role played in ensuring good corporate governance.	13 (43)
2	Can play an effective role by being recognized as an ex-officio director on the Board of a Company.	15 (50)
3	Participation in evolving the best corporate practices.	17 (57)
4	Areas of disclosure must go beyond the traditional areas of financial and legal compliance.	30 (100)

Source: S. K. Gupta "Governance Practices in Developing Nations: An Empirical Study of India" World Journal of Social Sciences Vol. 5. No. 1.January 2015 Issue. Pp. 51 – 66

It is clear from the Table that all the respondents agreed that areas of disclosures must go beyond the traditional areas of financial and legal compliances. It should include non-financial information like environmental issues, social responsibility of business and related areas. These may be included in the Director's report to shareholders. Only selective companies are disclosing such details to the shareholders.

Conclusions

Most of the companies strive to have a high level of corporate governance. These days, it is not enough for a company to merely be profitable; it also needs to demonstrate good corporate citizenship through environmental awareness, ethical behavior and sound corporate governance practices. Since the late 1990s, Indian regulators have significantly put efforts, as well as by Indian industry representatives and companies, to overhaul Indian corporate governance. For listed companies, the vast majority of Clause 49 requirements are mandatory. It remains to be seen whether some of the more recent voluntary corporate governance measures will become mandatory for all companies through a comprehensive revision of the Companies Act.

The Committee's recommendations are not based on any one model but are basically designed for the purpose of Indian environment. Corporate governance extends beyond corporate law. The Committee believes that its recommendations will go a long way in raising the standards of corporate governance in Indian firms and make them attractive destinations for local and global capital. These recommendations will also form the base for further evolution of the structure of corporate governance in corporate with the rapidly changing economic and industrial environment of the country in the new millennium.

However, corporate governance ultimate objective to attain highest standard of procedures and practices followed by the corporate world so as to have transparency in its functioning with an ultimate aim to maximize the value of various stakeholders

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4 Resource Mobilization by Indian Mutual Fund Industry

Dr.Sana Naseem
Faculty in College of Business Administration(COBA), Al Yamamah University, Riyadh, Kingdom of Saudi Arabia (KSA)

Dr. Rana Almasri
Vice Dean, COBA, Al Yamamah University, Riyadh, Kingdom of Saudi Arabia (KSA)

Abatract

Mutual funds play a vital role in resource mobilization and its efficient allocation to the productive sources of economic system. In this progress of development, mutual funds have emerged as strong financial intermediaries and are playing an important role in bringing stability to the financial system and efficiency to the resource allocation process. Mutual funds industry today is one of the most preferred investment avenues in India.

This paper analyses resource mobilization by mutual fund industry in India after briefly presenting the evolution of mutual funds in India. Then, the researchers have discussed the challenges of mutual fund industry and finally, the way ahead for mutual fund industry in India.

Key words: *India,Mutual Funds, Resource Mobilization, Net Assets.*

Introduction:

Indian financial system is one of the largest financial system in the world with a broad variety of banking, financial and capital market institutions and instruments. Mutual fund is a mechanism by which, the savings of large number of small investors are polled together and collective instrument is made with the objective of attractive yield and capital appreciation, holding the safety and liquidity as prime parameters. Generally mutual fund is a tool to make financial investments in the financial instruments or assets of the corporate sector for mutual benefits of the members.

Mutual fund industry today is one of the most attractive instrument avenues in India. Mutual fund is a good investment option for the medium and small investors who have limited resources and do not have a professional knowledge about the stock market and other investment opportunities.

Mutual fund industry started in India with the establishment of Unit Trust of India (1964), which was the only one player in the mutual fund industry up to 1987. In 1987, the government permitted public sector banks and financial institutions to join the fray. From 1993 onwards the industry was opened up for private sector and foreign players have started setting up mutual fund in India.

Review of literature:

Verma (1990, 1992) in a study on mutual fund covers the conceptual and regularity aspect of India on Mutual fund with some information task and guidelines to the investors in selection of mutual fund. Volkman and Wohar (1995) extend this analysis to examine factors that impact performance persistence and shows performance persistence is negatively related to size and regularly related to level of management fees.

Sudhakar and Sasikumar (2005) opined that most of the growth oriented mutual funds have been able to deliver better return than the benchmark indicators. Growth oriented mutual funds are

expected to offer the advantage of diversification, market timing selectively.

Muthappan.P.K and Damodharan. E(2006) in their study, Risk-Adjusted Performance Evaluation of Indian Mutual Funds Schemes, investigated the Indian mutual fund schemes in the framework of risk and returns relationship during the study period April1 1995 to March31, 2000. The empirical findings of that study showed that the Indian mutual funds were not properly diversified during the study period.

Meenu Verma(2007) investigated the concept of Investment Style Analysis of Mutual Funds. The author conducted a survey among various financial advisors and fund managers from various asset Management companies. It was found that majority of the mutual funds managers adopt the security specific investment style and prefer the Bottom-Up Approach Style while selecting stocks.

Shankar (2008) found that the mutual fund industry is mostly caused by over-reaction of regulatory authorities. Non-equity assets under management were about Rs. 4,00,000 crores in April,2008 declined to Rs. 2,50,000 crores in October-2008. This may due to environmental issues caused by events outside India.

Parihar, Sharma and Singh(2009) revealed that mutual funds are financial intermediaries concerned with mobilizing savings of those who have surplus and the canalization of these savings in those avenues where there is a demand for funds.

Objective of the study:

The following are the specific objectives of the present study

1. To analyse the global mutual fund scenario.

2. To analyse the resource mobilization by mutual fund industry.

3. To analyse the sector wise resource mobilization by mutual fund industry.

4. To analyse scheme wise resource mobilization fund industry.

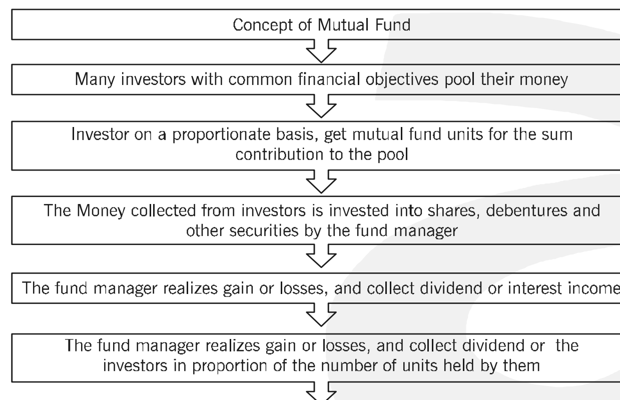
Methodology and Data Collection:

The present study is based on secondary data. The data collected from books, journals, various annual reports of Securities Exchange Board of India (SEBI), and various websites of the mutual fund companies etc.

Concept of Mutual Fund:

The chart below indicates the concept of mutual fund:

Chart 1



Source: Prepared by Researcher

Evolution of Mutual Funds Industry in India:

The origin of mutual funds industry in India can be traced in the enactment of the Unit Trust of India (UTI) Act in 1963. According to Association of mutual funds industry in India (AMFI), the evolution of the industry can be broadly divided into four phases, which mark its transition from the period when UTI enjoyed the total monopoly in the mutual funds industry to a period of competition. Today there are three different types of players operating in the Indian Market UTI, non-UTI public sector mutual funds and private sector mutual funds (including foreign mutual funds).

First Phase - 1964-1987

Unit Trust of India (UTI) was established in 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs. 6,700 crores of assets under management. The Industrial Development Bank of India (IDBI) took over the regulatory and administrative management of the same.

Second Phase - 1987-1993 (Entry of Public Sector Funds)

1987 marked the entry of non-UTI, public sector mutual funds set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non-UTI Mutual Fund established in June 1987 followed by Canbank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990.

At the end of 1993, the mutual fund industry had assets under management of Rs. 47,004 crores.

Third Phase - 1993-2003 (Entry of Private Sector Funds)

With the entry of private sector funds in 1993, a new era started in the Indian mutual fund industry, giving the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

The 1993 SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805crores. The Unit Trust of India with Rs. 44,541 crores of assets under management was way ahead of other mutual funds.

Fourth Phase - since February 2003

In February 2003, following the repeal of the Unit Trust of India Act 1963 UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs. 29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations.

The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs. 76,000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

The Global Mutual Funds Scenario:

Table 1 shows the position of total net assets of Indian mutual funds in the world during 2006-2013.The net assets of the mutual fund industry in India accounted for just 0.36 per cent of the total net assets managed by the mutual funds across the globe. The share of Indian mutual funds in the GDP was seven per cent. When compared to the share of USA (77 per cent) and Brazil (40.3 per cent), the Indian mutual funds stand nowhere. Out of 47 countries mentioned in table, Indian mutual fund industry was lagging behind 34 countries in terms of net assets. In the year 2013 US could garner around 50 per cent world total net assets followed by Luxembourg (10 per cent), Australia (5.4 per cent), UK (3.88 per cent) and Japan (2.58 per cent) respectively. Inmajority of the counties there is an increasing trend in the total net assets except few counties like Greece (-76 per cent), Italy (-52 per cent) and France (-13 per cent). Compared to the 2006 year Indian mutual funds have recorded highest increase in the total net assets (85 per cent) which is much more than the increase in the total net assets of the world i.e., 38 per cent. Compared to the previous year growth rate of countries mentioned above, the growth rate of net assets of the Indian mutual fund industry was much higher.

India is undoubtedly emerging as the next big investment destination, riding on a high savings and investment rate, as compared to other Asian economies. As per a report authored by Price Waterhouse Coopers (PwC) "The World in 2050", the average real GDP growth in India was likely to be in the range of 5.8% between 2007-50, (the actual average GDP growth between 2007-13 has been 7.6%) with per capita income rising to USD 20,000 from the current USD 2,932.

Table1:Worldwide Total Net Assets of Mutual Funds

(Millions of U.S. Dollars)

	2006	2007	2008	2009	2010	2011	2012	2013
World	$2,18,08,826	$2,61,29,767	$1,89,18,982	$2,29,45,327	$2,47,09,854	$2,37,95,808	$2,68,35,850	$3,00,49,934
Americas	1,14,70,431	1,34,21,360	1,05,80,914	1,25,78,297	1,35,97,527	1,35,29,258	1,51,38,443	1,71,56,409
Argentina	6,153	6,789	3,867	4,470	5,179	6,808	9,185	11,179
Brazil	4,18,771	6,15,365	4,79,321	7,83,970	9,80,448	10,08,928	10,70,998	10,18,641
Canada	5,66,298	6,98,397	4,16,031	5,65,156	6,36,947	7,53,606	8,56,504	9,40,580
Chile	17,700	24,444	17,587	34,227	38,243	33,425	37,900	39,291
CostaRica	1,018	1,203	1,098	1,309	1,470	1,266	1,484	1,933
Mexico Trinidadand	62,614	75,428	60,435	70,659	98,094	92,743	1,12,201	1,20,518
Tobago	N/A		N/A	5,832	5,812	5,989	6,505	6,586
UnitedStates	1,03,97,877	1,19,99,734	96,02,574	1,11,12,674	1,18,31,334	1,16,26,493	1,30,43,666	1,50,17,682
Europe	78,03,877	89,34,861	62,31,115	75,45,535	79,03,389	72,20,298	82,30,059	93,74,830
Austria	1,28,236	1,38,709	93,269	99,628	94,670	81,038	89,125	90,633
Belgium	1,37,291	1,49,842	1,05,057	1,06,721	96,288	81,505	81,651	91,528
Bulgaria	N/A	N/A	226	256	302	291	324	504
Czech Republic	6,488	7,595	5,260	5,436	5,508	4,445	5,001	5,131
Denmark	95,601	1,04,083	65,182	83,024	89,800	84,891	1,03,506	1,18,702
Finland	67,804	81,136	48,750	66,131	71,210	62,193	73,985	88,462
France	17,69,258	19,89,690	15,91,082	18,05,641	16,17,176	13,82,068	14,73,085	15,31,500
Germany	3,40,325	3,72,072	2,37,986	3,17,543	3,33,713	2,93,011	3,27,640	3,82,976
Greece	27,604	29,807	12,189	12,434	8,627	5,213	6,011	6,742

	2006	2007	2008	2009	2010	2011	2012	2013
World	$2,18,08,826	$2,61,29,767	$1,89,18,982	$2,29,45,327	$2,47,09,854	$2,37,95,808	$2,68,35,850	$3,00,49,934
Hungary	8,472	12,573	9,188	11,052	11,532	7,193	8,570	12,158
Ireland	8,55,011	9,51,371	7,20,486	8,60,515	10,14,104	10,61,051	12,76,601	14,39,867
Italy	4,52,798	4,19,687	2,63,588	2,79,474	2,34,313	1,80,754	1,81,720	2,15,553
Liechtenstein	17,315	25,103	20,489	30,329	35,387	32,606	31,951	36,235
Luxembourg	21,88,278	26,85,065	18,60,763	22,93,973	25,12,874	22,77,465	26,41,964	30,30,665
Malta	N/A		N/A	N/A	N/A	2,132	3,033	3,160
Netherlands	1,08,560	1,13,759	77,379	95,512	85,924	69,156	76,145	85,304
Norway	54,075	74,709	41,157	71,170	84,505	79,999	98,723	1,09,325
Poland	28,959	45,542	17,782	23,025	25,595	18,463	25,883	27,858
Portugal	31,214	29,732	13,572	15,808	11,004	7,321	7,509	9,625
Romania	247	390	326	1,134	1,713	2,388	2,613	4,000
Russia	5,659	7,175	2,026	3,182	3,917	3,072	N/A	N/A
Slovakia	3,168	4,762	3,841	4,222	4,349	3,191	2,951	3,292
Slovenia	2,486	4,219	2,067	2,610	2,663	2,279	2,370	2,506
Spain	3,67,918	3,96,534	2,70,983	2,69,611	2,16,915	1,95,220	1,91,284	2,48,234
Sweden	1,76,968	1,94,955	1,13,331	1,70,277	2,05,449	1,79,707	2,05,733	2,52,878
Switzerland	1,59,517	1,76,282	1,35,052	1,68,260	2,61,893	2,73,061	3,10,686	3,97,080
Turkey	15,462	22,609	15,404	19,426	19,545	14,048	16,478	14,078
UK	7,55,163	8,97,460	5,04,681	7,29,141	8,54,413	8,16,537	9,85,517	11,66,834
AsiaandPacific	24,56,492	36,78,325	20,37,536	27,15,234	30,67,323	29,21,276	33,22,198	33,75,828
Australia	8,64,234	11,92,988	8,41,133	11,98,838	14,55,850	14,40,128	16,67,128	16,24,081
China	N/A	4,34,063	2,76,303	3,81,207	3,64,985	3,39,037	4,37,449	4,79,957
HongKong	6,31,055	8,18,421	N/A	N/A	N/A	N/A	N/A	N/A
India	58,219	1,08,582	62,805	1,30,284	1,11,421	87,519	1,14,489	1,07,895
Japan	5,78,883	7,13,998	5,75,327	6,60,666	7,85,504	7,45,383	7,38,488	7,74,126
Korea,Rep.	2,51,930	3,29,979	2,21,992	2,64,573	2,66,495	2,26,716	2,67,582	2,85,173
NewZealand	12,892	14,925	10,612	17,657	19,562	23,709	31,145	34,185
Pakistan	2,164	4,956	1,985	2,224	2,290	2,984	3,159	3,464
Philippines	1,544	2,090	1,263	1,488	2,184	2,363	3,566	4,662
Taiwan	55,571	58,323	46,116	58,297	59,032	53,437	59,192	62,286
Africa	78,026	95,221	69,417	1,06,261	1,41,615	1,24,976	1,45,150	1,42,868
SouthAfrica	78,026	95,221	69,417	1,06,261	1,41,615	1,24,976	1,45,150	1,42,868

Resource Mobilization:

It is observed from table 2 that resource mobilized by mutual fund industry is increased from Rs. 8,39,708 crores in the year 2004-05 to Rs.97,68,100 crores during 2013-14 i.e total of Rs.5,65,01,279 crores (100 percent). The domination of private sector mutual funds in the total resource mobilizes by all the mutual funds in the country could be clearly observed from the below table. Its share rose from 87.70 percent in 2004-05 to 82.41 percent in 2013-14 i.e total 80.72 percent. During the same period funds mobilized by public sector mutual funds registered a growth from 6.74 percent to 9.38 percent i.e 11.06 percent. Lastly UTI mutual fund increased from 5.56 percent in the year 2004-05 to 8.80 percent during the year 2009-10 and decreased by 7.76 percent in 2011-12 and again increased from 8.21 percent in the year 2013-14.i.e. total 8.22 percent.

Table 2: Sector-Wise Total Resource Mobilization by Mutual Fund Industry

(Rs. In Crores)

Year	Private Sector	Public Sector	UTI	Total
2004-05	7,36,463(87.70)	56,589(6.74)	46,656(5.56)9	8,39,7089(100)
2005-06	9,14,703(83.29)	1,10,319(10.05)	73,127(6.66)	10,98,149(100)
2006-07	15,99,873(82.53)	1,96,340(10.13)	1,42,280(7.34)	19,38,493(100)
2007-08	37,80,752(84.69)	3,46,126(7.75)	3,37,498(7.56)	44,64,376(100)
2008-09	42,92,750(79.10)	7,10,472(13.10)	4,23,131(7.80)	54,26,353(100)
2009-10	76,98,483(76.84)	14,38,688(14.36)	8,81,851(8.80)	1,00,19,022(100)

Year	Private Sector	Public Sector	UTI	Total
2010-11	69,22,924(78.14)	11,52,733(13.01)	7,83,858(8.85)	88,59,515(100)
2011-12	56,83,743(83.34)	6,13,482(8.99)	5,22,453(7.67)	68,19,678(100)
2012-13	59,27,946(81.57)	7,06,589(9.72)	6,33,350(8.71)	72,67,885(100)
2013-14	80,49,397(82.41)	9,16,351(9.38)9(	80,49,397(8.21)	97,68,100(100)
Total	46,46,556(8.22)	62,47,689(11.06)	4,56,07,034(80.72)	5,65,01,279(100)

Source: Various Annual Reports of SEBI

Table 3 shows the scheme-wise resource mobilization by mutual fund industry. During the last ten year period total resource mobilization by mutual fund companies are Rs. 5,65,01,279 Crores. Out of which highest scheme wise resource mobilized of mutual fund companies are income/debt scheme i.e 98.6 percent, followed by growth/equity scheme i.e 1.46 percent, balanced scheme i.e 0.09 percent, exchange traded fund i.e 0.08 percent and lastly fund of funds 0.01 percent.

Table 3: Scheme-wise resource mobilization by mutual fund industry

(Rs.in Crores)

Year	Income/debt scheme	Growth/equity scheme	Balance scheme	Exchange traded	Fund of funds scheme	Total
2004-05	7,98,673(95.11)	37,280(4.44)	3,755(0.45)	00(00)	00(00)	8,39,708(100)
2005-06	10,08,129(91.80)	86,014(7.83)	4,006(0.37)	00(00)	00(00)	10,98,149(100)
2006-07	18,39,668(94.90)	94,352(4.87)	4,473(0.23)	00(00)	00(00)	19,38,493(100)
2007-08	43,17,263(96.70)	1,26,287(2.83)	11,488(0.26)	9,338(0.21)	00(00)	44,64,376(100)
2008-09	53,83,367(99.21)	32,805(0.60)	2,695(0.05)	5,719(0.11)	1,767(0.03)	54,26,353(100)
2009-10	99,44,693(99.25)	64,714(0.65)	4,693(0.05)	3,535(0.04)	1,387(0.01)	1,00,19,022(100)
2010-11	87,77,034(99.07)	66,592(0.75)	7,490(0.08)	7,709(0.09)	690(0.01)	88,59,515(100)
2011-12	67,54,113(99.04)	50,619(0.74)	7,490(0.08)	8,563(0.13)	1,356(0.02)	68,19,678(100)
2012-13	72,13,578(99.25)	43,364(0.60)	5,205(0.07)	5,052(0.06)	686(0.02)	72,67,885(100)
2013-14	97,09,762(99.40)	46,093(0.47)	3,435(0.34)	6,869(0.07)	1,941(0.02)	97,68,100(100)
Total	5,57,46,280(98.6)	6,48,120(1.46)	52,267(0.09)	46,785(0.08)	7,827(0.01)	5,65,01,279(100)

Source: various annual reports of SEBI

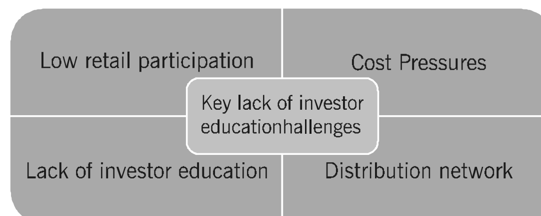
Challenges which continue to persist are …

There are continuing concerns that the industry has been grappling with over a considerable period of time.

- Under-penetrated population
- Inaccessibility in smaller towns and cities due to lack of an efficient distribution network
- Heavy reliance on institutional sales
- Low financial literacy levels and

• Cost pressures emanating as a result of inefficiencies in systems and processes

Chart 2



Source: Prepared by Researcher

The industry should start taking appropriate measures to deal with these challenges, so that growth is not hampered in any way, and the sector is free to scale greater heights, and achieve greater penetration.

The Way Forward…..

1. The Mutual fund industry needs to have an 'outside-in' perspective as compared to 'inside-out' perspective. Understanding investors' needs should be followed by a product channel alignment.

2. A number of change catalysts discussed in the previous section like technology, investment in B-15 cities, investment adviser etc. would be required to help ensure the overall objective of prudent growth and profitability.

3. Increasing financial literacy will be the key to unlock the doors to B-15 and also to remove the perception that equates mutual fund to only equity. Investor awareness campaigns should be conducted to increase the Asset under Management (AUM) in smaller cities which would help industry to progress in a holistic manner. Asset Management Companies (AMCs), distributors and Independent Financial Advisors (IFAs)are all doing their bit but Association of mutual funds in India (AMFI) and SEBI should also play a major role in creating awareness.

4. Knowledge about mutual fund industry should be included in educational curriculum.

5. Fund houses may need to find and partner with the right distributor to make the products available to investors in smaller cities. Therefore, Banks and IFA scould play a pivotal role in reaching the investor base.

6. For future growth, tax could act as an enabler as tax benefits can be a pull factor for investors.

7. Technology can act as a key enabler and help the fund houses reach investors at a low cost and more efficient manner. AMCs need to make the relevant investments in technology to help reach investors to help ensure transactions on the channels of their choice.

8. The future potential of Investment Advisors could be decided by Investors and the regulators.

These measures should help the industry on the path to better growth. However, we need all stakeholders viz. asset management companies, distributors, regulators to work together to help ensure the common goal of growth along with profitability is achieved.

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5

The Impact of Dividend Announcement on Stock Returns

Naik Priyanka Umesh[1], Nezvila Tracy Saldanha[2], Y.V. Reddy[3]

Abstract

One of the factors that influences the stock return is announcement of dividend. This study specifically investigates the impact of dividend announcement on the share prices of the Indian auto companies. The objective of the study is to find out whether the investors respond to the dividend announcements and also to see whether there are any differences between expected and actual returns. The study considers a sample of 10 auto companies listed under the head CNX auto for the period 2007-2014. By using event study methodology for a window period of 41 days the study shows that there is significant negative impact of dividend announcements on stock prices especially over the entire post announcement period. Thus the study concludes that the existing shareholders prefer to earn capital gain instead of a dividend amounts at regular intervals .

Key Words: *Dividend, Stock Returns, Abnormal Returns, Event Study, Event Window*

Introduction

Every firm is faced with a question in terms of distributing the profits as dividends to the shareholders or retaining the same to be further reinvested in the firm. This question can be rightly answered by the firm depending on the financial goal they desire to achieve. A firm may desire to distribute the profits to the shareholders if they believe that such a distribution will lead to wealth maximization of the shareholders, or else a better option would be to reinvest the same in the business to expand the business and in turn increase the value of the firm. Thus every profit making company has to strategically find a balance between satisfying the shareholders as well as increasing the value of the firm by ploughing back in the business.

Since dividends policy is an important topic influencing every business, it is a widely researched topic. In simple words the profits distributed by the company to its shareholders is called dividend. Thus it can be said that dividend is a practice that the management follows to make payments to its shareholders.

An interesting relation can be seen between the retention and dividend payout i.e. there is an inverse relation between the two. Dividend issued by the company is not only a deciding factor to the investor but also a signal of performance by the company to all the stakeholders associated with it. Thus it is an important topic to focus by the finance managers of every company.

Dividend can be used as an effective tool by the managers to increase its value in the eyes of their investors and stakeholders. This means that increase in dividends by companies should indicate a positive signal about the future prospects of the company to the investors.

The study aims to analyze the impact of final dividend announcements on the shareholders return and also to find out whether there are

abnormal returns to the shareholder in the pre and post announcement period.

Literature review

Kumar, Mahadevan, & Gunasekar (2012) analyzed whether the announcement of the dividend had any influence on the company returns. It was concluded that the announcement of corporate dividend does not have any impact on the stock return of the companies.

Aamir & Ali Shah (2011) analyzed the impact of 26 dividend announcements on the stock prices of the companies as well as their rival firms belonging to cement, oil and gas sector in Pakistan. Overall results indicate that on the dividend announcement date and few days after there was significant positive impact. This pattern was also seen for rival firms.

Suwanna(2012)examined the effect of dividend announcement on the stock prices of 60 Thai companies for a window of 40 days.The study concludes that the stock prices move upward significantly after dividend announcements.

Dasilas & Leventis (2011)investigated the market reaction to cash dividend announcements using the data from Athens Stock Exchange (ASE). The study results support the dividend signaling hypothesis. It was concluded that increases in dividend leads to a significant positive stock price reaction, whereas decreases in dividend bring about a significant negative stock price reaction.

Savita(2014)conducted a study to understand the behaviour of the share prices of 30 companies forming a part of SENSEX index in relation to the dividend announcements. The results derived revealed that there is negative effect of dividend announcement on stock price of the companies and market has not been efficient in processing the new information in the market.

McCluskey, Burton, Power, & Sinclair(2006) investigated the manner in which the Irish stock market responds to company announcements about dividend payments.The results suggest that dividend announcements are important for Irish investors, but earnings signals appear to have a stronger impact on equity values.

Henry K, Roland, & Christoph (2004) examined the reaction of stock prices and trading volume on changing dividends for the Austrian market. The study concluded that dividend increase induce a significant positive reaction in stock prices, whereas announced dividend decreases lead to a significant fall in stock prices.

Elfakhani (1998) examined whether the direction of dividend change affects the share value around the dividend announcement. The results obtained suggest that the market reaction to dividend increase is stronger than to dividend decrease.

Pradhan (2000) explained the effect of dividend payment and retained earnings on market price of share in the context of Nepalese companies.The study shows a predominant influence of dividends and an absence of retained earning effect on share price. Dividends are found relatively more attractive among the Nepalese stockholders.

Vieira & Raposo (2004) Investigated whether any change in dividend lead to a change in share price in the same direction. The results prove that the dividend changes are not leading to subsequent market reaction in the same direction.

Research Methodology

In order to find out the effect of dividend announcement on stock returns and to study whether there are any abnormal returns to the shareholders, 'Event Study Methodology' was used.

Event study methodology is mainly used to study the impact of any corporate announcements on the stock returns by calculating Abnormal returns. In order to calculate abnormal returns different models are used. The most common among them is 'Market Model'. To measure the total impact of an event over the 'event window', one can add up individual abnormal returns to create a 'Cumulative Abnormal Return'.

The steps used to conduct the events study in the auto sector are outlined below:

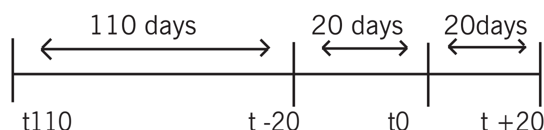
- **Identify the event to be studied**

The day of Final Dividend announcement was taken as the event.For the purpose of the study a total of 76 final dividends announcements of the selected auto companies were collected from the website of money control for a period of 8 calendar years.

- **Select the firms for the study**

To conduct the study, top 10 auto companies listed on NSE were selected based on the volume traded (in lakhs). The data on volume traded was obtained from the website of NSE.Daily closing prices of the selected companies were collected in order to analyse the pre and post impact of announcement.

- **Define the estimation window, event window and post-event window:**



- Estimation window of 110 days before the event window was chosen to calculate two parameters i.e. Alpha (intercept)and Beta (slope).
- Event window of 20 days before the event day was selected.
- Post-event window of 20 days after the event day was selected.

- **Calculate daily stock returns and daily market returns:**

Stock returns were calculated to find the daily return on the stock of the selected companies across the 110 days event window using the following formula:

Rit = Pit-(Pit-1)/Pit-1

Where,Pitis the price of share i on day t and Pit-1 is the price of share i on day t-1

Market returns were calculated to find out the daily market return on Index (CNX Auto) across 110 days event window using the following formula:

Rmt = It-(It-1)/It-1

Where Itis the index price day t and It-1 is the index price on day t-1

- **Calculate the expected returns**

Expected returns were calculated by using 'Market Model Method' based on 110 days event window using the following formula:

E (Rit) = ái + âi .Rmt

Where, ái = Intercept of straight line or alpha coefficient of 'i'th security

âi = Slope of straight line or beta coefficient of 'i'th security

Rmt = Market return/ Return on Index (CNX Auto) during period 't'

- **Calculate the abnormal returns**

In order to find out the response of stock prices during the window period of 41 days, abnormal returns are computed using the following formula:

ARit = Rit – E (Rit)

- **Calculate DailyCumulative Abnormal Returns (CAR)**

Since the response of the stockprices cannot be captured instantly by using daily Abnormal Returns and hence they are aggregated daily during the 41day window in order to find out daily CAR.CAR gives the total return of the investor during the entire window period. A positive CAR in the window period suggests that the event has a positive impact on the shareholders value.

- **Study the significant impact of the event:**

In order to find out the impact of dividend announcements on stock returns t-test was used. Daily Abnormal Returns (AR) and daily Cumulative Abnormal Returns (CAR) were tested for significance using the t-test at 5 % level of

significance. Thus we can determine the days on which dividend announcement is having an impact on the shareholders return.

For a better understanding of movement of ER, AR and CARof the selected companies were represented on a graph during the 41 days window period.

Empirical Results:

Table 1 depicts the selected 10 auto companies belonging to CNX auto index of NSE with their volume traded (in lakhs) and dividend announcement dates from 2007-2014.

Table 1: Selected CNX auto companies with their volume traded and dividend announcement dates

	Mahindra & Mahindra Ltd	Tata Motors Ltd	Hero MotorCorp Ltd	Motherson Sumi Systems Ltd	Bosch Ltd	Maruti Suzuki India Ltd	Ashok Leyland Ltd	Apollo Tyres Ltd	Excide India Ltd	Eicher Motors Ltd
Volume traded (in lakhs)	17,222.22	16,592.90	14,997.26	11,029.16	10,947	6,666.07	6,296.26	6,162.10	3,239.82	5,288.68
2007	23-05-07	18-05-07	11-05-07	28-05-07	15-03-07	24-04-07	14-03-07	12-03-07	20-04-07	06-03-07
2008	16-05-08	16-05-08	24-04-08	NA	07-03-08	24-04-08	08-05-08	09-05-08	22-04-08	28-02-08
2009	19-05-09	29-05-09	21-04-09	30-06-09	04-03-09	24-04-09	15-05-09	04-05-09	27-04-09	30-03-09
2010	24-05-10	27-05-10	NA	18-05-10	05-03-10	26-04-10	29-04-10	31-05-10	28-04-10	15-02-10
2011	30-05-11	26-05-11	04-05-11	25-05-11	28-02-11	25-04-11	19-05-11	11-05-11	27-04-11	05-02-11
2012	30-05-12	29-05-12	02-05-12	28-05-12	28-02-12	28-04-12	14-05-12	10-05-12	30-04-12	11-02-12*
2013	30-05-13	29-05-13	26-04-13	17-05-13	27-02-13	26-04-13	10-05-13	10-05-13	29-04-13	12-02-13
2014	29-05-14	29-05-14	28-05-14	22-05-14	28-02-14	25-04-14	NA	15-05-14	25-04-14	12-02-14

NA : No final dividend in the year

*: Share prices are not available for the said date

Source: (www.nseindia.com)

ANALYSIS:

The following are the figures representing Abnormal Returns, Expected Returns and Cumulative Abnormal Returns over the 41 days window period having the highest impact during the post event window period.

Figure 1: Returns over a window period of 41 days of Mahindra & Mahindra Ltd for the announcement on 19.05.2009

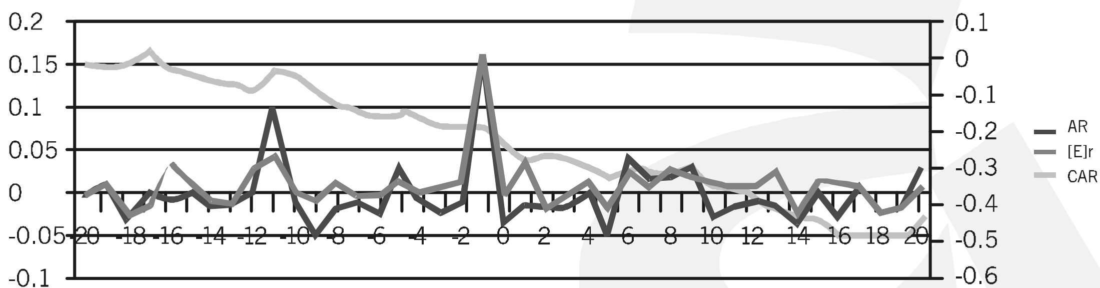


Figure 2: Returns over a window period of 41 days of Mahindra & Mahindra Ltd for the announcement on 29.05.2014

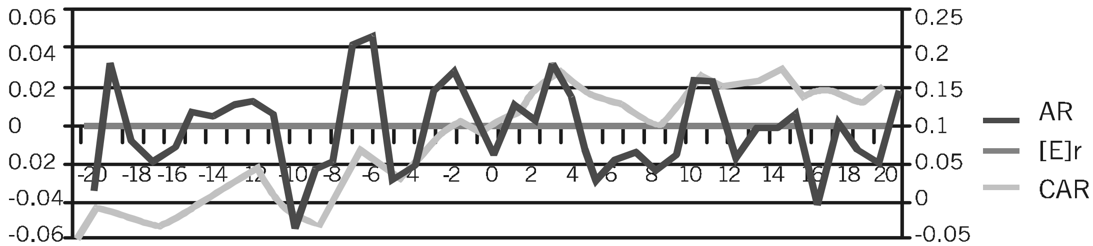


Figure 3: Returns over a window period of 41 days of Tata Motors Ltd for the announcement on 29.05.2012

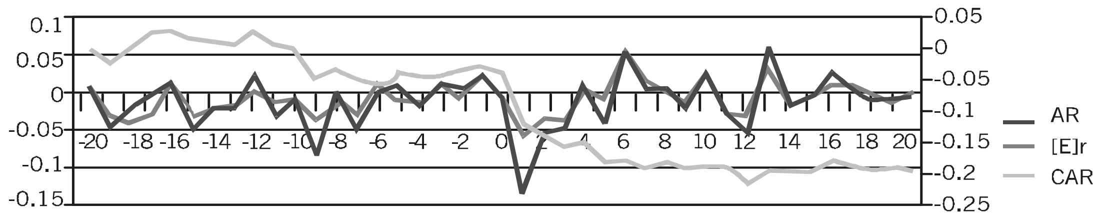


Figure 4: Returns over a window period of 41 days of Tata Motors Ltd for the announcement on 29.05.2014

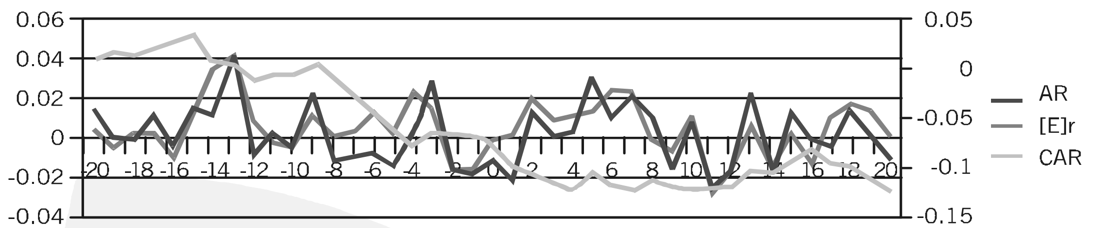


Figure 5: Returns over a window period of 41 days of Hero MotoCorp Ltd for the announcement on 04.05.2011

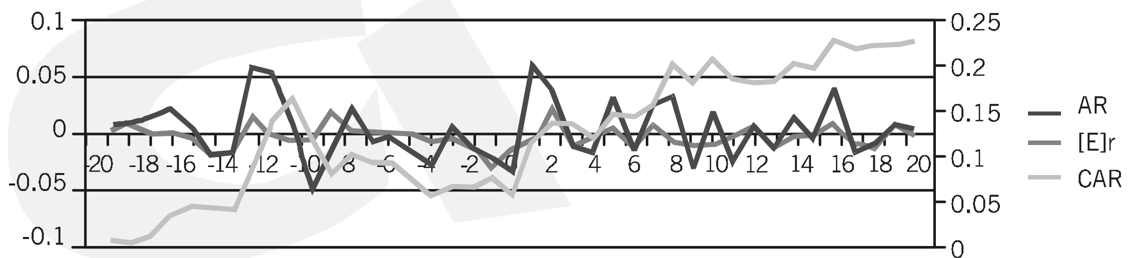


Figure 6: Returns over a window period of 41 days of MothersonSumi Systems Ltdfor the announcement on 22.05.2014

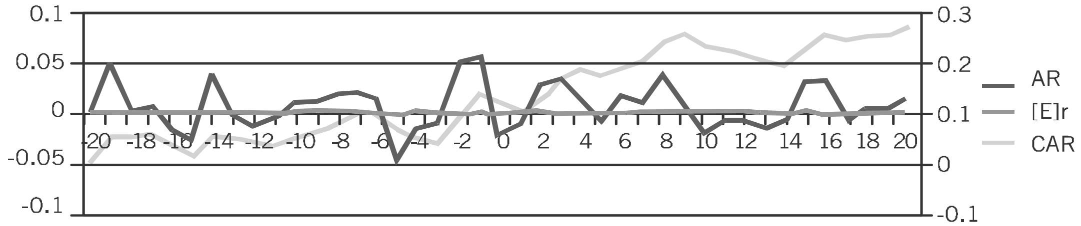


Figure 7: Returns over a window period of 41 days of Maruti Suzuki India Ltdfor the announcement on 24.04.2009

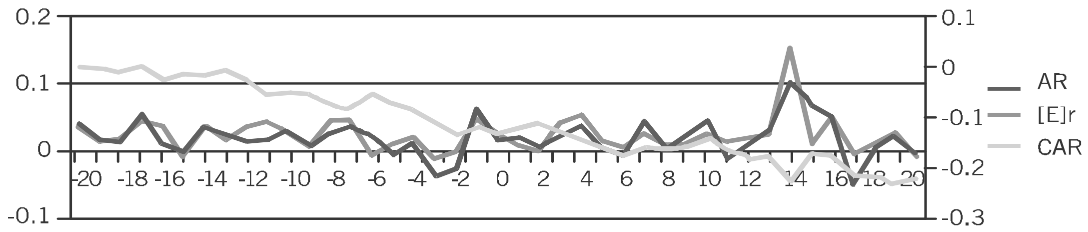


Figure 8: Returns over a window period of 41 days of Maruti Suzuki India Ltdfor the announcement on 26.04.2010

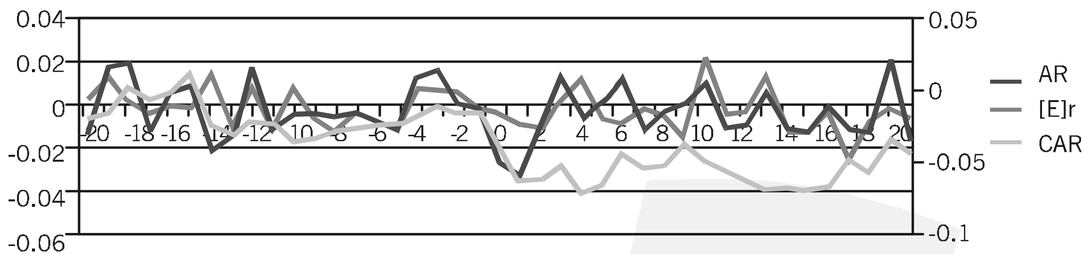


Figure 9: Returns over a window period of 41 days of Apollo Tyres Ltdfor the announcement on 04.05.2009

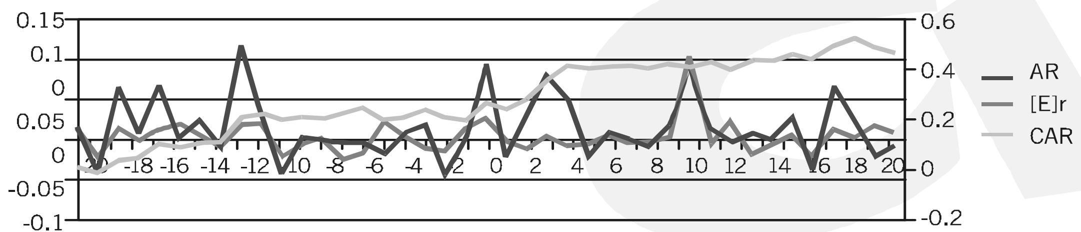


Figure 10: Returns over a window period of 41 days of Apollo Tyres Ltdfor the announcement on 15.05.2014

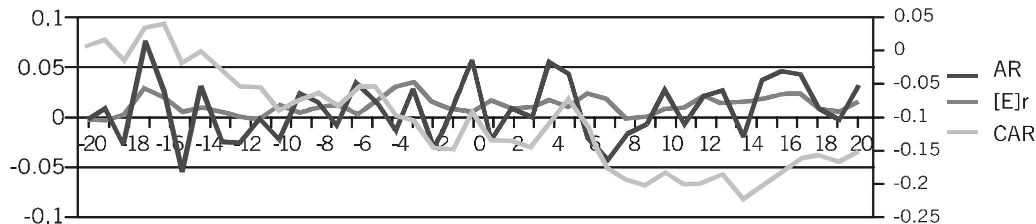


Figure 11: Returns over a window period of 41 days of Excide India Ltdfor the announcement on 27.04.2011

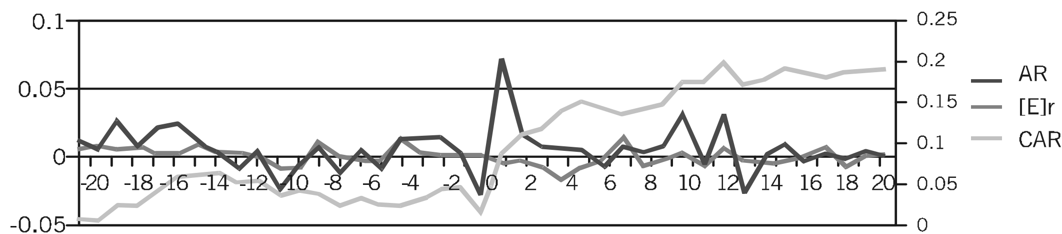
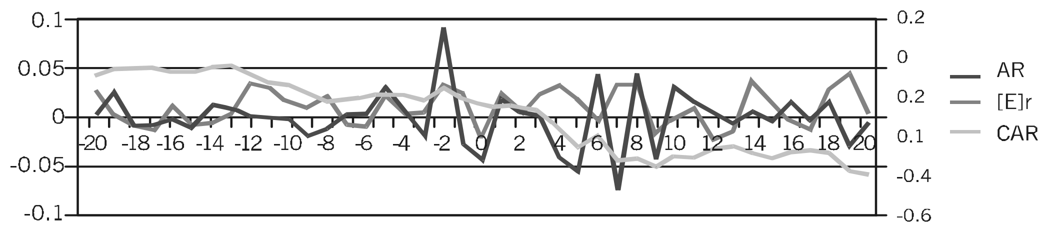


Figure 12: Returns over a window period of 41 days of Eicher Motors Limitedfor the announcement on 30.03.2009



Source: Own compilation

From the above figures it can be seen that CAR has been decreasing in the entire post event window and such decrease is significant for a long period after the event. This implies thatthe total return of the shareholders has decreased significantly especially after the dividend announcement.

High volatility can be seen in AR in the entire window period. At the same time it is to be noted that AR dropped in the post event window period but it started peaking up at the end of the post event window. Also the figures show a steep rise and fall in AR just two days before and after the event day and are significant on most of the announcement days. Hence there are opportunities to prospective investors to gain from such movements in AR on and around the dividend announcement day.

Findings:

Table 2 shows the summary of significant positive and negative effects of final dividend announcements on stock returns with respect to the selected auto companies during the pre and post announcement period of the event.

Table 2: Impact on the Auto Companies

SR.NO.	COMPANIES	DATE OF DIVIDEND ANNOUN CEMENTS	DIVIDENDS (%)	EFFECTS			
				Before		After	
				Returns	Number of days	Returns	Number of days
1	Mahindra & Mahindra Ltd	23-05-07	25	Positive	1	Positive	10
		16-05-08	115	Negative	10	Negative	20
		19-05-09	100	Nil	Nil	Negative	19
		24-05-10	175	Negative	7	Negative	3
		30-05-11	210	Negative	10	Negative	5
		30-05-12	250	Negative	2	Negative	13
		30-05-13	250	Positive	5	Nil	Nil
		29-05-14	240	Positive	1	Positive	18
2	Tata Motors Ltd	18-05-07	150	Negative	7	Negative	9
		16-05-08	150	Nil	Nil	Negative	7
		29-05-09	60	Negative	3	Negative	17
		27-05-10	150	Negative	5	Negative	18
		26-05-11	200	Positive	0	Negative	3
		29-05-12	200	Nil	Nil	Negative	16
		29-05-13	100	Negative	11	Negative	1
		29-05-14	100	Nil	Nil	Negative	14
3	Hero MotorCorp Ltd	11-05-07	850	Positive	3	Positive	10
		24-04-08	950	Positive	16	Positive	19
		21-04-09	1000	Negative	1	Positive	1
		04-05-11	1750	Positive	3	Positive	19
		02-05-12	2250	Positive	2	Negative	2
		26-04-13	3000	Negative	13	Nil	Nil
		28-05-14	3250	Positive	5	Positive	15
4	MothersonSumi Systems Ltd	28-05-07	150	Positive	4	Positive	3
		30-06-09	135	Negative	6	Nil	Nil
		18-05-10	175	Negative	17	Negative	19
		25-05-11	275	Nil	Nil	Positive	4
		28-05-12	225	Negative	5	Negative	18
		17-05-13	200	Positive	7	Positive	13
		22-05-14	250	Positive	1	Positive	17
5	Bosch Ltd	15-03-07	40	Negative	4	Negative	11
		07-03-08	250	Positive	2	Nil	Nil
		04-03-09	250	Nil	Nil	Negative	4
		05-03-10	300	Negative	7	Negative	19
		28-02-11	400	Nil	Nil	Positive	1
		28-02-12	500	Positive	3	Positive	8
		27-02-13	600	Nil	Nil	Negative	6
		28-02-14	550	Nil	Nil	Positive	3
6	Maruti Suzuki India Ltd	24-04-07	90	Positive	1	Nil	Nil
		24-04-08	100	Negative	10	Negative	12
		24-04-09	70	Negative	1	Negative	16
		26-04-10	120	Nil	Nil	Negative	18
		25-04-11	150	Nil	Nil	Positive	13

SR.NO.	COMPANIES	DATE OF DIVIDEND ANNOUN CEMENTS	DIVIDENDS (%)	EFFECTS			
				Before		After	
				Returns	Number of days	Returns	Number of days
		28-04-12	150	Nil	Nil	Negative	9
		26-04-13	160	Positive	8	Positive	19
		25-04-14	240	Nil	Nil	Negative	6
7	Ashok Leyland Limited	14-03-07	150	Positive	3	Positive	4
		08-05-08	150	Nil	Nil	Nil	Nil
		15-05-09	100	Nil	Nil	Positive	8
		29-04-10	150	Nil	Nil	Positive	13
		19-05-11	200	Nil	Nil	Positive	9
		14-05-12	100	Nil	Nil	Negative	11
		10-05-13	60	Negative	9	Negative	4
8	Apollo Tyres Ltd	12-03-07	45	Negative	4	Negative	13
		09-05-08	50	Nil	Nil	Negative	6
		04-05-09	45	Nil	Nil	Positive	18
		31-05-10	75	Nil	Nil	Negative	9
		11-05-11	50	Positive	9	Positive	19
		10-05-12	50	Negative	2	Positive	1
		10-05-13	50	Positive	8	Nil	Nil
		15-05-14	75	Negative	2	Negative	16
9	Excide	20-04-07	35	Negative	1	Negative	3
		22-04-08	40	Positive	19	Positive	20
		27-04-09	20	Positive	5	Positive	16
		28-04-10	40	Positive	3	Positive	2
		27-04-11	60	Nil	Nil	Positive	17
		30-04-12	60	Negative	9	Negative	18
		29-04-13	60	Positive	2	Positive	15
		25-04-14	70	Positive	4	Positive	7
10	Eicher Motors Limited	06-03-07	290	Nil	Nil	Negative	10
		28-02-08	50	Nil	Nil	Positive	1
		30-03-09	50	Nil	Nil	Negative	16
		15-02-10	70	Negative	7	Negative	10
		05-02-11	110	Negative	11	Negative	15
		12-02-13	200	Positive	3	Negative	2
		12-02-14	300	Negative	9	Negative	10

From total of 76 dividend announcements, around 44 dividend announcements show a significant negative impact on the stock returns in the post announcement period in spite of increase in final dividends.And only 32 dividend announcements show a significant positive impact on the stock returns in the post announcement period.

It can be also seen that the companies have significant negative impact on their stock returns before the dividend announcement and the intensity of significant negative impact in turn increases in the post event window.

Conclusion

The study is conducted to evaluate the impact of final dividend announcements on the stock returns and also to identify the presence of abnormal returns of the top 10 auto companies belonging to CNX auto sector on NSE.

The study reveals that there are positive abnormal returns on the stocks of the selected companies especially few days before the date of the event. Hence the investors can trade and gain enormously due to the presence of positive abnormal returns.

Overall CAR has been negative this suggests that the dividend announcements lead to a negative

impact on the shareholder's wealth. Thus it can be concluded that there is a significant long term negative impact of final dividend announcements on stock returns of the selected companies after the event day irrespective of increase in dividends.

The reason for such negative reaction in the market is due to the fact that higher amount of dividend, signals that the company is not retaining the profits for further investments and hence need to borrow the same from additional sources for any future growth prospects. Thus leading to increase in external debt obligations or increase in the issue of shares in the market which in turn would have negative impact on the return to existing shareholders. Hence the shareholders liquidate their holdings irrespective of higher dividends.

The trend of fall in prices can also be seen before the dividend announcements but are not significant and hence this implies that the intensity of such price reductions is more in the post announcement period.

The results of the study indicates that there is a negative impact of dividend announcements on the stock prices and that the shareholders are ready to take risk and want to raise their wealth through capital gain and not by regular dividends payments. The results are in conformity with the conclusions drawn in earlier researchers such as Vieira & Raposo (2004) and Savita (2014).

The results of the study also supports the Modigliani and Miller (MM) Hypothesis which states that dividends does not affect the shareholder's wealth but it is the retention of profits that adds on to the wealth of the firm and its shareholders.

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6 Case Study

Foreign Direct Investment In Mexico: Acquisition of Banamex By Citigroup

Dr.José G. Vargas-Hernández
Research Professor

Pablo Giovani Palafox Alcantar
Student of Master of Business and Economics Studies

University Center for Economic and Managerial Sciences, University of Guadalajara
Periférico Norte 799; Núcleo Universitario Los Belenes; C.P. 45100, Zapopan, Jalisco, México

Abstract

The financial and banking services sector has always been one of the most important in the world economy. In Mexico it has had transitions from private to public and to private again, and it is one of the main sectors which have received Foreign Direct Investment since the opening trade economic policy of Mexico. The increase in FDI inflows to Mexico have been marked since the entry of NAFTA and one of the most important acquisitions of Mexican companies has been Banamex bought by the US global corporate CitiGroup. This work shows that in addition to having contributed to one of the most important amounts in the history of receiving FDI by Mexico, the acquisition of Banamex allowed competition in the financial sector and the entry of new competitor into the industry.

Keywords: *Foreign Direct Investment, Financial Sector, Acquisitions*

Introduction

According to Peng (2012) foreign investment, is divided into Foreign Portfolio Investment FPI (IEC), which is made in a portfolio of foreign securities such as stocks or bonds,andForeign Direct Investment (FDI), which is the investment trans-border that makes a foreign resident (direct investor) in a Mexican company or assets located in Spain (direct investment enterprise) with the aim of establishing a lasting interest. Through this investment, the direct investor seeks to exert a significant degree of influence on the direct investment enterprise (Ministry of Economy, 2015).

FDI is broken into three sections according to the mode of financing:

A. New investments: concerning the movements of FDI associated with:

1) Initial investments made by foreigners when they settle in Mexico, among them there are those expenditures and working capital to carry out acts of commerce in Mexico.

Contribution to the capital of Mexican companies (initial or increases by the IED).

2) Transfers of shares by Mexican FDI investors.

3) Initial amount of compensation trusts that give rights on FDI.

Reinvestment profits. The fraction of income that is not distributed as dividends and is considered to represent FDI increased capital resources owned by the foreign investor.

Intercompany accounts. Transactions originated by debt arising between Mexican companies with FDI in the social capital and other related firms living abroad.

Similarly Peng (2012) FDI disaggregated into two categories according to the direction that moves the IED:

A. Horizontal FDI is the kind of FDI in which the company performs the same activities at the same

stage of the value chain from its country of origin to carry out in the host country.

B. The vertical FDI is the kind of FDI in the company that is performing FDI moves either up or down in the value chain in the host country.

1) Upward vertical FDI is specified in the company to a stage of ascending value chain within the recipient country.

2) Downward vertical FDI is that which is intended in the company to a stage of falling value chain in the host country.

It is of great importance to mention that FDI flows is the amount of FDI which moves in given direction in a given period. The inflows and outflows of FDI are the amount of FDI in and out to and from a country in this specified period, usually in the statistics are taken as a year, although this year can be divided into three months periods, quarters or semesters.There is a fundamental difference between multinational enterprises (MNEs) and those that are not. Because the other companies can also have activities, transactions and business abroad through exports, imports, licenses and even hiring through outsourcing, or even if they engage in the FPI. That is, an exporter, to become MNEs should engage in FDI. Currently MNEs have submitted growth since the end of World War II; about 82,000MNEs controlled810,000foreign subsidiaries(Peng, 2012).

A key question for MNEs is why companies want to engage in FDI, why they want to become MNEs? According to Dunning Eclectic Paradigm (1974), these companies seek to gain advantages mainly in three contexts; property (P), location (U) and internalization (I), known as UPI advantages. Now the benefits of ownership are relating to the possession of certain assets for MNEs representing them as an advantage abroad. Locational advantages relate to the benefits that can be enjoyed by MNEs to operate in a specific place. The only and unique features of this place, as for example, natural resources or work, or location near certain markets in particular are those which provide benefits to companies that do business here.

Finally, internalization is the replacement of certain markets through the border of the company, i.e. export or import of MNEs that are located and have operations in more than two nations. In other words, internalization is a response to market imperfections, which regulate international transactions.

There are different perspectives or ways to react politically to FDI, specifically three. The first is the radical view to FDI, i.e. the policy is hostile to this type of investment, from its roots in Marxism, and FDI is treated as a tool of imperialism and as a mechanism for the exploitation of resources of nations and its population by countries that are in capitalism and foreign companies. Countries with this approach usually choose to nationalize the assets of MNEs and / or prohibit or discourage inflows of FDI.Second, the prospect of a free market of FDI provides that without state intervention, FDI will help countries to better exploit its comparative advantages through specialization in specific goods and services. And third, the pragmatic nationalism on FDI is used by most nations, which are considered the advantages and disadvantages of FDI, and only approved if the benefits outweigh the costs for the host nation (Peng, 2012).

In the following Table 1, the effects of FDI on the countries of both origin and destination are shown as well as their costs and benefits for both countries.

Table 1: Impact of FDI on the countries of origin and host

Effects of FDI			
Host countries against countries of origin	Inflow of capital, technology, management, job creation	Loss of sovereignty, competition, capital out -flow guests.	Host countries receivers
	Profits, exports, learning foreign capital outflow	Capital outflow, job loss	Countries of origin
	Profits	Costs	

Source: Peng (2012, pp. 194)

Background of the problem

Now, the Mexican foreign policy since the entry into force of NAFTA in 1994, Mexico has made efforts to reform the national economy by enabling open trade, dismantle trade barriers and attracting foreign direct investment, substituting industrialization model based on import substitution to be promoted abroad and inserted into the global economy.

Import Substitution Industrialization (ISI) can be understood as a development strategy followed in most of the countries of the Organization for Economic Cooperation and Development (OECD) during the second half of the nineteenth century and after World War II in Latin America, which sought to create in their respective nations imported products, particularly manufactured. Initially replacing imported consumer goods and goods for further elaboration later, the ISI was based on encouraging the private sector in the context of a mixed economy (Baer, †1972).

The industrialization by import substitution (ISI) that began in Mexico during the government of Lazaro Cardenas (1934-1940) and remained in force until the early eighties had as a reference point for socio-economic development the domestic market. Socioeconomic modernization, taking as synonymous to the modernization and industrialization, required public intervention for the development of infrastructure and the industrial sector itself through multiple direct and indirect instruments, such as subsidies, tariff and trade policies and the selection of priority sectors. It was hoped from this "mixed economy" that in later times not only imports were replaced, but also come to export manufactured products and integrate the country into the world market (Dussel Peters et. al., 2003).

As an important example to quote Alvarez-Galván (2000), FDI flows during the ISI were important. With a shift from the beginning of the century of the mining and agricultural sectors in industry and services, and by 1970 it was estimated that the manufacturing sector accounted for about 20% of manufacturing GDP. Today it is clear that the constraints imposed by foreign trade policy which is applied to countries that do not have a Free Trade Agreement with Mexico, are affecting the country's competitiveness negatively.

Therefore, in the above context, foreign direct investment has a key role in the strategy followed in Mexico since the end of 1987. On the one hand, FDI plays a significant role in the structural change, modernization and export orientation by integrating the global market, either through new investments or the purchase of existing assets, generating changes in the production plant, increasing the level of domestic competition and creating new links with the outside.On the other hand, from a macroeconomic perspective, FDI becomes a major source of funding of the strategy (Gurria-Trevino, 1994), also because the historical sources of financing such as oil and agricultural surpluses and external debt, are not sufficient or did not exist in the amounts required for structural change proposed since the eighties.

Structural change is based on six main lines: a) trade liberalization, b) changes in the regulatory framework for foreign investment, c) privatization of public enterprises, d) economic deregulation, e) modifications to the regulatory framework for land tenure, and f) regulation of monopolistic practices

through the enactment of the Competition Act (Gurria-Trevino, 1994). The international competition for capital flows, resource shortages and difficulties in obtaining financing, required deep trade negotiations, a process of deregulation, as well as changes in the legal framework because Mexico had one of the foreign investment regimes most restrictive in the world (White-Mendoza, 1994).

The nationalization of commercial banks in 1982 by President Lopez Portillo is a well-documented but under theorized Mexico's transition to neoliberalism dynamics. Right in the middle of a crisis, the nationalization of the bank, restored power to the state capital in what was intended to be an act to save the system and structural changes to reduce the development led by capitalism (Marois, 2008). Macroeconomic immediate circumstances included the decline in oil prices in the world in 1981, the increase in government debt to compensate for lost resources and a sharp contraction of currency successive peso devaluations, speculative currency and capital flight only aggravated the problems of public finances and balance of payments.

According to calculations based on data from the Ministry of Economy (Secretaría de Economía, 2015), the behavior of FDI in Mexico has grown significantly since the entry into force of NAFTA in 1994. The United States has been the country from which most of the investments come to Mexico. In the period from 1980-2014 US has led to Mexico $ 229,713.86 million in FDI, which are equivalent to 48.61% of the total FDI received by Mexico in the mentioned period.Figure 1 below shows the behavior of FDI from the United States and is marked with a red cross the point of greatest flow of FDI from the US to Mexico.

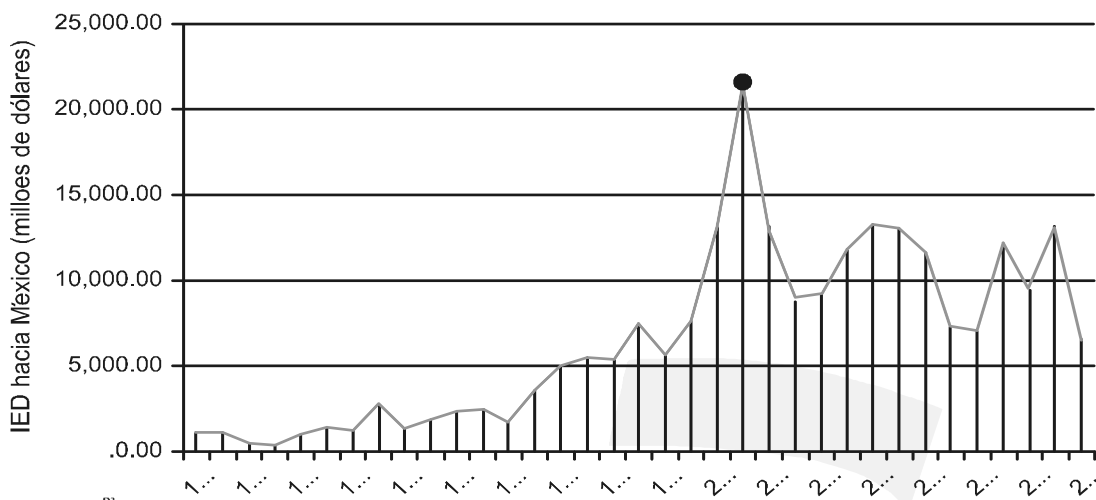

Figure 1: Behavior of the FDI received by Mexicoin1980-2014 from the United States of America

Source: Based on data from Secretaría de Economía (2015).

This point also represents the purchase of the Banco Nacional Mexicano (Mexican National Bank), the largest bank in Mexico, by US corporate CitiGroup, by a sum of $ 12.500 million dollars according to data from Salas (2002). The acquisition contributed to reach a historic high of FDI received by Mexico from US for $ 21, 549.20 million dollars in 2001, which has not been close to be repeated since.

Defining the problem

From the strategic point of view, companies seeking to engage in FDI have incentives both to exercise control, to have a degree of influence over the company and also to seek competitive advantages such as UPI. The question of this work lies in what were the causes that have led to increased FDI in Mexico, especially in the case of the acquisition of Banamex by Citigroup Corporate America?

Theoretical framework

Explanatory theories of FDI are generally divided into two broad categories: the explanation of FDI in microeconomic terms, industrial organization, and studies focused on macroeconomic factors of FDI, and labor costs. Theories explaining FDI in microeconomic terms, it is worth mentioning the summary by Bayoumi and Lipworth (1997). These theories have focused on market imperfections and the desire of multinationals to expand their monopoly power to penetrate profitable foreign markets and oligopolies, to retaliate or to anticipate the entry of competitors.

On the other hand, research has focused on the specific advantages of companies due to the superiority of their products or cost advantages derived from economies of scale, economies of several production plants and advanced technology, or distribution and higher marketing. According to studies by Vernon (1974) and Porter (1986) without neglecting the Eclectic Paradigm of Dunning (1974), which states that FDI exist if there are advantages in terms of property and location for a business producing abroad. Such advantages are better exploited through the internalization of production through FDI, also known as the OLI model for its acronym in English O for Ownership of property, L for location, and I for internalization.

As a microeconomic and controversial theory, it is the model introduced by Kojima (1973), where the situations in which FDI would promote or reduce business activity were studied. He claimed that the former occurs when a company has superior technology but do not have resources; invest in arises when a host nation raises tariffs, which attracts foreign investors, and a controversial point comes when the author, in an exaggerated effort to separate his model with those of other school, identifies charitable investments with Japanese and non-beneficial to the United States.

According to previous theories of microeconomic perspective, multinational corporations find cheaper to expand directly in a foreign country rather than through trade in cases where the advantages or costs associated with the product are based on domestic assets and indivisible composed mainly of knowledge or technology.However, there is also the macroeconomic approach of the theories of FDI. Of which, the classical theories of international trade have developed from classic authors like David Ricardo (1963), where his work attempts to explain the reasons why there is the mobility of capital and labor, even in their contributions are considered the distinct differences between countries and regions.

In the assumptions of these models based on the following tasks that determine the theories of FDI location, such as the Heckscher-Ohlin (1933) and later the model of specific factors by Samuelson (1971) and Jones (1971). These models in turn are based on the proposed model by Helpman and Krugman (1985) with the additional assumption of unequal distribution of productive factors. These various models despite being old, are still valid, likewise these theories work for theories of the location of FDI.

Brief review of the literature

According to Salas (2002), the US universal bank Citigroup, had in the late twentieth century presencein over one hundred countries and was looking for opportunities for geographic expansion and penetration especially in emerging economies. And only in Mexico, just over three years, it acquired two major financial groups and therefore, the internationalization of the Mexican financial system proved burdensome for Mexicans who paid the high

cost of bank bailouts in the mid-90. In the future, the real sector of Mexico will be funded by organizations with global networks, such as access to funding in international capital markets on favorable terms and internal transfers of recruitment,which will now be from abroad. But the consequences of the loss of control of the national payment system are yet to be seen.

Method

For the analysis of the strategic case of the purchase of Banamex by Citigroup, it has been used a descriptive method. This involves collecting information from various sources for analysis and description of the case and the effects caused by the acquisition between companies are also analyzed.

Analysis of results

According to the article published by Global News (2001), the purchase of Banamex by that amount came as a surprise to the world market, as it was the most profitable financial institution in Mexico. So,Citigroup sought to improve its presence in Brazil and Argentina. Therefore, about a quarter corporate earnings come from emerging economies.The three major banks in Mexico were purchased by foreign financial institutions. First Bancomer, was acquired by the Spanish bank BBVA. Banamex was acquired by Citigroup.

Later, Serfin was purchased by another Spanish bank, Banco Santander CH,and at that time was awaiting what would happen to Banorte which had constant discussions with Bank of America. At the time of the acquisition, Banamex had assets of $ 15,000 million dollars, around 32,000 employees and 720 branches around the country. According to Ramirez (2001) it has proposed seven economic policies to promote the market, without compromising economic interests without generating excessive inequalities of wealth distribution;

A. Antitrust laws and regulatory systems should be imposed either before deregulation or financial privatization to a given industry, also prevent the privatization of various sectors in a short period of time because that could allow private companies to consolidate and come to exert considerable monopoly power.

B. To avoid becoming “captured bodies” of industries, must regulate and monitor, regulatory agencies must be strong and financially independent institutions with their boards staggered through the political cycle.

C. The regulatory staff should be technically qualified, highly paid in relation to the industry to be regulated, and they have access to opportunities for promotion, training and travel, and that they have prohibited having worked in the regulated industry for a period specific of time after their boards are finished.

D. To avoid the risk of large losses and government intervention to socialize the losses, the state should “lean against the wind”. In other words, to regulate privatized firms in a more comprehensive way, including its lending practices, debt accumulation, diversification of assets, investment policy and merger activity,

E. Regulatory systems must be transparent in the sense that they are based on impersonal rules which are clearly defined and consistent with the management skills of national regulators, and understanding not only for owners and management, but also for consumers and the general public.

F. Finally, although the transparent and effective regulation at first decrease in discounted present value of the firms to be privatized, they compared to those that are guaranteed have extensive monopoly power.

Since 2009, most recently in 2014 and early 2015, the owners have been negotiating to sell Banamex Citigroup back to Mexican investors, such as Carlos Slim and Ricardo Salinas Pliego. The reasons for that Citigroup could get rid of Banamex are among others that Citigroup has had financial problems

internationally, and has been shedding assets worldwide. Mexican law prohibits state resources from other nations have a stake in Banks in Mexico, so the US government aid to Citigroup to retain the Mexican bank is discarded.

Conclusion / Discussion

According to the review of the prior information and their analysis, it can be concluded that the causes of the acquisition of Banamex by Citigroup were:

A. CitiGroup was looking for opportunities to consolidate its presence in emerging economies, particularly in Latin America.

B. Banamex was then the second largest financial institution in Mexico therefore proved of particular interest its purchase by the potential benefits represented.

C. Since Spanish financial institutions had invested in Mexican banks, and the interest of other American banks by Mexican banks, Citigroup carried out the strategy for investing in Mexico as well.

D. Transition of the Mexican economy to neoliberalism, led to many industries towards, even today, in the process of deregulation and privatization, from the point of view based on the institutions, the state has allowed and encouraged FDI sectors which were previously public.

E. The potential market of Mexico has increased considerably since the bank was privatized again.

Finally, the study shows that in addition to having contributed to one of the most important figures in the history of attracting FDI to Mexico, diversification of FDI is achieved, the acquisition of Banamex allowed competition in the financial sector.

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7

Student Corner

Marketing Strategy of Financial Services Firm With Respect To Muthoot Finance

Nishanth K
MBA Student
Acharya Bangalore B-School

Abstract:

This study makes an understanding of marketing strategies adopted and executed by the Muthoot Finance. The exploration of the study helped us in knowing the key strategies of Muthoot Finance like analysis of marketing strategy, gold loan strategies, branding strategy and how these strategies are impacting on the business performance of the organization.

Keywords: *Marketing Strategy, Services, Branding Strategy, Media Mix, USP and Risk Management.*

Introduction:

The Muthoot Group is a Kerala-based 129-year-old business which started in the year of 1887, a small beginning with Muthoot Bankers, founded by Mr. Ninan Mathai Muthoot in the town of Kozhencherry, a small town in the erstwhile Kingdom of Travancore (Kerala). It was then later taken over by his son M George Muthoot who incorporated the Finance division of the group which was until then primarily involved in wholesale of grains and timber. The company is now managed by the third and fourth generation of its family members. It has interests in Financial Services, Information Technology, Media, Healthcare, Education, Power Generation, Infrastructure, Plantations, Precious metal, Tourism, and Hospitality.

Muthoot Finance Ltd was established in the year 1939 when M. George Muthoot ventured into financial services through a partnership firm under the name of Muthoot M. George & Brothers (MMG). MMG was a Chit Fund based out of Kozhencherry. In 1971, the firm was renamed as Muthoot Bankers, and had begun to finance loans using gold jewellery as collateral. In 2001, the company was renamed once again and came to be known as Muthoot Finance. Muthoot Finance falls under the category of Systematically Important Non-banking Financial Company (NBFC) of the RBI guidelines.

Muthoot Finance Ltd is an Indian financial corporation. It is known as the largest gold financing company in the world. Providing excellent service and facilities, Muthoot Finance has grown into one of the largest financial groups of its kind in India. The Company today is present across 1,072 cities, 364 districts and 1,240 talukas with total branch strength of 4,400-plus. Traditionally known for its loans against gold business, currently Muthoot is gradually changing its positioning to being a multi-diversified business conglomerate with a pan-India presence. According to the IMaCS Research & Analytics Industry Reports, Muthoot Finance is the largest Gold Loan NBFC and has the largest network of branches for a Gold Loan NBFC in India.

Core Values of Muthoot Finance:

Muthoot Finance does not judge themselves by the profit they make but by the trust and the confidence that people have in them.

Muthoot Finance cherishes and nurtures that the trust and ensure that every person who deals with them, deals with confidence that he/she will not be misguided but his/her interest will be carefully protected.

Marketing Strategy:

Marketing strategy is a method of focusing an organization's energies and resources on a course of action which can lead to increased sales and dominance of a targeted market niche. A marketing strategy combines product development, promotion, distribution, pricing, relationship management and other elements; identifies the firm's marketing goals, and explains how they will be achieved, ideally within a stated time frame.Marketing strategy mainly includes 7p's of marketing i.e, Place, Product, Price, Promotion, People, Process, and Physical Evidence.

Analysis of Marketing Strategy of Muthoot Finance:

Muthoot Finance offers number of products and list is as follows:

1. Gold Loans
2. Gold Coins
3. Investments
4. Money Transfers
5. Insurance
6. Security
7. Foreign Exchange
8. Travel Smart
9. Vehicle & Asset Finance

Muthoot Finance is the leader in the category of the gold loan industry and it has generally been known as a single-product company (loans against gold jewellery), but few know that there is now an increased awareness amongst the masses that Muthoot Finance is a "financial supermarket". It provides a bouquet of financial services, including insurance, foreign exchange, money transfer, demat, debentures (NCD), PAN card, travel services, Muthoot ATMs, etc. – all under one roof.

Currently, Muthoot Group as a multi-diversified business conglomerate rather than just a gold loan company. Their Vehicle & Asset Finance division recently tied up with Maruti Suzuki for vehicle loan finance at Kerala, while Healthcare division has tied up with Bourn Hall Clinic International, a Centre for treating infertility.

Gold Loans:

Muthoot Finance has generated the new concept of GOLD loans. They provide loan against gold. Gold which is lying idle in the bank lockers are utilized and can take advantage from that. The strategy of Muthoot Finance is that in this case both the parties are getting the benefits.

a) Customers are getting finance from their idle asset.

b) Company is having most valuable asset as collateral, i.e gold.

USP of Muthoot Gold Power Loan:

A unique selling proposition (USP) is a factor that differentiates a product from its competitors, such as the lowest cost, the highest quality or the first-ever product of its kind. A USP could be thought of as "what you have that competitors don't." USP of Muthoot gold loan are as follows:

* They provide any amount of cash loan
* Loan available in just 5 minutes
* Any Need, Any Amount, Anytime, Anywhere
* Simple hassle free loan with least documentation & unmatched safety and security of gold pledged
* Flexible payment option even on easy installment

Gold Coins:

Muthoot Finance has also started the concept of '24 carat pure gold coins'. The strategy here used is that they want to change the perception of customers. Indirectly, they can convey the customers not to purchase the gold from jewellery shops rather purchase gold coins and gift to their dear ones. To some extent they are effecting the market of jewelers.

The advantages

* **Purity:** The gold coins of 999 purity. Now onwards 'customer need not buy copper at the price of gold.'

* **100% investments:** When customers buy gold jewellery, in addition to the price of gold, they pay 30% more in the form of making charges, shortage while making etc. When they buy gold coin no such expenses occurs. Moreover, they get full value when they sell it or convert it into jewellery.

* **Easy to buy, Easy to store:** Gold coins are available in different denominations of 2 gram, 4 gram, 8 gram & 20 gram. Hence investment can be made in small or large amounts. It is easy to keep and very convenient to convert into money when need arises.

* **Non-depreciating asset:** Even when value of money depreciates, value of gold coins does not come down, but only goes up. In other words, investment in gold coins does not depreciate with the value of money.

Place

Muthoot Finance is having 4400 branches in almost 21 states. Earlier Muthoot was in limited states but now they are expanding their business and they want to cover each and every corner. And moreover it is the number one gold company.

Promotion

Muthoot Finance is using the animated Elephants for their promotion. The elephant represents strength, stability and trust. Animation is increasingly becoming clutter breaking and cost effective way for brands to communicate in the audio-visual medium. As the part of the thought out marketing strategy, the two characters are being introduced 'Mattu&Mittu' through an integrated approach using several media. So, by using such type of strategy mainly company is targeting every age group but especially to youngsters.

Process

The company claims that just visit our place and have loan in only 5 minutes. They are using this feature for promotions also.

Branding Strategy of Muthoot Finance for the national market from a regional market

Since the demographics, target audience, messaging, accessibility, culture, cost of medium, etc., of national and regional markets or urban and rural markets differ from each other, marketing strategy and advertising campaigns of Muthoot Finance are planned accordingly. For instance, for a regional market, they focus more on BTL-driven activities as this enables them to personally connect with their customers. On the other hand, they use both the ATL and BTL communication channels to engage with customers in the national market.

Media Mix of Muthoot Finance

The communication tools of Muthoot Finance primarily include print media. Although, one of the oldest forms of communication, print media has the advantage of making a longer impact on the minds of the reader, with more in-depth reporting and analysis. TV is another primary medium as it has a mass appeal and hence, is the most preferred medium for any marketer while launching a national and regional brand/ product campaign. They have also been consistently using OOH strongly across the markets for brand visibility, brand salience, product promotions and driving footfalls in the branches.

Radio is another viable mass reach vehicle that they look at as it continues to yield new customers and gives an incredible ROI to them. Radio, for them, has not only been a cost-effective medium, but it has served as one of the key mediums to meet brand challenges.

They are also open to absorbing the latest technologies, which can provide instant connect with the wider audience. Muthoot launched a strategic approach to corporate social responsibility , (CSR) by introducing 'Muthoot Haathi Mera Saathi' programme through social media platforms during the season VI Delhi Daredevils matches.

What makes Muthoot Finance different?

Brand: A rich seven-decade experience in the business across regions, political environments and trade cycles, translating into an industry leading position in India.

Presence: Muthoot has the largest branch network in India among gold loan NBFCs with 4400 branches across 21 states, the national capital territory of Delhi and four Union territories.

Rural Presence: Muthoot enjoys a strong presence in under-served rural and semi-urban Indian markets (over 70% of its branches are located in these regions).

Credit base: Muthoot's credit facilities with multiple banks, superior credit rating and asset quality helped mobilize adequate low-cost funds.

Intellectual capital: Muthoot possessed a dedicated team of 25,351 members, professionally trained to service customers.

Senior management: Muthoot's senior management possesses extensive experience in the Indian gold loan industry, with the ability to increase business through dynamic operational leadership and a strategic vision.

Customer-centric approach: Muthoot conducts a comprehensive survey according to established locational guidelines before selecting relevant branch sites.

Customer service: Muthoot provides a friendly customer experience with no processing charges, as well as interest chargeable only for the actual number of days for which loan is availed.

Asset under management: The Company is the largest gold loan Indian NBFC with gold loan assets under management of Rs. 24,417 crore, growing at a CAGR of 78% over the five years leading to 2014-15.

Economies of scale: The Company leverages distribution economies of scale through 4,400 branches by reducing the overall cost of functioning per branch. Operating expense to average retail loans declined by 5.45% between financial year 2009-10 and 2014-15.

Net worth: The Company's net worth was Rs. 2,923 crore in 2014-15, a 119% increase over the previous year.

Risk Management (De-risking the business)

Like any other business, the business of gold loans is exposed to risks. Muthoot Finance identifies and assesses these risks with the objective to orchestrate an effective counter strategy.

Risk 1: Any decline in the value of gold collateral following a fluctuation in gold prices could affect Muthoot loan integrity.

Risk mitigation:

- Around 40% buffer is kept on the value of jewellery for calculation of the loan amount.
- The Company structures the loan solely based on the weight of gold content. The weight and value of stones embedded in the jewellery are not considered when valuing the jewellery.
- The sentimental value of gold jewellery is also another factor which induces repayment and collateral redemption even when the collateral value declines below the value of the repayment amount.

Risk 2: Any failure of the counter party to abide by the terms and conditions of Muthoot business could impede profits.

Risk mitigation:

- The Company follows rigorous loan approval and collateral appraisal processes, along with a strong NPA monitoring and collection strategy.

- The gold jewellery used as collateral for loans can be readily liquidated through auctions; therefore, the possibility of recovering less than the amount due to the Company is low.

Risk 3: Any interest rate movement could hamper the Muthoot business profitability.

Risk mitigation:

- The majority of the company's borrowings and all loans and advancesare at fixed rates of interest.
- The Company enjoys diverse funding sources, reducing the dependence on any single source.
- The funding is addressed through a combination of borrowings like working capital limits from banks, issue of commercial paper, non-convertible debentures and equity.
- Loans are of shorter duration; demand is inelastic to interest rate changes.

Risk 4: Any failure of systems, people or processes or any external event could affect the Muthoot business sustainability.

Risk mitigation:

- The Company has instituted a series of checks and balances including an operating manual and audit (internal and external) reviews.
- The Company has defined appraisal methods as well as 'know your customer' compliance procedures to mitigate operational risks.
- Any loss on account of failure by employees to comply with a defined appraisal mechanism is recovered from their variable incentive.
- The Company has laid down detailed guidelines on the physical movement of cash and gold.
- The Company introduced a centralised software to automate inter-branch transactions, enabling branches to be monitored centrally.
- The Company installed surveillance cameras across 2,800 branches.
- The Company has Internal Audit Department and Centralised Monitoring System to assist the management in mitigating the above risk.

Risk 5: An inability to raise necessary funds to meet operational and debt servicing requirements could affect the business expansion.

Risk mitigation:

- An Asset and Liabilities Committee (ALCO) meets periodically to review liquidity based on future cash flows.
- The Company tracks the potential impact of loan prepayment at a realistic estimate from a near to medium-term liquidity position.
- The Company developed and implemented comprehensive policies and procedures to identify, monitor and manage liquidity risks.
- The source of funds has a longer maturity than loans and advances made, resulting in a positive asset-liability matching and hence, a low liquidity risk.

Conclusion:

The Marketing Strategy is a plan for action that determines how a company can achieve its goals and objectives in the light of the existing pressures exerted by competition and other non-controllable variables on the one hand, and its limited resources on the other. With respect to Muthoot Finance, the marketing strategy adopted by the company helps to widening its presence to touch areas relatively under-served by the country's banking network (conventional and alternative) and reach customers closer to where they live or work. The Company's sales and marketing team comprised 1912 managers, marketing executives and customer relations executives. The Company prides itself on being able to provide a much-needed presence in rural and semi-urban centres. The Company has a direct presence without franchisees. Muthoot's network expansion is achieved through an analysis of demographic, competitive, regulatory, customer presence and

land availability factors. In addition to promotional activities for new branches, the Company's 1871 executives carry out loyalty programmes, make personal visits and cover high net worth clients as well. The Company's customer relations executives are responsible for product promotion and telemarketing. The Company invests extensively in promotional TV campaigns, print advertisements and road shows to enhance the Company's brand and gold loan product proposition. These are the marketing strategies that helped the Muthoot Finance to became the largest Gold Loan NBFC and the largest network of branches for a Gold Loan NBFC in India.

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8 Book Review

"Options, Futures, and other Derivatives"

Ravi Aditya
Assistant Professor

Dr.Nila A. Chotai
Associate Professor
Acharya Bangalore B School, Bengaluru, India.

"Options, Futures, and other Derivatives" an often suggested and recommended book by Professor John C. Hull, has over the years emerged the most preferred textbooks, especially in business management community and fraternity. Derivatives Management is taught as subject in various B-schools For business graduates, derivative instruments are introduced through a progression where the levels of intricacies and difficulty is progressed slowly to levels where one is involved in pricing, monitoring, comparing the price movements, feasibility, and even predicting the changes.

Hull, in his book, has been very successful in maintaining this progression and this very nature of his book has mustered to come out as one of the most preferred book on derivatives among the numerous books available in market.

Contents

"Such labored nothings, in so strange a style, Amaze th' unlearned, and make the learned smile", says Alexander Pope in "An Essay on criticism" and so goes this herculean act of reviewing this book which has always been a Rosetta's stone amidst its readers.

Hull has taken immense care in narrowing down the gap between theory and practicality, which has always been an issue in this subject and only few, could address it. The book also took into account and negated the basic assumption, a fallacy which was always there, of the reader possessing a sound mathematical knowledge.

The book contains both, basic as well advanced concepts and readers can derive knowledge based upon their needs. It has topics such as; Wiener process and Ito lemma, Estimating volatility and correlations, Convexity, timing and quanto adjustments etc, which are useful for practitioners while simultaneously including current topics and trends such as; HJM (Heath, Jarrow, and Morton) models, LMM (LIBOR market model) etc. These topics are explained without much effort being put in theory but rather the applicability of these models.

Theories of Merton, Cochrane et al have long been looked upon as providing theoretical foundations for advanced MBA students, and Hull in his book has made a successful effort in presenting the theories with innovation which takes away the dullness in former ones.

The lucidity with which the book flows is really commendable, as the explanations of pricing the instruments and details in the techniques to readily apply is concentrated more upon.

Developments

Hull has been proactive in developing the book by including novel concepts and also exhibiting the new developments that have been taking over in this derivatives market. He included the perspective of derivatives from the point of view from India, China and Brazil, which is welcomed by most as

this was lacking in his earlier editions. The book also now explains new concepts such as; VIX Volatility index, Valuation of volatility swaps and volatility smiles. These concepts are new and are well presented with ample examples to make the reader understand and use them.

One of the most important aspects of the book which has been widely accepted by professionals is the use of DerivaGem software with latest version included. This software equips the user with pricing Options and also helps them build applications. The software can be used by students to create and explore the properties of options.

Conclusion

A complete book for anyone who wishes to, either, explore the world of derivatives or master the derivatives instruments. Difficult topics simplified so that the practicality is achieved, which many books fail. The only downside with the book is that Indian readers will find it difficult, in some topics, to relate and decipher as these topics are not yet in their entirety in the country. The rules & regulations in Indian market add another hurdle for practitioners. Derivatives market and instruments are still in their nascent stage in India though efforts have been made in trying to include concepts and scenarios in developing countries.

Call for Papers

AMBER- ABBS Management, Business and Entrepreneurship Review (ISSN: 0976-3341).

Theme of the Forthcoming Issue "Retailing"

Retail is the process of selling goods or services to customers through multiple channels of distribution to earn a profit. Demand is created through diverse target markets and promotional tactics. Satisfying consumers' wants and needs through a lean supply chain is one of challenges to retailers. In 2000s, an increasing amount of retailing is done through internet using electronic payment or cash on delivery model. Retail industry is also one of the biggest industries in the world. This sector contributes around 22 per cent to India's GDP.

Retail sector is of immense interest to business and management researchers, with plethora of research done in this area. The articles are invited in all areas of 'Retailing'.

The important guidelines for authors are as follows:

1. The article or case study shall be original and empirical using specialized concepts, research methodology highlighting key insights and managerial implications.
2. The submission must in MS word 2003.
3. Name of the Author, Designation and Affiliation, and contract e-mail ID must be provided in the first page.
4. The second page must contain the abstract and key words. Ensure that the abstract is not more than 150 words. Abstract should be in fully justified and italicized text. The abstract should elaborate research background and methodology. Maximum 4 - 6 key words, listed alphabetically, separated by commas, and full stop at the end.
5. The third page must contain the title and the body of the article must start here.
6. The body of the article must be center – justified and the entire must be of font size 10 in Times New Roman font except for headings. The title must be boldfaced with 14 font size in title case. Each of the subheadings must be of font size 12, boldfaced and in Title case. Section headings can be font size 10 and boldfaced in title case.
7. The spacing between the lines must be 1.5 and a spacing of 10 points between paragraphs must be given. There must be no tab for the first sentence of every paragraph.
8. Foot notes must be placed on the same page of the main text to which they correspond.
9. Annexure must be numbered and must follow immediately after the body of the text.
10. The body of the text must contain references as follows (WTO,2012)i.e., last name/ surname of the author and year.
11. All references have to be arranged in alphabetical order and must be numbered except those of internal sources. The internet sources must be placed after other references and must be separately numbered.
12. The references must be presented as follows:

    For books, reports, manuscripts and unpublished volumes:

    Toffler, A. (1980). The Third wave: The Classic Study of Tomorrow, Bantam Books, New York,pp 195 – 207.

    For Journals and other periodicals:

    Venkatesha, H.R. (2008), "Dealers' performance and Customers' preference in passenger Car Marketing ", Vilakshan, VOl 5, No. 6,pp 222 – 235.

    For internet sources, web site and addresses must be alphabetically arranged and numbered at the end of the reference section.
13. Authors have to submit two hard copies and one soft copy.
14. Hard copies shall be sent to the below address.