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E-Waste Management – Accountability and Strategies

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Abstract

The electrical and electronic equipment (EEE) industry is the world’s largest and fastest growing manufacturing industry providing a role of a forceful leverage to the socio-economic and technological growth of a developing and developed society. These wastes have a major impact over the health of society. Tragedy at the Maya Puri Market (New Delhi, India) is one of the latest examples of this where approximately ten persons have died. After the interrogation it was found that this has occurred due to care less handling of e-waste. There are numerous examples like this. In this paper we analyze the responsibility and accountability of the society or manufacturer or seller or any other people responsible for generation of e-waste. The limitation of this paper is that due to non availability of sufficient data, we may only discuss the accountability and responsibility followed by suggestion of strategies based upon our experience.

Approach of the Study: The study has been carried on in two phases; the first phase was exploratory research and the second phase constructive research.

1. Introduction

The electrical and electronic equipment (EEE) industry is the world’s largest and fastest growing manufacturing industry providing a role of a forceful leverage to the socio-economic and technological growth of a developing and developed society. The various sections of the society which are accountable for the e-waste are manufacturers/sellers, users, and Government at large, in respect of dumping and reuse/recycling. As per the data from Toxics Links, an IT company based in Bangalore dumps around 30,000 computers per year without taking into account its impact on health and environment, and many other such companies are doing the same, resulting in the accumulation of the burden on earth. The problems, issues and the challenges emerging due the consequences of the consumer-oriented growth with rapid product obsolescence and technological advances, is the result of the insufficient awareness among the stakeholders and lack of sense of responsibility towards the environment. The society as a whole must work together upon the economic, environmental and social benefits costs of recovery approaches, and efficient e-waste management.

The unsustainability of discarded electronics and computer technology is another reason for the need to recycle/reuse. Not only to developing countries but even in developed countries recycling and disposal of e-waste may involve significant risk to workers and communities and great care must be taken to avoid unsafe exposure in recycling operations and leaching of material such as heavy metals from landfills and incinerator ashes. Scrap industry and USA EPA officials agree that materials should be managed with caution, and environmental dangers of unused electronics have not been exaggerated.

2. Concept of E-waste Management

Electronic waste, e-waste, e-scrap, or Waste Electrical and Electronic Equipment (WEEE) describe loosely discarded, surplus, obsolete, or broken electrical or electronic devices. Informal processing of electronic waste in developing and developed countries causes serious health and pollution problems. It includes the broad spectrum of electronic appliances, products, components, and accessories that - due to malfunction, exhaustion (batteries, light bulbs and fluorescent tubes), or obsolescence have been discarded. E-waste is the by-product of the technological revolution. When disposed off in a landfill, it
becomes a conglomeration of plastic and steel casings, circuit boards, glass tubes, wires, resistors, capacitors, fluorescent tubes, and other assorted parts and materials. E-waste contain substances like lead, cadmium, beryllium, mercury, polyvinyl chloride (PVC) and brominated flame retardants has immense potential to harm health and environment if discarded improperly and are valuable as a source of secondary raw material. In the below table, various types of e-waste and their impacts over the health and environment have been discussed in brief.

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<th>E-waste Source</th>
<th>Components</th>
<th>Effect on health and environment</th>
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| Solder in printed circuit board glass panel and gasket in computer monitor | Lead | • Damage to Central Nervous System and Peripheral Nervous system blood system and kidney damage  
• Adverse effect on the brain development of the children harmful for circulatory system |
| Chip register and semi conductors | Cadmium | • Toxic irreversible effect on health  
• Accumulates in kidney and liver  
• Causes Neural damage |
| Relays and switches and printed circuit boards | Mercury | • Chronic damage to the brain  
• Respiratory and skin disorder due to bio accumulation on the body of fish |
| Galvanized steel plate and decorator or hardener for steel housing | Chromium | Causes bronchitis |
| Cabling and computer housing | Plastic and PVC | Burning produces dioxins that causes reproductive and developmental problem |
| Electronic equipment and circuit board | Brominated flame retardants | Disrupt endocrine systems function |
| Front panel of CRTs | Barium , Phosphorous and heavy metals | Causes muscle weakness and damage to heart, liver and spleen |
| Copper wire printed circuit board | Copper | Stomach cramps, nausea, liver damage or Wilson disease |
| Nickel rechargeable Batteries | Cadmium, Nickel | Allergy of the skin to nickel results in dermatitis while of the nickel to lungs result in Asthma |
| Lithium –ion batteries | Lithium | • Lithium can pass into breast and may harm a nursing baby  
• Inhalation of substance may cause lung edema |
| Motherboard | Beryllium | • Carcinogenic(lung cancer)  
• Inhalation of fumes and dust cause chronic beryllium diseases |

3. Problems of E-waste Management in India
A large number of persons gathered from around the World to tackle the upcoming challenge which at present not seeming very significant from India’s perspective. Some of the following reasons show that our country is required to make plan and their execution relating to management of e-waste to avoid any disasters in future.

i. In the present era, India has emerged one of the leading countries in the field of IT and this industry uses, most of the time, new technologies that contain harmful components. However, these IT Companies do not have any proper planning for discarding of old computers and other electrical and electronics equipments used by them.
ii. E-waste is now the fastest growing at an unsustainable rate, and most toxic, component of municipal garbage.

iii. In India, due to high growth rate of population we do not have sufficient lands to store e-waste or dump such waste. Therefore, disposal of these without proper treatment can harm environment and human health.

iv. E-Waste is the products of the life cycle process that can have upstream environmental and resource depletion effect as it contain many costly and scarce metal and resources. The owner of wastes are unaware of opportunities to sell or give it away so they incorrectly believes disposal to be the least-cost option;

v. Most of the firms using high technologies in their working generate too much waste, or otherwise manage it poorly, as they do not have the information needed to manage waste well;

vi. While designing products, companies often do not consider environmental damage as a result E product that after a certain time period get converted into E- waste is incorrectly disposed off leading to contamination of recyclables or unsafe treatment of hazardous material. Undoubtedly, these things contribute to the growing generation of waste. However, the exact size and nature of this relationship in India is uncertain due to the lack of adequate time-series data on waste generation.

vii. Local governments are facing huge costs to handle e-waste, and even greater costs if they do not capture this toxic stream and handle it in an appropriate manner.

viii. The collection and recycling of E-Waste in India is being done by informal sector which results in adoption of malpractices. However, the government has taken the following steps to enhance awareness about environmentally sound management of electronic waste (CII,2006):

a. Several workshops on the Electronic Waste Management are organized by the Central Pollution Control Board (CPCB) in collaboration with Toxics Link CII etc.

b. Various actions have been initiated by CPCB for rapid assessment of the E-Waste generated in major cities of the country.

c. A National working group have been constituted for formulating a strategy for E- Waste Management.

d. A comprehensive technical guide on “Environmental Management for Information Technology Industry in India” have been published and circulated widely by the Department of Information technology (DIT), Ministry of Communication and Information Technology.

e. Demonstration project has also been set up by the Indian Telephone Industries for recovery of copper from printed circuit board. Although awareness and readiness for implementing improvements is increasing rapidly, the major impediments of E-Waste management include:

ix. The lack of reliable data that poses a challenge to the policymakers wishing to design an e-waste management strategy and to an industry wishing to make rational investment decision.

x. Only a fraction of E-Waste (estimated 10%) finds its way to recyclers due to absence of an efficient take back scheme of consumers.

xi. The lack of a safe E-Waste recycling infrastructure in the formal sector and thus Reliance on the capacities of the informal sector poses severe risk to environment and human health.

xii. The existing E-Waste recycling system is purely business driven that come about without any business intervention.

xiii. There is a huge employment potential but because of the concerned business activities goes unchecked by the government, thus, results in the loss of track on turnover rate.

4. E-waste Legislations in India

At present there is no specific Rules or Acts or Guidelines dealing with e-waste management in India. The Ministry of Environment & Forests (MoEF) of the Government of India is responsible for environmental legislation and its control. The Central Pollution Control Board (CPCB), an autonomous body under the MoEF, plays an important role in drafting guidelines and advising the MoEF on policy matters regarding environmental issues.
As per the Hazardous Waste Rules (1989), e-waste is not treated as hazardous unless proved to have higher concentration of certain substances. Though PCBs and CRTs would always exceed these parameters, there are several grey areas that need to be addressed, mainly on concerns of mercury, lead and cadmium. Basel Convention has waste electronic assemblies in A1180 and mirror entry in B1110. Electronic waste is included under List-A and List-B of Schedule-3 of the Hazardous Wastes (Management & Handling) Rules, 1989 as amended in 2000 & 2003. Therefore, the import of this waste requires specific permission of the Ministry of Environment and Forests.

In 2001, the German Technology Cooperation (GTZ) in cooperation with MoEF began work on hazardous waste management in India through the advisory services in environmental management. Subsequently, the global programme ‘Knowledge Partnerships in e-waste Recycling’ started implemented by Swiss Federal Laboratories for Material Testing and Research (EMPA). Combining the knowledge and technical expertise of EMPA on e-waste management, coupled with the field experience of the Indo-German projects in managing hazardous waste in India, the Indo-German-Swiss e-waste initiative was born in 2004.

5. Accountabilities and Responsibilities of Different Institution Regarding E-Waste

E-Waste management is new field in Indian perspective, first we need to assign who should be made accountable for E-Waste and its management. So that in future we need not to worry about the effect thereof on our environment and health as well as growth of this industry and our country should not be interrupted. After careful analysis we came to find a chain that should be managed aptly to foster growth and at the same time reduce the risk and uncertainties regarding E-Waste management. Based upon our analysis, we have categorised the following persons as accountable and responsible for generations and management of e-waste and the probable solutions.

5.1 Producer

The manufacturers of all the e-products are directly involved in the productions of these products. Hence they are primarily responsible for the production and management of e-waste. Further, they are also responsible for

a. Collection of any material that can be a source of damage to health and environment due to its constituents and forwarding it to safe way of recycling and reprocessing and disposal gateways. All electrical and electronic equipment should be given a unique serial number or identification code so that one can identify the responsible manufacturer.

b. E-waste should be collected “end of life” of their products in line with the principle of “Extended Producer Responsibility” (EPR), and to ensure that such e-wastes should be channelized to registered dismantler or recycler.

c. Producer should made arrangement were E-waste collected either individually or collectively for all electrical and electronic equipment at the end of their life.

d. The producer should provide contact details such as address, telephone numbers/helpline number and e-mail of dealers and authorized collection centers to consumer(s) or bulk consumer(s) so as to facilitate return of used electrical and electronic equipment.

e. The producer should create awareness through publications, advertisements, posters, or by any other means of communication and information booklets accompanying the equipment, with regard to information on hazardous constituents in product that has been purchased by consumers and later converted into e-waste, information on hazards of improper handling, accidental breakage, damage and/or improper recycling of e-waste.

5.2 Dealers

The dealers are responsible after the manufacturer as these are directly involved in the selling of products. The responsibilities of the dealers are discussed as follows.

a. Every dealer should be made responsible to collect the used electrical and electronic equipment (e-waste) by providing the consumer(s) a box, bin or a demarcated area to deposit e-waste.

b. Every dealer shall make an application in the prescribed form to the concerned State Pollution Control Boards or Pollution Control Committees for grant of one time registration. After filling the application for registration, if no objections are raised within
thirty days by the State Pollution Control Board, it shall be considered that dealer has been registered. Once the dealer is registered, he is required to submit details of e-waste collected to the concerned State Pollution Control Board or Pollution Control Committees on half yearly basis and registration would be liable for cancellation on failure to furnish these details to the State Pollution Control Boards or Pollution Control Committees.

c. Every dealer should made to ensure that the e-waste collected is safely transported back to the producer or to authorized collection centre as the case may be.

d. Every Dealer should be made to file annual returns in prescribed form to the concerned State Pollution Control Board or Pollution Control Committee, on or before the 30th day of June following to the financial year to which that return relates.

e. Every dealer is required to maintain records of the e-waste handled in prescribed format and such records should be available for scrutiny by the appropriate authority.

5.3 Refurbisher

The refurbishers are those persons who rectify the defected part of the disposed equipments. These persons make the parts resuable. Their responsibility are discussed below.

a. Every refurbisher should be made to collect e-waste generated during the process of refurbishing and channelized the waste to authorized collection centre.

b. Every refurbisher is required to file an application in the prescribed form to the concerned State Pollution Control Boards or Pollution Control Committees for grant of one time registration. After filling the application for registration, if no objection is raised within thirty days by the State Pollution Control Board, it shall be considered that refurbisher has been registered. Once the refurbisher is registered, he is required to submit details of e-waste collected to the concerned State Pollution Control Board or Pollution Control Committees on half yearly basis and registration would be liable for cancellation on failure to furnish these details to the State Pollution Control Boards or Pollution Control Committees. The refurbisher is required to maintains the relevant documents and shall file the half yearly and annual returns as the dealers are required.

c. Every refurbisher shall ensure that the e-waste thus collected is safely transported back to authorized collection centre or registered recyclers as the case may be.

5.4 Consumer or Bulk Consumer

Consumers are responsible for the following

a. Consumers using electrical and electronic equipment shall ensure that used electrical and electronic equipment (e-waste) which are not fit for the intended use are deposited with the dealer or authorized collection centres.

b. Bulk consumers using electrical and electronic equipment shall ensure that used electrical and electronic equipment (e-waste) which are not fit for the intended use are auctioned to, deposited with the dealer or authorized collection centers or refurbisher or registered dismantler or recyclers, avail the pick-up, or take back services provided by the producers.

5.5 Dismanteler

The dismanteler is that person which dismantle the electrial and electronics equipments which may or may not be available for reuse. The responsibilities of dismantelers are

a. ensure that that no damage is caused to the environment during storage and transportation of e-waste.

b. ensure that the dismantling processes do not have any adverse effect on the health and the environment;

c. Ensure that the facility and dismantling processes are in accordance with the standards or guidelines published by the Central Pollution Control Board from time to time; and ensure that dismantled e-waste are segregated and sent to the registered recycling facilities for recovery of materials.

d. Ensure that non-recyclable/non-recoverable components are sent to authorize treatment storage and disposal facilities.
e. The dismantler shall not process any e-waste for recovery or refining of materials, unless he is registered as recycler for refining and recovery of materials.

5.6 Recycler
The recycler has following responsibilities.

a. Ensure that the facility and recycling processes are in accordance with the standards laid down in the guidelines published by the Central Pollution Control Board from time to time.
b. Ensure that residue generated thereof is disposed of in a hazardous waste treatment storage disposal facility.

Recycling electronic waste is very difficult and can be very costly. While some equipment can be recycled with ease such as laptop computers, other pieces of equipment such as the cathode ray tube found in CRV monitors can be very expensive and very difficult to recycle. Often, even once all of the valuable parts of old electronics has been recycled, the rest of the equipment still ends up in the landfills with many toxic components.

6. E-Waste Management Strategies
E-wastes volume can be reduced by ensuring that the product is built for re-use, repair and/or upgradeability. Some of the suggested strategies for better management of e-waste management are as:

1. There is a need for modification/upgrading the Processing Techniques.

2. India urgently needs National E-waste policy: Promulgate an all-embracing national E-waste Management law and an all-encompassing policy there under, for substituting the existing Hazardous Waste (Management and Handling) Rules 2003, as the latter are not comprehensive enough to attain the aforesaid objectives. A wide range of market-based instruments may be utilized in e-waste management policy in India through landfill disposal levies, advance disposal and recycling fees and subsidy schemes on e-waste collection for recycling purpose.

3. While formulating the policy, Governments should leave the provision of e-waste-exchange services to private markets.

4. Consider gradual introduction of enhanced producer responsibility into Indian process, practices and procedures so that preventive accountability gains preponderance over polluter immunity.

5. The e-waste policy instruments should be established under Extended Producer Responsibility (EPR) and Product Stewardship (PS) schemes/policies such as:

A. Take-back requirements — producers would be required to take their products back from final consumers for the purpose of resource recovery and/or disposal;

B. Product leases — consumers lease the product and must eventually return it to the producer so that materials recovery and recycling can be undertaken;

C. Advance disposal or recycling fees — a fee is levied on a new product to (at least partially) subsidize the cost of its future disposal or recycling;

D. Deposit refunds — consumers pay a deposit when they buy a product and this is refunded when the product is returned to an approved dealer or specialized treatment facility;

E. Tradable recycling credits — producers must obtain a certain number of recycling credits for every product they supply, either by earning them through their own recycling efforts or by purchasing them from others who recycle;

F. Tradable landfill diversion credits — producers must obtain a certain number of landfill diversion credits for every product they supply, either by earning them through their own efforts to divert waste from landfill or by purchasing credits from others who do so;

G. Education and awareness-raising — information provision on how to dispose of a product or participate in a specific EPR or PS scheme;

H. Product Labeling — an electronic product should be labeled so that consumers have information on its environmental performance and/or how it can be recycled or disposed of;

I. Targets — producers must achieve specific outcomes, such as a minimum amount of recycled content per product; and/or
J. **Compliance measures** — such as penalties for non-compliance, bans on specific materials, and restrictions on disposal to landfill or a waste treatment facility.

6. The process for complete national level assessment, covering all the cities and all the sectors, should be initiated, which must envelope inventories, existing technical and policy measures required for emergence of national E-waste policy/strategy and action plan for eco-friendly, economic E-waste management, and also should culminate in identifying potentially harmful substances and testing them for adverse health and environmental effects for suggesting precautionary measures.

7. Voluntary industry initiative — firms should participate on a voluntary basis and there is no direct government involvement (albeit there is often some coercion or strong encouragement);

8. Creation of a public-private participatory forum of decision making, problem resolution in E-waste management, which could be a Working Group comprising Regulatory Agencies, NGOs, Industry Associations, experts etc. to keep pace with the temporal and spatial changes in structure and content of E-waste, and also this Working Group can be the feedback providing mechanism to the National Nodal Authority in the Government that will periodically review the existing rules, plans and strategies for E-waste management.

9. Voluntary industry–government agreement — both firms and governments are involved, but individual firms can choose not to participate;

10. Industry–government co-regulation — a combination of industry self regulation and supporting government regulation, with the latter being used to ensure, among other things, no firm can ‘free ride’ on the efforts of others;

11. Government provision of general information and education programs can improve waste management practices, provided the information is accurate and relevant, would not otherwise be supplied by private markets, and there is a reasonable prospect of the information producing net benefits to the community. Therefore, Government should take steps to promote Information, Education and Communication (IEC) activities in schools, colleges, industry etc. to enhance the knowledge base on E-waste management using the PPP mode.

12. Creation of database on best global practices and failure analyses for development and deployment of efficacious E-waste management and disposal practices within the country.


14. Community support for recycling should count. Support for recycling does not always extend to a willingness to purchase products with recycled content. More direct testing of people’s preferences and willingness to pay for recycling. Governments should provide better information on, and promote debate about, the costs and benefits of recycling and other waste management options. Community and policy makers able to make better informed waste management choices.

15. Formulate and regulate the occupational health safety norms for the E-waste recycling which is now mainly confined to the informal sector.

16. By preferring incarceration over monetary penalties for demonstrating deterrent impact government should insist on stringent enforcement against wanton infringement of Basel convention and E-waste dumping.

17. Announcement of incentives for the growth of E-waste disposal agencies so that remediation of environmental damage, threats of irreversible loss and lack of scientific knowledge do not anymore pose hazards to human health and environment. Simultaneously, as a proactive step, lest it becomes too late for their intervention municipal bodies must be involved in the disposal of e-waste.

18. The trade policy and Exim classification codes should be reviewed time to time to plug the loopholes which are often being misused for cross-border dumping of E-waste into India.

19. For policy makers, managers, controllers and operators, sustained capacity building for industrial E-waste handling should be mandated. Enhance consumer awareness regarding the
potential threat to public health and environment by electronic products caused due to improper disposal.

20. Any development in these sectors will have to be built on existing setup as the waste collection and pre-processing can be handled efficiently by the informal sector, at the same time offer numerous job opportunities.

21. State Governments should investigate moving waste disposal and resource recovery services to appropriately-constituted regional bodies. Collection of e-waste should also be managed through local government.

7. Conclusion
The problems, issues and the challenges emerging due the consequences of the consumer-oriented growth with rapid product obsolescence and technological advances make responsible and accountable all persons from manufacturer to end user including recyclers. The drafted E-waste Management Rules, 2010 is not yet passed and implemented. The said Rules are the only specific Rules on the management of E-waste. This rule can only bind the above-discussed persons because of consideration of Extended Producer Responsibility (EPR). The Government should focus on implementing such Rules as early as possible and should also take preventive actions against e-waste that is dumped by developed countries in developing countries in the form of donations or gifts.

References
Business Ethics: Contributions of European Enlightenment Thinkers

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ABSTRACT

This paper discusses the concept of business ethics as well as the significance of managing business ethics. Needless to say, European enlightenment thinkers have made significant contributions to ethics, per se and consequentially to business ethics. Aristotle’s concepts of virtue and ‘good life’ are also discussed. An attempt has been made to bring out the theoretical contributions of mainstream philosophers in this article.

Key words: Ethics, Business ethics, Deontology and Utilitarianism, and Consequentialism.

❖ Introduction:

The concept of Business Ethics has come to mean various things to various people, but generally it's coming to know what it right or wrong in the workplace and doing what's right -- this is in regard to effects of products/services and in relationships with stakeholders. Caveat emptor: This ancient Latin proverb let the buyer beware, tells us that business ethics has been a societal concern going back a long ways indeed. Ethics is not an exact science. People define Ethics in accordance with their own set of values which differ depending on time, place and culture. Webster's defines Ethics as "the discipline dealing with what is good and bad or right and wrong or with moral duty and obligation." The word derives from the Greek word meaning "moral," a Latin word with roots in "mores" or "customs"—in other words the values held by society.

Business Ethics is a form of the art of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. In the increasingly conscience-focused marketplaces of the 21st century, the demand for more ethical business processes and actions ~ Ethicism, is increasing. Simultaneously, pressure is applied on industry to improve business ethics through new public initiatives and laws.

The simplest definition of ethics and moral values would be to not distinguish between the two and say that they describe what is right and what is wrong in human behavior and what ought to be. Business ethics are the desired norms of behavior exclusively dealing with commercial transactions. Moral values are deep seated ideas and feelings that manifest themselves as behavior or conduct. If we know the consequences of our actions we can convert values into rules of behavior that can then be described as ethics, i.e, Values + Knowledge = Ethics

In the business world, ethics often are displaced by greed when there is a periodic frenzy of rising stock market prices. Inevitably, a steep downturn then inflicts losses on investors and on businesses with a concomitant reduction in the workforce. An excessive competitive spirit tends to induce unethical business practices so the business world becomes a battlefield where the normal rules are flouted, skirted or simply disregarded. The ensuing instability is bad for the economy and for the government.

❖ Benefits of Managing Ethics in the Workplace

Many people are used to reading or hearing of the moral benefits of attention to business ethics. However, there are other types of benefits, as well. The following list describes various types of benefits from managing ethics in the workplace.
• **Attention to business ethics has substantially improved society.**
A matter of decades ago, children in our country worked 16-hour days. Workers’ limbs were torn off and disabled workers were condemned to poverty and often to starvation. Trusts controlled some markets to the extent that prices were fixed and small businesses choked out. Price fixing crippled normal market forces. Employees were terminated based on personalities. Influence was applied through intimidation and harassment. Then society reacted and demanded that businesses place high value on fairness and equal rights. Anti-trust laws were instituted. Government agencies were established. Unions were organized. Laws and regulations were established.

• **Ethics programs help maintain a moral course in turbulent times.**
Attention to business ethics is critical during times of fundamental change -- times much like those faced now by businesses, both nonprofit and for-profit. During times of change, there is often no clear moral compass to guide leaders through complex conflicts about what is right or wrong. Continuing attention to ethics in the workplace sensitizes leaders and staff to how they want to act -- consistently.

• **Ethics programs cultivate strong teamwork and productivity.**
Ethics programs align employee behaviors with those top priority ethical values preferred by leaders of the organization. Usually, an organization finds surprising disparity between its preferred values and the values actually reflected by behaviors in the workplace. Ongoing attention and dialogue regarding values in the workplace builds openness, integrity and community -- critical ingredients of strong teams in the workplace. Employees feel strong alignment between their values and those of the organization. They react with strong motivation and performance.

• **Ethics programs support employee growth and meaning.**
Attention to ethics in the workplace helps employees face reality, both good and bad -- in the organization and themselves. Employees feel full confidence they can admit and deal with whatever comes their way.

• **Ethics programs are an insurance policy -- they help ensure that policies are legal.**
There are an increasing number of lawsuits in regard to personnel matters and to effects of an organization’s services or products on stakeholders. Ethical principles are often state-of-the-art legal matters. These principles are often applied to current, major ethical issues to become legislation. Attention to ethics ensures highly ethical policies and procedures in the workplace. It’s far better to incur the cost of mechanisms to ensure ethical practices now than to incur costs of litigation later. A major intent of well-designed personnel policies is to ensure ethical treatment of employees, e.g., in matters of hiring, evaluating, disciplining, firing, etc.

• **Ethics programs help avoid criminal acts “of omission” and can lower fines.**
Ethics programs tend to detect ethical issues and violations early on so they can be reported or addressed. In some cases, when an organization is aware of an actual or potential violation and does not report it to the appropriate authorities, this can be considered a criminal act, e.g., in business dealings with certain government agencies, such as the Defense Department.

• **Ethics programs help manage values associated with quality management, strategic planning and diversity management -- this benefit needs far more attention.**
Ethics programs identify preferred values and ensuring organizational behaviors are aligned with those values. This effort includes recording the values, developing policies and procedures to align behaviors with preferred values, and then training all personnel about the policies and procedures. This overall effort is very useful for several other programs in the workplace that require behaviors to be aligned with values, including quality management, strategic planning and diversity management. Total Quality Management includes high priority on certain operating values, e.g., trust among stakeholders, performance, reliability, measurement, and feedback. *Eastman and Polaroid* use ethics tools in their quality programs to ensure integrity in their relationships with stakeholders. Ethics management techniques are highly useful for managing strategic values, e.g., expand market share, reduce costs, etc.

• **Ethics programs promote a strong public image.**
Attention to ethics is also strong public relations—admittedly, managing ethics should not be done primarily for reasons of public relations. The fact that an organization regularly gives attention to its ethics can portray a strong positive to the public. People see those organizations as valuing people more than profit, as striving to operate with the utmost of integrity and honor. Aligning behavior with values is critical to effective marketing and public relations programs.

- **Overall benefits of ethics programs:**
  Managing ethical values in the workplace legitimizes managerial actions, strengthens the coherence and balance of the organization’s culture, improves trust in relationships between individuals and groups, supports greater consistency in standards and qualities of products, and cultivates greater sensitivity to the impact of the enterprise’s values and messages.

- **Last- and most -- formal attention to ethics in the workplace is the right thing to do.**

  ❖ **European enlightenment philosophers:**

  Ethical theories may be divided into the following categories:
  - Teleological
  - Utilitarianism
  - Deontological
  - Consequentialism

  Teleological theories determine the ethics of an act by looking to the probable outcome or consequences of the decision (the ends) and often treated as a synonym with consequentialism. A distinction is worth making. In teleological ethics the goodness of an action is measured in terms of its contribution to certain purpose or, end/ objective and focuses on movement toward end. On the other hand, consequentialist ethics measures goodness of action with reference to a specific value, say, happiness (in classical utilitarianism).

  Utilitarianism was a social reform movement and ethical theory which held that morality of an act should be judged solely on the basis of results. According to Utilitarianism “Utility” is the only intrinsic good. Actions and precedents are judged morally right or wrong in proportion to their propensity to produce the most happiness or pleasure, for the greatest number. Jermy Bentham and John Stuart Mill are the prominent exponents of this approach. The details of their theories are given below.

  **Jermy Bentham (1748-1832):**
  Utilitarianism: The Greatest Good for the Greatest Number:
  You have probably heard a politician say he or she passed a piece of legislation because it did the greatest good for the greatest number of citizens. Perhaps you have heard someone justify their actions because it was for the greater good.
  In this article, an attempt is made to bring out philosophy behind such actions. The philosophy is known as utilitarianism. Although it is a long word, it is in common usage every day. It is the belief that the sole standard of morality is determined by its usefulness.
  Philosophers refer to it as a "teleological" system. The Greek word "telos" means end or goal. This means that this ethical system determines morality by the end result. Whereas Christian ethics are based on rules, utilitarianism is based on results.
  Utilitarianism began with the philosophies of Jeremy Bentham (1748-1832) and John Stuart Mill (1806-1873). Utilitarianism gets its name from Bentham's test question, "What is the use of it?" He conceived of the idea when he ran across the words "the greatest happiness of the greatest number" in Joseph Priestly's *Treatise of Government*.
  Jeremy Bentham developed his ethical system around the idea of pleasure. He built it on ancient hedonism which pursued physical pleasure and avoided physical pain. According to Bentham, the most moral acts are those which maximize pleasure and minimize pain. This has sometimes been
called the "utilitarian calculus." An act would be moral if it brings the greatest amount of pleasure and the least amount of pain.

John Stuart Mill modified this philosophy and developed it apart from Bentham's hedonistic foundation. Mill used the same utilitarian calculus but instead focused on maximizing the general happiness by calculating the greatest good for the greatest number. While Bentham used the calculus in a quantitative sense, Mill used this calculus in a qualitative sense. He believed, for example, that some pleasures were of higher quality than others.

Utilitarianism has been embraced by so many simply because it seems to make a good deal of sense and seems relatively simple to apply. However, when it was first proposed, utilitarianism was a radical philosophy. It attempted to set forth a moral system apart from divine revelation and biblical morality. Utilitarianism focused on results rather than rules. Ultimately the focus on the results demolished the rules.

In other words, utilitarianism provided for a way for people to live moral lives apart from the Bible and its prescriptions. There was no need for an appeal to divine revelation. Reason rather than revelation was sufficient to determine morality.

Founders of Utilitarianism

Jeremy Bentham was a leading theorist in Anglo-American philosophy of law and one of the founders of utilitarianism. He developed this idea of a utility and a utilitarian calculus in the Introduction to the Principles of Morals and Legislation (1781).

In the beginning of that work Bentham wrote: "Nature has placed mankind under the governance of two sovereign masters, pain and pleasure. It is for them alone to point out what we ought to do, as well as to determine what we shall do. On the one hand the standard of right and wrong, on the other the chain of causes and effects, are fastened to their throne. They govern us in all we do, in all we say, in all we think: every effort we can make to throw off our subjection, will serve but to demonstrate and confirm it."

Bentham believed that pain and pleasure not only explain our actions but also help us define what is good and moral. He believed that this foundation could provide a basis for social, legal, and moral reform in society.

Key to his ethical system is the principle of utility. That is, what is the greatest good for the greatest number?

Bentham wrote: "By the principle of utility is meant that principle which approves or disapproves of every action whatsoever, according to the tendency which it appears to have to augment or diminish the happiness of the party whose interest is in question: or, what is the same thing in other words, to promote or to oppose that happiness."

John Stuart Mill was a brilliant scholar who was subjected to a rigid system of intellectual discipline and shielded from boys his own age. When Mill was a teenager, he read Bentham. Mill said the feeling rushed upon him "that all previous moralists were superseded." He believed that the principle of utility "gave unity to my conception of things. I now had opinions: a creed, a doctrine, a philosophy; in one among the best senses of the word, a religion; the inculcation and diffusion of what could be made the principle outward purpose of a life."

Mill modified Bentham's utilitarianism in to happiness and introduced rule utilitarianism, whereas Bentham established act utilitarianism. According to Mill, one calculates what is right by comparing the consequences of all relevant agents of alternative rules for a particular circumstance. This is done by comparing all relevant similar circumstances or settings at any time. Kenneth Arrow’s contribution comes in terms of social choice preferences.

Analysis of Utilitarianism

Why did utilitarianism become popular? There are a number of reasons for its appeal.

First, it is a relatively simple ethical system to apply. To determine whether an action is moral you merely have to calculate the good and bad consequences that will result from a particular action. If the good outweighs the bad, then the action is moral.
Second, utilitarianism avoids the need to appeal to divine revelation. Many adherents to this ethical system are looking for a way to live a moral life apart from the Bible and a belief in God. The system replaces revelation with reason. Logic rather than an adherence to biblical principles guides the ethical decision-making of a utilitarian.

Third, most people already use a form of utilitarianism in their daily decisions. We make lots of non-moral decisions every day based upon consequences. At the checkout line, we try to find the shortest line so we can get out the door more quickly. We make most of our financial decisions (writing checks, buying merchandise, etc.) on a utilitarian calculus of cost and benefits. So making moral decisions using utilitarianism seems like a natural extension of our daily decision-making procedures.

There are also a number of problems with utilitarianism. One problem with utilitarianism is that it leads to an "end justifies the means" mentality. If any worthwhile end can justify the means to attain it, a true ethical foundation is lost. But we all know that the end does not justify the means. If that were so, then Hitler could justify the Holocaust because the end was to purify the human race. Stalin could justify his slaughter of millions because he was trying to achieve a communist utopia.

The end never justifies the means. The means must justify themselves. A particular act cannot be judged as good simply because it may lead to a good consequence. The means must be judged by some objective and consistent standard of morality.

Second, utilitarianism cannot protect the rights of minorities if the goal is the greatest good for the greatest number. Americans in the eighteenth century could justify slavery on the basis that it provided a good consequence for a majority of Americans. Certainly the majority benefited from cheap slave labor even though the lives of black slaves were much worse.

A third problem with utilitarianism is predicting the consequences. If morality is based on results, then we would have to have omniscience in order to accurately predict the consequence of any action. But at best we can only guess at the future, and often these educated guesses are wrong.

A fourth problem with utilitarianism is that consequences themselves must be judged. When results occur, we must still ask whether they are good or bad results. Utilitarianism provides no objective and consistent foundation to judge results because results are the mechanism used to judge the action itself.

**Situation Ethics**

A popular form of utilitarianism is *situation ethics* first proposed by Joseph Fletcher in his book by the same name. Fletcher acknowledges that situation ethics is essentially utilitarianism, but modifies the pleasure principle and calls it the *agape* (love) principle.

Fletcher developed his ethical system as an alternative to two extremes: legalism and antinomianism. The legalist is like the Pharisees in the time of Jesus who had all sorts of laws and regulations but no heart. They emphasized the law over love. Antinomians are like the libertines in Paul's day who promoted their lawlessness.

The foundation of situation ethics is what Fletcher calls the law of love. Love replaces the law. Fletcher says, "We follow law, if at all, for love's sake."

Fletcher even quotes certain biblical passages to make his case. For example, he quotes Romans 13:8 which says, "Let no debt remain outstanding, except the continuing debt to love one another, for he who loves his fellow man has fulfilled the law."

Another passage Fletcher quotes is Matthew 22:37-40. "Christ said, Love the Lord your God with all your heart and with all your soul and with all your mind. . . . Love your neighbor as yourself. All the Law and the Prophets hang on these two commandments."

Proponents of situation ethics would argue that these summary verses require only one absolute (the law of love). No other universal laws can be derived from this commandment to love. Even the Ten Commandments are subject to exceptions based upon the law of love.

Situation ethics also accepts the view that the end justifies the means. Only the ends can justify the means; the means cannot justify themselves. Fletcher believes that "no act apart from its foreseeable consequences has any ethical meaning whatsoever."

Joseph Fletcher tells the story of Lenin who had become weary of being told that he had no ethics. After all, he used a very pragmatic and utilitarian philosophy to force communism on the people. So
some of those around him accused him of believing that the end justifies the means. Finally, Lenin shot back, "If the end does not justify the means, then in the name of sanity and justice, what does?". Like utilitarianism, situation ethics attempts to define morality with an "end justifies the means" philosophy. According to Fletcher, the law of love requires the greatest love for the greatest number of people in the long run. But as we will see in the next section, we do not always know how to define love, and we do not always know what will happen in the long run.

Analysis of Situation Ethics
Perhaps the biggest problem with situation ethics is that the law of love is too general. People are going to have different definitions of what love is. What some may believe is a loving act, others might feel is an unloving act. Moreover, the context of love varies from situation to situation and certainly varies from culture to culture. So it is even difficult to derive moral principles that can be known and applied universally. In other words, it is impossible to say that to follow the law of love is to do such and such in every circumstance. Situations and circumstances change, and so the moral response may change as well. The admonition to do the loving thing is even less specific than to do what is the greatest good for the greatest number. It has about as much moral force as to say to do the "good thing" or the "right thing." Without a specific definition, it is nothing more than a moral platitude.

Second, situation ethics suffers from the same problem of utilitarianism in predicting consequences. In order to judge the morality of an action, we have to know the results of the action we are about to take. Often we cannot know the consequences.

Joseph Fletcher acknowledges that when he says, "We can't always guess the future, even though we are always being forced to try." But according to his ethical system, we have to know the results in order to make a moral choice. In fact, we should be relatively certain of the consequences, otherwise our action would by definition be immoral.

Situation ethics also assumes that the situation will determine the meaning of love. Yet love is not determined by the particulars of our circumstance but merely conditioned by them. The situation does not determine what is right or wrong. The situation instead helps us determine which biblical command applies in that particular situation.

From the biblical perspective, the problem with utilitarianism and situation ethics is that they ultimately provide no consistent moral framework. Situation ethics also permits us to do evil to achieve good. This is totally contrary to the Bible.

For example, Proverbs 14:12 says that "There is a way which seems right to a man, but its end is the way of death." The road to destruction is paved with good intentions. This is a fundamental flaw with an "ends justify the means" ethical system.

In Romans 6:1 Paul asks, "Are we to continue sinning so that grace may increase?" His response is "May it never be!"

Utilitarianism attempts to provide a moral system apart from God's revelation in the Bible, but in the end, it does not succeed.

Bentham believed that utility could be measured quantitatively (he called it hedonistic calculus). To him seeking happiness is an inherent part of human nature, and that happiness could be measured as a matter of quantity. Each person is his/her own judge when it comes to happiness, but when it comes to the greatest happiness (he called it felicity), a person can really only be happy if others around him/her are happy too. This is known as the greatest happiness principle. It depends upon the circumstances, upon the community in which one happens to be, upon how people seek to maximize harmony and comfort, and happiness with friends and neighbors. Bentham devises the Hedonistic Calculus, which has the following components.

- **INTENSITY**: The force value of some happiness
- **DURATION**: The length of time some happiness provides
- **CERTINITY**: The chance that some action will lead to happiness
- **PROPENQUITY**: How close are the circumstances
• FECUNDITY: How much of a “spill over” effect some happiness has or will more of the same follow.

• PURITY: How less are or no negative “side effects “from some happiness or the pleasure will not be followed by pain.

• EXTENT: The number of people affected by the pursuit of happiness

Bentham believed that the pursuit of pleasure could be measured in quantitative terms. He argued that it’s some times best to sacrifice individuals for the good of the organization.

John Stuart Mill (1806-1873):

Mill believed in qualitative approach which essentially involved checking one's perceived judgments with others for second opinion so to speak. He adjusted the hedonistic tendencies in Bentham philosophy by emphasizing the following

- It is not the quantity of pleasure, but the quality of happiness that is central to utilitarianism
- The calculus is unreasonable, because quality can not be quantified (there is distinction between higher and lower pleasure)

- Utilitarianism refers to the “Greatest happiness principle”--- it seeks to promote the capability of achieving happiness(higher pleasure) for the most amount of people( this is its extent)

Mill insisted that some pleasures are more worthy than others and that a refined person would pursue more refined pleasures. For instance, in the corruptible nature of society and organization it is probably more important to look upon self-sacrifice and individual conscience as virtues in themselves.

DEONTOLOGICAL ETHICS:

“Act only according to that maxim whereby you can at the same time will that it should become a universal law” - Immanuel Kant

Deontological philosophy holds that rules are the basis of morality. Kant rejected the consequentialist view of morality, because to him it relies too heavily on subjective considerations. He presented the deontological moral system based on the demands of the categorical imperatives as an alternative to cosequentialism, based on hypothetical imperatives.

There are many philosophers who reject the entire teleological agenda by arguing that moral goodness has nothing to do with generating pleasure, happiness, and or consequences. Deontological theories are by definition duty-based. That is to say, that morality, according to deontologists, consists in the fulfillment of moral obligations, or duties. Duties, in the deontological tradition, are most often associated with obeying absolute moral rules. Hence, human beings are morally required to do (or not to do) certain acts in order to uphold a rule or law. The rightness or wrongness of a moral rule is determined independent of its consequences or how happiness or pleasure is distributed as a result of abiding by that rule, or not abiding by it.

It's not difficult to see why philosophers would be drawn to this position. In ordinary life, we often encounter situations where doing our duty toward others does not necessarily increase pleasure or decrease pain. In early nineteenth-century America, many members of the anti-slavery movement argued that slavery was wrong, even though slaveholders and southern society in general, economically benefited from it. Suppose, also that the slaveholders were also able to condition the slaves to the point where they actually enjoyed living under slavery. From a teleological perspective, slavery might appear to be an ideal economic institution. Everybody is happy!

A deontologist, however, would argue that even if the American government conducted a detailed cost/benefit analysis of slavery and decided that it created more pleasure in society than pain, it would still be wrong. Therefore, deontologists believe that right and wrong have nothing to do with pleasure, pain, or consequences. Morality is based on whether acts conflict with moral rules or not, and the motivation behind those acts. An act is therefore, good if and only if it was performed out of a desire to do one's duty and obey a rule. In other words, act out of a good will. Hence, slavery is wrong, not because of its negative consequences, but because it violates an absolute moral rule. The problem here
is: "How does one distinguish absolute moral rules from mere convention, prudence, or legality, without reference to the distribution of pleasure and pain?" In the Western tradition there have been two approaches to the establishment of deontological principles: 

**Immanuel Kant (1724-1804):**

Kant was a German philosopher. He is regarded as one of the most influential thinkers of modern Europe, and the last major philosopher of the Enlightenment.

Kant introduced his moral philosophy in his 1785’s work “Groundwork of metaphysics” and continued to develop his moral philosophy. It is his “Critique of practical reason”, 1788, and “Metaphysics of Morals”, 1797 that sum up his moral philosophy.

Before going into discussion on Kant’s moral philosophy we need to understand some terminology.

These are

**Hypothetical Imperative:**

One, which tells us what we must do if we want to achieve some goal. For instance, if we want to solve differential equations we must learn calculus. (Proposition, that’s conditional in nature)

**Categorical Imperative:** One that is binding on us absolutely, simply in virtue of the fact that we are rational creatures.

**Kant’s Moral Philosophy:**

Kant believed that there is a single moral obligation, which he called the “categorical imperative”, and is derived from the concept of duty. It is from the categorical imperative that all other moral obligations are generated and by which all moral obligations can be tested. He believed that the moral law is a principle of reason itself and is not based on contingent facts about world, such as what would make us happy, but to act upon the moral law which has no other motive than “worthiness of being happy”. He believed that moral obligation applies to all and only rational agents. A categorical imperative is an unconditional obligation; that is it has the force of an obligation regardless of our will or desire.

Kant argued that the source of the good lies not in anything outside the human subject, either in nature or given by God, but rather only the good will itself. A good will is one that acts from duty in accordance with the universal moral law that the autonomous human being freely gives itself. This law obliges one to treat humanity--- understood as rational agency, and represented through oneself as well as others---as an end in itself rather than as means. Morality is rooted in human freedom and acting autonomously is to act according to rational moral principles.

Kant gave three conditions essential to his concept of morality. These are also known as the formulation of morality. They are

**The first formulation:** The first formulation declares “the maxim be chosen as though they should hold as universal laws of nature”. This implies that one must perform his actions in such a way as that could be applied universally. This formulation has its supreme law “always act according to that maxim whose universality as a law you can act the same time will” and is the only condition under which a will can never come into conflict with itself...”. It is also called universality test. It has the following steps

1) Find the agent’s maxim. The maxim is an action paired with its motivation. For instance: “I’ll lie for personal benefits”, lying is the action, the motivation is to get what one desire. paired together they form the maxim.

2) Imagine a possible world in which every one in a similar position to the real world agent follows that maxim.

3) Decide whether any contradictions arise in the possible world as a result of following the maxim.

4) If a contradiction arises, acting on that maxim is not allowed in the real world...
5) If there is no contradiction, then acting on that maxim is permissible, and in some instances required.

**The Second formulation:** “Every human being is an end in itself”
The rational being as by its nature as an end, and thus as an end in itself must serve in every maxim as the condition restricting all merely relative and arbitrary ends

**The third formulation:**
It is a synthesis of the first two and the basis for the complete determination of all maxims. It says that every rational being is a realm (kingdom), the legislative force, and also the subject in himself. Thus all maxims which stem from autonomous legislation ought to harmonize with a possible realm of ends as with a realm of nature. “So act as if your maxims should serve at the same time as the universal law (of all rational beings), implies that we should so act that we may think of ourselves as “a member in the universal realm of ends”.
This formulation of ethics is basically deontological.

**Conclusion:**
Aristotle’s main contribution is that he defined ethics as virtue. What constitutes human character and good life? European thinkers’ contributions lie in defining deontological and teleological ethical behavior. From these theoretical frameworks, management thinkers developed business ethics.

References and Notes:

Competency mapping of front-line Staff – A Need of an Hour for Retail Sector

Nandita Sen

ABSTRACT

Creating competency based culture and systems in organizations are the need of the hour. This creates a demand for HR professionals to have specialized skills and have a continuous up-gradation of knowledge. Working on solutions to help the Retail Industry in addressing the front-line staff Challenges around Hiring, Training, and Retention. Retail, with total sales of $6.6 trillion, is the world’s largest private industry ahead of financial industries $5.1 trillion. It is also home to a number of the world’s largest enterprises. Over 50 of the fortune 500 companies, and around 25 of the Asian top 500 companies, are retailers. The industry accounts for over 8% of the GDP in western economies. The level of consolidation within each country has increased significantly over the last few decades. This is most marked in the grocery, where large chains have leveraged superior scales of operations and souring to capture share from the unorganized players, while offering consumers the best price. This trend has led to organized networks capturing up to 80% of the groceries market in the developed economies.

Traditionally, most retailers have had very localized operations. This localized nature of the industry is changing as retailers face low rates of growth and threatened profitability at home. New geographies will help them sustain top-line growth as well as permit global sourcing. Further, global markets will progressively get easier to tap as product market barriers relaxed and as taste converge.

The call is for HR practitioners to play a more proactive and prominent role in order to retain the high tech skilled employees who are constantly looking for greater gains and prospects in their work. This is the real HR challenge to retain the "knowledge workers" and "knowledgeable workers" by introducing new processes and procedures and still ride high in implementing organizational effectiveness.

Keywords: Competency, Skilled Employees, Human Resource Development, Efficiency, Retail.

Introduction

Profits in retail have steadily been rising and have generated 18% shareholder returns between 1994 and 1999. Significantly, retail is one of the largest employers, accounting for instance 16% of the U.S workforce. Factors such as scale in sourcing, merchandising, operational effectiveness and ambience have driven the spread of organized retail. Groceries, electronics are examples of categories that compete on the strength of better pricing, which in turn is driven by superior sourcing and merchandising and cost-efficient operations. Wal-Mart, Home Depot and Kingfisher are benchmark retailers in these fields.

In apparel, home furnishings and furniture, the advantage is driven by the marketer’s ability to provide better products in a comfortable ambience at affordable prices. In these cases sourcing capabilities has to be backed by strong design capability and store management. IKEA and GAP are good examples of this model of retailing. Over the last few decades, retail formats have changed radically. The basic department stores and co-operatives of the early 20th century have given way to mass merchandisers, hypermarkets, warehouses clubs, category killers, discounters and convenience stores. Each of these formats has been driven by the market’s need to offer relevant,
distinctive and economic propositions to an evolving consumer base. Global retailers have also reached a position of strength that enables their brand to be leveraged across a wide range of services. Many of them have expanded their offering, over the years to include fuel retail, car retail, convenience services and personal finance services. This has put them in a position where they are not only beginning to capture growth from geographical expansion, but are also entering large new areas of business. The recent evolution of the internet has helped further broaden the scope of operations of large retailers. Further, a large number of retailers are pursuing innovative aggregation and supply chain-streamlining initiatives using B2B technology. Chill breeze writer — Ramadevi Srinivasan

The Indian Retail Industry stood at a value of a whooping US $330 billion in 2007 with the likes of Reliance Retail and Wal-Mart joining the conglomerates from inside and outside the country. It is estimated that the retail sector will reach around US $600 billion by the turn of this decade. Significantly retail industry contributes about 10% to the GDP of India, and it is the largest source of employment after agriculture in the country.

**Scope for employment opportunities:**

It is small wonder then that retail sector has opened the floodgates of employment opportunities to the Indian youth. Statistics reveal that the organized retail sector has increasing employee base burgeoning from 5.4 lakh to an awesome 16 lakh over the last couple of years. About 11.5 lakh jobs in the organized retail sector and 2 million jobs in the unorganized retail sector will be thrown open by 2010 what with the likes of key players in including Pantaloon India, RPG Retail, Lifestyle, Wills lifestyle, Shoppers shop, Trent Ltd, Crosswords Bookstores Ltd., Ebony Retail Ltd. and Reliance Retail Ltd. And the retail sector has abundant opportunities for part time positions as well due to the long working hours.

**Compensation packages:**

In general, hefty salary packages with attractive perks and allowances are offered by the employers luring the talent of this country into the retail industry. Surprisingly the average salary of even a fresher could be up to Rs.20,000/- with an assured average salary hike of 16% per annum. In some organizations the growth in salary ranges from Rs.60, 000/- to Rs.70,000/- annually.

**The emerging sector**

For a long time, the corner grocery store was the only choice available to the consumers, especially in the urban areas. The traditional food and grocery segment has seen the emergence of supermarkets/grocery chains (Food world, Nilgiries, Apna Bazaar), convenience stores and fast food chains (McDonalds, Dominos) .The lifestyles/fashions segments (Shopper’s stop, Globus, Lifestyle, Westside), apparels/accessories (Pantaloons, Levis, Reebok), books/music/gifts (Archie’s, Music world, Crosswords, Landmark) appliances and consumer durables (Vibe’s, Jenison’s, Vacant & Co), drugs and pharmacy (Health and Glow, Apollo)
First, the modern retailer is yet to feel the saturation effect in the urban market and has, therefore, probably not looked at the other markets seriously. Second the modern retailing trend, despite its cost-effectiveness, has come to be identified with lifestyles. In order to appeal to all classes of the society, retail stores would have to identify with different lifestyles. In a sense, this trend is already visible with the emergence of stores with an essentially value for money.

*Competencies are becoming a frequently-used and written-about vehicle for organizational applications such as:*

- Defining the factors for success in jobs (i.e., work) and work roles within the organization.
- Assessing the current performance and future development needs of persons holding jobs and roles.
• Mapping succession possibilities for employees within the organization.
• Assigning compensation grades and levels to particular jobs and roles.
• Selecting applicants for open positions, using competency-based interviewing technique.

SCOPE OF THE STUDY

To measure employees performance against expected skills, knowledge and competencies for the assigned positions. This will help in reducing the gap between performance and the goals previously set.

OBJECTIVE OF THE STUDY

1. To assess the existence of skills gap in front line staff of Big Bazaar and West side retail outlets.
2. To judge satisfaction level of employees towards performance appraisal system.
3. To suggest ways to develop a systematic approach to conduct competency mapping.

RESEARCH METHODOLOGY

The design consists of using both the exploratory research as well as to use Conclusive research so as to bring about the relationship that competency mapping has and its effect on the performance effectiveness. Experience Survey carried out to obtain an insight and ideas about the topic through depth interviews so as to probe deep into the competency mapping system of the company. Conclusive Research in the form of descriptive research will used just for determining the relationship and effect of competency mapping on performance management system. Simple Random sampling was done for the study. Employees of big bazaar and west side were samples for gathering data. The respondents were from HR and front-line departments of the companies. For the purpose of research both primary and secondary data were collected. Secondary data was collected from a number of books, newspaper articles, and websites. Primary data was collected from the employees with the help of questionnaires, discussion guidelines and interviews. The questionnaires will be used to gauge the preference of the customer’s associate whether they are satisfied with their own behavior and are they given the required attention. It would be done to identify the behavior of customers whether they are satisfied with the behavior of the customer associate’s and sales managers. It will consist of sample size of 100.

Hypothesis testing

H0: There is skills gap in the actual and adopted competency mapping criteria.
H1: There is no skills gap between the actual and adopted competency mapping criteria.

The samples size 100 from employees and 50 of managers are observed for t-test distribution i.e. N1=100 and N2=50 where as n1=4 and n2=4. Hypothesis testing for big bazaar is as follows-

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<th>X2 HR managers</th>
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</tr>
<tr>
<td>33</td>
<td>20</td>
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</tr>
<tr>
<td>34</td>
<td>10</td>
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</table>
INTERPRETATION OF HYPOTHESIS:–

H0: $\mu_1 = \mu_2$ There is skills gap in the actual and adopted competency mapping criteria. Null hypothesis is selected in Big bazaar measuring at 5% level of significance as calculated value is 3 and table value is 2.353363435.

$H_0 > H_1$

$3 > 2.3533$

Therefore there is skill gap in the actual and adopted competency mapping criteria

Students t-distribution applied for the data analysis and hypothesis testing in case of Westside is as follows–

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<th>x2</th>
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</table>

INTERPRETATION OF HYPOTHESIS:–

H1: $\mu_1 \neq \mu_2$ There is no skills gap between the actual and adopted competency mapping criteria. Alternative hypothesis is selected in case of Westside measuring at 5% level of significance as calculated value is 1.486095746 and table value is 2.353363435

$H_0 < H_1$

$1.486095746 < 2.353363435$

Therefore there is no skill gap between the actual and adopted competency mapping criteria.
DATA ANALYSIS OF BIGBAZAAR FRONT LINE STAFF

1. Competency mapping gives better result in employee’s performance.

![Pie chart](chart1.png)

Interpretation:

Here by asking this question managers view point is measured. 40% strongly disagree to this statement as when corporate strategies are formulated Competency Mapping System is not given importance. So there arises the skills gap. There is 0% who is in favor to this statement but 20% of the managers slightly agree and same % slightly disagrees.

2. The motivational force in your opinion to actively involve the employees in competency mapping is

![Pie chart](chart2.png)

Interpretation:

40% are In favor of ideal competency mapping because making the employees fully aware, providing training and development program and directing them in every task assigned will act as better motivational force. While 60% believe in informal communication. But in the long run it will have negative affect i.e. partiality and bias attitude among employees and managers.
3. The methods used for competency mapping is ______________

Interpretation:
The result 100% goes to interview. Every employee is interviewed on the basis of the target and attitude.

4. Competencies required for front line staff are ____________

Interpretation:
According to the managers of big bazaar 40% of favor goes to personal skills i.e. personality, commitment and convincing power. Whereas 20% goes to each of the other four i.e. intellectual, leadership, interpersonal and communication factors.

5. You test these competences through ____________
Interpretation:
Mostly retail sector like big bazaar have to focus more on products like apparels, FMCG, house ware, grocery and provisional items. So over here 60% of the tests are on the basis of product assortment knowledge. Above all this 20% of tests are on the basis of sales target achieved by an employee as well as sales on monthly and yearly basis.

6. CM is conducted ________________ in the year.

Interpretation:
It is conducted only once in a year.

DATA ANALYSIS OF WESTSIDE EMPLOYEES
1. Competency mapping gives better result in employee’s performance.

Interpretation:
Here by asking this question managers view point is measured. 60% strongly agree to this statement as when corporate strategies are formulated Competency Mapping System is given importance. So there arises less skills gap. There is 20% who is not in favor to this statement but 20% of the managers slightly agree. Here while collecting the data it was seen that managers were quite committed towards formulating and implementing training and development program when skills gap arise.

2. The motivational force in your opinion to actively involve the employees in competency mapping is ________________
Interpretation:
It is not easy to get your employees work as you wish. So it is necessary to constantly motivate them. When competency mapping is conducted it is necessary to involve them so that skills gap can be known. Here 60% managers go for informal communication to motivate employees and 40% go for structured competency mapping due to rigid organization structure.

3. The method used for competency mapping is __________.

Interpretation:
Here in west side interview method is adopted by 80% managers whereas 20% go for psychometric tests. Interview method is used for new employees and psychometric tests for employees who are from more than 5 years to make them feel central here and to make them more professional in their area.

4. Competencies required for front line staff are __________

Interpretation:
Intellectual competencies are given more importance over here because it will lead constant problem solving ability for consumers. Ones the problems are solved on the buying point reasoning ability of employee will increase and consumer will feel central which will result into brand loyalty. Numerical interpretation will result into fast problem solving and data base will provide you with comparative analysis on consumer decision. So west side formulates such training and development program which includes reasoning exercises and case study analysis.

5. You test these competencies through __________

Interpretation:
The method used for competency mapping is conducted and it is necessary to involve them so that skills gap can be known. Here 60% managers go for informal communication to motivate employees and 40% go for structured competency mapping due to rigid organization structure.
Interpretation:
The chart depicts that manager’s tests competency 40% through interview on product assortment knowledge. Whereas 60% through on job observations i.e. by interpersonal skills.

6. CM is conducted ____________ in a year.

Interpretation:
As usual it is conducted just once in a year. Periodic review of competency mapping by employees to remain current with the organization’s business needs. Periodic review of the skills and knowledge required to perform a particular role ensuring they are complete and correct. Consumer’s needs are constantly changing so there is also need to change the working pattern of the front line staff. So skills gap cannot be judged once a year but should be conducted twice or thrice a year.

Conclusion
This is Competency era and a significant shift towards Competency Based Organization has been observed. People and their competencies have become the most significant factors that give a competitive edge to any corporation. HR Professionals and Line Managers can contribute a great deal to develop competency-based organizations. Any underlying characteristic required for performing a given task, activity or role successfully can be considered as competency. Competency may take the following forms: Knowledge, attitude, skill and other characteristics of an individual including motives, values, traits, self-concept etc.

Competency-based performance management processes are becoming more prevalent in many organizations, but they are particularly appropriate for organizations where there are:

- Uncertain environments
- Qualitative/process service jobs
- Self-managed teams
- Developmental jobs
- Changing organizations

Competency mapping begins with identification of the workforce competencies required to perform the organizational business activities. Once the competencies are identified, a mapping between the targeted vs. actual value of competencies is required to Measure, analyze and predict the future capability of competencies and takes necessary Corrective/preventive action to either enhance or maintain the current capability. Identifying the tasks, skills, knowledge and attitude required to perform various Organizational roles can be used in formulating job description, assessing employees ‘Current level of competency, and activities like planning career development and Coordinating competency development.

Organizations describe, or map, competencies using one or more of the following four strategies:
1. Organization-Wide (often called “core competencies” or those required for organization success)
2. Job Family or Business Unit Competency Sets
3. Position-Specific Competency Sets
4. Competency Sets Defined Relative to the Level of Employee Contribution (i.e. Individual Contributor, Manager, or Organizational Leader)
Competencies Relate to Individual Career Development

First and foremost, competencies must be demonstrated by individuals. Perhaps the most common place where they are demonstrated is within the scope of a particular job or project involvement. However, competencies are also developed and demonstrated by individuals in the following settings: volunteer roles in the community, professional associations, school projects, sports participation settings, and even within one’s own home life.

One of the first encounters with competencies for most individuals is in securing employment with a new organization. Organizations that are purposefully using cutting-edge methods to choose talent for positions or project roles are engaging in what is called “competency-based interviewing and selection”. These interviewing and selection methods are being used not only for hiring external applicants, but also for staffing internal roles.

Many organizations that use competency-based interviewing and selection are also later using the same competencies to assess performance, to encourage future development plans from individuals, and to plan for succession in the organization. Therefore, the individual employees in such an organization will have an ongoing need to use and map their competencies.

REFERENCES
Strategic Human Resource Management of Surplus Manpower as Panacea for Retrenchment in Public Organisations

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ABSTRACT

This paper presents a critical analysis of the problem of surplus manpower arising from over-staffing of organisations. Using functional analysis, the paper considered demand from organisational environment and stakeholders, as well as the excesses of managers to be the causes of over-staffing. Management reaction to surplus-manpower in terms of retrenchment through downsizing and right-sizing were reviewed and it was observed that the reaction presented problems and challenges to affected employees and the organisation. Strategic Human Resource Management technique involving the integration of manpower plan into corporate plan through strategic integrated planning was presented in the paper as solution for the problem of surplus-manpower and over-staffing. Case analysis was presented using University of Calabar Teaching Hospital to empirically substantiate the consequences of separation on employees and organisation. Efficient utilisation of surplus manpower could be achieved through training, re-training and redistribution of staff to areas of need and new competence rather than separation. The paper recommended that public organisations should train their Human Resource persons in planning, research and statistics to aid the proper utilisation of strategic planning model. It was also recommended that consultant HR experts be contracted to Public Health Organisations that lacked personnel with core competence in Human Resource Management.

Keywords: Integrated, Strategic, Planning, Surplus, Manpower, Retrenchment, Downsizing, Right-sizing, Over-staffing, Human, Resource, Management and Public Health

Introduction

Managing human resource has become the central focus and concern of modern organisations and the government at various levels. Successful organisations are those that employees are responding positively to management decisions aimed at achieving organisational goals and objectives. One major problem of industrial management in Nigeria is how to handle or cope with surplus manpower, which occurred as a result of an organisation or establishment being over-staffed. The problem arising from this is “how institutions will break-even with high wage burden”.

The problem of surplus manpower is high in the public sector of Nigerian economy as a result of popular perception that the public sector must employ in order to reduce unemployment and help alleviate poverty. This assumption and pressure from catchment areas of public organisations lead management to employ at-times outside stipulated budgetary provisions. In satisfying community request and other parochial interests, employment is carried out outside the traditional guidelines on appointment as applicable in the public service of the Federation of Nigeria. One of the sectors highly affected by the problem of surplus manpower is the publicly owned health institutions.

This paper examines the administrative technique which can lead an organisation to succeed despite excessive human resource demand and its impending effect on organisational demise resulting from high personnel cost occasioned by over-staffing. Two tertiary health organisations in Cross River
State that are public in terms of ownership by the government experienced this problem in Cross River State before 2008 in which a major decision was taken and the employees were laid off through a process of Right-sizing, which was a version of the popular parlance ‘retrenchment’ and downsizing applied by state government in laying off their workers. This paper will purposively analyse the situation in one of the two health institutions, The University of Calabar Teaching Hospital (UCTH). The main goal of this paper will be to determine if planning can lead to effective utilisation of surplus human resources at any point in time in the life cycle of an organisation.

Experts in human capital management are familiar with planning, for they are concerned with how to plan the human resources need of an establishment, which resulted in the design of manpower plan. The question arising here is: Can manpower plan alone ensure utilisation of existing manpower surplus? This question will guide analysis and discourse in this paper. The paper will specifically examine the usefulness of integrated and strategic planning in addressing surplus manpower problems.

Conceptual Analysis and Review

Ajuosa (1995) conceptualised manpower planning as a systems approach to personnel management in which the emphasis is on the inter-relationships among various personnel policies and programmes. Manpower planning is beyond ordinary focusing of future manpower need, to hire, train or promote personnel from time to time by an organisation. Though one of the main objectives of manpower planning is to provide for the future manpower needs of the organisation in terms of skills, number and ages, the central or cardinal objective is to ensure the optimum use of the Human Resources currently employed in the organisation (Ubeku, 1975). There are three main stages in manpower planning as identified by Ubeku (1995), namely; Manpower analysis; Current manpower position; and Future manpower needs.

Manpower analysis is concerned with detailed manpower inventory of all types and levels of employees, as well as the sources of manpower supplies. Current manpower position is concerned with unit and departmental staff position, suitability of employee on their job, under-employment and redundancy. Future manpower needs involve knowledge of present manpower resources, information on the manpower environment and information on business objective. According to Nwachukwu (1988), manpower planning is all encompassing and it involves such human capital management techniques as: job design, job analysis, description and specification, as well as staffing process.

Corporate plan is an enterprise design for its future, which involves the selection of unit and departmental goals into a mainframe enterprise objective and determining ways of achieving them. The various ways through which the firm achieves its objective is called strategies. Two component elements of corporate plan are: corporate goals and corporate strategies. The corporate objectives that produce a central goal include: financial, commercial, production, marketing, service, development, productivity and growth objectives. The integration of manpower plan into corporate plan produces Strategic Human Resources Management (SHRM).

According to Armstrong (2005), Strategic Human Resource Management is concerned with the relationship between human resources management and strategic management which addresses broad organisational issues relating to organisational effectiveness and performance, changes in structure and culture, matching resources to future requirements, the development of distinctive capabilities, knowledge management and the management of change. SHRM is centred on planning employment policy, manpower strategy, guided by organisational philosophy, focusing on employees as strategic resources and uniting human resource management activities and policies, with general corporate business strategy.

Over-Staffing as a Consequence of Non Planning: A Theoretical Guide

It is customary and expedient for most firms to operate “under-establishment” which means having less staff than is required by an organisation to produce optimally. Under-establishment may occur as a result of limiting actual manpower requirement to availability of fund to meet personnel cost. But the reverse is often the case in most contemporary public sector organizations where excess staff (over-staffing) exist, especially in developing economies.
Carlisle (1976), Newman and Logan (1971) and Ubeku (1975) are of the opinion that overstaffing is as a result of absence of planning or inadequate manpower planning, as well as failure to link manpower plan with enterprise corporate plan. Ubeku (1975) specifically noted that most Nigerian employers recruit personnel as need arises without a purposeful manpower plan. Accordingly, the situation resulted in redundancy after such needs were satisfied by the organisation, especially environmentally driven demands. For example, a health organisation issued permanent employment for three watchmen to secure broken down truck supplying drug 50km from location of the hospital. After repairs and movement to the hospital location, the employees were retained at continuous expense of the hospital.

Merton (1968) defined social function as the objective consequences of a pattern of action or activity on the system in which the action took place. Merton Functional analysis is routed in Parsons (1951) structural functionalism. Merton (1968) identified manifest and latent functions. Manifest function refers to expected consequences, while latent function refers to unintended consequences. In the words of Scott and Marshall (2005), “a functional explanation accounts for the existence of a phenomenon or the carrying out of an action in terms of its consequences – its contribution to maintaining a stable social whole.” Despite the epistemological and ontological arguments against functionalism, the theory presents guide to the understanding of over-staffing as a consequence of non-planning of health organisations.

The case of watchmen noted earlier reveals how health organisations are over-staffed. This process also happens in terms of retention and extension of duration of ad-hoc staff like medical laboratory, pharmacist, radiography, dental, ophthalmic interns etc, without due regard to budget. What is the effect of this human resource management defect on the health organisation as a whole in terms of provisions of patient care, research, manpower training and development? This problem was caused by recruitment based on needs without recourse to manpower plan. It is wrong to recruit staff on permanent basis to satisfy temporary needs and other parochial interests without adequate forecasting on the future implications of such actions on the organisation, employee wellbeing, industrial harmony, productivity and sustainability.

Many other reasons responsible for over-staffing in both public and private sector include: political side payment; patronage and clientele relationship; ethno-religious consideration; high social responsibility on employment for operating environment; deliberate government policy; and excesses of chief executives. The interplay of these variables and other combination varies from organisation to organisation, while political side payment is common in public sector. Patronage and clientele relationship is common and most prevalent in private sector (though it also exists in public sector). These factors often compel management to go beyond policy rationality in recruitment decisions, to the extent of inflating vacancy declaration, irrespective of estimated establishment position, to satisfy special interest.

It is not uncommon for managers and administrators to offer temporary appointments to their relatives, friends, church members and political patron’s candidates, which they regularise at the slightest available chance. This is a clear example of ill-full recruitment and defile even organisational needs, which itself is not a good determinant of recruitment except in line with budget and plan. Okigbo (1993) noted over-ambitious planning goal as another cause of over-staffing, explaining that, the massive recruitment in post civil war Nigeria caused over-bloated civil service. Though this on its own does not contradict the stand that planning can reduce problem of over-staffing in future, but expressively opened our understanding of deficiency in planning.

**Implication of Overstaffing for Organisation**

The consequences of over-staffing are often of negative effects on effectiveness and efficiency in resources utilisation and future survival of the organisation. In a well organised enterprise, costs are pre-determined in terms of periodic estimates, over-staffing at any point in time reflects a situation where the actual personnel cost is above the estimated budget for personnel. Where over-staffing exists, there is going to be budgetary deficit.
In some firms, management may decide to draw funds from other allocating sub-heads to fund personnel emolument. This strategy will affect the implementation of programmes and projects under the Accounting Sub-Heads from where fund is redirected. It is very common for capital vote to be diverted to meet personnel cost. This dwarfs other developmental and growth objectives of an enterprise; hence the numerous abandoned projects in our various public health institutions in Nigeria.

Overstaffing affects the very survival of a firm or enterprise, if other projects and programmes of the enterprise are sacrificed for personnel cost. It is possible for such firms to close down. Because of the dangerous consequences of overstaffing, many firms and governments adopted various strategies to deal with the problem of over-staffing or surplus staff.

Reactions to Over-Staffing and Surplus Manpower

The action and policy of managers today may constitute a problem or a good start point for future managers and management as a whole. Collins (1997) study in New Jersey shows that “it is not the management team that was responsible for actions and decisions leading to overstaffing that always react to it, but if the enterprise remains in their hands, it will likely collapse.” Collins’ (1997) position was further proved by his investigation into the liquidation of seventeen firms in New Jersey within a period of twelve years. It was new management that reacted to over-staffing. This view manifested in Cross River State Civil Service in which the service was overstaffed during the 1979 – 83 civilian administration, but succeeding military government in the state reacted to over-staffing in 1984 by retrenchment (Bassey, 2002).

The Cross River State Government also in 2004 – 2007 further reacted to over-staffing caused by post-state creation recruitment from 1987. The reaction was not only in Cross River State, but spread to Oyo, Ondo, Lagos, Enugu, Plateau states etc. There was also reaction in federal level between 1996 and 1999. Contemporary cases linger in such federal organisations like National Electric Power Authority (NEPA), Nigerian Telecommunication Limited (NITEL), Nigerian Ports Authority (NPA) etc. The reactions took the forms of retrenchment, retirement, downsizing and right-sizing. There strategies involve human resources ‘separation’. Any manner of separating an employee from an organisation when such an employee was not economically and psychologically prepared for separation carries negative consequences for the employee’s social, emotional, physical and economic wellbeing, as well as stability of society and maintenance of social order.

When labour is organised, separation strategies will meet serious resistance by labour unions, resulting in industrial crisis, which hinders production and general organisational performance. Downsizing means reducing workforce by retrenchment, termination, retirement and dismissal. The right-sizing process means the same thing as downsizing. The essence of both downsizing and rightsizing is to bring workforce to acceptable standard in line with resources and available budget. But the irony is post exercise recruitment, which pose a question on why the people were separated in the first instance. It is this situation that prompted the idea of Strategic Human Resources Management as a panacea for downsizing and right-sizing in public organisations.

Strategic Human Resource Management

The mistake of managers in most organisations is to consider personnel functions in isolation. Personnel function is a staff function and it involves helping the line officers to work effectively in accomplishing the primary objectives of an enterprise (Bassey, 2001). In this regard, manpower plan should be an integral part of corporate plan of the organisation. This direction of reasoning falls within the area of Strategic Human Resource Management (SHRM).

One of the major reasons for surplus manpower in the future is lack of or inadequate planning in the present. At times, the Human Resource Manager carries out planning for manpower without reference to the organisation’s corporate plan. Consequently, human resource needs are not in line with future organisational growth and developmental objectives or goals. As organisation environment changes, so also should the organisation change. Since society is dynamic, organisations are component units of the macro society and should be dynamic. To treat organisation as static is fallacy...
and can result in future problems like surplus manpower. The copy typist employed today may constitute part of future surplus due to technological changes in data processing technology.

Drawing from Donnelly, Gibson and Invancevich (1984) explanation, strategic planning is the direction of total operational activities throughout the organisation by drawing inputs and contributions from a variety of functional areas (units) and the allocation of resources to activities which define the organisation’s relationship with its environment. This means that the corporate plan is a product of inputs from various departments of the organisation and that the activities of the units and departments are tailored to achieve the central goal of the organisation as in the corporate plan. This condition is on the assumption that, if integrated planning is carried out in the organisation, there will be no question of surplus staff. But where surplus staff already exists due to lack or inadequate planning, what is to be done is to re-strategize human resource management.

Strategizing human resource management involves incorporating manpower plan into corporate strategic plan. In designing this strategy, organisation must first define its mission statement, which must be achievable, motivational, and specific. Next is to determine future outcomes, which are objectives that can be converted into specific actions and will provide direction for the organisation. After formulating the objectives, the grand design is the organisational strategies. Strategy involves identifying the general approaches that the organisation will utilise to achieve its objectives. Next action is designing portfolio plan, which entails making choice of what aspect of the business to continue with or what to discard. The organisation’s portfolio plan is very central to managing future human resource surplus. The major issue in this discourse is how to manage manpower surplus without recourse to separation of employees.

Organisation’s portfolio plan is to ensure periodic review of the entire plan for the organisation to adjust to uncertainties which may arise in future. Developmental and growth objectives provide focus in future areas of expansion in line with guidelines for adjustment to environment and uncertainties as provided by portfolio plan. From this angle, it is easy to redistribute identified surplus staff arising from over-staffing in one area or department to another. Bassey (2002) noted that where it is difficult to redistribute staff in mono-line, mono-product or mono-service agency (e.g. health organisation), such can be handled by diversification, through introduction of new products and services.

Developmental goal changes and new frontiers are discovered for new involvement, employees constituting surplus should be redistributed to this new preferential area. Management should refocus from employees separating oriented reactions to re-distribution of employees based on Strategic Human Resources Management through planning. Two major ingredient central to successful staff-redistribution approach to overstaffing and management of surplus manpower is training and re-training stipulated by Nwachukwu (1988):

*Manpower planning is very compelling to effective and efficient utilisation of whatever personnel that is available: it is mainly in this way that people in the organisation who need more training could be identified to upgrade their skill in order to assume more responsible positions and be useful to the organisation at all times.*

Training of surplus staff in new areas will make them useful for redistribution rather than separation. Ubeku (1975) strongly argued that when an organisation is complaining of over-staffing, certain units of that same organisation are understaffed. What is to be done is to retrain and develop staff to cope with new jobs, schedule and responsibilities in other units and departments, in view of changes and organisational growth, development and sustenance objectives. The situation is alarming with the massive retrenchment in University of Calabar Teaching Hospital (UCTH), a public tertiary health institution in Cross River State, in 2007.

**Case Study of University of Calabar Teaching Hospital**

The University of Calabar Teaching Hospital is a publicly owned tertiary health institution located in Cross River State, Nigeria. The health facility has total staff strength of 2180 employees, comprising permanent, ad-hoc and contract staff in both clinical and non-clinical areas (Nominal Roll,
2007). The severance process was initiated as an integral part of the Federal Government Public Service Reforms Programme. There criteria for severance in order to right-size the hospital include:

1. Separation of staff of monetized services without basic qualifications for redeployment/conversion to other cadre(s) e.g. drivers.
2. Separation of staff of abolished cadres without qualifications for redeployment/conversion to other cadre(s) e.g. Messengers, cooks, cleaners, labourers and security guards.

This was in line with the generic guidelines for Public Service Reforms released by the Bureau of Public Service Reforms, an agency of the Federal Government of Nigeria saddled with service reforms to ensure efficiency and effectiveness. Consequently, staff were sensitized on the guidelines through interactive meetings with unions, in-house personnel audit exercise in 2006 and circulars were issued requesting staff in affected cadres to forward evidence of additional qualifications such as Senior School Certificate to Personnel Department.

Total number of staff affected by the exercise was 268 representing 12.29% of the total staff strength of the hospital. Out of this number, 183 (8.39% of workforce) were severed (separated by dismissal, retirement, termination) in a process of taking the hospital to the right size, while 85 (3.9% of workforce) staff with qualifications amenable to training and retraining through detailed Strategic Human Resources Management were redeployed to other areas. The redeployment was made possible due to strategic redesign of the organisation and associated portfolio plan with absorptive capacity.

**Schedule of Severance in UCTH 2007**

<table>
<thead>
<tr>
<th>S/N</th>
<th>Staff Redeployed</th>
<th>Staff Severed</th>
<th>Total Affected</th>
<th>Total Staff Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of staff</td>
<td>85 (3.9%)</td>
<td>183 (8.39%)</td>
<td>268 (12.29%)</td>
<td>2180 (100%)</td>
</tr>
</tbody>
</table>

Source: Bureau of Public Service Reforms, 2008

There was pre-retirement training for the affected personnel and the National Pension Commission and Bureau of Public Service Reforms processed and pay severance benefit claims to verified staff.

**Socio-Economic Implications**

The employees that were retrenched instituted legal action which resulted in the waste of their little resources on litigation and this occasioned the redirection of hospital fund to litigation, which does not in any way promote the organisation’s objectives of healthcare delivery, training and research. Some of the employees affected by retrenchment die due to starvation and lack of emolument to satisfy their health, food, clothing and other social needs.

In view of the above, the process of managing surplus through any form of retrenchment is traumatic to the employees and the organisation. The hospital is a large complex organisation. Between 2007 and the date of compiling this report, over 800 new employees were recruited by the same hospital. Long-term organisation directed staff development training and retraining in line with corporate strategic and integrated planning process would have re-channelsed surplus staff from one sector or unit of organisation to another.

**Concluding Note and Recommendations**

Most organisations do not possess the institutional capacity of applying the technique of staff redistribution as an embodiment of Strategic Human Resource Management in utilising surplus manpower. Certain conditions must be put in place to prevent incessant application of retrenchment strategies. In view of this, experienced Human Resource Officers and experts who are conversant with modern techniques and principles should be employed by public organisations, especially publicly-owned health institutions in particular, to re-engineer the personnel process and system. Where internal Human Resource experts are not available due to organisational structure, the service of Human Resource consultants should be contracted. In line with this, Human Resource Officers should be well-trained in the rudiments of planning, research and statistics. In this regard, experts like psychologists, industrial sociologists and management experts from academia may be taken on sabbatical for short ad hoc capacity building assessment in public organisations as practised in organised private sector.
The communication process of the organisation should be integrated, where information about every unit and aspect is fitted into a network which could be accessed by everybody within the organisation. By this, current manpower needs of various units, can be determined considering the expansion goal of the units and make for adjustment in terms of personnel redistribution. This is more possible through computerisation of operations. The wave of industrial democracy is increasing in developing countries’ organisations leadership and organisation decision should be participatory and people centred, because of increasing demand by organised labour for negotiation.

Management reaction in both public and private organisations towards overstaffing in terms of termination, forceful retirement, and even dismissal are anti-humanistic. These reactions present difficulties and challenges to affected employees and the organisation as a whole. Industrial atmosphere becomes disharmonious. It is only Strategic Human Resource Management approach through which surplus employees are strategically retrained for redistribution that can deal effectively and efficiently to prevent industrial problems, attendant socio-economic and psychological problems on the part of employees. This paper presented technical strategic industrial approach to managing over-staffing and preventing future surplus manpower from occurring, through effective Strategic Human Resource Management in which manpower and corporate plans are synchronised.

The essence of retrenchment of workers is to ensure that personnel cost match available resources to prevent budgetary deficit, loss and promote efficient and effective resource utilisation. It is not proper to focus on organisation without regards to emotional, economic and physical wellbeing of people that make up the organisation. Management induced employees separation should be avoided. The re-distribution of surplus staff after training and retraining is politically expedient and highly recommended in managing public health organisations in Nigeria.

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Financial Derivatives and Risk Management of Public Sector Organizations in Ghana

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ABSTRACT

This article examines the various financial risks faced by public sector organizations in Ghana and how restrictive clauses in the Financial Administrations Act, 2003 and the Public Procurement Act 2003 effectively prevent Finance Directors of public sector organizations from trading in various derivative products to manage such financial risks. The article discusses the huge opportunity loss incurred by public sector organizations because of the restrictive clauses in the Financial Administrations Act, 2003 and the Public Procurement Act 2003. The paper gives a brief overview of the various derivative products available on the capital market for managing financial risk. The paper then analyses the cash flow patterns of public sector organizations in Ghana, with particular reference to public tertiary institutions and discusses various financial risks associated with such cash flow pattern. Provisions in the financial Administration Act and the Public Procurement Act that make it difficult for public sector organizations to trade in derivatives are reviewed for their impact on modern financial management. The paper makes recommendations for addressing the problem by calling on the various stakeholders of Public Institutions to push for the review of the restrictive clauses in order to make it possible for Public sector organizations to use appropriate derivative products to manage their risk exposure in order to be competitive.

INTRODUCTION

Risk management has become critical in modern financial management mainly due to increased volatility and the complexity of the financial market. Companies have been using various derivative products to manage their exposure to the various financial risks. In Ghana, public sector financial management is governed by two main Acts of Parliament: The Financial Administration Act 2003 Act 654 and the Public Procurement Act, 2003 Act 663. These Acts were both passed in the year 2003 to consolidate different financial management regulations in order to streamline public sector financial management in Ghana. There are however, various provisions in the two acts of parliament that make it very difficult, if not impossible, for public sector organizations to trade in the available derivative products as risk management strategy. The financial market has seen tremendous changes since the Acts were passed. Competition has changed, developments in information technology has provided a global financial market with numerous opportunities and challenges. Many of the clauses in these Acts can no more stand the test of time. Stakeholders of public sector organizations must therefore come together to press for the review of the various restrictive clauses so that they can also take advantage of the various derivative products on the global financial market to manage financial risks.

THEORETICAL BACKGROUND

Derivative Products

Arnold (2002) defines a derivative as “a financial asset, the performance of which is based on (derived from) the behavior of the value of an underlying asset” (P.1042). They are financial assets whose payoffs depend on changes in the price of assets on which they are written. Derivative products include forward contracts, futures contract, options, and swaps.

Forward contracts

A forward contract is an agreement between two parties to exchange assets in future on terms agreed now. In forward contracts all terms of the agreement are locked in immediately for delivery at the
agreed future date (Levy and Post, 2005, P 653). On the expiring date, each party is under obligation to fulfil their portion of the agreement. Forward contracts are usually used to hedge price risk by transferring it to the other party to the transaction. Forward contracts are over-the-counter derivatives which are usually negotiated privately between the contracting parties. This gives the parties the flexibility to negotiate their own terms to suit their peculiar needs.

**Futures**

Futures contracts are similar to forwards contracts in the sense that both entail agreement to exchange assets in future on terms agreed today. However, there are certain features that distinguish futures contracts from forward contracts. First, futures are traded through financial exchanges which act as intermediaries between the contracting parties, whereas forward contracts are negotiated directly between the parties. The exchange helps to reduce credit risk by stepping in to ensure that each party fulfils their part of the contract. Second, futures contracts are standardized so that they can be bought and sold without any private negotiations.

**Options**

Arnold (2002) defines option as “a contract giving one party the right, but not the obligation, to buy or sell a financial instrument, commodity or other underlying asset, at a given price at or before a specified date” (P.1051). This definition implies that options contract can be written on any valuable asset. There are two types of options: a Call option and a Put option. A call option confers to the holder the right to buy an asset whereas a Put option confers to the holder the right to sell an asset. Options are also classified on the basis of the time they can be exercised. European options could be exercised only on the expiring date whereas American Options could be exercised at any time before the expiring date (Whaley, 2007, P. 7). The main feature that distinguishes options from forwards and futures is that the holder is not under any obligation to exercise the option if it is not in his/her favour at the maturity date. An option holder will therefore allow the option to lapse if exercising it will not create any financial benefit.

**REVIEW OF FINANCIAL ADMINISTRATIONS ACT, AND THE PUBLIC PROCUREMENT ACT IN GHANA**

The Financial Administration Act 2003, Act 654, and the Public Procurement Act 2003 Act 663 are two major acts that govern the financial management of public institution in Ghana. These Acts were passed to streamline and standardize the financial management framework of public institutions in Ghana. There is no doubt that the Acts have brought much sanity into the financial administration and public procurement in public institutions in Ghana. Before the acts were passed, financial management and public procurement in Ghana were regulated by many different and largely inconsistent instruments such as:

(a) *The District Tender Board Regulations, 1995 (L.I. 1606)*;  
(b) *The Ghana National Procurement Agency Decree, 1976 (S.M.C.D. 55)*; and  
(c) *The Ghana Supply Commission Law, 1990 (P.N.D.C.L. 245).*

Although the two acts have brought consistency and sanity into the financial administration in the public sector, there are various provisions in the acts that do not allow for derivative trading and for that matter efficient risk management in public sector institutions. Various provisions of the Financial Administrations Act in Ghana effectively prevent government funded organizations from trading in derivative products. The act provides that all public funds must be lodged with an account opened with the Bank of Ghana and all payments must be made solely from that account. Section 50 sub-sections 1 and 2 of the Financial Administration Act provides that “a corporation shall pay to the Government such money administered by it as the sector Minister and the Minister consider to be in excess of the amount required for the purposes of the corporation”...Any money paid may be applied towards the discharge of an obligation of the corporation to the Government or may be applied as state revenue.”
In addition, all internally generated funds received by public sector organizations are to be treated as monies held in trust for the government and are subject to restrictive monetary controls. Section 51, sub-section 1 of the Act prevents Public Sector Organizations from indulging in any investment activities with government funds and internally generated fund without prior approval from the sector minister. And subsection 2 specifically prevents public sector organizations from investing moneys in any government securities. This has serious financial implications considering the fact that interest rate on treasury bills are usually higher than the interest rate paid by commercial banks on most their short term investment products.

The Public Procurement Act also contains many clauses that do not allow free market to operate to determine price. The above provisions effectively prevent Finance Directors of public sector organizations from trading in the various derivative products in their financial management activities. Public sector organizations are, however, equally exposed to the risk associated with inflation, exchange rate, interest rate etc. This makes Government funded organizations less competitive relative to their Private sector counterparts.

If financial management of Public sector institutions in Ghana are liberalized by removing the restrictive clauses in the Financial Administrations Act, the institutions can benefit immensely from forward contracts. For example, in public universities most of the fees and incomes are received upfront for use throughout the academic year. The prices of items on which monies are spent are subject to change with the general price levels. This exposes the institutions to significant price risk as allocations and fees are not adjusted with any price index.

The Procurement Act however contains cumbersome procurement procedures for public sector organizations that make forward contracts practically impossible for such organizations. For example, Section 31 of the act restricts all public procurement to competitive tendering except under certain stringent conditions. Section 28 sub-section 2 of the Public Procurement Act provides that:

“A procurement entity shall submit to its Tender Committee not later than one month to the end of the financial year the procurement plan for the following year for approval”.

This clause in the act makes it obligatory for all public institutions in Ghana to submit procurement plan for each year before the year commences and follow the plan throughout the year. Efficient derivative trading requires flexibility and quick response to changing market conditions. The above provisions in the Public Procurement Act forces finance managers of public institutions to follow the approved procurement plans rigidly thereby limiting their responsiveness to changing conditions. Even the contents of tender documents are prescribed by law limiting the ability of finance managers to negotiate terms to meet their peculiar needs.

Public institutions differ greatly in financial needs and risk exposure. Therefore, this “one fit all” prescription in the Act is a hindrance to efficient financial management. Even more restricting is the provision in section 64 that “no negotiations shall take place between the procurement entity and a supplier or contractor with respect to a tender submitted by the supplier or contractor.” This provision effectively rules out forward contracts in Public Sector organizations since forward contracts are traded on the over- the-counter segment of the market and are negotiated privately between the contracting parties.

**CASH FLOW PATTERNS OF PUBLIC TERTIARY INSTITUTIONS**

Public tertiary institutions have three main sources of income namely: Government Subventions, Academic Facilities User Fees, and Internally Generated Fund. Government subventions include monies allocated to the institutions from the consolidated fund and allocation from the Ghana Education Trust fund. Academic facilities user fees are revenue generated by the institutions from academic facility user fees charged to students; and Internally Generated Fund are those funds generated from all other income generating activities undertaken by the intuition. Of the three sources of income, Government Subventions account for an average of 70%, Academic facilities user fees
accounts for 21% and Internally Generated Fund account for 9%. Ghana (Statistical Service Quarterly Bulletin, June 2009). Approximately 65% of the government subventions are for salaries and other remunerations, and these are received monthly. The remaining 35% of government Subventions are for development and are allocated at the beginning of the year (Kumasi Polytechnic, Annual Financial Report 2009). In addition, all Academic Facilities User Fees are collected at the beginning of the academic year. This implies that approximately 46.5 of the total income are received at the beginning of the academic year.

Major expenditure items paid apart from salaries and remunerations include allowances, utility charges, stationery, and printing, consumables, repairs and renewals fuel, seminars and workshops. Payments on the above expenditure lines occur quite evenly throughout the year. There is therefore a long timing difference between income and expenditure.

**RISK EXPOSURE OF PUBLIC SECTOR ORGANIZATIONS**

The cash flow pattern of public sector organizations shows that there is a big timing difference between revenue and expenditure. This exposes the government institutions to financial risk that need to be managed with various derivative products. The real values of the expenditure depend on various factors such as inflation, exchange rate, and interest rate. The volatility of the above financial indicators is very high in Ghana exposing the institutions to high financial risks.

**Inflation risk**

Inflation risk or market risk can be defined as potential loss of purchasing power of money resulting from increases in the prices of goods and services. It could be seen from Table 1 below that inflation in Ghana has been high and fluctuating over the years. Prices of goods and services change frequently. This trend exposes organizations to serious market risk that need to be managed by all astute finance managers. In the case of public sector organizations, the risk is more serious because their incomes are fixed at the beginning of the year and are rarely adjusted with the retail price index. Therefore, measuring and managing inflation risk is critical in the financial management of public sector organizations in Ghana. Various derivative products may be used to manage interest rate risk. However, cumbersome procedures established by restrictive clauses in the financial Administrative Act and the Public Procurement Act make it practically impossible to utilize these products to manage public sector financial risk.

**Foreign Exchange Risk**

Another major source of financial risk faced by public sector organizations in Ghana is frequent adverse changes in the exchange rate between the Ghana Cedi and all the other major international currencies. The Bank of Ghana is operating a floating exchange rate regime which allows economic factors to determine the exchange rate between the Ghana Cedi and other currencies. The Cedi has suffered a consistent fall in value against all the major trading currencies over the years. For example, the exchange rate of the Ghana Cedi to the US Dollar has increased from GH¢1.48523 to US$1 on 1st January 2011 to GH¢1.90682 to the Dollar as at 2nd December 2012 ([http://www.exchangerates.org/history/GHS/USD/T](http://www.exchangerates.org/history/GHS/USD/T)).

This high exchange rate volatility has serious financial implications to public sector organizations in Ghana since it exposes them to transaction risk. It is estimated that over 98% of all consumables used in the public sector organizations in Ghana are imports that are denominated in foreign currencies (Bank Of Ghana Quarterly Bulletin March 2009). For foreign currency denominated imports, the Cedi value of the foreign currency payments depend on the exchange at the time the transactions are entered into. However, for public sector organizations, revenue allocations are made in Ghana Cedi. In addition, some public sector organizations, especially the public tertiary institutions, pay huge amount of foreign currency in various forms of scholarships, international travels, conference fees, and sponsorships. Therefore, the currency risks associated with import transactions are borne by the importing public sector organizations without recourse to any extra government funding. It is therefore important for such organizations to measure and manage exchange rate risks.
Interest rate risk
Public sector organizations are also exposed to interest rate risk. In addition to the negative impact of uncertain interest rate on the major macro and micro economic variables, public sector organizations face a peculiar interest rate problem. Section 51 subsections 1 and 2 of the Financial Administration Act state as follows:

“A corporation may invest the moneys of the corporation in such manner as the Minister may approve and in consultation with the Minister may reinvest any of its investments. Notwithstanding subsection (1), a corporation shall not invest its money in government securities.”

The above provision makes it illegal for public sector organizations to invest in government treasury bills.

Public sector organizations usually leave their monies in bank deposit accounts which usually pay far less than the Treasury bill rate. For example, the Bank of Ghana one year Treasury rate was 16% on March 22nd 2010, whilst Standard Chartered bank deposit rate was 8.3% at the same time (Daily Graphic, 22nd March 2010). It is estimated that. Most of the commercial banks in Ghana invest over 50% of their deposits in government treasury bills. (Bank of Ghana Quarterly Bulletin March 2009). This implies that interest revenue that would have accrued to public sector organizations are indirectly transferred to the banks when they deposit funds into these banks.

DERIVATIVES AND PUBLIC SECTOR FINANCIAL RISK MANAGEMENT

If appropriate reviews are made to the public sector financial management regulations, various derivative products could be employed to manage the risk exposure of the public organizations.

Managing Inflation risk
With appropriate liberalization and financial autonomy, public institutions could manage inflation risk with forward contracts. Most public sector organizations provide the same services evenly throughout the year. It is therefore easy to predict in advance the types and quantities of various consumables to be used throughout the year. They could therefore enter into forward contracts with suppliers and service providers to lock in the price of the consumables and services at the beginning of the year. Inflation risk can also be managed with commodity swaps. Institutions can enter into agreements with suppliers to swap floating prices for the various consumables that they use periodically. These agreements could be used to lock the price at which items whose prices fluctuate.

Managing Exchange Rate Risk
Exchange rate risk can be managed with currency forwards or normal forward contracts. To be an effective hedge against exchange risk in import transactions, forward contracts must be denominated in the local currency. This transfers the risk of Cedi depreciation to the exporter. Currency forward has been defined as “an agreement to buy or sell a given amount of foreign currency at a certain point in time at an exchange rate fixed today” (Döhring ,2008, P.2). Public sector institution could contract with financial institutions to buy foreign currency in future at an exchange rate fixed at the beginning of the year.

Managing Interest Rate Risk
Public sector organizations are not allowed to buy government securities. The idea behind this prohibition is that the government should not pay interest on her own funds. The laws however allow public institutions to open accounts with commercial banks. Funds deposited into such accounts earn far less than the Treasury bill rate and most of the banks lend these funds to the government by buying treasury bills. This has created a situation where government pays interest to the commercial banks instead of to the public institutions. This defeats the rational for the restrictive clause in the Financial Administration Act.

A repeal of the prohibition clause will be in the interest of the government and the public institutions. In addition, the institutions will have the opportunity to trade in various interest rate derivatives to manage their financial risk.
CONCLUSIONS AND RECOMMENDATIONS

Both public sector organizations and private sector organizations operate in the same financial market. They are equally exposed to the risk associated with changes in prices, exchange rates and interest rates. Public sector organizations in Ghana are particularly more exposed to financial risk because they are committed to fixed income allocations that are rarely adjusted when the financial variables move against them. In addition, the expenditure of public sector organizations includes high import content. There is therefore the need for the finance managers of public sector organizations to pay more attention to financial risk management. The most efficient method of managing financial risk in the modern financial market is trading in derivative products such as forward, futures, options, and swaps. These products can be used separately or in combination to hedge almost all financial risk. However, there are various provisions in the Financial Administrations Act and the Public Procurement Act that make it practically impossible for them to use financial derivatives to manage risk. Many cumbersome and slow procurement procedures are enshrined in the Procurement Act. For example, most public sector purchases must be subjected to lengthy tendering processes and approvals. The Financial Administrations Act also contains so many restrictive clauses that make derivative trading very difficult and in some cases illegal.

For public sector organizations to be efficient and compete favorably with their private sector counterparts there is the need to have a second look at the financial regulations governing public sector financial management in Ghana. It has been nine years now since the Financial Administrations Act, 2003 and the Public Procurement Act 2003 were passed by parliament. The financial market has seen tremendous changes since the Acts were passed. Competition has changed, developments in information technology has provided a global financial market with numerous opportunities and challenges. Many of the clauses in these Acts can no more stand the test of time. Stakeholders of public sector organizations must therefore come together to press for the review of the various restrictive clauses so that they can also take advantage of the various derivative products on the global financial market to manage their financial risks.

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Relationship of Working Capital Management with Firm’s Profitability during the Period of Global Slowdown: An Empirical Study of Manufacturing Firms in India

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Abstract

It was intended to know the importance of components of working capital and the effect of working capital management on manufacturing firm’s profitability during the period of global slowdown and also to find out about the working capital management policy of these firms. The purpose of this study is to find out the effect of working capital management policies on the profitability of manufacturing firms listed in Bombay Stock Exchange (BSE) 500. There are several studies that are conducted to find out the level of profitability and the components of working capital management but there is no study manufacturing firms during the period starting of global slowdown. Sharma and Kumar (2011) had conducted a similar kind of study taking the sample of non financial firms. It was therefore intended by us to make an attempt to conduct this study taking manufacturing firms as our sample. The period of study was from 2008 till 2011. This is the period when manufacturing sector was hit by global recession. The dataset was taken from CMIE prowess data base. For the purpose of our study, out of 11208 manufacturing firms from CMIE Prowess database, those firms were selected that are listed in BSE 500 as financial information of the listed firms were available. There are 254 firms that were of manufacturing nature listed in BSE 500. 169 firms were finally selected as complete information from 2008 onward was available for these firms. Return on capital was taken as a measure of profitability and average inventory turnover days, average collection period, average payable period, cash conversion cycle and the ratio of current assets to total assets were taken as various exogenous variables. Multicollinearity check was done and Hausman test was conducted, Results of Hausman test indicated that random effect model is true. Panel data regression was run through random effect method.

Key words

Working capital policies, manufacturing sector, profitability of manufacturing firms, panel data regression, multicollinearity problem, BSE 500.

I Introduction

In the era of extreme global competition, a firm has to not only manage cost but also has to manage its short term and long term sources of finance. In September 2011, a 13th time raise in repo rate by Reserve Bank of India as a measure to curb inflation was an indication that loans were to be costlier. For the companies wanting to take loan, an efficient working capital management is therefore extremely necessary for smooth running of the business. It is the capital required for day to day running of the business. Working capital decisions are important to the organization as they affect the firm’s liquidity position. Liquidity crisis can put the business in problems as the business has a chance of losing reputation due to non payment or delayed payment to creditors. Liquidity crisis can also occur in case the debtors do not pay on time or if the finished goods do not convert themselves to sale. Accountants view working capital as the difference between the current assets and the current liabilities, which is the net working capital. Working capital is alternatively referred to the investment of the firm in the current assets. Working capital decisions affect the firm’s profits through their
impact on sales, operating costs, and interest expense. They affect the firm’s risk through their impact on the volatility of cash flows, the probability of not receiving the cash flow and the ability of generating cash during crisis. (Srivastava and Mishra, 2010). The working capital policy touches upon almost every functional area of the business’s operation. A firm is required to maintain a balance between liquidity and profitability while conducting its day to day operations. Working capital management is important because it consumes a large portion of the financial manager’s time. Most of the financial managers’ time and efforts are consumed in identifying the non-optimal levels of current assets and liabilities and bringing them to optimal levels (Lamberson, 1993). The management of working capital is one of the most important and challenging aspect of the overall performance of the organization. Merely more effective and efficient management of working capital can ensure survival of a business enterprise. Working capital management is concerned with the problems that arise in attempting to manage the current assets, current liabilities and the interrelation that exists between them. (Chandrabhai and Rao, 2011). The working capital policy touches upon almost every functional area of the business’s operation. Net working capital forms an average of over 15 per cent of the total asset base of Indian companies. While for some companies in the pharmaceutical sector, net working capital is 50 per cent of the total asset base; some companies function consistently on negative working capital (Suryanarayana Akella, 2005). Working capital plays an important role in the firm’s profitability, risk and value (Smith, 1980). A firm may choose an aggressive working capital management policy with a low level of current assets as percentage of total assets, or it may also be used for the financing decisions of the firm in the form of high level of current liabilities as percentage of total liabilities (Afza and Nazir, 2009). Keeping an optimal balance among each of the working capital components is the main objective of working capital management. Kim et.al say that there is a close relationship between sales growth and level of current assets. Liquidity is a precondition to ensure that firms are able to meet its short-term obligations. The liquidity and profitability goals conflict in most decisions which the finance manager makes. For example, if higher inventories are kept in anticipation of increase in prices of raw materials, profitability goal is approached, but the liquidity of the firm is endangered. Similarly, the firm by following a liberal credit policy may be in a position to push up its sales, but its liquidity decreases. It is a well accepted fact that a company has to borrow less if it manages its working capital well. Even cash has to be invested in such a way that it generates proper return to the investors. Firms are able to reduce financing costs and/or increase the funds available for expansion by minimizing the amount of funds tied up in current assets.

The paper proceeds as follows. In the next section a review of literature has been done. In section 3, objective of the study, sample and the variables used in the empirical analysis has been discussed, Section 4 discusses the possibility for future research and finally section 5 concludes.

II Research on Working Capital

Gupta and Huefer, in the year 1972 examined the differences in financial ratio between industries and found that differences exist between ratio means among industries. Frecka and Lee (1983), focused an area of research on the issue of using regression analysis verses financial ratios for analysis and prediction,

Lamberson (1995) in his paper studied how the working capital position of small firms responds to changes in the level of economic activity. For his research, he took fifty small firms for the time period 1980-1991. The findings from this study showed that liquidity increased slightly for these firms during economic expansion with no noticeable change in liquidity during economic slowdowns. Their investment in working capital, as measured by the inventory to total assets and current assets to total assets ratios, were relatively stable over the time period of this study. Findings suggest that working capital management practices of small firms in response to changes in economic activity do not follow commonly held expectations. Rafuse (1996) proposed that improvement of working capital by delaying payment to creditors is an inefficient and ultimately damaging practice, both to its
practitioners and to the economy as a whole. Stock reduction strategies, drawing on some of the techniques of “lean production” are far more effective, and the article proposes that those seeking concentrated working capital reduction strategies should focus on stock reduction. Filbeck et.al (2005) study revealed that firms are able to reduce financing costs and/or increase the funds available for expansion by minimizing the amount of funds tied up in current assets. They provided insights into the performance of surveyed firms across key components of working capital management by using the CFO magazine’s annual working capital Management Survey and discovered that significant differences exist between industries in working capital measures across time. They also discovered that these measures for working capital change significantly within industries across time. Working capital starvation is generally credited as a major cause if not the major cause of small business failure in the UK. Gracia and Solano (2007) study provided the empirical evidence on the effect of working capital management on the profitability of a sample of SME Spanish firms. The author had collected a panel of 8872 small to medium sized enterprises for the period of 1996-2002. Their results should that managers can create value by reducing their inventories and the number of days for which the accounts are outstanding. Shortening the cash conversion cycle also improves firm’s profitability. They took the dependent variable as return on asset. Raheman and Nasr (2007) in their paper had selected a sample of 94 Pakistani firms listed on Karachi Stock Exchange for a period of 6 years from 1999 – 2004. They had studied the effect of different variables of working capital management including the Average collection period, inventory turnover in days, average payment period, cash conversion cycle and current ratio on the net operating profitability of Pakistani firms. Debt ratio, size of the firm (measured in terms of natural logarithm of sales) and financial assets to total assets ratio were used as control variables. The results show that there is a strong negative relationship between variables of the working capital management and profitability of the firm. They found that there is a significant negative relationship between liquidity and profitability. They also found that there is a positive relationship between size of the firm and its profitability. Anand and Malhotra’s (2007) paper found very little evidence on the positive relationship between working capital management and firm profitability. The findings of the paper captured the dynamics of risk-return trade-off to help the performance evaluation of working capital management of Corporate India. Appuhami (2008) investigated the factors which affect the working capital management in manufacturing industry and found that capital expenditure, operating expenditure, financial expenditure, leverage and operating cash flow were the some other factors that affect the working capital level. Yadavet.al. (2009) analyzed the working capital management of bulk drugs companies that were listed on the Bombay Stock Exchange. The research findings revealed that the listed companies adopted a conservative approach in the management of their working capital. The findings also suggested that working capital policy was not static overtime, but varied with the changes in the state of the economy. Jasmine Kaur (2010) conducted a study on Indian tyre industry which reflected that the proper management does affect positively on the profitability levels of the sample companies. The results reveal that there is a standoff between liquidity and profitability and the profitability and that the selected corporate has been achieving a tradeoff between risk and return. Talha et.al. (2010) conducted a study on the impact of working capital management on profitability of selected Indian corporate hospitals. The time span was ten years from 1996 to 2006. The results of regression analysis pointed out that the current ratio, cash turnover ratio, proportion of current assets to operating income and leverage have a negative influence on profitability.

Dong and Su (2010) study based on secondary data collected from listed firms in Vietnam stock market for the period of 2006-2008 with an attempt to investigate the relationship existing between profitability, the cash conversion cycle and its components for listed firms in Vietnam stock market. Finding shows that there is a strong negative relationship between profitability, measured through gross operating profit, and the cash conversion cycle. This means that as the cash conversion cycle increases, it will lead to declining of profitability of firm. They therefore interpreted the result that the managers can create a positive value for the shareholders by handling the adequate cash conversion cycle and keeping each different component to an optimum level. Sharma and Kumar (2011) collected
data of a sample of 263 non-financial BSE 500 firms listed at the Bombay Stock (BSE) from 2000 to 2008 and evaluated the data using OLS multiple regression. The findings of their study significantly depart from the various international studies conducted in different markets. The results revealed that working capital management and profitability is positively correlated in Indian companies. The study further revealed that inventory of number of days and numbers of days accounts payable are negatively correlated with a firm’s profitability denoted by return on assets whereas number of days accounts receivables and cash conversion period exhibited a positive relationship with corporate profitability.

Mustafa Afeef (2011) in his paper on Analyzing the Impact of Working Capital Management on the Profitability of SME’s in Pakistan investigated the effect of working capital management on profitability based on a sample of 40 Pakistani small and medium enterprises (SME’s) listed in Karachi Stock Exchange for a period of six years from 2003 to 2008 leading to a total of 240 firm-year observations. Findings from the analyses suggested that indicators of working capital management had a perceptible impact on profitability of firms under study. The Correlation matrix of the pooled data of sample firms exhibited strong negative relationships of the Inventory Conversion Period and the Receivable Collection Period with the Operating Profit to Sales of small firms. However, no significant associations were found between the profitability measures and the Payable Deferral Period, Cash Conversion Cycle & Current Ratio.

Mamoun M. Al-Debi’re (2011) conducted a study on the industrial firms listed in Amman stock exchange. The period of study started from 2001 till 2010. The results showed that less profitable companies wait longer to sell their products, to collect credit sales, and to pay their supplies of goods. Moreover, the results show that regardless of the level of profitability industrial companies in Jordan pay their suppliers before collecting credit sales. The control variables (Size, Leverage, and GDP growth) included in all regression models were significant and have the expected signs. Profitability increases with Size and GDP growth and decreases with leverage. Bana Abuzayed, (2012) examined the effect of working capital management on firms’ performance for a sample of firms listed on a small emerging market, namely Amman Stock Exchange. The author analysed the data from sample of listed firms for the period from 2000 to 2008 to examine if more efficient working capital management improves firms’ accounting profitability and firms’ value and found that that profitability is affected positively with the cash conversion cycle. This indicates that more profitable firms are less motivated to manage their working capital. In addition, financial markets failed to penalize managers for inefficient working capital management in emerging markets. Quayyum (2012) in her study investigated if there is any relationship between working capital management and profitability of manufacturing corporations. She selected Corporations enlisted with the Dhaka Stock Exchange covering a time period from year 2005 to 2009. The result of this study showed that except for food industry all other selected industries have a significant level of relationship between the Profitability Indices and various Working Capital Components. Her research findings also showed that the significance level of relationship varies from industry to industry. The regression analysis considered Profitability ratios as dependent variable and various working capital ratios and liquidity ratios as independent variables. Ahmadi et.al. (2012) investigated the relationship between working capital management and profitability at companies of food industry group member at Tehran Stock Exchange. 33 companies were selected for a period of five years from 2006-2011 and the effect of various variables of working capital management including average accounts collection cycle, inventory turnover, medium-term debt payment and the cash conversion cycle on operational net profit of companies. The results of the study showed that there is a reverse relationship between the variables of working capital management and profitability. It was found out that increasing collection cycle, debt payment period, inventory turnover and cash conversion cycle leads to decreasing profitability in the companies. According to them, managers can create a positive value for stockholders by decreasing collection cycle, debt payment period, inventory turnover and cash conversion cycle to the lowest possible level.
II Objective, Sample and Variables

As per the revised estimates of Central Statistical office (CSO), Ministry of Statistics and programme Implementation, manufacturing sector's contribution in Indian GDP was 14.53% in 2010-2011 and 13.89% in the year 2011-12. Thus there is a change of 9.9% over the previous year. The average share of manufacturing sector in real GDP increased from about 13 per cent during 1970-75 to about 15.1 per cent during 2002-07, that is, by just about 2 percentage points over a period of more than three decades. For the entire 2008-09, manufacturing grew by just 2.4 per cent against 8.2 per cent in 2007-08 (RBI publication, 2011). As per CRISIL research report 2012, manufacturing growth has been constrained by two main factors - lack of sufficient and quality physical infrastructure and strict labour laws which discourage job creation. The National Manufacturing Policy (NMP) aims at increasing contribution of manufacturing to the national GDP to 25 per cent by 2025, and also creating 100 million jobs in the next decade.

There is a pressure on profitability on the company as a result of increase in raw material cost, and hike in finance cost. This makes working capital management in this sector extremely important. It is expected that the results of this study will help the managers in this sector frame policies for efficiently managing the working capital of their company. Manufacturing sector contributes about 15 to 16% to Indian GDP and policy makers are optimistic about its increased contribution by 2025. Revised estimates of GDP at factor cost at constant (2004-05) prices in the year 2011-12 is Rs. 52,02,514 crore (as against Rs. 52,22,027 crore estimated earlier on 7th February, 2012, showing a growth rate of 6.5 per cent (as against 6.9 per cent in the Advance Estimates) over the Quick Estimates of GDP for the year 2010-11 of Rs. 48,85,954 crore, released on 31st January 2012. The downward revision in the GDP growth rate is mainly on account of lower performance in ‘manufacturing’ and ‘trade, hotels, transport and communication’ than anticipated. (CSO report, 2012). Since there is a slowdown in the economy and statistics also show that manufacturing sector along with other sector is also responsible for downward revision of GDP, it was decided to conduct a study during the period of global slowdown to find out, whether working capital components have an impact on profitability of manufacturing firms. This would help in improving the profitability of manufacturing firms by properly managing the different components of working capital. There are several studies that are conducted to find out the level of profitability and the components of working capital management but there is no study manufacturing firms during the period starting of global slowdown. Sharma and Kumar (2011) had conducted a similar kind of study taking the sample of non financial firms. It was therefore intended by us to make an attempt to conduct this study taking manufacturing firms as our sample.

Objective of the Study:

To analyse the impact of management of working capital on the profitability of manufacturing firms in India.

Research Methodology

Research methodology has been adopted through the literature review. The dataset was taken from CMIE prowess data base. For the purpose of our study, out of 11208 manufacturing firms from CMIE Prowess database, those firms were selected that are listed in BSE 500 as financial information of the listed firms were available. There are 254 firms that were of manufacturing nature listed in BSE 500. Finally 169 companies were selected for study as all relevant financial data of these companies were available. Period of study was from April 2008 till March 2011. This is the period when manufacturing sector is hit by global slowdown. A panel data regression analysis has been done. The advantage of panel data analysis over either time series or cross section modeling is that is that it captures the differences across individual cross sections much better. The panel data analysis is done to find out the
impact of aggressive and/or conservative working capital policies on the profitability of the firm where profitability has been measured by Return on Assets (ROA) as the dependent variable as per the study conducted by Gracia and Solano (2007) and Sharma and Kumar (2011). The various independent variables taken were average collection days (ACP), inventory turnover period in days (ITP), Cash conversion cycle (CCC) and average payment days (APP) as per Raheman and Nasr (2007), Mustafa Afeef (2011), Ahmadi et.al. (2012), and current assets to total assets (CATA) as per lamberson (1995). Average collection days (ACP) are the average number of days of credit period extended to the debtors. Average payment days (APP) are the average number of days extended by the creditors to the firm. Inventory turnover days (ITP) are the average number of days required to convert inventories into sales. Cash conversion cycle (CCC) is another measure of managerial effectiveness. CCC is the time lag between expenditure for the purchase of raw materials and the collection of sales of finished goods. It does this by following the cash as it is first converted into inventory and accounts payable, through sales and accounts receivable and then back into cash. A longer cycle would mean a larger fund blocked in the working capital. EViews 6 software has been used for analysis of data. The following formulae are used for the dependent and different independent variables.

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\begin{align*}
\text{ROA} &= \frac{\text{Profit after tax}}{\text{Total assets}} \\
\text{ACC} &= \frac{365}{\left(\frac{\text{Sales}}{\text{average debtors}}\right)} \\
\text{APP} &= \frac{365}{\left(\frac{\text{Cost of productions}}{\text{average creditors}}\right)} \\
\text{ITP} &= \frac{365}{\left(\frac{\text{Cost of sales}}{\text{average inventory}}\right)} \\
\text{CCC} &= \text{ACC} - \text{ITP} - \text{APP} \\
\text{CATA} &= \frac{\text{Current Assets}}{\text{Total Assets}}
\end{align*}
\]

### III Data Presentation and Analysis

169 companies were taken from the financial year 2008 till 2011. There were 169 cross sections of 4 years resulting into 676 firm year observations for manufacturing sector. Table I shows the descriptive statistics.

As per Table I, the cash conversion cycle (CCC) has an average of 43 days with a standard deviation of 128 days. There is a wide disparity between the minimum and maximum CCC. Minimum CCC is negative 448 days and the maximum is 1769 days. Negative CCC is because of high payment period of some of the firms. Their cash conversion cycle is very small as their process of collection is much quicker that payment. They therefore are efficient enough to shorten their operating cycle and thus increase profitability. The average payment period to creditors is 98 days with a standard deviation of 66 days where as the average collection period is 86 days with a standard deviation of 100 days. It is indicated that firms enjoy an average payment period of 12 more days that the average collection period and this helps in increasing the profitability of the manufacturing firms. It seems that manufacturing sector in India has a high negotiating power with the suppliers but collects its debts much faster. Firms with very high payment period should remember that they have a risk of loss of reputation due to non payment or delayed payment. Also, obtaining credit will be a problem for them. Mean conversion period of inventory is 55 days.

Data in Table II reflects that return on capital is positively correlated and highly significant at 1 percent level with average payment period and the ratio of current assets to total assets. It means that longer payment period increases profitability of the firm as the firm is able to shorten its operating cycle partly with the creditor’s money. Also, higher current assets as compared to total assets indicates that the manufacturing firms increase their profitability by following an aggressive working capital policy. ROA is negatively correlated and highly significant with inventory conversion period and cash conversion cycle. Negative correlation between ROA and ICP indicates shorter inventory conversion period which results in less blockage of fund in inventory and a quick conversion of inventory to sales, thus resulting in higher profitability. Negative relation for CCC means that as the cash conversion
cycle increases, it will lead to declining of profitability of firm. The findings of correlation of this study are consistent with Dong and Su’s (2010) study who interpreted the result that the managers can create a positive value for the shareholders by handling the adequate cash conversion cycle and keeping each different component to an optimum level. ROA is positively correlated but is not significant with average collection period. Since the period of study is from 2008 till 2011 when the economy was hit by a slowdown, positive correlation between average collection period and return on assets justifies that manufacturing firms increase sales and thus profitability by increasing the collection period of debtors. This is consistent with Sharma and Kumar’s (2011) study who conducted a study on 263 non financial firms listed in BSE 500. The results revealed that inventory number of days and numbers of days of accounts payable are negatively correlated with firm’s profitability denoted by return on assets whereas number of days accounts receivables exhibited a positive relationship with corporate profitability. The only difference of this study with their study is that the cash conversion cycle had a positive relation with the return on assets.

REGRESSION ANALYSIS

There was no multicolinearity problem among the variables (Table II). To investigate the impact of the various variables of working capital management on profitability, the following model for regression analysis has been taken

ROC = β0 + β1 (ACP) + β2 (APP) + β3 (ICP) + β 4 (CCC) + β 5 (CATA) + ε  

Where β0 is the intercept of the equation
β1, β2, β3, β 4, β 5 are the coefficients of independent variables. i.e. ACP, APP, ICP, CCC AND CATA respectively.
ε: is the Error Term

Unit root test was conducted for the dependent series to check for stationarity of the data. ROA, APP, CCC and CATA were found to be stationary at level. ACP and ICP were converted to stationarity at first difference.

Thus the new equation after conversion of the variables to stationarity is shown in equation II

ROC = β0 + β1 d (ACP) + β2 (APP) + β3 d (ICP) + β 4 (CCC) + β 5 (CATA) + ε -

Panel data regression for equation II was run. The estimation procedure started with the Hausman Specification Test, which essentially tests the hypothesis that Random Effect Model is true for panel data analysis. Through Hausman Specification Test it was found out that Random Effect Model (REM) was suitable for this equation. Since p value of Hausman test is 0.06 or is insignificant at 5% level of significance, it shows that REM is appropriate. The results of Hausman Test and REM are shown in Table III and IV. Durbin-Watson result of 1.70 shows that there is no autocorrelation in the series.

R² is coming out to be 0.23 which means that 23% variance in ROA can be explained with the help of this regression. All variables except CCC were found to be significant at 1%.

IV Future Research Prospect

Researchers can extend the study by doing a comparison of pre slow down period with slow down period. Also they can study taking one particular industry in the manufacturing sector.
V Conclusion

The period of study is a period of 3 years starting from 2008 till 2011. During this period manufacturing sector and growth was affected by the global slowdown. Results of the study show that average collection period, average payment period, inventory conversion period and current assets to total assets are significant. During this period of slowdown, manufacturing firms were following an aggressive working capital policy with high level of creditors and low level inventory. Manufacturing firms under study were also having a shorter cash conversion cycle. Firms were playing safe during the period of slowdown and were avoiding risk. Firms also had a higher proportion of current assets to total assets indicating that they follow an aggressive working capital policy and increased their short term profitability by investing more on current assets than fixed assets. Aggressive working capital policy increases profitability by also increases risk.

REFERENCES

Journals


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**Reports**

**Downloaded from Website**


• RBI Publication, Productivity Efficiency and competitiveness of Indian manufacturing Sector “Contribution of Manufacturing Sector to Real GDP Sector”, June, 17th, 2011

**TABLE I: DESCRIPTIVE STATISTICS**

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>MINIMUM</th>
<th>MAXIMUM</th>
<th>MEAN</th>
<th>STD. DEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>676</td>
<td>-2.400</td>
<td>7.560</td>
<td>0.910</td>
<td>0.753</td>
</tr>
<tr>
<td>ACP</td>
<td>676</td>
<td>3.510</td>
<td>1866.19</td>
<td>86.380</td>
<td>100.795</td>
</tr>
<tr>
<td>APP</td>
<td>676</td>
<td>6.720</td>
<td>586.100</td>
<td>98.123</td>
<td>66.000</td>
</tr>
<tr>
<td>ICP</td>
<td>676</td>
<td>4.800</td>
<td>333.800</td>
<td>55.443</td>
<td>35.840</td>
</tr>
<tr>
<td>CCC</td>
<td>676</td>
<td>-448.200</td>
<td>1769.000</td>
<td>42.896</td>
<td>128.418</td>
</tr>
<tr>
<td>CATA</td>
<td>676</td>
<td>0.970</td>
<td>38.270</td>
<td>8.625</td>
<td>5.011</td>
</tr>
</tbody>
</table>

**TABLE II: CORRELATION ANALYSIS**

Pearson’s Correlation Coefficient

Correlations (MANUFACTURING SECTOR)

<table>
<thead>
<tr>
<th>ROC</th>
<th>ROA</th>
<th>ACP</th>
<th>APP</th>
<th>ICP</th>
<th>CCC</th>
<th>CATA</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACP</td>
<td></td>
<td>.026</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>APP</td>
<td>.095</td>
<td>.086</td>
<td>.024</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICP</td>
<td>-258</td>
<td>.236</td>
<td>.1089</td>
<td>.777</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>CCC</td>
<td>-.148</td>
<td>.1144</td>
<td>-.1752</td>
<td>0.00</td>
<td>.1931</td>
<td>1.00</td>
</tr>
<tr>
<td>CATA</td>
<td>-.116</td>
<td>-.108</td>
<td>-.373</td>
<td>0.00</td>
<td>-0.1355</td>
<td>0.0038</td>
</tr>
</tbody>
</table>

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

Correlated Random Effects - Hausman Test
Test cross-section random effects

<table>
<thead>
<tr>
<th>Test Summary</th>
<th>Chi-Sq. Statistic</th>
<th>Chi-Sq.d.f.</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section random</td>
<td>10.863666</td>
<td>5</td>
<td>0.0642</td>
</tr>
</tbody>
</table>

TABLE IV: DETERMINATION OF RETURN ON CAPITAL ON WORKING CAPITAL VARIABLES IN MANUFACTURING SECTOR (2008-2011)
RANDOM EFFECTS

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>T-statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>c</td>
<td>.33677</td>
<td>2.58**</td>
</tr>
<tr>
<td>D(ACP)</td>
<td>.00259</td>
<td>10.76**</td>
</tr>
<tr>
<td>APP</td>
<td>.00222</td>
<td>3.14**</td>
</tr>
<tr>
<td>D(ICP)</td>
<td>-0.00629</td>
<td>-4.45**</td>
</tr>
<tr>
<td>CCC</td>
<td>0.00018</td>
<td>0.99</td>
</tr>
<tr>
<td>CATA</td>
<td>0.03008</td>
<td>3.208**</td>
</tr>
</tbody>
</table>

** significant at 1% level

R-squared 0.23
Adjusted R-squared 0.22
F-statistic 30.80
Durbin-Watson stat 1.70
Practice of Good Corporate Governance and its effect on Company Performance: A Case Study on Malaysian Public Listed Companies

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Department of Business Administration, Faculty of Economics and Management Sciences, International Islamic University Malaysia

Abstract

The aim of this study was to examine the relationship between good corporate governance practices and company performance. Hence, this exploratory study extensively used secondary data from companies’ annual reports as well as articles from journals, working papers and books. Frequency analysis has been applied in order to answer the assumption made by the researcher. The focus of this research was solely on links between practice of good corporate governance and company performance. Hence, a case study was carried out on 100 public listed companies in Malaysia. The findings from this study confirmed that corporate governance has a strong influence on company’s performance in the Malaysian context. The findings are also evident that there is a need to encourage good governance practices to improve the firm performance. The findings are important for further research in this area and have relevance for academicians, board members and policy-makers. This study also suggested that the boards should understand the importance of corporate governance as this will enhance their performance.

Keywords: Corporate governance, firm performance, public listed company, board structures, board characteristics

Introduction

The government of Malaysia had felt the necessity of having a proper code of corporate governance after the Asian financial crisis in 1997. After 1998, Malaysian government decided to adopt corporate reforms that could enhance the quality of good corporate management practice (Nor Azizah & Nasibah Ahmad, 2007). This led to the introduction of the new Malaysian code and rules for corporate governance (Thomas, 2002). Corporate governance is about how an organization is directed and controlled. Edwards and Clough (2005: 7) explained that, “it is about the structures and processes in place to facilitate and monitor effective management of an organization, including mechanisms to ensure legal compliance and prevent improper or unlawful behavior”. According to OECD (1999a: 10), “corporate governance is the full set of relationships among a company's management, its board, its shareholders and other stakeholders. It provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance determined”.

According to Heinrich and Laurence (2011), the relationship between corporate governance and organizational performance lies in the multi-dimensional nature of good governance. Therefore, corporate governance involves ensuring compliance with legal obligations and protection for shareholders against fraud or organizational failure (Bonn, Yoshikawa & Phan, 2004). Furthermore, good governance minimizes the possibility of poor organizational performance. Good Corporate Governance is important for any company in enhancing stakeholders’ value, increasing investors’ confidence and establishing customers’ trust (Van den Berghe & Levrau, 2003). Moreover, sound corporate governance in the global markets is imperative to national economic welfare as well as to the stability of a global economic environment (Kiel & Nicholson, 2003). Hence, the significance of the Code is that it allows for a more constructive and flexible response to raise standards in corporate governance as opposed to the more black and white response engendered by statute or regulation. It is
in recognition of the fact that there are aspects of corporate governance where statutory regulation is necessary and others where self-regulation complemented by market regulation is more appropriate.

Research Method
This exploratory study extensively used secondary data from company annual reports as well as articles from journals, working papers and books. Frequency analysis has been applied in order to answer the assumption made by the researcher. The focus of this research was solely on links between practice of good corporate governance and company performance. Hence, a case study was carried out on 100 public listed companies in Malaysia.

Findings

Industry Type
In this study, we have segmented the 100 companies into 13 groups namely apparel, commerce, commodity, electrical, energy, manufacturing, pharmaceutical, property development, rubber, shipping, technology, wood and miscellaneous. The largest group is the property development that consists of total 23 companies. The smallest group is wood industry having only two companies (see table 1).

Table 1: Industry Type

<table>
<thead>
<tr>
<th>Industry Type</th>
<th>No of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel</td>
<td>5</td>
</tr>
<tr>
<td>Commerce</td>
<td>7</td>
</tr>
<tr>
<td>Commodity</td>
<td>9</td>
</tr>
<tr>
<td>Electrical</td>
<td>6</td>
</tr>
<tr>
<td>Energy</td>
<td>8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>13</td>
</tr>
<tr>
<td>Pharmaceutical</td>
<td>3</td>
</tr>
<tr>
<td>Property Development</td>
<td>23</td>
</tr>
<tr>
<td>Rubber</td>
<td>3</td>
</tr>
<tr>
<td>Shipping</td>
<td>3</td>
</tr>
<tr>
<td>Technology</td>
<td>8</td>
</tr>
<tr>
<td>Wood</td>
<td>2</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Mission
A mission statement is a statement of the purpose of a company or organization. The mission statement should guide the actions of the organization, state its overall goal, provide a path, and guide decision-making. It provides “the framework or context within which the company's strategies are formulated” (Hill & Jones, 2008, p.11).

The mission statement should be a clear and succinct representation of the enterprise's purpose for existence. It should incorporate socially meaningful and measurable criteria addressing concepts such as the moral/ethical position of the enterprise, public image, the target market, products/services, the geographic domain and expectations of growth and profitability. In this study, we have also found that, out of total 100 companies, 40 companies do not have any prescribed mission statement (see table 2).
Table 2: Mission

<table>
<thead>
<tr>
<th>Total Company</th>
<th>With Mission</th>
<th>Without Mission</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>60</td>
<td>40</td>
<td>60%</td>
</tr>
</tbody>
</table>

Vision

Vision outlines what the organization wants to be, or how it wants the world in which it operates to be. It is a long-term view and concentrates on the future. It can be emotive and is a source of inspiration. In our study, we have also explored that, 37% of the companies do not have prescribed vision statement (see table 3).

Table 3: Vision

<table>
<thead>
<tr>
<th>Total Company</th>
<th>With Vision</th>
<th>Without Vision</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>63</td>
<td>37</td>
<td>63%</td>
</tr>
</tbody>
</table>

Code of Ethics

A code of ethics often focuses on social issues that set out general principles about an organization's beliefs on matters, such as mission, quality, privacy or the environment (Flores, 1998). The effectiveness of such codes of ethics depends on the extent to which management supports them with sanctions and rewards. This study explored that 94 companies out of total 100 companies we have selected for the study do not have any set code of ethics (see table 4).

Table 4: Code of Ethics

<table>
<thead>
<tr>
<th>Total Company</th>
<th>With Code of Ethics</th>
<th>Without Code of Ethics</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>6</td>
<td>94</td>
<td>6%</td>
</tr>
</tbody>
</table>

Value / Philosophy

Business value is an informal term that includes all forms of value that determine the health and well-being of the firm in the long-run (Sward, 2006). Business value expands concept of value of the firm beyond economic value (also known as economic profit, Economic value added, and Shareholder value) to include other forms of value such as employee value, customer value, supplier value, channel partner value, alliance partner value, managerial value, and societal value. Many of these forms of value are not directly measured in monetary terms. In this study, we can see that total 27 out of 100 companies have prescribed value/Philosophy (see table 5).

Table 5: Value / Philosophy

<table>
<thead>
<tr>
<th>Total Company</th>
<th>With Value/Philosophy</th>
<th>Without Value/Philosophy</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>27</td>
<td>73</td>
<td>27%</td>
</tr>
</tbody>
</table>

Corporate Social Responsibility (CSR)

Corporate social responsibility (CSR) is a form of corporate self-regulation integrated into a business model (Wood, 1991). The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere who may also be considered as stakeholders.
Malaysian government's increasing focus on CSR has resulted in the development of new frameworks for implementation of CSR initiatives for the country's businesses. The most significant of these is still the "The Silver Book", published by the Putrajaya Committee for GLC Transformation (PCG) in September 2006. The framework contains guidelines for Government Linked Companies (GLCs). Moreover, in September 2006 Bursa Malaysia, the country's stock exchange, launched a framework for the implementation and reporting of CSR activities of listed companies. In accordance with this, all listed companies are required to disclose their CSR activities, but it is stressed that all activity occurs on a voluntary basis.

The focus on CSR in Malaysia has in line with international trends increased. In this study, we have found that, all the companies selected for this study had CSR programs that seem to have been an increased awareness and activity of CSR initiatives in Malaysia.

**Corporate Governance**

In this study, we have found that, all the companies is fully committed in compliance with the principles and best practices of the Malaysian Code on Corporate Governance (revised 2007), which is also the Bursa Malaysia's main market listing requirements. These led the companies constantly endeavor its efforts in enhancing and raising a high standard of corporate governance throughout which are fundamental to fulfilling its responsibility of protecting and enhancing the shareholders’ value and the financial performance of the company.

Good corporate governance practices, however, should extend beyond mere statement of compliance. It should aim at achieving the highest standards of conduct, business integrity, ethics, accountability and professionalism across all the activities.

**Total Committee**

According to Malaysian Code of Corporate Governance (Revised 2007, p. 14), “when the board appoints a committee, it should spell out the authority of the committee and, in particular, whether the committee has the authority to act on behalf of the board or just the authority to examine a particular issue and report back to the board with a recommendation”. Here, it is not stated how many committees should be there. So, minimum 1 committee is accepted.

In table 6, we can see that, 14 companies have only 1 committee while the rest 86 companies have multiple committees.

<table>
<thead>
<tr>
<th>Total Committee</th>
<th>Less Than 1 Committee</th>
<th>More Than 1 Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>14</td>
<td>86</td>
<td></td>
</tr>
</tbody>
</table>

**Financial Performance**

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

In this study, we have found that, out of total 100 companies selected for this study, 89 companies have announced profit during the financial year ended 2011 despite the economic recessions (see table 7).
Table 7: Financial Performance

<table>
<thead>
<tr>
<th>Total Company</th>
<th>Record Profit</th>
<th>Record Loss</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>90</td>
<td>10</td>
<td>90%</td>
</tr>
</tbody>
</table>

Even though total 10 companies had posted losses, but in the majority cases, this is due to exchange rate fluctuation which occurred during that period, as these companies are involved in international transactions (table 8).

Table 7: Reasons for Low Financial Performance

<table>
<thead>
<tr>
<th>Industry</th>
<th>MNC</th>
<th>Performance</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel</td>
<td>Yes</td>
<td>Loss</td>
<td>Lower customer order received from abroad and the weakening of US dollars.</td>
</tr>
<tr>
<td>Energy industry</td>
<td>No</td>
<td>Loss</td>
<td>Higher raw material costs</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Yes</td>
<td>Loss</td>
<td>Lower customer order received in our major market (Europe) and the weakening of US dollars.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The larger drop was mainly due to the lower profit margin as a result of lower sales and weakening of US dollars.</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>Yes</td>
<td>Loss</td>
<td>Reduction in overseas’ print orders due to the Europe zone debts crisis and the weak U.S economy</td>
</tr>
<tr>
<td>Property Development</td>
<td>Yes</td>
<td>Loss</td>
<td>Intense competition and price fluctuations of materials</td>
</tr>
<tr>
<td>Property Development</td>
<td>Yes</td>
<td>Loss</td>
<td>Higher raw material costs</td>
</tr>
<tr>
<td>Rubber</td>
<td>Yes</td>
<td>Loss</td>
<td>Lower exports due to reduced orders from the Middle East countries following the political crisis besieging the region and the customers in Europe in the wake of the financial crisis roiling the Euro zone.</td>
</tr>
<tr>
<td>Shipping</td>
<td>Yes</td>
<td>Loss</td>
<td>Financial turmoil in Europe and United States couple with the weakening of US dollars.</td>
</tr>
<tr>
<td>Shipping</td>
<td>Yes</td>
<td>Loss</td>
<td>Financial turmoil in Europe and United States couple with the weakening of US dollars.</td>
</tr>
<tr>
<td>Technology</td>
<td>No</td>
<td>Loss</td>
<td>Lower Demand</td>
</tr>
</tbody>
</table>

Conclusion

Corporate governance has become one of the major issues for academicians and practitioners around the world due to some recent corporate scandals. In this context, this study examines the impact of corporate governance on performance for Malaysian public listed companies from different sectors for the financial year 2011. Aimed at discovering the relationship between practice of good corporate governance and company’s overall performance, the findings from this study confirmed that corporate governance has a strong influence on company’s performance in the Malaysian context. The findings are evident that there is a need to encourage good governance practices to improve the firm performance.

Finally, the reported findings are important for further research in this area and have relevance for academicians, board members and policy-makers. The boards should understand that corporate governance is not just a simple word but a long-lasting concept for the firms aspiring to enhance their performance.